**Farmers New World Life Insurance Company**
*Home Office: 3003 77th Avenue S.E.*
*Mercer Island, WA 98040*
*(206) 232-8400*
*Variable Policy Service Office:*
*PO Box 724208*
*Atlanta, GA 31139*
*(877) 376-8008* *VIA Electronic Delivery*

February 26, 2016

Dear Farmers Client:

You have consented to the delivery of fund company annual and semi-annual reports in electronic format.

Included with this letter is a menu listing the individual fund company annual reports which are available for your viewing. These reports provide an update on the relevant portfolios' performance as of December 31, 2015. Portfolio performance does not take into account the fees charged by your policy or 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 information is helpful. If you have any questions concerning your policy or contract or you wish to receive these reports in paper format, please do not hesitate to call your Farmers Insurance and Financial Services Agent or our Variable Policy Service Office toll-free, at (877) 376-8008.

We appreciate your business and look forward to continuing to serve your insurance needs.

Thank you for joining us in our efforts to "go paperless!"

Sincerely,

Harris Mortensen
Assistant Vice President,
Insurance Operations

# Janus Aspen Series

## Forty Portfolio
## Janus Portfolio
## Global Technology Portfolio

Supplement dated January 12, 2016
to Currently Effective Prospectuses

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

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

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

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

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

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

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

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

   **Forty Portfolio**

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

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

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

**Janus Portfolio**

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

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

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

**Global Technology Portfolio**

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

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

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

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

**Please retain this Supplement with your records.**

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

**SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES**

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**Deutsche High Income VIP**

---

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

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

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

*Please Retain This Supplement for Future Reference*

February 1, 2016
PROSTKR-569

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

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**Deutsche Core Plus Income Fund**
**Deutsche Bond VIP**

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

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

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

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

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

*Please Retain This Supplement for Future Reference*

February 1, 2016
PROSTKR-571

**SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES**

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**Deutsche Government & Agency Securities VIP**

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

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

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

*Please Retain This Supplement for Future Reference*

February 1, 2016
PROSTKR-573

# GOLDMAN SACHS VARIABLE INSURANCE TRUST

Institutional and Service Shares of the
Goldman Sachs Small Cap Equity Insights Fund
(the "Fund")

*Supplement dated February 5, 2016 to the*
*Prospectuses (the "Prospectuses") and the Statement of Additional Information (the "SAI"),*
*dated April 30, 2015*

Ron Hua, Chief Investment Officer of Equity Alpha Strategies for the Quantitative Investment Strategies Team, has announced his intention to retire from Goldman Sachs Asset Management, L.P. As such, Mr. Hua will no longer have portfolio management responsibilities with respect to the Fund.

**Accordingly, effective immediately, all references to Ron Hua are removed from the Prospectuses and SAI in their entirety.**

**In addition, the following is inserted following the table under the Quantitative Investment Strategies ("QIS") Team in the "Service Providers—Fund Managers" section of the Prospectuses:**

Armen Avanessians is the Chief Investment Officer of GSAM's QIS team, overseeing research, portfolio management and implementation for all QIS investment strategies globally. In this capacity, Mr. Avanessians is responsible for high-level decisions pertaining to portfolios across the QIS platform spanning both quantitative alpha strategies (long-only equity and macro) as well as advanced beta strategies (hedge fund betas, smart beta, customized beta and tax-efficient portfolios).

The QIS platform is organized into a series of specialist portfolio management teams which focus on generating and implementing investment ideas within their area of expertise. Investment decisions are made by these portfolio management teams, rather than by one portfolio manager or committee. Ultimate accountability for the portfolios resides with the senior portfolio managers dedicated to each QIS investment strategy, who oversee their respective research, portfolio management, and implementation processes.

**This Supplement should be retained with your Prospectuses and SAI for future reference.**

# Calvert VP SRI Mid Cap Growth Portfolio

**Annual Report**
December 31, 2015

Calvert INVESTMENTS®
Empowering You to Do More™

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Calvert INVESTMENTS
Empowering You to Do More

**John Streur**
President and Chief Executive Officer, Calvert Investments, Inc.

Dear Fellow Shareholders:

What once was a small social movement seemed to crystalize last year as the investing public began to recognize that financial and social goals can be represented by sustainable, responsible and impact investment strategies. The growth of this movement is influencing the entire world and fills us with optimism about the role capital markets and corporations can play in unlocking value beyond balance sheets and income statements.

As a global socially responsible investing (SRI) leader, we at Calvert are gratified that new findings from The Forum for Responsible and Social Investment reveal an explosion of SRI integration among all professional managers. U.S.-domiciled assets under management using responsible strategies grew to $6.57 trillion in 2014 from $3.74 trillion at the start of 2012. Approximately one of every six dollars under domestic professional management is now following SRI strategies.

**A Look at 2015**

While responsible investing is expanding at an exciting pace, the economic conditions in 2015 presented challenges including slower domestic growth, uncertainty over central bankers' policy decisions, and volatility across both emerging markets and mature markets in Asia and Europe. These conditions placed downward pressure on multinational corporations' capital expenditures, small and mid-sized business investments, commodity prices and consumer spending. Also at play is the heavy debt burden of developed countries. This debt burden results in a troubling sequence of events: countries must fund interest on the debt instead of funding innovation and development; the lack of development dampens growth; low growth limits employment opportunities; decreased employment opportunities disproportionally affect the poor. We believe this cycle will keep economic growth low for the foreseeable future.

In the face of this lower growth environment, we need to look for ways to improve economic inclusion and allow disadvantaged people to participate in a slow growth economy.

We are encouraged by evidence that global leaders recognize this need and are starting to take steps to replace it with a positive sequence of events: solving urgent social and environmental problems, which leads to stronger economies, which leads to growth and better employment opportunities.

**The Evolution at Calvert**

To respond to recent market swings, we have taken steps to manage your portfolio conservatively by focusing on equity and fixed-income investments best suited to the climate. Our steps included a thorough assessment of both the financial characteristics and environmental, social and governance (ESG) performance of a number of companies. As appropriate across funds, we strategically re-allocated capital to lower-risk, stable-return assets.

In addition to serving as stewards of your money, we also implemented a strategy to reinforce our focus on shareholders as well as the value they specifically seek from both a financial and social perspective. Our new leadership team implemented a complex-wide plan that spanned reducing fees for many funds, enhancing research capabilities and aligning most strategies under our Principles for Responsible Investment. This effort resulted in the reduction of several Calvert funds' expense ratios by more than 10 percent.

Calvert has also publicly amplified the values held by our leadership and shareholders. During the 2015 proxy season, we co-filed or filed a variety of shareholder proposals and resolutions—specific to agricultural, environmental and diversity issues. We also advocated for responsible investing at key forums, such as an Impact Over Easy event, and partnered with Harvard University professor George Serafeim to further define for investors the evolving role of the corporation in society. Lastly, I was honored to attend the United Nations Development Conference and chair the Roundtable on Peace and Stability at the Private Sector Forum on Implementing the Sustainable Development Goals.

**Looking Ahead to 2016 and Beyond**

In the months to come, we need to adopt more modest economic growth expectations as China sputters, emerging economies confront fiscal woes, and political uncertainty looms in the U.S. and elsewhere. We believe this year may well mark the beginning of a lower-growth period that extends into the foreseeable future. But while research-driven investment strategies can adapt relatively quickly to a shifting landscape, capital markets participants must also consciously work to help ensure the less fortunate and those championing key environmental and social causes do not bear the brunt of economic tightening. To overlook this obligation in the near-term will only perpetuate inequalities that hinder all global citizens over the long-term.

Our 2016 outlook is both pragmatic and optimistic. The recent Vatican Encyclical and Paris Climate Agreement reinforces to us that the entire world—not just segments of the institutional investment community—is rapidly embracing the principles that underpin SRI strategies. Ongoing evidence of this shift is further energizing us as we leverage our bolstered research processes to ensure ESG standards, fundamental quality and fair valuation guide every investment we make.

Despite day-to-day fluctuations in the markets, the next year will be a transformative chapter in the story of how the global capital markets ultimately align financial and social goals. Our leadership appreciates and recognizes that it is your trust in us that empowers Calvert to help drive this transformation. Thank you for the opportunity to manage investments on your behalf.

Sincerely,

John Streur
President and Chief Executive Officer
Calvert Investments

**Michelle Clayman**
of New Amsterdam Partners, LLC

**Market Review**

The market moved higher for most of the first half of the year but dropped sharply in August before recovering roughly half of the lost ground in the fourth quarter. The third quarter sell off was brought on by concerns over global economic growth, particularly in China and Europe. China's currency devaluation and concerns over the Fed's eventual interest rate "lift off" brought market volatility back to levels not seen in nearly four years. Over the past year, the defensive consumer staples and health care sectors led the benchmark's performance, while the commodity sensitive energy, utilities, materials and industrials sectors were the year's worst performing. The market's "risk off" posture also manifested itself with the outperformance of larger cap, higher multiple names, which represented headwinds to our process as these are areas in which we were under-represented.

**Investment Strategy and Technique:**

New Amsterdam Partners' process, best described as GARP (Growth at a Reasonable Price), uses a combination of quantitative and fundamental research tools to identify stocks with high expected returns. Using our proprietary quantitative model, we compute an expected return for each name in a broad universe of stocks. The model focuses on forecast growth, profitability and valuation and ranks mid-cap stocks from highest expected return to lowest. We perform fundamental analysis on the model's 100 stocks with the highest expected return, with an eye toward validating the quantitative output, as numbers alone rarely explain why a given stock may be an attractive buying opportunity. Finally, we ensure that purchase candidates are consistent with Calvert's social criteria and we construct relatively sector neutral portfolios of 35-45 holdings with typical individual position sizes in the 2-3% range.

- Eligibility screens narrow down a very large (10,000+) universe of securities to a more manageable size (2,000+) prior to the start of the quantitative process.
- Quantitative model generates a list of 100 high expected return mid-cap buy candidates by considering forecast growth, profitability and valuation.
- Fundamental analysis is performed on these stocks to identify the most attractive names.
- Fully diversified, 35-45 stock portfolios are consistent with Calvert's social criteria and have characteristics similar to its Russell Midcap Growth benchmark.

**Fund Performance Relative to the Benchmark**

For the one-year period, the Portfolio underperformed the Russell Mid Cap Growth Index by 3.08% net of fees. The Portfolio's underperformance was attributable largely to stock selection which was adversely affected by the poor relative performance of stocks at the lower end of the market capitalization range for mid cap stocks as well as the strong relative performance of stocks which we viewed as too richly valued.

In the financial sector, which added the most value over the year, American Financial Group rose on continued positive earnings surprises and solid growth thanks to strong underwriting and annuity sales, and BofI Holding was sold as it neared a price target in anticipation of the consummation of its long awaited deal with H&R Block. Stock selection also added value in health care, where Chemed performed well, topping consensus estimates on strong results from its hospice operations, and United Therapeutics advanced after the FDA approved its pediatric cancer drug, Unituxin.

Performance was weak in the information technology sector, as F5 Networks traded lower on concerns over threats posed by cloud computing, and NeuStar lost ground on the FCC's recommendation not to renew its contract. Stock selection also detracted in the consumer discretionary sector, where specialty apparel and accessory companies Fossil Group and Deckers Outdoor lost ground due to lackluster sales and exposure to weak international end markets.

Compliance with Calvert's revised social research platform resulted in the sale and replacement of several names which was a short term drag on performance with two of the stocks we sold early in October fairing relatively well after we sold them while two stocks we bought to replace were down substantially.

- Benchmark names with stronger return-on-equity outperformed over the year, a factor which the portfolio's positioning benefitted from.
- The benchmark's highest valuation names (as measured by P/E and P/B ratios) outperformed by a wide margin, a factor which detracted from performance as the portfolio typically emphasizes more attractively priced holdings.
- The portfolio also faced a significant market cap effect throughout the year, as the best performing names in the benchmark were those with the largest capitalizations. Our under-representation of these top performing larger cap names detracted from performance-our discipline calls for buying stocks with market capitalizations between $1 billion and $9 billion to adhere more closely to a true mid-cap mandate.
- Less severe headwinds included our avoidance of the strong performing REITs sub-sector and our tendency towards companies with lower debt levels, which lagged those with greater balance sheet risk in 2015.

**Positioning and Market Outlook**

We expect 2016 to be another year of modest growth and low inflation, with GDP growth of 2.0% and inflation below 2%. Weakness in China presents challenges to oil and commodity markets, impacting Emerging Markets, while Europe is grappling with a refugee influx, affecting political and economic stability, and the European Community is also facing the possibility of Britain's withdrawal. If oil prices stabilize, we expect US corporate earnings to rise in the mid-single digits next year. Because stock market valuations are relatively high we do not believe there will be much room for multiple expansion and therefore expect US stocks to produce mid-single digit total returns in 2016, from earnings growth plus dividend yield.

We will continue to adhere to our discipline of focusing on reasonably priced stocks which offer better-than-market forecast earnings growth, an approach which has proved itself over the long term particularly since active management tends to add value in low return markets.

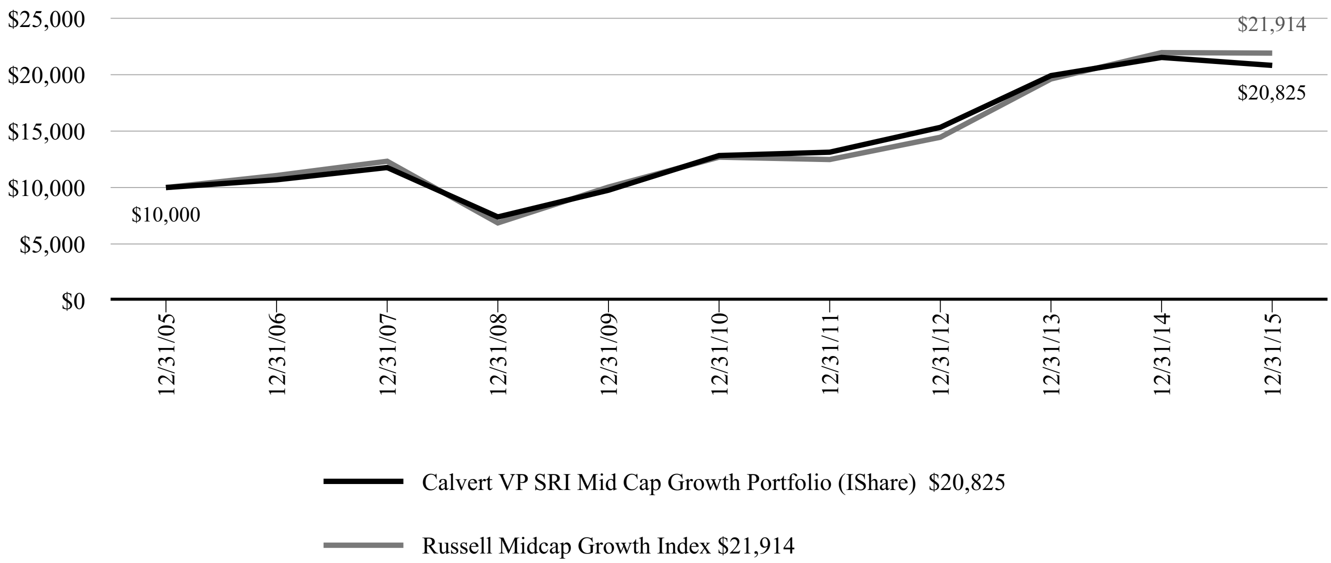
New Amsterdam Partners, LLC
December 2015

| ECONOMIC SECTORS | % OF TOTAL INVESTMENTS |
|---|---|
| Consumer Discretionary | 21.3% |
| Industrials | 18.3% |
| Information Technology | 17.2% |
| Health Care | 14.6% |
| Financials | 14.1% |
| Materials | 6.4% |
| Consumer Staples | 4.6% |
| Energy | 1.2% |
| Short-Term Investments | 1.2% |
| Utilities | 1.1% |
| **Total** | **100.0%** |

| TEN LARGEST STOCK HOLDINGS | % OF NET ASSETS |
|---|---|
| JetBlue Airways Corp. | 3.6% |
| Ross Stores, Inc. | 3.5% |
| Jones Lang LaSalle, Inc. | 3.2% |
| Syntel, Inc. | 3.1% |
| American Financial Group, Inc. | 3.0% |
| Super Micro Computer, Inc. | 3.0% |
| AmerisourceBergen Corp. | 2.9% |
| Avnet, Inc. | 2.9% |
| CBOE Holdings, Inc. | 2.9% |
| NeuStar, Inc., Class A | 2.9% |
| **Total** | **31.0%** |

## Growth of $10,000

The graph below shows the value of a hypothetical $10,000 investment in the Portfolio over the past 10 fiscal year periods. The results shown are for Class I shares, and assume the reinvestment of dividends. The result is compared with a broad based market index. Market indexes are unmanaged and their results do not reflect the effect of expenses or sales charges. The value of an investment in a different share class would be different.




**CALVERT VP SRI MID CAP GROWTH PORTFOLIO**
**DECEMBER 31, 2015**

| AVERAGE ANNUAL TOTAL RETURNS | 1 Year | 5 Year | 10 Year |
|---|---|---|---|
| Class I | -3.31% | 10.16% | 7.61% |
| Russell Midcap Growth Index | -0.20% | 11.54% | 8.16% |

*The performance data shown represents past performance, does not guarantee future results and assumes reinvestment of all dividends and distributions. All performance data reflects fee waivers and/or expense limitations, if any are in effect; in their absence performance would be lower. See Note B in Notes to Financial Statements. The investment return and principal value of an investment 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 data quoted.*

*Visit* ***calvert.com/institutional-VP-performance.html*** *for current performance data. The gross expense ratio from the current prospectus for the Portfolio is 1.16%. This number may vary from the expense ratio shown elsewhere in this report because it is based on a different time period and, if applicable, does not include fee or expense waivers. The performance data and expense ratio reflect deduction of Portfolio operating expenses, but do not reflect charges and expenses imposed under the variable annuity or life insurance contract.*

# UNDERSTANDING YOUR FUND'S EXPENSES

As an investor, you incur two types of costs. There are transaction costs. There are also ongoing costs, which generally include management fees and other fund expenses. The following information is intended to help you understand your ongoing costs (in dollars) of investing in this mutual fund and to help you compare these costs with the ongoing costs of investing in other mutual funds.

To illustrate these ongoing costs, we have provided examples and calculated the expenses paid by the fund's investors during the period. The actual and hypothetical information presented in the examples is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

Note: Expenses do not reflect charges and expenses of the variable annuity or variable universal life contract.

***Actual Expenses***

The first line of 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 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 Period” to estimate the expenses you paid on your account during this period.

***Hypothetical Example for Comparison Purposes***

The second line of the table below 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 the 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 only and do not reflect any transactional costs. Therefore, the second line of 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.

| | ANNUALIZED EXPENSE RATIO | BEGINNING ACCOUNT VALUE 7/1/15 | ENDING ACCOUNT VALUE 12/31/15 | EXPENSES PAID DURING PERIOD* 7/1/15 - 12/31/15 |
|---|---|---|---|---|
| Actual | 1.07% | $1,000.00 | $890.40 | $5.10 |
| Hypothetical (5% return per year before expenses) | 1.07% | $1,000.00 | $1,019.81 | $5.45 |

* Expenses paid during the period are equal to the annualized expense ratio as indicated above, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expense ratios shown in the Financial Highlights represent the actual expenses incurred for the fiscal year.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors of Calvert Variable Series, Inc. and Shareholders of Calvert VP SRI Mid Cap Growth Portfolio:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Calvert VP SRI Mid Cap Growth Portfolio (the "Portfolio"), a series of Calvert Variable Series, Inc., as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers or by performing other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Portfolio as of December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
February 24, 2016

# CALVERT VP SRI MID CAP GROWTH PORTFOLIO
# SCHEDULE OF INVESTMENTS
# DECEMBER 31, 2015

| | SHARES | VALUE ($) |
|---|---|---|
| **COMMON STOCKS - 98.3%** | | |
| **Airlines - 3.6%** | | |
| JetBlue Airways Corp. * | 78,215 | 1,771,570 |
| **Auto Components - 4.9%** | | |
| Gentherm, Inc. * | 25,625 | 1,214,625 |
| Visteon Corp. * | 10,745 | 1,230,302 |
| | | 2,444,927 |
| **Banks - 2.3%** | | |
| ServisFirst Bancshares, Inc. | 24,000 | 1,140,720 |
| **Building Products - 2.7%** | | |
| Lennox International, Inc. | 10,690 | 1,335,181 |
| **Chemicals - 1.7%** | | |
| Albemarle Corp. | 15,050 | 842,951 |
| **Commercial Services & Supplies - 2.4%** | | |
| Deluxe Corp. | 21,405 | 1,167,429 |
| **Communications Equipment - 2.5%** | | |
| F5 Networks, Inc. * | 12,590 | 1,220,726 |
| **Containers & Packaging - 2.0%** | | |
| Owens-Illinois, Inc. * | 58,020 | 1,010,708 |
| **Diversified Financial Services - 5.5%** | | |
| CBOE Holdings, Inc. | 22,070 | 1,432,343 |
| FactSet Research Systems, Inc. | 7,975 | 1,296,496 |
| | | 2,728,839 |
| **Electronic Equipment & Instruments - 2.9%** | | |
| Avnet, Inc. | 33,800 | 1,447,992 |
| **Energy Equipment & Services - 1.2%** | | |
| FMC Technologies, Inc. * | 20,720 | 601,087 |
| **Gas Utilities - 1.1%** | | |
| Questar Corp. | 27,590 | 537,453 |
| **Health Care Equipment & Supplies - 4.8%** | | |
| Globus Medical, Inc., Class A * | 48,250 | 1,342,315 |
| Varian Medical Systems, Inc. * | 12,970 | 1,047,976 |
| | | 2,390,291 |

| | SHARES | VALUE ($) |
|---|---|---|
| **COMMON STOCKS - Cont'd** | | |
| **Health Care Providers & Services - 7.9%** | | |
| AmerisourceBergen Corp. | 14,015 | 1,453,496 |
| Chemed Corp. | 7,082 | 1,060,884 |
| Laboratory Corporation of America Holdings * | 11,340 | 1,402,077 |
| | | 3,916,457 |
| **Insurance - 3.0%** | | |
| American Financial Group, Inc. | 20,960 | 1,510,797 |
| **IT Services - 8.7%** | | |
| Convergys Corp. | 33,960 | 845,264 |
| DST Systems, Inc. | 4,582 | 522,623 |
| NeuStar, Inc., Class A * | 59,175 | 1,418,425 |
| Syntel, Inc. * | 33,855 | 1,531,939 |
| | | 4,318,251 |
| **Machinery - 5.3%** | | |
| Graco, Inc. | 17,660 | 1,272,756 |
| Oshkosh Corp. | 34,310 | 1,339,463 |
| | | 2,612,219 |
| **Media - 2.1%** | | |
| Scripps Networks Interactive, Inc., Class A | 18,810 | 1,038,500 |
| **Metals & Mining - 2.7%** | | |
| Worthington Industries, Inc. | 43,950 | 1,324,653 |
| **Multiline Retail - 2.2%** | | |
| Big Lots, Inc. | 28,500 | 1,098,390 |
| **Personal Products - 4.6%** | | |
| Inter Parfums, Inc. | 40,320 | 960,422 |
| USANA Health Sciences, Inc. * | 10,285 | 1,313,909 |
| | | 2,274,331 |
| **Pharmaceuticals - 1.8%** | | |
| Lannett Co., Inc. * | 21,895 | 878,427 |
| **Professional Services - 2.3%** | | |
| Robert Half International, Inc. | 24,280 | 1,144,559 |
| **Real Estate Management & Development - 3.2%** | | |
| Jones Lang LaSalle, Inc. | 9,830 | 1,571,424 |
| **Road & Rail - 2.0%** | | |
| Landstar System, Inc. | 16,755 | 982,681 |

| | SHARES | VALUE ($) |
|---|---|---|
| **COMMON STOCKS - Cont'd** | | |
| **Specialty Retail - 9.2%** | | |
| Lithia Motors, Inc., Class A | 13,180 | 1,405,911 |
| Rent-A-Center, Inc. | 47,655 | 713,395 |
| Ross Stores, Inc. | 32,090 | 1,726,763 |
| Select Comfort Corp. * | 34,345 | 735,326 |
| | | 4,581,395 |
| **Technology Hardware, Storage & Peripherals - 3.0%** | | |
| Super Micro Computer, Inc. * | 60,970 | 1,494,375 |
| **Textiles, Apparel & Luxury Goods - 2.7%** | | |
| Deckers Outdoor Corp. * | 19,095 | 901,284 |
| Fossil Group, Inc. * | 12,530 | 458,097 |
| | | 1,359,381 |
| Total Common Stocks (Cost $48,200,826) | | 48,745,714 |

| | PRINCIPAL AMOUNT ($) | VALUE ($) |
|---|---|---|
| **TIME DEPOSIT - 1.2%** | | |
| State Street Bank Time Deposit, 0.278%, 1/4/16 | 574,327 | 574,327 |
| Total Time Deposit (Cost $574,327) | | 574,327 |
| TOTAL INVESTMENTS (Cost $48,775,153) - 99.5% | | 49,320,041 |
| Other assets and liabilities, net - 0.5% | | 263,594 |
| **NET ASSETS** - 100.0% | | $49,583,635 |

**NOTES TO SCHEDULE OF INVESTMENTS**

* Non-income producing security.

*See notes to financial statements.*

# CALVERT VP SRI MID CAP GROWTH PORTFOLIO
# STATEMENT OF ASSETS AND LIABILITIES
# DECEMBER 31, 2015

| | |
|---|---|
| **ASSETS** | |
| Investments in securities, at value (Cost $48,775,153) - see accompanying schedule | $49,320,041 |
| Receivable for securities sold | 872,622 |
| Receivable for shares sold | 328,262 |
| Dividends and interest receivable | 25,308 |
| Directors' deferred compensation plan | 32,080 |
| Total assets | 50,578,313 |
| | |
| **LIABILITIES** | |
| Payable for securities purchased | 901,184 |
| Payable for shares redeemed | 511 |
| Payable to Calvert Investment Management, Inc. | 27,719 |
| Payable to Calvert Investment Administrative Services, Inc. | 5,117 |
| Payable to Calvert Investment Services, Inc. | 476 |
| Directors' deferred compensation plan | 32,080 |
| Accrued expenses and other liabilities | 27,591 |
| Total liabilities | 994,678 |
| NET ASSETS | $49,583,635 |
| | |
| **NET ASSETS CONSIST OF:** | |
| Paid-in capital applicable to 1,598,723 shares of common stock outstanding; $0.01 par value, 1,000,000,000 shares authorized | $43,029,494 |
| Accumulated net realized gain (loss) | 6,009,253 |
| Net unrealized appreciation (depreciation) | 544,888 |
| NET ASSETS | $49,583,635 |
| | |
| NET ASSET VALUE PER SHARE | $31.01 |

*See notes to financial statements.*

# CALVERT VP SRI MID CAP GROWTH PORTFOLIO
# STATEMENT OF OPERATIONS
# YEAR ENDED DECEMBER 31, 2015

| | |
|---|---|
| **NET INVESTMENT INCOME** | |
| Investment Income: | |
| Dividend income | $549,585 |
| Interest income | 590 |
| Total investment income | 550,175 |
| | |
| Expenses: | |
| Investment advisory fee | 345,176 |
| Administrative fees | 132,760 |
| Transfer agency fees and expenses | 32,748 |
| Directors' fees and expenses | 9,592 |
| Accounting fees | 15,413 |
| Custodian fees | 15,142 |
| Professional fees | 26,364 |
| Reports to shareholders | 4,304 |
| Miscellaneous | 2,413 |
| Total expenses | 583,912 |
| Administrative fees waived | (5,544) |
| Net expenses | 578,368 |
| NET INVESTMENT LOSS | (28,193) |
| | |
| **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS** | |
| Net realized gain (loss) | 6,055,504 |
| | |
| Change in unrealized appreciation (depreciation) | (7,753,708) |
| | |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS | (1,698,204) |
| | |
| INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | $(1,726,397) |

*See notes to financial statements.*

# CALVERT VP SRI MID CAP GROWTH PORTFOLIO
# STATEMENTS OF CHANGES IN NET ASSETS

| INCREASE (DECREASE) IN NET ASSETS | YEAR ENDED DECEMBER 31, 2015 | YEAR ENDED DECEMBER 31, 2014 |
|---|---|---|
| Operations: | | |
| Net investment loss | ($28,193) | ($28,752) |
| Net realized gain (loss) | 6,055,504 | 8,051,714 |
| Change in unrealized appreciation (depreciation) | (7,753,708) | (4,147,823) |
| INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | (1,726,397) | 3,875,139 |
| Distributions to shareholders from: | | |
| Net realized gain | (1,659,712) | (9,587,987) |
| Capital share transactions: | | |
| Shares sold | 10,975,819 | 5,617,125 |
| Reinvestment of distributions | 1,659,712 | 9,587,987 |
| Shares redeemed | (10,382,253) | (12,555,659) |
| Total capital share transactions | 2,253,278 | 2,649,453 |
| TOTAL INCREASE (DECREASE) IN NET ASSETS | (1,132,831) | (3,063,395) |
| **NET ASSETS** | | |
| Beginning of year | 50,716,466 | 53,779,861 |
| End of year | $49,583,635 | $50,716,466 |
| **CAPITAL SHARE ACTIVITY** | | |
| Shares sold | 314,036 | 145,439 |
| Reinvestment of distributions | 52,473 | 286,123 |
| Shares redeemed | (296,813) | (327,472) |
| Total capital share activity | 69,696 | 104,090 |

*See notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

## NOTE A — SIGNIFICANT ACCOUNTING POLICIES

**General:** Calvert VP SRI Mid Cap Growth Portfolio (the "Portfolio"), a series of Calvert Variable Series, Inc. (the "Fund"), is registered under the Investment Company Act of 1940 as a non-diversified, open-end management investment company. The Fund is comprised of two separate portfolios. The operations of each series of the Fund are accounted for separately. Shares of the Portfolio are sold without sales charge to affiliated and unaffiliated insurance companies for allocation to certain of their variable separate accounts. The Portfolio applies the accounting and reporting guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946, *Financial Services – Investment Companies* (ASC 946).

**Security Valuation:** Net asset value per share is determined every business day as of the close of the regular session of the New York Stock Exchange (generally 4:00 p.m. Eastern time). The Portfolio uses independent pricing services approved by the Board of Directors ("the Board") to value its investments wherever possible. Investments for which market quotations are not available or deemed not reliable are fair valued in good faith under the direction of the Board.

The Board has adopted Valuation Procedures (the "Procedures") to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. The Board has delegated the day-to-day responsibility for determining the fair value of assets of the Portfolio to Calvert Investment Management, Inc. (the "Advisor" or "Calvert") and has provided these Procedures to govern Calvert in its valuation duties.

Calvert has chartered an internal Valuation Committee to oversee the implementation of these Procedures and to assist it in carrying out the valuation responsibilities that the Board has delegated.

The Valuation Committee meets on a regular basis to review illiquid securities and other investments which may not have readily available market prices. The Valuation Committee's fair valuation determinations are subject to review, approval and ratification by the Board at its next regularly scheduled meeting covering the calendar quarter in which the fair valuation was determined.

The Valuation Committee utilizes various methods to measure the fair value of the Portfolio's investments. U.S. generally accepted accounting principles (GAAP) establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical securities

Level 2 - other significant observable inputs (including quoted prices for similar securities, 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 inputs or methodologies 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 investment's assigned level within the hierarchy during the year. Transfers in and/or out of levels are determined based on the fair value of such securities at the end of the year. Valuation techniques used to value the Portfolio's investments by major category are as follows:

> Common stock securities, including restricted securities, for which market quotations are readily available, are valued at the last reported sale price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy. In the event there were no sales during the day or closing prices are not available, securities are valued at the last quoted bid price or the last available price and are categorized as Level 2 in the hierarchy. Foreign securities are valued based on quotations from the principal market in which such securities are normally traded. If events occur after the close of the principal market in which foreign securities are traded, and before the close of business of the Portfolio, that are expected to materially affect the value of those securities, then they are valued at their fair value taking these events into account and are categorized as Level 2 in the hierarchy.

Short-term securities of sufficient credit quality with remaining maturities of sixty days or less for which quotations are not readily available are valued at amortized cost, which approximates fair value, and are categorized as Level 2 in the hierarchy.

If a market value cannot be determined for a security using the methodologies described above, or if, in the good faith opinion of the Advisor, the market value does not constitute a readily available market quotation, or if a significant event has occurred that would materially affect the value of the security, the security will be fair valued as determined in good faith by the Valuation Committee.

The Valuation Committee considers a number of factors, including significant unobservable valuation inputs when arriving at fair value. It considers all significant facts that are reasonably available and relevant to the determination of fair value.

The Valuation Committee 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. When more appropriate, the Portfolio may employ an income-based or cost approach. An income-based valuation approach discounts anticipated future cash flows of the investment to calculate a present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. A cost based approach is based on the amount that currently would be required to replace the service capacity of an asset (current replacement cost). From the seller's perspective, the price that would be received for the asset is determined based on the cost to a buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

The values assigned to fair value investments are based on available information and do not necessarily represent amounts that might ultimately be realized. Further, 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, and the differences could be material. The Valuation Committee 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.

At December 31, 2015, no securities were fair valued in good faith under the direction of the Board.

The following table summarizes the market value of the Portfolio's holdings as of December 31, 2015, based on the inputs used to value them:

| | VALUATION INPUTS | | | |
|---|---|---|---|---|
| **INVESTMENTS IN SECURITIES*** | **LEVEL 1** | **LEVEL 2** | **LEVEL 3** | **TOTAL** |
| Common Stocks** | $48,745,714 | $— | $— | $48,745,714 |
| Time Deposit | — | 574,327 | — | 574,327 |
| TOTAL | $48,745,714 | $574,327 | $— | $49,320,041 |

* For a complete listing of investments, please refer to the Schedule of Investments.

** For further breakdown of equity securities by industry, please refer to the Schedule of Investments.

There were no transfers between levels during the year.

**Security Transactions and Investment Income:** Security transactions are accounted for on trade date. Realized gains and losses are recorded on an identified cost basis and may include proceeds from litigation. Dividend income is recorded on the ex-dividend date. Distributions received on securities that represent a return of capital are recorded as a reduction of cost of investments. Distributions received on securities that represent a capital gain are recorded as a realized gain. Interest income, which includes amortization of premium and accretion of discount on debt securities, is accrued as earned.

**Distributions to Shareholders:** Distributions to shareholders are recorded by the Portfolio on ex-dividend date. Dividends from net investment income and distributions from net realized capital gains, if any, are paid at least annually. Distributions are determined in accordance with income tax regulations which may differ from U.S. generally accepted accounting principles; accordingly, periodic reclassifications are made within the Portfolio's capital accounts to reflect income and gains available for distribution under income tax regulations.

**Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**Federal Income Taxes:** No provision for federal income or excise tax is required since the Portfolio intends to continue to qualify as a regulated investment company under the Internal Revenue Code and to distribute substantially all of its taxable earnings.

Management has analyzed the Portfolio's tax positions taken for all open federal income tax years and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. A Portfolio's federal tax return is subject to examination by the Internal Revenue Service for a period of three years.

## NOTE B — RELATED PARTY TRANSACTIONS

Calvert Investment Management, Inc. (the "Advisor") is wholly-owned by Calvert Investments, Inc., which is indirectly wholly-owned by Ameritas Mutual Holding Company. The Advisor provides investment advisory services and pays the salaries and fees of officers and Directors of the Fund who are employees of the Advisor or its affiliates. For its services, the Advisor receives an annual fee, payable monthly, of 0.65% of the Portfolio's average daily net assets.

Calvert Investment Administrative Services, Inc. ("CIAS"), an affiliate of the Advisor, provides administrative services to the Portfolio for an annual fee, payable monthly, of 0.25% of the Portfolio's average daily net assets.

On November 24, 2015, the Board of Directors approved the recommendation made by CIAS to standardize and rationalize the administrative fee paid by the Calvert Funds at 0.12% for all series and all share classes of the Calvert Funds. The change is being implemented in two phases. First, CIAS will voluntarily waive 0.13% (the amount of the existing administrative fee above 0.12%) for the period from December 1, 2015 through April 30, 2016. Second, CIAS and the Portfolio have entered into an Amended and Restated Administrative Services Agreement that will establish a 0.12% administrative fee of the Fund commencing on May 1, 2016. CIAS voluntarily waived $5,544 for the year ended December 31, 2015.

Calvert Investment Services, Inc. ("CIS"), an affiliate of the Advisor, acts as shareholder servicing agent for the Portfolio. For its services, CIS received a fee of $3,983 for the year ended December 31, 2015. Boston Financial Data Services, Inc. is the transfer and dividend disbursing agent.

Each Director of the Portfolio who is not an employee of the Advisor or its affiliates receives a fee of $1,500 for each Board and Committee meeting attended plus an annual fee of $44,000. Committee chairs receive an additional $5,000 annual retainer. Eligible Directors may participate in a Deferred Compensation Plan (the "Plan"). Obligations of the Plan will be paid solely out of the Portfolio's assets. Directors' fees are allocated to each of the portfolios served.

## NOTE C — INVESTMENT ACTIVITY AND TAX INFORMATION

During the year, the cost of purchases and proceeds from sales of investments, other than short-term securities, were $48,903,194 and $48,851,363, respectively.

The tax character of dividends and distributions paid during the years ended December 31, 2015 and December 31, 2014 was as follows:

| DISTRIBUTIONS PAID FROM: | 2015 | 2014 |
|---|---|---|
| Ordinary income | $269,164 | $1,626,990 |
| Long-term capital gains | 1,390,548 | 7,960,997 |
| Total | $1,659,712 | $9,587,987 |

As of December 31, 2015, the tax basis components of distributable earnings/(accumulated losses) and the federal tax cost were as follows:

| | |
|---|---|
| Unrealized appreciation | $5,195,129 |
| Unrealized (depreciation) | (4,735,301) |
| Net unrealized appreciation (depreciation) | $459,828 |
| Undistributed long-term capital gain | $6,094,313 |
| Federal income tax cost of investments | $48,860,213 |

The differences between the components of distributable earnings on a tax basis and the amounts reflected in the Statement of Assets and Liabilities are primarily due to temporary book-tax differences that will reverse in a subsequent period. These differences are mainly due to wash sales.

Reclassifications, as shown in the table below, have been made to the Portfolio's components of net assets to reflect income and gains available for distribution (or available capital loss carryovers, as applicable) under income tax law and regulations. These reclassifications are due to permanent book-tax differences and have no impact on net assets. The primary permanent differences causing such reclassifications for the Portfolio are due to net operating losses.

| | |
|---|---|
| Undistributed net investment income | $28,193 |
| Paid-in capital | (28,193) |

**NOTE D — LINE OF CREDIT**

A financing agreement is in place with the Calvert Funds and State Street Corporation ("SSC"). Under the agreement, SSC provides an unsecured line of credit facility, in the aggregate amount of $50 million ($25 million committed and $25 million uncommitted), accessible by the Calvert Funds for temporary or emergency purposes only. Borrowings bear interest at the higher of the London Interbank Offered Rate (LIBOR) or the overnight Federal Funds Rate plus 1.25% per annum. A commitment fee of 0.20% per annum is incurred on the unused portion of the committed facility. An administrative fee of $25,000 was paid in connection with the uncommitted facility. These fees are allocated to all participating funds. The Portfolio had no loans outstanding pursuant to this line of credit at December 31, 2015.

For the year ended December 31, 2015, borrowing information by the Portfolio under the agreement was as follows:

| Average Daily Balance | Weighted Average Interest Rate | Maximum Amount Borrowed | Month of Maximum Amount Borrowed |
|---|---|---|---|
| $29,668 | 1.37% | $2,130,876 | May 2015 |

**NOTE E — SUBSEQUENT EVENTS**

In preparing the financial statements as of December 31, 2015, no subsequent events or transactions occurred that would have required recognition or disclosure in these financial statements.

**NOTICE TO SHAREHOLDERS (UNAUDITED)**

For the fiscal year ended December 31, 2015, the Portfolio considers 0.0% of the ordinary dividends paid during the year as qualified dividend income and as eligible for the corporate dividends received deduction in accordance with Section 854 of the Internal Revenue Code. The Portfolio also considers $1,390,548 of the long-term capital gain distributions paid during the year as capital gain dividends in accordance with Section 852(b)(3)(C) of the Internal Revenue Code.

# CALVERT VP SRI MID CAP GROWTH PORTFOLIO
# FINANCIAL HIGHLIGHTS

| | YEARS ENDED | | | | |
|---|---|---|---|---|---|
| | **December 31, 2015 (a)** | **December 31, 2014** | **December 31, 2013** | **December 31, 2012** | **December 31, 2011** |
| **Net asset value, beginning** | **$33.17** | **$37.74** | **$32.66** | **$31.66** | **$32.97** |
| Income from investment operations: | | | | | |
| Net investment loss | (0.02) | (0.02) | (0.12) | (0.06) | (0.18) |
| Net realized and unrealized gain (loss) | (1.06) | 3.15 | 9.75 | 5.27 | 0.95 |
| Total from investment operations | (1.08) | 3.13 | 9.63 | 5.21 | 0.77 |
| Distributions from: | | | | | |
| Net realized gain | (1.08) | (7.70) | (4.55) | (4.21) | (2.08) |
| Total distributions | (1.08) | (7.70) | (4.55) | (4.21) | (2.08) |
| Total increase (decrease) in net asset value | (2.16) | (4.57) | 5.08 | 1.00 | (1.31) |
| **Net asset value, ending** | **$31.01** | **$33.17** | **$37.74** | **$32.66** | **$31.66** |
| Total return(b) | (3.31%) | 8.09% | 29.90% | 16.75% | 2.30% |
| Ratios to average net assets: (c) | | | | | |
| Net investment loss | (0.05%) | (0.06%) | (0.35%) | (0.19%) | (0.52%) |
| Total expenses | 1.10% | 1.16% | 1.15% | 1.12% | 1.16% |
| Net expenses | 1.09% | 1.16% | 1.15% | 1.12% | 1.16% |
| Portfolio turnover | 94% | 91% | 69% | 61% | 47% |
| **Net assets, ending (in thousands)** | **$49,584** | **$50,716** | **$53,780** | **$42,232** | **$40,293** |

(a)Per share figures are calculated using the Average Shares Method.

(b)Total return is not annualized for periods of less than one year and does not reflect charges and expenses of the variable annuity or variable universal life contract.

(c)Total expenses do not reflect amounts reimbursed and/or waived by the Advisor and certain of its affiliates, if applicable. Net expenses are net of all reductions and represent the net expenses paid by the Portfolio.

*See notes to financial statements.*

# PROXY VOTING

The Proxy Voting Guidelines that the Portfolio uses to determine how to vote proxies relating to portfolio securities is provided as an Appendix to the Fund's Statement of Additional Information. The Statement of Additional Information can be obtained free of charge by calling the Fund at 1-800-368-2745, by visiting the Calvert website at www.calvert.com or by visiting the SEC's website at www.sec.gov.

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available by calling the Fund, by visiting the Calvert website at www.calvert.com or visiting the SEC's website at www.sec.gov.

# AVAILABILITY OF QUARTERLY PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC; information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

# BASIS FOR BOARD'S APPROVAL OF INVESTMENT ADVISORY CONTRACTS

At a meeting held on December 9, 2015, the Board of Directors, and by a separate vote, the disinterested Directors, approved the continuance of the Investment Advisory Agreement between the Fund and the Advisor and the Investment Subadvisory Agreement between the Advisor and the Subadvisor with respect to the Portfolio.

In evaluating the Investment Advisory Agreement, the Board considered a variety of information relating to the Portfolio and the Advisor. The disinterested Directors reviewed a report prepared by the Advisor regarding various services provided to the Portfolio by the Advisor and its affiliates. Such report included, among other data, information regarding the Advisor's personnel and the Advisor's revenue and cost of providing services to the Portfolio, and a separate report prepared by an independent third party, which provided a statistical analysis comparing the Portfolio's investment performance, expenses, and fees to comparable mutual funds.

The disinterested Directors were separately represented by independent legal counsel with respect to their consideration of the reapproval of the Investment Advisory Agreement and the Investment Subadvisory Agreement. Prior to voting, the disinterested Directors reviewed the proposed continuance of the Investment Advisory Agreement and Investment Subadvisory Agreement with management and also met in private sessions with their counsel at which no representatives of management were present.

In the course of its deliberations regarding the Investment Advisory Agreement, the Board considered the following factors, among others: the nature, extent and quality of the services provided by the Advisor, including the personnel providing such services; the Advisor's financial condition; the level and method of computing the Portfolio's advisory fee; comparative performance, fee and expense information for the Portfolio; the profitability of the Calvert Family of Funds to the Advisor and its affiliates; the allocation of the Portfolio's brokerage, including the Advisor's process for monitoring "best execution"; the direct and indirect benefits, if any, derived by the Advisor and its affiliates from their relationship with the Portfolio; the effect of the Portfolio's growth and size on the Portfolio's performance and expenses; the Advisor's compliance programs and policies; the Advisor's performance of substantially similar duties for other funds; and any possible conflicts of interest.

In considering the nature, extent and quality of the services provided by the Advisor under the Investment Advisory Agreement, the Board reviewed information provided by the Advisor relating to its operations and personnel, including, among other information, biographical information on the Advisor's supervisory and professional staff and descriptions of its organizational and management structure. The Board also took into account similar information provided periodically throughout the previous year by the Advisor, as well as the Board's familiarity with management through Board of Directors' meetings, discussions and other reports. The Board considered the Advisor's current level of staffing and overall resources. The Board also noted that it reviewed on a quarterly basis information regarding the Advisor's compliance with applicable policies and procedures, including those related to personal investing. The Advisor's administrative capabilities, including its ability to supervise the other service providers for the Portfolio, were also considered. The Board also took into account the environmental, social, sustainability and governance research and analysis provided by the Advisor to the Portfolio. The Board discussed the Advisor's effectiveness in monitoring the performance of the Subadvisor and its timeliness in responding to performance issues. The Board observed that the scope of services provided by the Advisor generally had expanded over time as a result of regulatory, market and other changes. The Board took into consideration, among other factors, the effectiveness of the Portfolio's and Advisor's processes, policies and procedures and the Advisor's personnel. The Board also took into account, among other items, periodic reports received from the Advisor over the past year concerning the Advisor's ongoing review and enhancement of certain processes, policies and procedures of the Portfolio and the Advisor. The Board concluded that it was satisfied with the nature, extent and quality of services provided to the Portfolio by the Advisor under the Investment Advisory Agreement.

In considering the Portfolio's performance, the Board noted that it reviewed on a quarterly basis detailed information about the Portfolio's performance results, portfolio composition and investment strategies. In addition, the Board took into account overall financial market conditions. The Board also reviewed various comparative data provided to it in connection with its consideration of the renewal of the Investment Advisory Agreement, including, among other information, a comparison of the Portfolio's total return with its Lipper index and with that of other mutual funds deemed to be in its peer group by an independent third party in its report. This comparison indicated that the Portfolio performed above the median of its peer group for the one- and five-year periods ended June 30, 2015 and below the median of its peer group for the three-year period ended June 30, 2015. The Portfolio outperformed its Lipper index for the one- and five-year periods ended June 30, 2015 and underperformed its Lipper index for the three- year period ended June 30, 2015. The Board took into account management's discussion of the Portfolio's performance and management's continued monitoring of the Portfolio's performance. Based upon its review, the Board concluded that the performance of the Portfolio is satisfactory relative to the performance of funds with similar investment objectives and to relevant indices.

In considering the Portfolio's fees and expenses, the Board compared the Portfolio's fees and total expense ratio with various comparative data for the funds in its peer group. Among other findings, the data indicated that the Portfolio's advisory fee was above the median of its peer group and that total expenses were above the median of its peer group. The Board noted that the allocation of advisory and administrative fees may vary among the Portfolio's peer group. The Board noted that the Advisor paid the Subadvisor's subadvisory fee under the Investment Subadvisory Agreement with respect to the Portfolio. The Board also took into account management's discussion of the Portfolio's expenses and certain factors that affected the level of such expenses, including the current asset size of the Portfolio and the cost of providing the environmental, social, sustainability and governance research and analysis provided by the Advisor. The Board noted that the Portfolio's administrator had agreed to implement an administrative fee change effective December 1, 2015, which is expected to reduce the administrative fee paid by certain classes of shares; however, the impact of the fee change is not yet reflected in the Portfolio's total expenses. Based upon its review, the Board determined that the advisory fee was reasonable in view of the quality of services received by the Portfolio from the Advisor and the other factors considered.

The Board reviewed the Advisor's profitability on a portfolio-by-portfolio basis. In reviewing the overall profitability of the advisory fee to the Portfolio's Advisor, the Board also considered the fact that affiliates of the Advisor provided shareholder servicing and administrative services to the Portfolio for which they received compensation. The information considered by the Board included Calvert's operating profit margin information both before and after tax expenses with respect to the services that the Advisor and its affiliates provided to the Calvert Family of Funds complex. The Board reviewed the profitability of the Advisor's relationship with the Portfolio in terms of the total amount of annual advisory fees it received with respect to the Portfolio and whether the Advisor had the financial wherewithal to continue to provide services to the Portfolio. The Board also considered that the Advisor derived benefits to its reputation and other indirect benefits from its relationship with the Portfolio. In addition, the Board took into account that affiliates of the Advisor may benefit from certain indirect tax benefits relating to dividend received deductions and foreign tax credits. The Board also noted that the Advisor paid the subadvisory fee to the Subadvisor. Based upon its review, the Board concluded that the Advisor's and its affiliates' level of profitability from their relationship with the Portfolio was reasonable.

The Board considered the effect of the Portfolio's current size and potential growth on its performance and fees. Although the Portfolio's advisory fee did not contain breakpoints that would reduce the advisory fee rate on assets above specified asset levels, the Board noted that if the Portfolio's assets increased over time, the Portfolio might realize other economies of scale if assets increased proportionally more than certain other expenses. The Board also noted that given the Portfolio's current level of assets, the Portfolio would be unlikely to recognize economies of scale by implementing a breakpoint in the advisory fee at this time.

In reapproving the Investment Advisory Agreement, the Board, including the disinterested Directors, did not identify any single factor as controlling, and each Director may have attributed different weight to various factors.

In evaluating the Investment Subadvisory Agreement, the disinterested Directors reviewed information provided by the Subadvisor relating to its operations, personnel, investment philosophy, strategies and techniques. Among other information, the Subadvisor provided biographical information on portfolio management and other professional staff, performance information for itself, and descriptions of its investment philosophies, strategies and techniques, organizational and management structures and brokerage policies and practices.

The Board reapproved the Investment Subadvisory Agreement between the Subadvisor and the Advisor based on a number of factors relating to the Subadvisor's ability to perform under the Investment Subadvisory Agreement. In the course of its deliberations, the Board evaluated, among other factors: the nature, extent and the quality of the services to be provided by the Subadvisor; the Subadvisor's management style and long-term performance record; the Portfolio's performance record and the Subadvisor's performance in employing its investment strategies; the Subadvisor's current level of staffing and its overall resources; the qualifications and experience of the Subadvisor's personnel; the Subadvisor's financial condition with respect to its ability to perform the services required under the Investment Subadvisory Agreement; the Subadvisor's risk management processes; the Subadvisor's compliance systems, including those related to personal investing; and any disciplinary history. Based upon its review, the Board concluded that it was satisfied with the nature, extent and quality of services provided to the Portfolio by the Subadvisor under the Investment Subadvisory Agreement.

As noted above, the Board considered, among other information, the Portfolio’s performance during the one-, three- and five-year periods ended June 30, 2015 as compared to the Portfolio’s peer group and noted that it reviewed on a quarterly basis detailed information about the Portfolio’s performance results, portfolio composition and investment strategies. The Board noted the Advisor’s expertise and resources in monitoring the performance, investment style and risk adjusted performance of the Subadvisor.

In considering the cost of services to be provided by the Subadvisor and the profitability to the Subadvisor of its relationship with the Portfolio, the Board noted that the subadvisory fee under the Investment Subadvisory Agreement was paid by the Advisor out of the advisory fee that the Advisor received under the Investment Advisory Agreement. The Board also relied on the ability of the Advisor to negotiate the Investment Subadvisory Agreement and the corresponding subadvisory fee at arm’s length. In addition, the Board took into account the fees the Subadvisor charges to its other clients and considered these fee comparisons in light of the differences in managing these other accounts. Based upon its review, the Board determined that the subadvisory fee was reasonable in view of the quality of services received by the Portfolio from the Subadvisor and the other factors considered. Because the Advisor pays the Subadvisor’s subadvisory fee and the subadvisory fee was negotiated at arm’s length by the Advisor, the cost of services to be provided by the Subadvisor and the profitability to the Subadvisor from its relationship with the Portfolio were not material factors in the Board’s deliberations. For similar reasons, the Board did not consider the potential economies of scale in the Subadvisor’s management of the Portfolio to be a material factor in its consideration.

In reapproving the Investment Subadvisory Agreement, the Board, including the disinterested Directors, did not identify any single factor as controlling, and each Director may have attributed different weight to various factors.

**Conclusions**

The Board reached the following conclusions regarding the Investment Advisory Agreement and the Investment Subadvisory Agreement, among others: (a) the Advisor has demonstrated that it possesses the capability and resources to perform the duties required of it under the Investment Advisory Agreement; (b) the Subadvisor is qualified to manage the Portfolio's assets in accordance with the Portfolio’s investment objectives and policies; (c) the Advisor and Subadvisor maintain appropriate compliance programs; (d) the Subadvisor is likely to execute its investment strategies consistently over time; (e) the performance of the Portfolio is satisfactory relative to the performance of funds with similar investment objectives and to relevant indices; and (f) the Portfolio's advisory and subadvisory fees are reasonable in view of the quality of services received by the Portfolio from the Advisor and Subadvisor and the other factors considered. Based on its conclusions, the Board determined that reapproval of the Investment Advisory Agreement and the Investment Subadvisory Agreement would be in the best interests of the Portfolio and its shareholders.

# DIRECTOR AND OFFICER INFORMATION TABLE

| Name & Age | Position with Fund | Position Start Date | Principal Occupation During Last 5 Years | # of Calvert Portfolios Overseen | Other Directorships |
|---|---|---|---|---|---|
| *INDEPENDENT DIRECTORS* | | | | | |
| **FRANK H. BLATZ, JR., Esq.**<br>AGE: 80 | Director | 1982<br>CVS<br><br>2008<br>CVP | Of counsel to firm of Schiller & Pittenger, P.C. | 13 | None |
| **ALICE GRESHAM BULLOCK**<br>AGE: 65 | Director | 1999<br>CVS<br><br>2008<br>CVP | Professor at Howard University School of Law. She is former Dean of Howard University School of Law and Deputy Director of the Association of American Law Schools. | 15 | None |
| **M. CHARITO KRUVANT**<br>AGE: 70 | Director | 1999<br>CVS<br><br>2008<br>CVP | President and CEO of Creative Associates International, Inc., a firm that specializes in human resources development, information management, public affairs and private enterprise development. | 22 | • Acacia Federal Savings Bank (through 2013)<br>• Summit Foundation<br>• WETA Public Broadcasting |
| **CYNTHIA MILLIGAN**<br>AGE: 69 | Director | 1999<br>CVS<br><br>2008<br>CVP | Dean Emeritus, College of Business Administration, University of Nebraska, Lincoln. She is former President and Chief Executive Officer for CMA, a consulting firm for financial institutions. | 15 | • Wells Fargo Company (banking and financial services) - NYSE<br>• Wells Fargo Bank N.A. (Since 2014)<br>• Gallup, Inc. (management consulting)<br>• W.K. Kellogg Foundation<br>• Raven Industries (technology company) - NASDAQ<br>• Colonial Williamsburg Foundation<br>• Kellogg Company (food manufacturing) - NYSE |
| **ARTHUR J. PUGH**<br>AGE: 78 | Director | 1982<br>CVS<br><br>2008<br>CVP | Retired executive. | 13 | None |
| *INTERESTED DIRECTORS* | | | | | |
| **WILLIAM LESTER***<br>AGE: 58 | Director & Chair (CVS)<br><br>Director & Senior Vice President (CVP) | 2004<br>CVS<br><br>2008<br>CVP | Executive Vice President Finance/Investments and Corporate Treasurer of Ameritas Mutual Holding Company. Chair and former President (resigned 2012) of Ameritas Investment Partners, Inc. | 13 | • Acacia Federal Savings Bank (through 2013)<br>• Ameritas Investment Partners, Inc. (financial services)<br>• Ameritas Investment Corp. (financial services)<br>• Griffin Realty, LLC<br>• Universal and Inland Insurance Companies<br>• U.S. Bank – Lincoln<br>• Bryan/LGH Health Systems |

| Name & Age | Position with Fund | Position Start Date | Principal Occupation During Last 5 Years | # of Calvert Portfolios Overseen | Other Directorships |
|---|---|---|---|---|---|
| *INTERESTED DIRECTORS* | | | | | |
| **JOHN H. STREUR***<br>AGE: 56 | President (CVS)<br><br>Director, Chair & President (CVP) | 2015 | President and Chief Executive Officer of Calvert Investments, Inc. (since January 2015) and Chief Compliance Officer for the Advisor and Calvert Investment Distributors, Inc. (since August 10, 2015); President and Director, Portfolio 21 Investments, Inc. (through October 2014); President, Chief Executive Officer and Director, Managers Investment Group LLC (through January 2012); President and Director, The Managers Funds and Managers AMG Funds (through January 2012). | 40 | • Portfolio 21 Investments, Inc. (asset management) (through October 2014)<br>• Managers Investment Group LLC (asset management)(through January 2012)<br>• The Managers Funds (asset management) (through January 2012)<br>• Managers AMG Funds (asset management) (through January 2012)<br>• Calvert Social Investment Foundation |

| Name & Age | Position with Fund | Position Start Date | Principal Occupation During Last 5 Years |
|---|---|---|---|
| *OFFICERS* | | | |
| **VICKI L. BENJAMIN**<br>AGE: 54 | Treasurer | 2015 | Executive Vice President, Chief Financial Officer and Chief Operating Officer of Calvert Investments, Inc. since October 2015; Senior Vice President and Chief Financial Officer of Calvert Investments, Inc. (March 2015 - September 2015). Prior to Calvert, Ms. Benjamin was a Senior Partner at KPMG. |
| **ROBERT D. BENSON, ESQ.**<br>AGE: 37 | Assistant Vice President & Assistant Secretary | 2014 | Assistant General Counsel (since 2014), Assistant Vice President & Assistant Secretary (since 2015) and Staff Attorney (prior to 2014), Calvert Investments, Inc. |
| **HOPE BROWN**<br>AGE: 42 | Chief Compliance Officer | 2014 | Chief Compliance Officer for the Calvert Funds (since 2014). Vice President and Chief Compliance Officer, Wilmington Funds (2012-2014). Vice President and Senior Compliance Officer, Wilmington Trust Investment Advisors, Inc. (2010-2012). |
| **STU DALHEIM**<br>AGE: 46 | Vice President | 2015 | Vice President - Shareholder Advocacy for the Advisor. |
| **MATTHEW DUCH**<br>Age: 40 | Vice President | 2011 | Vice President of the Advisor and portfolio manager for Calvert's taxable fixed-income funds. |
| **ROBERT J. ENDERSON, CFA**<br>AGE: 57 | Assistant Treasurer | 2014 | Vice President, Corporate Finance, of Calvert Investments, Inc.; Acting Chief Financial Officer of Calvert Investments, Inc. (September 2014 - March 2015). |
| **PATRICK FAUL**<br>AGE: 51 | Vice President | 2010 | Vice President and Head of Credit Research for the Advisor. |
| **TRACI L. GOLDT**<br>AGE: 42 | Assistant Secretary | 2004 | SEC Filing and Administrative Operations Manager, Calvert Investments, Inc. |
| **JADE HUANG**<br>AGE: 41 | Vice President | 2015 | Equity Portfolio Manager since November 2015 and Senior Equity Analyst prior to November 2015, Advisor. |
| **EMILY KAISER**<br>AGE: 32 | Assistant Vice President | 2015 | Senior Sustainability Analyst since November 2015 and Sustainability Analyst (January 2014 - October 2015), Advisor. Prior to joining Calvert, Ms. Kaiser attended law school from 2010 to 2013 and also held legal and policy positions with the U.S. Agency for International Development (2013), the Solidarity Center, AFL-CIO (2013), the U.S. Department of Labor (2012), the office of the U.S. Trade Representative (2012) and the Public International Law and Policy Group (2011-2012). |
| **VISHAL KHANDUJA, CFA**<br>AGE: 37 | Vice President | 2014 | Head of Taxable Fixed Income (since 2015) and Vice President of the Advisor (since 2014); Portfolio Manager for Calvert's taxable fixed-income funds since 2012. Previously worked at Columbia Management as Portfolio Manager - Global Rates and Currency Team (2009-2012). |

| Name & Age | Position with Fund | Position Start Date | Principal Occupation During Last 5 Years |
|---|---|---|---|
| ***OFFICERS*** | | | |
| **LANCELOT A. KING, ESQ.**<br>AGE: 45 | Assistant Vice President & Secretary | 2002 | Assistant Vice President, Assistant Secretary and Associate General Counsel of Calvert Investments, Inc. |
| **ERICA LASDON**<br>AGE: 44 | Assistant Vice President | 2015 | Director of Sustainability Research since August 2015 and Senior Sustainability Analyst and Manager prior to August 2015, Advisor. |
| **JOSHUA LINDER**<br>AGE: 30 | Vice President | 2015 | Equity Portfolio Manager since November 2015, Assistant Portfolio Manager (January 2014 - October 2015) and Equity Analyst (2011 - 2013), Advisor. |
| **CHRISTOPHER MADDEN**<br>AGE: 40 | Vice President | 2015 | Equity Portfolio Manager since November 2015 and Senior Equity Analyst prior to November 2015, Advisor. |
| **ANDREW K. NIEBLER, ESQ.**<br>AGE: 48 | Assistant Vice President & Assistant Secretary | 2006 | Assistant Vice President, Assistant Secretary and Associate General Counsel of Calvert Investments, Inc. |
| **MARYBETH PILAT, CPA**<br>AGE: 47 | Fund Controller and Assistant Treasurer | 2015 | Director of Fund Administration, Calvert Investment Administrative Services, Inc. since August 2015. VP Expense & Budgeting, Global Fiduciary Platform, Legg Mason (May 2015 - July 2015). Vice President and Assistant Treasurer, Columbia Funds, Ameriprise, Columbia Management (2010 - April 2015). |

* The address of Directors and Officers is 4550 Montgomery Avenue, Suite 1000N, Bethesda, Maryland 20814. Mr. Streur is an interested person of the Fund since he is an officer and director of the Fund's Advisor and its affiliates. Mr. Lester is an interested person of the Fund since he is an officer and director of the parent company of the Fund's Advisor.

Additional information about the Fund's Directors can be found in the Statement of Additional Information (SAI). You can get a free copy of the SAI by contacting your broker, or the Fund at 1-800-368-2745.

# Protecting Your Privacy

## Your relationship with us is important.

**Please take time to review this statement about our privacy policies with existing and former customers. We do not disclose any non-public personal information about our customers to anyone, except as permitted by law.**

### Your privacy is a top priority.

You have shared personal and financial information with us:

- information we receive from you on applications or other forms, such as your name, address, social security number, assets and income; and
- information about your transactions with us, our affiliates or others, such as your account balance, payment history and parties to transactions.

We use this information to provide our products and services to you, and to assist you in achieving your financial goals. We promise to protect the security, privacy and use of your personal and financial information, including account and transaction details.

### Your information is shared only in limited ways and for specific purposes.

We do not currently share your information with affiliates in the Calvert and the Ameritas Companies; however, we reserve the right to do so. Also, we may disclose information we collect to companies that perform administrative or marketing services on our behalf, such as transfer agents, or printers and mailers that assist us in the distribution of materials, or others as permitted by law, in order to:

- provide you with faster, more comprehensive service, and
- implement security measures and fight fraud for your continued -protection.

Calvert does not give or sell information about you or your accounts to any other company, individual or group. However, governmental agencies, regulatory authorities and other entities may have access to such information if permitted by law.

### The products and services you use are delivered in a secure environment.

Whether you use automated telephone capabilities or the Internet, you can feel confident that we employ security measures that are appropriate to each technology. For more information on Internet-specific privacy and security measures, please visit our Web site at www.calvert.com.

### Keeping your personal information accurate and current is a vital concern.

We strive to keep your personal and financial information accurate. If you believe that our records are incorrect or out of date, please notify us by contacting Client Services at 800.368.2745 and we will make any necessary corrections.

### Employee access to your information is limited.

Our employees have limited access to shareholder information based on their job function. This enables them to assist you in completing transactions, obtaining additional information about our products and resolving any problems that might arise. All employees are instructed to use the strict standards of care outlined in Calvert’s confidentiality rules. Employees who do not conform to Calvert’s confidentiality rules are subject to disciplinary actions that may include dismissal.

**Your privacy preferences will be respected.**

Since your financial needs change and our financial products are continually developing, we may contact you to determine if we can be of additional service to you. Most of our shareholders appreciate hearing about our new offerings and choose to continue to do so. If you have additional questions about these policies, please call Client Services at 800.368.2745.

*This notice is subject to change.*
*Created on 02-05-01*
*Revised 2-16-10*

## Combined General Mailings (Householding)

Multiple accounts held directly with Calvert that have the same social security number will receive one mailing per household of information such as prospectuses and semi-annual and annual reports. Call Calvert client services at 800-368-2745 to request further grouping of accounts to receive fewer mailings, or to request that each account still receive a separate mailing. Separate statements will be generated for each separate account and will be mailed in one envelope for each combination above. Multiple accounts held through a broker/dealer (or other financial intermediary) that share the same household address may receive one mailing.

**Supplement to**

**CALVERT VARIABLE PRODUCTS PROSPECTUS**
**CLASS F**
**(Calvert VP SRI Portfolios, Calvert VP Index Portfolios and Calvert VP Volatility Managed Portfolios)**
**dated April 30, 2015**

Date of Supplement: February 4, 2016

*In the chart under "More Information on Investment Objective, Investment Strategies and Risks – Further Description of Investment Strategies and Techniques" on page 34, add the following under the row for "Investment Techniques – Hedging Strategies" (headings added for clarity):*

| | Calvert VP SRI Balanced Portfolio | Calvert VP S&P MidCap 400 Index Portfolio | Calvert VP Russell 2000 Small Cap Index Portfolio | Calvert VP EAFE International Index Portfolio | Calvert VP Volatility Managed Moderate Portfolio | Calvert VP Volatility Managed Moderate Growth Portfolio | Calvert VP Volatility Managed Growth Portfolio |
|---|---|---|---|---|---|---|---|
| **Investment Techniques** | | | | | | | |
| Securities Lending | ❑ | ❑ | ❑ | ❑ | ❑ | ❑ | ❑ |

*In the table under "More Information on Investment Objective, Investment Strategies and Risks – Description of Investment Strategies and Associated Risks" on page 35, add the following under the paragraph for "Investment Techniques and Associated Risks – Hedging Strategies" (heading added for clarity):*

| Investment Techniques and Associated Risks | |
|---|---|
| **Securities Lending.** A Portfolio may lend securities with a value up to one-third of its total assets to certain financial institutions and broker/dealers that provide cash or securities issued or guaranteed by the U.S. Government as collateral. | **Risks:** Credit and Market |

*Under "More Information on Investment Objective, Investment Strategies and Risks – Explanation of Strategies Used by Certain Portfolios" on page 37, add the following after the first paragraph:*

**Securities Lending.** A Portfolio may lend securities with a value up to one-third of its total assets to certain financial institutions and broker/dealers that provide cash or securities issued or guaranteed by the U.S. Government as collateral. All incremental income generated from such activities will be accrued to the Portfolio. Unless market practice otherwise permits, the collateral for any such permissible securities lending activities will include cash or cash-equivalent collateral of at least (i) 100% for U.S. government securities (including securities issued by U.S. agencies and instrumentalities), sovereign debt issued by non-U.S. governments, and non-U.S. corporate debt securities, (ii) 102% for U.S. equity securities and U.S. corporate debt securities, and (iii) 105% for non-U.S. equity securities, which, in each case, are marked to market on a daily basis. There is a risk that the securities in which the collateral is invested may not perform sufficiently to cover the return collateral payments owed to borrowers. In addition, delays may occur in the recovery of securities from borrowers, which could interfere with the Portfolio's ability to vote proxies or to settle transactions.

This report is intended to provide fund information to shareholders. It is not authorized for distribution to prospective investors unless preceded or accompanied by a prospectus.

***Note:*** *The information on our website is not incorporated by reference into this report; our website address is included as an inactive textual reference only.*

Investors should carefully consider the investment objectives, risks, charges and expenses of the Calvert Funds. This and other important information is contained in the fund's summary prospectus and prospectus, which can be obtained from your financial professional and should be read carefully before investing. You may also call **Calvert** at 800/368-2745.

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an Ameritas company

Deutsche
Asset Management

December 31, 2015

# 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 than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. See the prospectus for details.

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


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

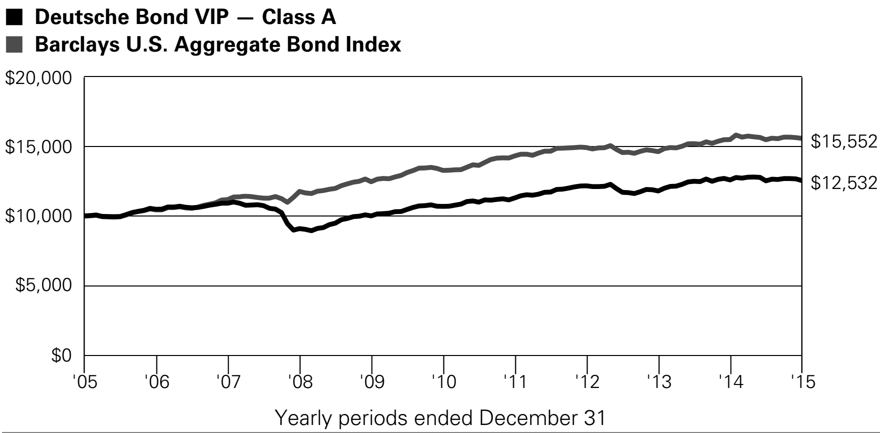
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 is 0.69% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.**

## Growth of an Assumed $10,000 Investment




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

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

## Comparative Results

| Deutsche Bond VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $9,971 | $10,310 | $11,743 | $12,532 |
| | Average annual total return | –0.29% | 1.02% | 3.27% | 2.28% |
| Barclays U.S. Aggregate Bond Index | Growth of $10,000 | $10,055 | $10,439 | $11,732 | $15,552 |
| | Average annual total return | 0.55% | 1.44% | 3.25% | 4.51% |

The growth of $10,000 is cumulative.

# Management Summary



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

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

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

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

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

Gary Russell, CFA
John D. Ryan
Thomas M. Farina, CFA
Gregory M. Staples, CFA
Portfolio Managers

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

1 The Barclays U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more. Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

# Portfolio Summary (Unaudited)

| **Asset Allocation** (As a % of Total Net Assets) | **12/31/15** | **12/31/14** |
|---|---|---|
| Government & Agency Obligations | 41% | 30% |
| Mortgage-Backed Securities Pass-Throughs | 23% | 18% |
| Corporate Bonds | 22% | 31% |
| Collateralized Mortgage Obligations | 8% | 6% |
| Commercial Mortgage-Backed Securities | 4% | 4% |
| Asset-Backed | 2% | 2% |
| Municipal Bonds and Notes | 1% | 4% |
| Short-Term U.S. Treasury Obligations | 1% | 1% |
| Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net | –2% | 4% |
| | 100% | 100% |

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

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

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc. ("Fitch") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's, Fitch and S&P represent their opinions as to the quality of the securities they rate. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Portfolio holdings and characteristics are subject to change.

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

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

| | Principal Amount ($)(a) | Value ($) |
|---|---|---|
| **Corporate Bonds 21.7%** | | |
| **Consumer Discretionary 1.7%** | | |
| AMC Entertainment, Inc., 5.875%, 2/15/2022 | 15,000 | 15,225 |
| AmeriGas Finance LLC: | | |
| 6.75%, 5/20/2020 | 15,000 | 14,588 |
| 7.0%, 5/20/2022 | 10,000 | 9,675 |
| APX Group, Inc., 6.375%, 12/1/2019 | 15,000 | 14,363 |
| Asbury Automotive Group, Inc., 144A, 6.0%, 12/15/2024 | 5,000 | 5,163 |
| Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021 | 25,000 | 21,250 |
| Avis Budget Car Rental LLC, 5.5%, 4/1/2023 (b) | 15,000 | 15,037 |
| Bed Bath & Beyond, Inc.: | | |
| 4.915%, 8/1/2034 | 130,000 | 115,981 |
| 5.165%, 8/1/2044 | 150,000 | 127,052 |
| CCO Safari II LLC: | | |
| 144A, 4.908%, 7/23/2025 | 40,000 | 39,961 |
| 144A, 6.484%, 10/23/2045 | 30,000 | 30,049 |
| Cequel Communications Holdings I LLC: | | |
| 144A, 5.125%, 12/15/2021 | 5,000 | 4,500 |
| 144A, 6.375%, 9/15/2020 | 55,000 | 53,762 |
| Churchill Downs, Inc., 144A, 5.375%, 12/15/2021 | 8,690 | 8,712 |
| Clear Channel Worldwide Holdings, Inc.: | | |
| Series A, 6.5%, 11/15/2022 | 15,000 | 14,475 |
| Series B, 6.5%, 11/15/2022 | 25,000 | 24,375 |
| Series B, 7.625%, 3/15/2020 | 75,000 | 69,281 |
| CVS Health Corp., 5.125%, 7/20/2045 | 60,000 | 63,206 |
| Delphi Corp., 5.0%, 2/15/2023 | 20,000 | 21,160 |
| Discovery Communications LLC, 4.875%, 4/1/2043 | 25,000 | 20,578 |
| DISH DBS Corp.: | | |
| 4.25%, 4/1/2018 | 15,000 | 15,037 |
| 5.0%, 3/15/2023 | 20,000 | 17,350 |
| 7.875%, 9/1/2019 | 90,000 | 97,875 |
| General Motors Financial Co., Inc., 3.2%, 7/13/2020 | 75,000 | 73,845 |
| Group 1 Automotive, Inc., 144A, 5.25%, 12/15/2023 | 20,000 | 19,800 |
| Hot Topic, Inc., 144A, 9.25%, 6/15/2021 | 10,000 | 8,850 |
| Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020 | 20,000 | 20,700 |
| MDC Partners, Inc., 144A, 6.75%, 4/1/2020 | 20,000 | 20,600 |
| Mediacom Broadband LLC: | | |
| 5.5%, 4/15/2021 | 5,000 | 4,813 |
| 6.375%, 4/1/2023 | 10,000 | 9,775 |
| MGM Resorts International: | | |
| 6.625%, 12/15/2021 | 40,000 | 40,950 |
| 6.75%, 10/1/2020 | 42,000 | 43,155 |
| Numericable-SFR, 144A, 4.875%, 5/15/2019 | 30,000 | 29,737 |
| Pinnacle Entertainment, Inc., 6.375%, 8/1/2021 | 10,000 | 10,513 |
| Quebecor Media, Inc., 5.75%, 1/15/2023 | 15,000 | 15,112 |
| Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (b) | 10,000 | 10,475 |
| Springs Industries, Inc., 6.25%, 6/1/2021 | 10,000 | 9,900 |
| Starz LLC, 5.0%, 9/15/2019 | 10,000 | 10,125 |
| Time Warner Cable, Inc., 7.3%, 7/1/2038 | 165,000 | 178,886 |
| Viking Cruises Ltd., 144A, 8.5%, 10/15/2022 | 15,000 | 14,213 |
| | | **1,340,104** |
| **Consumer Staples 0.3%** | | |
| Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (b) | 10,000 | 10,187 |
| Chiquita Brands International, Inc., 7.875%, 2/1/2021 | 7,000 | 7,332 |
| Constellation Brands, Inc., 4.75%, 12/1/2025 | 5,000 | 5,094 |
| JBS Investments GmbH, 144A, 7.25%, 4/3/2024 | 30,000 | 27,225 |
| JBS U.S.A. LLC: | | |
| 144A, 7.25%, 6/1/2021 | 30,000 | 29,775 |
| 144A, 8.25%, 2/1/2020 (b) | 115,000 | 115,000 |
| Post Holdings, Inc., 144A, 6.75%, 12/1/2021 | 5,000 | 5,100 |
| Reynolds American, Inc.: | | |
| 4.45%, 6/12/2025 | 30,000 | 31,375 |
| 5.85%, 8/15/2045 | 20,000 | 22,235 |
| Smithfield Foods, Inc., 6.625%, 8/15/2022 | 20,000 | 20,750 |
| | | **274,073** |
| **Energy 2.8%** | | |
| Antero Resources Corp., 5.375%, 11/1/2021 | 5,000 | 4,000 |
| DCP Midstream LLC, 144A, 9.75%, 3/15/2019 | 760,000 | 773,869 |
| Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023 | 250,000 | 251,563 |
| Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021 | 16,000 | 14,240 |
| Kinder Morgan, Inc.: | | |
| 3.05%, 12/1/2019 | 220,000 | 203,613 |
| 5.55%, 6/1/2045 | 160,000 | 124,901 |
| MEG Energy Corp., 144A, 7.0%, 3/31/2024 | 15,000 | 10,650 |
| Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023 | 20,000 | 21,000 |
| Noble Holding International Ltd., 4.0%, 3/16/2018 | 20,000 | 18,110 |
| ONEOK Partners LP, 4.9%, 3/15/2025 (b) | 80,000 | 67,379 |
| Rosneft Finance SA, 144A, 6.625%, 3/20/2017 | 100,000 | 102,350 |
| Transocean, Inc., 4.3%, 10/15/2022 | 555,000 | 294,150 |
| Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022 | 250,000 | 250,625 |
| Williams Partners LP, 4.0%, 9/15/2025 (b) | 100,000 | 74,876 |
| | | **2,211,326** |
| **Financials 7.8%** | | |
| Banco Continental SAECA, 144A, 8.875%, 10/15/2017 | 200,000 | 203,500 |
| Barclays Bank PLC, 7.625%, 11/21/2022 | 890,000 | 1,013,487 |

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

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

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

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

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

## Mortgage-Backed Securities Pass-Throughs 22.9%

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

## Asset-Backed 2.2%

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

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

| | Principal Amount ($)(a) | Value ($) |
|---|---|---|
| **Commercial Mortgage-Backed Securities 3.8%** | | |
| Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.331%*, 3/15/2018 | 125,000 | 124,775 |
| FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.549%*, 12/25/2024 | 4,989,855 | 206,419 |
| JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047 | 150,000 | 153,871 |
| JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051 | 944,381 | 986,358 |
| LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040 | 1,029,005 | 1,058,651 |
| Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.836%*, 6/12/2050 | 462,966 | 470,503 |
| **Total Commercial Mortgage-Backed Securities** (Cost $3,084,280) | | **3,000,577** |
| **Collateralized Mortgage Obligations 8.2%** | | |
| Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036 | 291,252 | 265,369 |
| CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035 | 104,615 | 68,850 |
| Fannie Mae Connecticut Avenue Securities, "1M2", Series 2015-C01, 4.521%*, 2/25/2025 | 1,000,000 | 969,319 |
| Federal Home Loan Mortgage Corp.: | | |
| "PI", Series 4485, Interest Only, 3.5%, 6/15/2045 | 2,897,030 | 417,188 |
| "PI", Series 3940, Interest Only, 4.0%, 2/15/2041 | 468,673 | 79,238 |
| "SP", Series 4047, Interest Only, 6.32%**, 12/15/2037 | 501,566 | 71,962 |
| "JS", Series 3572, Interest Only, 6.47%**, 9/15/2039 | 468,083 | 66,112 |
| Federal National Mortgage Association: | | |
| "PZ", Series 2010-129, 4.5%, 11/25/2040 | 929,142 | 981,980 |
| "SI", Series 2007-23, Interest Only, 6.348%**, 3/25/2037 | 207,179 | 34,977 |
| Freddie Mac Structured Agency Credit Risk Debt Notes: | | |
| "M3", Series 2014-DN2, 3.821%*, 4/25/2024 | 500,000 | 466,210 |
| "M3", Series 2014-DN4, 4.771%*, 10/25/2024 | 240,000 | 238,090 |
| Government National Mortgage Association: | | |
| "PL", Series 2013-19, 2.5%, 2/20/2043 | 684,500 | 620,546 |
| "HX", Series 2012-91, 3.0%, 9/20/2040 | 346,880 | 354,988 |
| "GC", Series 2010-101, 4.0%, 8/20/2040 | 500,000 | 538,988 |
| "ME", Series 2014-4, 4.0%, 1/16/2044 | 500,000 | 535,992 |
| "PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044 | 639,357 | 82,242 |
| "PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039 | 430,068 | 71,168 |
| "EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040 | 903,949 | 58,936 |
| "DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040 | 1,699,229 | 71,763 |
| "PZ", Series 2010-106, 4.75%, 8/20/2040 | 383,484 | 415,320 |
| "IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039 | 121,959 | 21,831 |
| "IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039 | 239,021 | 44,221 |
| "IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039 | 104,604 | 17,868 |
| "AI", Series 2007-38, Interest Only, 6.116%**, 6/16/2037 | 63,330 | 9,698 |
| MASTR Alternative Loans Trust: | | |
| "5A1", Series 2005-1, 5.5%, 1/25/2020 | 68,503 | 70,933 |
| "8A1", Series 2004-3, 7.0%, 4/25/2034 | 8,017 | 8,242 |
| **Total Collateralized Mortgage Obligations** (Cost $6,910,927) | | **6,582,031** |

## Government & Agency Obligations 40.5%

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

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

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

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

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

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

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

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2015.

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

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

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

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

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $1,460,838, which is 1.8% of net assets.

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

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

(e) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

(g) At December 31, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

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

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

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

CLO: Collateralized Loan Obligation

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

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

REIT: Real Estate Investment Trust

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

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

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

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

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

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

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

At December 31, 2015, open written options contracts were as follows:

**Options on Interest Rate Swap Contracts**

| | Swap Effective/ Expiration Date | Contract Amount | Option Expiration Date | Premiums Received ($) | Value ($) (j) |
|---|---|---|---|---|---|
| **Call Options** | | | | | |
| Receive Fixed — 4.48% – Pay Floating — 3-Month LIBOR | 5/9/2016<br>5/11/2026 | 2,000,000[1] | 5/5/2016 | **22,450** | **(2)** |
| **Put Options** | | | | | |
| Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR | 8/15/2016<br>8/15/2046 | 2,900,000[1] | 8/11/2016 | 55,680 | (25,633) |
| Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR | 7/13/2016<br>7/13/2046 | 2,900,000[2] | 7/11/2016 | 54,520 | (39,785) |
| Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR | 5/9/2016<br>5/11/2026 | 2,000,000[1] | 5/5/2016 | 22,450 | (54,791) |
| **Total Put Options** | | | | **132,650** | **(120,209)** |
| **Total** | | | | **155,100** | **(120,211)** |

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

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

**Centrally Cleared Swap**

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

At December 31, 2015, open interest rate swap contracts were as follows:

**Centrally Cleared Swaps**

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

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

Counterparties:

1 Nomura International PLC

2 Citigroup, Inc.

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

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

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

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

**Currency Abbreviations**

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

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

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Fixed Income Investments (k) | | | | |
| Corporate Bonds | $ — | $ 17,340,890 | $ — | $ 17,340,890 |
| Mortgage-Backed Securities Pass-Throughs | — | 18,253,815 | — | 18,253,815 |
| Asset-Backed | — | 1,767,836 | — | 1,767,836 |
| Commercial Mortgage-Backed Securities | — | 3,000,577 | — | 3,000,577 |
| Collateralized Mortgage Obligations | — | 6,582,031 | — | 6,582,031 |
| Government & Agency Obligations | — | 32,310,041 | — | 32,310,041 |
| Short-Term U.S. Treasury Obligations | — | 803,587 | — | 803,587 |
| Municipal Bonds and Notes | — | 977,048 | — | 977,048 |
| Short-Term Investments (k) | 6,140,443 | — | — | 6,140,443 |
| Derivatives (l) | | | | |
| Interest Rate Swap Contracts | — | 1,269,100 | — | 1,269,100 |
| Forward Foreign Currency Exchange Contracts | — | 753,571 | — | 753,571 |
| **Total** | **$ 6,140,443** | **$ 83,058,496** | **$ —** | **$ 89,198,939** |

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

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

(k) See Investment Portfolio for additional detailed categorizations.

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

# Statement of Assets and Liabilities

as of December 31, 2015

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

* Represents collateral on securities loaned.

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

# Statement of Operations

for the year ended December 31, 2015

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

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 2,448,217 | $ 3,111,445 |
| Net realized gain (loss) | (3,320,978) | 3,604,392 |
| Change in net unrealized appreciation (depreciation) | 782,998 | (20,085) |
| Net increase (decrease) in net assets resulting from operations | (89,763) | 6,695,752 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (2,926,472) | (3,659,417) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 11,060,840 | 11,004,710 |
| Reinvestment of distributions | 2,926,472 | 3,659,417 |
| Payments for shares redeemed | (32,571,389) | (21,178,745) |
| Net increase (decrease) in net assets from Class A share transactions | (18,584,077) | (6,514,618) |
| **Increase (decrease) in net assets** | (21,600,312) | (3,478,283) |
| Net assets at beginning of period | 101,400,122 | 104,878,405 |
| Net assets at end of period (including undistributed net investment income of $3,494,238 and $2,890,836, respectively) | **$ 79,799,810** | **$ 101,400,122** |

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

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

# Financial Highlights

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

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

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Bond VIP. The Trust is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

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

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

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

Debt securities are valued at prices supplied by independent pricing services approved by the Trustees of the Series. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities are generally categorized as Level 2.

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

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

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

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

Exchange-traded options are valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid or asked price are available. Exchange-traded options are generally categorized as Level 1. Over-the-counter written or purchased options are valued at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options are generally categorized as Level 2.

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

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

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

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**When-Issued/Delayed Delivery Securities.** The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Taxes.** The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

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

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

At December 31, 2015, the Fund had a net tax basis capital loss carryforward of approximately $14,056,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first; and approximately $4,561,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,170,000) and long-term losses ($3,391,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

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

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

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

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

**Expenses.** Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

## B. Derivative Instruments

**Futures Contracts.** A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2015, the Fund invested in interest rate futures to gain exposure to different parts of the yield curve while managing the overall duration. The Fund also entered into interest rate futures contracts for non-hedging purposes to seek to enhance potential gains.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

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

**Options.** An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices, will require cash settlement by the Fund if exercised. For the year ended December 31, 2015, the Fund entered into options interest rate swaps in order to hedge against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

There are no open purchased option contracts as of December 31, 2015. A summary of open written option contracts is included in the table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in written options contracts had a total value generally indicative of a range from approximately $120,000 to $923,000.

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

The value of a swap is adjusted daily, and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the swap, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. Upon entering into a centrally cleared swap, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

**Credit Default Swaps.** Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the swap provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund sells a credit default swap, it will cover its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the reference entities for all outstanding credit default swaps sold by the Fund. For the year ended December 31, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics or to hedge the risk of default or other specified credit events on portfolio assets.

Under the terms of a credit default swap, the Fund receives or makes periodic payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in the Statement of Operations. Payments received or made as a result of a credit event or termination of the swap are recognized, net of a proportional amount of the upfront payment, as realized gains or losses in the Statement of Operations.

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

**Interest Rate Swaps.** Interest rate swaps are agreements in which the Fund agrees to pay to the counterparty a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. The payment obligations are based on the notional amount of the swap. For the year ended December 31, 2015, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

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

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract (“forward currency contract“) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Fund is subject to foreign exchange rate risk in its securities denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may affect the U.S. dollar value of foreign securities or the income or gains received on these securities. To reduce the effect of currency fluctuations, the Fund may enter into forward currency contracts. For the year ended December 31, 2015, the Fund invested in forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated securities. In addition, the Fund also engaged in forward currency contracts for non-hedging purposes to seek to enhance potential gains.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

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

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

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

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

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

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

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

(a) Options written, at value

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

(c) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

| Realized Gain (Loss) | Written Options | Forward Contracts | Swap Contracts | Futures Contracts | Total |
|---|---|---|---|---|---|
| Interest Rate Contract (a) | $ 36,090 | $ — | $ (751,475) | $ (848,103) | $ (1,563,488) |
| Credit Contracts (b) | — | — | (79,832) | — | (79,832) |
| Foreign Exchange Contracts (c) | — | 1,330,668 | — | — | 1,330,668 |
| | **$ 36,090** | **$ 1,330,668** | **$ (831,307)** | **$ (848,103)** | **$ (312,652)** |

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

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

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

(c) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

| Change in Net Unrealized Appreciation (Depreciation) | Written Options | Forward Contracts | Swap Contracts | Futures Contracts | Total |
|---|---|---|---|---|---|
| Interest Rate Contracts (a) | $ 626,631 | $ — | $ 492,678 | $ (124,388) | $ 994,921 |
| Credit Contracts (b) | — | — | (3,017) | — | (3,017) |
| Foreign Exchange Contracts (c) | — | 535,258 | — | — | 535,258 |
| | **$ 626,631** | **$ 535,258** | **$ 489,661** | **$ (124,388)** | **$ 1,527,162** |

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

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

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

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

As of December 31, 2015, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

| Counterparty | Gross Amounts of Assets Presented in the Statement of Assets and Liabilities | Financial Instruments and Derivatives Available for Offset | Cash Collateral Received | Non-Cash Collateral Received | Net Amount of Derivative Assets |
|---|---|---|---|---|---|
| Australia & New Zealand Banking Group Ltd. | $ 4,787 | $ (4,787) | $ — | $ — | $ — |
| BNP Paribas | 102,939 | (71,503) | — | — | 31,436 |
| Citigroup, Inc. | 67,068 | (67,068) | — | — | — |
| JPMorgan Chase Securities, Inc. | 485,235 | (36,372) | — | — | 448,863 |
| Macquarie Bank Ltd. | 22,937 | (6,234) | — | — | 16,703 |
| Morgan Stanley | 62,891 | (16,909) | — | — | 45,982 |
| Nomura International PLC | 7,714 | (7,714) | — | — | — |
| | **$ 753,571** | **$ (210,587)** | **$ —** | **$ —** | **$ 542,984** |

| Counterparty | Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities | Financial Instruments and Derivatives Available for Offset | Cash Collateral Pledged | Non-Cash Collateral Pledged (a) | Net Amount of Derivative Liabilities |
|---|---|---|---|---|---|
| Australia & New Zealand Banking Group Ltd. | $ 27,734 | $ (4,787) | $ — | $ — | $ 22,947 |
| BNP Paribas | 71,503 | (71,503) | — | — | — |
| Citigroup, Inc. | 83,807 | (67,068) | — | (16,739) | — |
| JPMorgan Chase Securities, Inc. | 36,372 | (36,372) | — | — | — |
| Macquarie Bank Ltd. | 6,234 | (6,234) | — | — | — |
| Morgan Stanley | 16,909 | (16,909) | — | — | — |
| Nomura International PLC | 156,348 | (7,714) | — | (20,041) | 128,593 |
| | **$ 398,907** | **$ (210,587)** | **$ —** | **$ (36,780)** | **$ 151,540** |

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

## C. Purchases and Sales of Securities

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

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

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

## D. Related Parties

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

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

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

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

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

For the period from May 1, 2015 through September 30, 2015, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.66%.

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.64%.

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

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $96,477, of which $6,957 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC aggregated $580, of which $96 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,414, of which $6,144 is unpaid.

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

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

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $769.

## E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements and may have prices more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

## F. Ownership of the Fund

At December 31, 2015, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 37%, 26%, 13% and 10%, respectively.

## G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Deutsche Bond VIP (the "Fund") at December 31, 2015 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

PricewaterhouseCoopers LLP

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

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

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

| **Annualized Expense Ratio** | **Class A** |
|---|---|
| Deutsche Variable Series I — Deutsche Bond VIP | .65% |

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

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

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

# Tax Information

**(Unaudited)**

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Proxy Voting

The Trusts' policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trusts' policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche Funds as compared to institutional accounts and that such differences made comparison difficult.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

## Notes

Deutsche
Asset Management

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

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series I

## Deutsche Core Equity VIP

# Contents



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

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

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

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

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

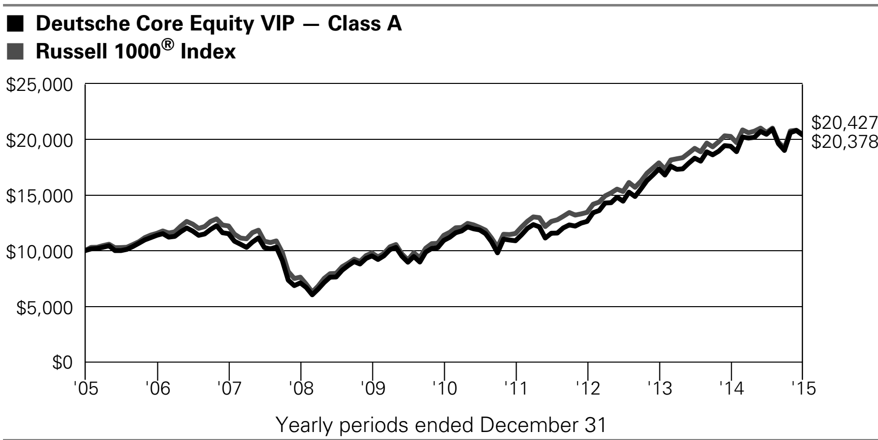
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 0.57% and 0.82% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment




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

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

## Comparative Results

| Deutsche Core Equity VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $10,525 | $16,162 | $18,691 | $20,378 |
| | Average annual total return | 5.25% | 17.35% | 13.33% | 7.38% |
| Russell 1000® Index | Growth of $10,000 | $10,092 | $15,212 | $17,975 | $20,427 |
| | Average annual total return | 0.92% | 15.01% | 12.44% | 7.40% |

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

The growth of $10,000 is cumulative.

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

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

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

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

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

Owen Fitzpatrick, CFA
Lead Portfolio Manager

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

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

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

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

# Portfolio Summary

**(Unaudited)**

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

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

Portfolio holdings and characteristics are subject to change.

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

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

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

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

| | Shares | Value ($) |
|---|---|---|
| **Industrial Conglomerates 3.5%** | | |
| General Electric Co. | 105,889 | 3,298,442 |
| Roper Technologies, Inc. | 15,344 | 2,912,138 |
| | | **6,210,580** |
| **Machinery 0.8%** | | |
| Parker-Hannifin Corp. | 15,236 | **1,477,587** |
| **Road & Rail 1.1%** | | |
| Norfolk Southern Corp. | 23,006 | **1,946,078** |
| **Information Technology 20.2%** | | |
| **Communications Equipment 1.1%** | | |
| Cisco Systems, Inc. (a) | 73,117 | **1,985,492** |
| **Internet Software & Services 4.8%** | | |
| Alphabet, Inc. "A"* | 3,826 | 2,976,666 |
| Alphabet, Inc. "C"* | 3,846 | 2,918,653 |
| Facebook, Inc. "A"* | 25,902 | 2,710,903 |
| | | **8,606,222** |
| **IT Services 3.5%** | | |
| Cognizant Technology Solutions Corp. "A"* | 24,422 | 1,465,808 |
| Fidelity National Information Services, Inc. | 21,038 | 1,274,903 |
| Visa, Inc. "A" | 45,874 | 3,557,529 |
| | | **6,298,240** |
| **Semiconductors & Semiconductor Equipment 1.4%** | | |
| Avago Technologies Ltd. | 10,651 | 1,545,993 |
| NXP Semiconductors NV* | 10,204 | 859,687 |
| | | **2,405,680** |
| **Software 6.1%** | | |
| Intuit, Inc. | 11,299 | 1,090,353 |
| Microsoft Corp. | 116,329 | 6,453,933 |
| Oracle Corp. (a) | 52,183 | 1,906,245 |
| salesforce.com, Inc.* | 17,388 | 1,363,219 |
| | | **10,813,750** |
| **Technology Hardware, Storage & Peripherals 3.3%** | | |
| Apple, Inc. | 50,055 | 5,268,789 |
| Western Digital Corp. | 10,191 | 611,970 |
| | | **5,880,759** |
| **Materials 3.6%** | | |
| **Chemicals 1.8%** | | |
| Dow Chemical Co. | 27,162 | 1,398,300 |
| Ecolab, Inc. | 15,795 | 1,806,632 |
| | | **3,204,932** |
| **Construction Materials 0.8%** | | |
| Vulcan Materials Co. | 13,993 | **1,328,915** |
| **Containers & Packaging 1.0%** | | |
| Sealed Air Corp. | 41,694 | **1,859,553** |
| **Telecommunication Services 0.9%** | | |
| **Wireless Telecommunication Services** | | |
| T-Mobile U.S., Inc.* | 42,311 | **1,655,206** |
| **Utilities 2.5%** | | |
| **Electric Utilities 0.8%** | | |
| NextEra Energy, Inc. | 13,087 | **1,359,608** |
| **Water Utilities 1.7%** | | |
| American Water Works Co., Inc. | 50,458 | **3,014,866** |
| **Total Common Stocks** (Cost $144,493,688) | | **176,617,524** |

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

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

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

* Non-income producing security.

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

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $11,538,114, which is 6.5% of net assets.

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common Stocks (d) | $176,617,524 | $ — | $ — | $176,617,524 |
| Convertible Bond | — | 511,225 | — | 511,225 |
| Convertible Preferred Stocks (d) | 616,294 | — | — | 616,294 |
| Short-Term Investments (d) | 13,012,076 | — | — | 13,012,076 |
| **Total** | **$190,245,894** | **$ 511,225** | **$ —** | **$190,757,119** |

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

(d) See Investment Portfolio for additional detailed categorizations.

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

# Statement of Assets and Liabilities

as of December 31, 2015

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in non-affiliated securities, at value (cost $145,545,688) — including $11,538,114 of securities loaned | $ | 177,745,043 |
| Investment in Daily Assets Fund (cost $11,894,145)* | | 11,894,145 |
| Investment in Central Cash Management Fund (cost $1,117,931) | | 1,117,931 |
| Total investments in securities, at value (cost $158,557,764) | | 190,757,119 |
| Receivable for Fund shares sold | | 19,128 |
| Dividends receivable | | 205,972 |
| Interest receivable | | 1,521 |
| Other assets | | 3,851 |
| Total assets | | 190,987,591 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 11,894,145 |
| Payable for Fund shares redeemed | | 796,251 |
| Accrued management fee | | 61,116 |
| Accrued Trustees' fees | | 2,531 |
| Other accrued expenses and payables | | 107,329 |
| Total liabilities | | 12,861,372 |
| **Net assets, at value** | **$** | **178,126,219** |
| **Net Assets Consist of** | | |
| Undistributed net investment income | | 2,321,097 |
| Net unrealized appreciation (depreciation) on investments | | 32,199,355 |
| Accumulated net realized gain (loss) | | 14,396,620 |
| Paid-in capital | | 129,209,147 |
| **Net assets, at value** | **$** | **178,126,219** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($176,076,331 ÷ 13,252,114 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **13.29** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($2,049,888 ÷ 154,548 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **13.26** |

* Represents collateral on securities loaned.

# Statement of Operations

for the year ended December 31, 2015

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 3,512,019 |
| Interest | | 33,352 |
| Income distributions — Central Cash Management Fund | | 1,263 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 11,033 |
| Total income | | 3,557,667 |
| Expenses: | | |
| Management fee | | 830,746 |
| Administration fee | | 213,012 |
| Services to shareholders | | 2,002 |
| Record keeping fee (Class B) | | 373 |
| Distribution service fee (Class B) | | 4,940 |
| Custodian fee | | 19,000 |
| Professional fees | | 73,391 |
| Reports to shareholders | | 23,433 |
| Trustees' fees and expenses | | 10,088 |
| Other | | 11,349 |
| Total expenses | | 1,188,334 |
| **Net investment income** | | **2,369,333** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from investments | | 14,502,719 |
| Change in net unrealized appreciation (depreciation) on investments | | (5,598,072) |
| **Net gain (loss)** | | **8,904,647** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **11,273,980** |

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 2,369,333 | $ 1,881,277 |
| Net realized gain (loss) | 14,502,719 | 17,630,326 |
| Change in net unrealized appreciation (depreciation) | (5,598,072) | 4,906,485 |
| Net increase (decrease) in net assets resulting from operations | 11,273,980 | 24,418,088 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (1,815,630) | (2,373,232) |
| Class B | (11,196) | (16,034) |
| Net realized gains: | | |
| Class A | (491,871) | — |
| Class B | (4,384) | — |
| Total distributions | (2,323,081) | (2,389,266) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 9,787,413 | 9,130,365 |
| Reinvestment of distributions | 2,307,501 | 2,373,232 |
| Payments for shares redeemed | (65,202,089) | (36,253,798) |
| Net increase (decrease) in net assets from Class A share transactions | (53,107,175) | (24,750,201) |
| **Class B** | | |
| Proceeds from shares sold | 435,534 | 50,380 |
| Reinvestment of distributions | 15,580 | 16,034 |
| Payments for shares redeemed | (285,169) | (301,019) |
| Net increase (decrease) in net assets from Class B share transactions | 165,945 | (234,605) |
| **Increase (decrease) in net assets** | (43,990,331) | (2,955,984) |
| Net assets at beginning of period | 222,116,550 | 225,072,534 |
| Net assets at end of period (including undistributed net investment income of $2,321,097 and $1,766,159, respectively) | **$ 178,126,219** | **$ 222,116,550** |

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

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

# Financial Highlights

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

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

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

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Core Equity VIP. The Trust is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

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

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

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

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

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1.

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

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities are generally categorized as Level 2.

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

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

**Securities Lending.** Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**Federal Income Taxes.** The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

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

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

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

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

**Expenses.** Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $56,693,467 and $106,706,082, respectively.

## C. Related Parties

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

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

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

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

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

| | |
|---|---|
| Class A | .85% |
| Class B | 1.10% |

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

| | |
|---|---|
| Class A | .81% |
| Class B | 1.06% |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the

Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $213,012, of which $15,671 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

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

**Distribution Service Agreement.** DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee aggregated $4,940, of which $437 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,725, of which $4,590 is unpaid.

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

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

## D. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 39% and 34%, respectively. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 67%, 12% and 11%, respectively.

## E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Deutsche Core Equity VIP (the "Fund") at December 31, 2015 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

PricewaterhouseCoopers LLP

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

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

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

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series I — Deutsche Core Equity VIP | .55% | .84% |

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

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

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

## Tax Information

**(Unaudited)**

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

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

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015 qualified for the dividends received deduction.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

## Proxy Voting

The Trusts' policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trusts' policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Core Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

Deutsche
Asset Management

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

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series I

## Deutsche CROCI® International VIP

(formerly Deutsche International VIP)

# 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 than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Stocks may decline in value. The Fund will be managed on the premise that stocks with lower CROCI® Economic P/E Ratios may outperform stocks with higher CROCI® Economic P/E Ratios over time. This premise may not always be correct and prospective investors should evaluate this assumption prior to investing in the Fund. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

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

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

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

# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 1.04% and 1.31% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment


MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 21 developed markets of Europe, Australasia and the Far East. Returns reflect reinvestment of dividends net of withholding taxes. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

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

## Comparative Results

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

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

The growth of $10,000 is cumulative.

# Management Summary

**December 31, 2015 (Unaudited)**

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

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

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

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

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

Di Kumble, CFA
Portfolio Manager

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

1 The Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) Index is an unmanaged index that tracks international stock performance in the 21 developed markets in Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

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

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

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

# Portfolio Summary

**(Unaudited)**

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

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

| **Sector Diversification**<br>(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Industrials | 30% | 14% |
| Consumer Discretionary | 30% | 17% |
| Utilities | 16% | 10% |
| Materials | 10% | 23% |
| Health Care | 8% | 14% |
| Information Technology | 4% | 5% |
| Consumer Staples | 2% | 2% |
| Energy | — | 13% |
| Telecommunication Services | — | 2% |
| | 100% | 100% |

Portfolio holdings and characteristics are subject to change.

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

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

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 97.7%** | | |
| **Australia 1.5%** | | |
| BHP Billiton Ltd. (Cost $3,155,643) | 120,432 | **1,556,736** |
| **Denmark 1.8%** | | |
| AP Moeller - Maersk A/S "B" (Cost $3,155,572) | 1,441 | **1,890,007** |
| **France 8.0%** | | |
| Cie Generale des Etablissements Michelin | 21,507 | 2,058,381 |
| Engie SA | 120,575 | 2,143,388 |
| Sanofi | 21,137 | 1,804,766 |
| Sodexo SA | 24,314 | 2,385,415 |
| (Cost $9,375,943) | | **8,391,950** |
| **Germany 4.2%** | | |
| Merck KGaA | 22,937 | 2,246,999 |
| Siemens AG (Registered) | 21,643 | 2,128,601 |
| (Cost $4,620,068) | | **4,375,600** |
| **Hong Kong 6.1%** | | |
| CLP Holdings Ltd. | 242,958 | 2,066,807 |
| Hong Kong & China Gas Co., Ltd. | 1,040,580 | 2,047,070 |
| MTR Corp., Ltd. | 472,946 | 2,341,987 |
| (Cost $6,220,576) | | **6,455,864** |
| **Japan 21.8%** | | |
| Bridgestone Corp. | 58,808 | 2,031,660 |
| Denso Corp. | 44,350 | 2,139,004 |
| Isuzu Motors Ltd. | 182,600 | 1,983,389 |
| JGC Corp. | 128,793 | 1,987,310 |
| Kyocera Corp. | 43,400 | 2,031,442 |
| Mitsubishi Electric Corp. | 200,000 | 2,119,273 |
| Osaka Gas Co., Ltd. | 532,000 | 1,922,566 |
| Otsuka Holdings Co., Ltd. | 67,086 | 2,400,827 |
| Sumitomo Metal Mining Co., Ltd. | 165,097 | 1,999,707 |
| Toyota Industries Corp. | 41,035 | 2,214,783 |
| Toyota Motor Corp. | 34,300 | 2,122,413 |
| (Cost $23,558,394) | | **22,952,374** |
| **Netherlands 1.9%** | | |
| Koninklijke DSM NV (Cost $2,742,151) | 40,289 | **2,022,164** |
| **Singapore 3.8%** | | |
| Keppel Corp., Ltd. | 414,716 | 1,894,826 |
| Singapore Airlines Ltd. | 271,441 | 2,143,863 |
| (Cost $5,441,081) | | **4,038,689** |
| **Spain 3.9%** | | |
| Gas Natural SDG SA | 97,139 | 1,983,964 |
| Iberdrola SA | 300,826 | 2,136,341 |
| (Cost $4,515,709) | | **4,120,305** |
| **Sweden 2.0%** | | |
| Telefonaktiebolaget LM Ericsson "B" (Cost $2,599,814) | 218,996 | **2,116,144** |
| **Switzerland 14.0%** | | |
| ABB Ltd. (Registered)* | 115,814 | 2,073,424 |
| Kuehne + Nagel International AG (Registered) | 15,541 | 2,136,423 |
| Nestle SA (Registered) | 28,027 | 2,083,903 |
| Roche Holding AG (Genusschein) | 7,990 | 2,201,828 |
| Sika AG (Bearer) | 649 | 2,341,341 |
| Swatch Group AG (Bearer) (a) | 5,429 | 1,889,017 |
| Wolseley PLC | 36,988 | 2,007,377 |
| (Cost $15,739,723) | | **14,733,313** |
| **United Kingdom 28.7%** | | |
| BAE Systems PLC | 307,751 | 2,266,572 |
| Barratt Developments PLC | 216,187 | 1,989,827 |
| Bunzl PLC | 77,289 | 2,143,938 |
| Burberry Group PLC | 105,486 | 1,858,662 |
| easyJet PLC | 78,683 | 2,020,377 |
| ITV PLC | 549,609 | 2,242,329 |
| Johnson Matthey PLC | 54,367 | 2,131,410 |
| National Grid PLC | 148,735 | 2,057,975 |
| Next PLC | 17,548 | 1,886,650 |
| Persimmon PLC* | 68,731 | 2,053,791 |
| Rolls-Royce Holdings PLC* | 204,477 | 1,731,943 |
| Smiths Group PLC | 141,143 | 1,957,379 |
| SSE PLC | 88,505 | 1,991,824 |
| Taylor Wimpey PLC | 711,083 | 2,119,274 |
| Whitbread PLC | 28,274 | 1,835,573 |
| (Cost $34,483,551) | | **30,287,524** |
| **Total Common Stocks** (Cost $115,608,225) | | **102,940,670** |
| **Securities Lending Collateral 1.5%** | | |
| Daily Assets Fund, 0.36% (b) (c) (Cost $1,524,773) | 1,524,773 | **1,524,773** |
| **Cash Equivalents 1.4%** | | |
| Central Cash Management Fund, 0.25% (b) (Cost $1,515,450) | 1,515,450 | **1,515,450** |

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

* Non-income producing security.

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

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $1,424,853, which is 1.4% of net assets.

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

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

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

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

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

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

**Currency Abbreviations**

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

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

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Common Stocks | | | | |
| Australia | $ — | $ 1,556,736 | $ — | $ 1,556,736 |
| Denmark | — | 1,890,007 | — | 1,890,007 |
| France | — | 8,391,950 | — | 8,391,950 |
| Germany | — | 4,375,600 | — | 4,375,600 |
| Hong Kong | — | 6,455,864 | — | 6,455,864 |
| Japan | — | 22,952,374 | — | 22,952,374 |
| Netherlands | — | 2,022,164 | — | 2,022,164 |
| Singapore | — | 4,038,689 | — | 4,038,689 |
| Spain | — | 4,120,305 | — | 4,120,305 |
| Sweden | — | 2,116,144 | — | 2,116,144 |
| Switzerland | — | 14,733,313 | — | 14,733,313 |
| United Kingdom | — | 30,287,524 | — | 30,287,524 |
| Short-Term Investments (d) | 3,040,223 | — | — | 3,040,223 |
| Derivatives (e) | | | | |
| Forward Foreign Currency Exchange Contracts | — | 673,620 | — | 673,620 |
| **Total** | **$ 3,040,223** | **$103,614,290** | **$ —** | **$106,654,513** |

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

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

(d) See Investment Portfolio for additional detailed categorizations.

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

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

# Statement of Assets and Liabilities

as of December 31, 2015

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

* Represents collateral on securities loaned.

# Statement of Operations

for the year ended December 31, 2015

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

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 3,454,193 | $ 5,060,784 |
| Net realized gain (loss) | (15,028,592) | 21,737,659 |
| Change in net unrealized appreciation (depreciation) | 4,889,649 | (43,796,669) |
| Net increase (decrease) in net assets resulting from operations | (6,684,750) | (16,998,226) |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (5,221,184) | (2,472,725) |
| Class B | (11,210) | (4,273) |
| Total distributions | (5,232,394) | (2,476,998) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 11,121,280 | 8,496,800 |
| Reinvestment of distributions | 5,221,184 | 2,472,725 |
| Payments for shares redeemed | (24,895,883) | (17,182,817) |
| Net increase (decrease) in net assets from Class A share transactions | (8,553,419) | (6,213,292) |
| **Class B** | | |
| Proceeds from shares sold | 46,566 | 15,844 |
| Reinvestment of distributions | 11,210 | 4,273 |
| Payments for shares redeemed | (23,403) | (21,212) |
| Net increase (decrease) in net assets from Class B share transactions | 34,373 | (1,095) |
| **Increase (decrease) in net assets** | (20,436,190) | (25,689,611) |
| Net assets at beginning of period | 125,827,307 | 151,516,918 |
| Net assets at end of period (including undistributed net investment income of $8,993,057 and $4,945,421, respectively) | **$ 105,391,117** | **$ 125,827,307** |

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

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

# Financial Highlights

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

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

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

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

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche CROCI® International VIP. The Trust is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

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

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

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

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

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1 securities. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

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

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

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

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

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

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**Taxes.** The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

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

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

At December 31, 2015, the Fund had a net tax basis capital loss carryforward of approximately $105,624,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($6,802,000) and December 31, 2017 ($98,822,000), the respective expiration dates, whichever occurs first; and approximately $20,442,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($7,186,000) and long-term losses ($13,256,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

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

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

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

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

**Expenses.** Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Derivative Instruments

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract ("forward currency contract") is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. For the year ended December 31, 2015, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

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

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

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

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

(a) Unrealized appreciation on forward foreign currency exchange contracts

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

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

(a) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

| **Realized Gain (Loss)** | **Forward Contracts** |
|---|---|
| Foreign Exchange Contracts (a) | $ 6,265,962 |

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

(a) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

| **Change in Net Unrealized Appreciation (Depreciation)** | **Forward Contracts** |
|---|---|
| Foreign Exchange Contracts (a) | $ 494,538 |

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

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

As of December 31, 2015, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

| **Counterparty** | **Gross Amounts of Assets Presented in the Statement of Assets and Liabilities** | **Financial Instruments and Derivatives Available for Offset** | **Collateral Received** | **Net Amount of Derivative Assets** |
|---|---|---|---|---|
| Merrill Lynch & Co., Inc. | $ 847 | $ (847) | $ — | $ — |
| Morgan Stanley | 672,773 | (170,368) | — | 502,405 |
| | **$ 673,620** | **$ (171,215)** | **$ —** | **$ 502,405** |

| **Counterparty** | **Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities** | **Financial Instruments and Derivatives Available for Offset** | **Collateral Pledged** | **Net Amount of Derivative Liabilities** |
|---|---|---|---|---|
| Citigroup, Inc. | $ 1,797 | $ — | $ — | $ 1,797 |
| Merrill Lynch & Co., Inc. | 6,917 | (847) | — | 6,070 |
| Morgan Stanley | 170,368 | (170,368) | — | — |
| | **$ 179,082** | **$ (171,215)** | **$ —** | **$ 7,867** |

## C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $120,401,901 and $125,260,637, respectively.

## D. Related Parties

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

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

| | |
|---|---|
| First $500 million of average daily net assets | .790% |
| Over $500 million of average daily net assets | .640% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.79% of the Fund's average daily net assets.

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

| | |
|---|---|
| Class A | .99% |
| Class B | 1.24% |

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

| | |
|---|---|
| Class A | .93% |
| Class B | 1.18% |

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

| | |
|---|---|
| Class A | $ 94,053 |
| Class B | 303 |
| | **$ 94,356** |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $126,065, of which $9,063 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

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

**Distribution Service Agreement.** DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee aggregated $736, of which $58 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,872, of which $5,102 is unpaid.

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

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

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $7,032.

## E. Ownership of the Fund

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

## F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Deutsche CROCI® International VIP (formerly Deutsche International VIP) (the "Fund") at December 31, 2015 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

PricewaterhouseCoopers LLP

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $ 889.30 | $ 887.20 |
| Expenses Paid per $1,000* | $ 4.57 | $ 5.76 |
| **Hypothetical 5% Fund Return** | **Class A** | **Class B** |
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,020.37 | $1,019.11 |
| Expenses Paid per $1,000* | $ 4.89 | $ 6.16 |

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series I — Deutsche CROCI® International VIP | .96% | 1.21% |

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

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

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

## Tax Information

**(Unaudited)**

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

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

## Proxy Voting

The Trusts' policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trusts' policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche CROCI® International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

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

addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

# Notes

Deutsche
Asset Management

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

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Investments VIT Funds

## Deutsche Equity 500 Index VIP

# Contents



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

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

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

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

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

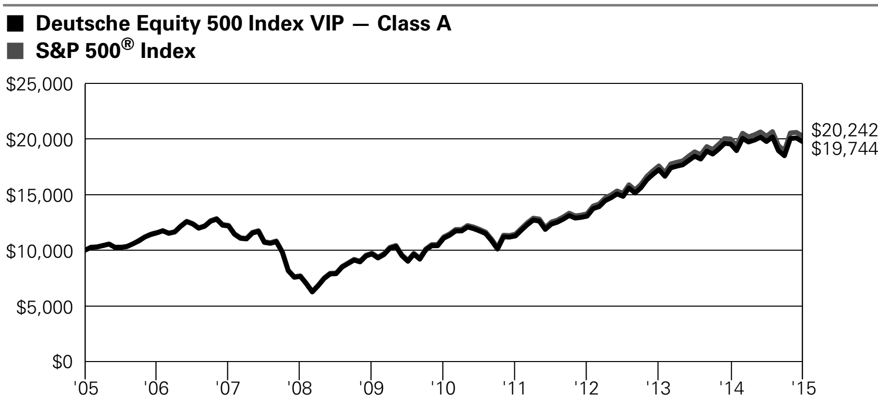
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 0.34%, 0.62% and 0.74% for Class A, Class B and Class B2 shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment




Yearly periods ended December 31

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

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

## Comparative Results (as of December 31, 2015)

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

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

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

The growth of $10,000 is cumulative.

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

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

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

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

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

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

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

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

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

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

# Portfolio Summary

**(Unaudited)**

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

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

| **Ten Largest Equity Holdings** (18.8% of Net Assets) | |
|---|---|
| **1. Apple, Inc.**<br>Designs, manufactures and markets personal computers and related computing and mobile communications devices | **3.3%** |
| **2. Alphabet, Inc.**<br>Operates as a holding company and through its subsidiaries provides Web-based search, maps, commerce and hardware products | **2.5%** |
| **3. Microsoft Corp.**<br>Develops, manufactures, licenses, sells and supports software products | **2.5%** |
| **4. Exxon Mobil Corp.**<br>Explorer and producer of oil and gas | **1.8%** |
| **5. General Electric Co.**<br>Diversified technology, media and financial services company | **1.6%** |
| **6. Johnson & Johnson**<br>Provider of health care products | **1.6%** |
| **7. Amazon.com, Inc.**<br>An online retailer; sells books, music and videotapes | **1.4%** |
| **8. Wells Fargo & Co.**<br>A diversified financial services company | **1.4%** |
| **9. Berkshire Hathaway, Inc.**<br>Holding company of insurance business and a variety of other businesses | **1.4%** |
| **10. JPMorgan Chase & Co.**<br>Provider of global financial services | **1.3%** |

Portfolio holdings and characteristics are subject to change.

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

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

# Investment Portfolio

December 31, 2015

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

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

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

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

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

## Health Care 15.1%

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

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

| | Shares | Value ($) |
|---|---|---|
| Universal Health Services, Inc. "B" | 2,794 | 333,855 |
| | | **15,280,202** |
| **Health Care Technology 0.1%** | | |
| Cerner Corp.* (a) | 9,415 | **566,501** |
| **Life Sciences Tools & Services 0.6%** | | |
| Agilent Technologies, Inc. | 10,443 | 436,622 |
| Illumina, Inc.* | 4,554 | 874,118 |
| PerkinElmer, Inc. | 3,520 | 188,566 |
| Thermo Fisher Scientific, Inc. | 12,402 | 1,759,224 |
| Waters Corp.* | 2,531 | 340,622 |
| | | **3,599,152** |
| **Pharmaceuticals 5.8%** | | |
| Allergan PLC* | 12,262 | 3,831,875 |
| Bristol-Myers Squibb Co. | 51,912 | 3,571,026 |
| Eli Lilly & Co. | 30,368 | 2,558,808 |
| Endo International PLC* | 6,564 | 401,848 |
| Johnson & Johnson | 86,109 | 8,845,116 |
| Mallinckrodt PLC* | 3,579 | 267,101 |
| Merck & Co., Inc. | 86,916 | 4,590,903 |
| Mylan NV* | 12,880 | 696,422 |
| Perrigo Co. PLC | 4,584 | 663,305 |
| Pfizer, Inc. | 192,065 | 6,199,858 |
| Zoetis, Inc. | 14,148 | 677,972 |
| | | **32,304,234** |

## Industrials 10.0%

| | Shares | Value ($) |
|---|---|---|
| **Aerospace & Defense 2.7%** | | |
| Boeing Co. | 19,607 | 2,834,976 |
| General Dynamics Corp. | 9,241 | 1,269,344 |
| Honeywell International, Inc. | 23,980 | 2,483,608 |
| L-3 Communications Holdings, Inc. | 2,424 | 289,692 |
| Lockheed Martin Corp. | 8,207 | 1,782,150 |
| Northrop Grumman Corp. | 5,675 | 1,071,497 |
| Precision Castparts Corp. | 4,298 | 997,179 |
| Raytheon Co. | 9,388 | 1,169,088 |
| Rockwell Collins, Inc. | 4,079 | 376,492 |
| Textron, Inc. | 8,538 | 358,681 |
| United Technologies Corp. | 25,726 | 2,471,497 |
| | | **15,104,204** |
| **Air Freight & Logistics 0.7%** | | |
| C.H. Robinson Worldwide, Inc. | 4,519 | 280,268 |
| Expeditors International of Washington, Inc. | 5,891 | 265,684 |
| FedEx Corp. | 8,194 | 1,220,824 |
| United Parcel Service, Inc. "B" | 21,590 | 2,077,606 |
| | | **3,844,382** |
| **Airlines 0.6%** | | |
| American Airlines Group, Inc. | 19,740 | 835,989 |
| Delta Air Lines, Inc. | 24,369 | 1,235,265 |
| Southwest Airlines Co. | 20,173 | 868,649 |
| United Continental Holdings, Inc.* | 11,646 | 667,316 |
| | | **3,607,219** |
| **Building Products 0.1%** | | |
| Allegion PLC | 2,994 | 197,365 |
| Masco Corp. | 10,434 | 295,282 |
| | | **492,647** |
| **Commercial Services & Supplies 0.4%** | | |
| ADT Corp. (a) | 5,051 | 166,582 |
| Cintas Corp. | 2,720 | 247,656 |
| Pitney Bowes, Inc. | 5,977 | 123,425 |
| Republic Services, Inc. | 7,429 | 326,802 |
| Stericycle, Inc.* | 2,671 | 322,123 |
| Tyco International PLC | 13,011 | 414,921 |
| Waste Management, Inc. | 12,939 | 690,554 |
| | | **2,292,063** |
| **Construction & Engineering 0.1%** | | |
| Fluor Corp. | 4,318 | 203,896 |
| Jacobs Engineering Group, Inc.* | 3,800 | 159,410 |
| Quanta Services, Inc.* | 5,198 | 105,259 |
| | | **468,565** |
| **Electrical Equipment 0.4%** | | |
| AMETEK, Inc. | 7,328 | 392,708 |
| Eaton Corp. PLC | 14,438 | 751,353 |
| Emerson Electric Co. (a) | 20,286 | 970,279 |
| Rockwell Automation, Inc. | 4,064 | 417,007 |
| | | **2,531,347** |
| **Industrial Conglomerates 2.6%** | | |
| 3M Co. | 19,158 | 2,885,961 |
| Danaher Corp. | 18,544 | 1,722,367 |
| General Electric Co. | 293,691 | 9,148,475 |
| Roper Technologies, Inc. | 3,152 | 598,218 |
| | | **14,355,021** |
| **Machinery 1.2%** | | |
| Caterpillar, Inc. (a) | 18,108 | 1,230,620 |
| Cummins, Inc. | 5,050 | 444,450 |
| Deere & Co. (a) | 9,778 | 745,768 |
| Dover Corp. | 4,759 | 291,774 |
| Flowserve Corp. (a) | 3,946 | 166,048 |
| Illinois Tool Works, Inc. | 10,197 | 945,058 |
| Ingersoll-Rand PLC | 8,071 | 446,246 |
| PACCAR, Inc. | 11,105 | 526,377 |
| Parker-Hannifin Corp. (a) | 4,249 | 412,068 |
| Pentair PLC | 5,599 | 277,318 |
| Snap-on, Inc. | 1,822 | 312,345 |
| Stanley Black & Decker, Inc. | 4,656 | 496,935 |
| Xylem, Inc. | 5,641 | 205,897 |
| | | **6,500,904** |
| **Professional Services 0.3%** | | |
| Dun & Bradstreet Corp. | 1,124 | 116,817 |
| Equifax, Inc. | 3,698 | 411,846 |
| Nielsen Holdings PLC | 11,231 | 523,365 |
| Robert Half International, Inc. | 4,193 | 197,658 |
| Verisk Analytics, Inc.* | 4,901 | 376,789 |
| | | **1,626,475** |
| **Road & Rail 0.7%** | | |
| CSX Corp. | 30,398 | 788,828 |
| J.B. Hunt Transport Services, Inc. | 2,794 | 204,968 |
| Kansas City Southern | 3,419 | 255,297 |
| Norfolk Southern Corp. | 9,319 | 788,294 |
| Ryder System, Inc. (a) | 1,741 | 98,941 |
| Union Pacific Corp. | 26,525 | 2,074,255 |
| | | **4,210,583** |
| **Trading Companies & Distributors 0.2%** | | |
| Fastenal Co. (a) | 8,989 | 366,931 |
| United Rentals, Inc.* | 2,809 | 203,765 |
| W.W. Grainger, Inc. (a) | 1,796 | 363,851 |
| | | **934,547** |

## Information Technology 20.6%

| | Shares | Value ($) |
|---|---|---|
| **Communications Equipment 1.4%** | | |
| Cisco Systems, Inc. | 157,989 | 4,290,191 |
| F5 Networks, Inc.* | 2,194 | 212,730 |
| Harris Corp. | 3,807 | 330,828 |
| Juniper Networks, Inc. | 11,176 | 308,458 |

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

| | Shares | Value ($) |
|---|---|---|
| Motorola Solutions, Inc. | 4,971 | 340,265 |
| QUALCOMM, Inc. | 46,768 | 2,337,699 |
| | | **7,820,171** |
| **Electronic Equipment, Instruments & Components 0.4%** | | |
| Amphenol Corp. "A" | 9,645 | 503,758 |
| Corning, Inc. | 36,787 | 672,466 |
| FLIR Systems, Inc. | 4,150 | 116,491 |
| TE Connectivity Ltd. | 12,017 | 776,418 |
| | | **2,069,133** |
| **Internet Software & Services 4.3%** | | |
| Akamai Technologies, Inc.* | 5,626 | 296,096 |
| Alphabet, Inc. "A"* | 9,066 | 7,053,439 |
| Alphabet, Inc. "C"* | 9,247 | 7,017,363 |
| eBay, Inc.* | 34,268 | 941,685 |
| Facebook, Inc. "A"* | 70,654 | 7,394,648 |
| VeriSign, Inc.* (a) | 3,004 | 262,429 |
| Yahoo!, Inc.* | 27,123 | 902,111 |
| | | **23,867,771** |
| **IT Services 3.6%** | | |
| Accenture PLC "A" | 19,481 | 2,035,765 |
| Alliance Data Systems Corp.* | 1,879 | 519,675 |
| Automatic Data Processing, Inc. | 14,275 | 1,209,378 |
| Cognizant Technology Solutions Corp. "A"* | 18,857 | 1,131,797 |
| CSRA, Inc. | 4,417 | 132,510 |
| Fidelity National Information Services, Inc. | 8,576 | 519,706 |
| Fiserv, Inc.* | 7,124 | 651,561 |
| International Business Machines Corp. | 27,785 | 3,823,772 |
| MasterCard, Inc. "A" | 30,770 | 2,995,767 |
| Paychex, Inc. | 10,011 | 529,482 |
| PayPal Holdings, Inc.* | 34,618 | 1,253,172 |
| Teradata Corp.* | 3,996 | 105,574 |
| Total System Services, Inc. | 5,281 | 262,994 |
| Visa, Inc. "A" (a) | 60,595 | 4,699,142 |
| Western Union Co. (a) | 15,684 | 280,900 |
| Xerox Corp. | 29,186 | 310,247 |
| | | **20,461,442** |
| **Semiconductors & Semiconductor Equipment 2.4%** | | |
| Analog Devices, Inc. | 9,791 | 541,638 |
| Applied Materials, Inc. | 35,704 | 666,594 |
| Avago Technologies Ltd. | 8,158 | 1,184,134 |
| Broadcom Corp. "A" | 17,457 | 1,009,364 |
| First Solar, Inc.* | 2,385 | 157,386 |
| Intel Corp. | 146,646 | 5,051,955 |
| KLA-Tencor Corp. | 4,910 | 340,509 |
| Lam Research Corp. | 4,947 | 392,891 |
| Linear Technology Corp. | 7,537 | 320,096 |
| Microchip Technology, Inc. (a) | 6,278 | 292,178 |
| Micron Technology, Inc.* | 33,752 | 477,928 |
| NVIDIA Corp. | 15,968 | 526,305 |
| Qorvo, Inc.* | 4,430 | 225,487 |
| Skyworks Solutions, Inc. | 5,895 | 452,913 |
| Texas Instruments, Inc. | 31,524 | 1,727,830 |
| Xilinx, Inc. | 8,056 | 378,390 |
| | | **13,745,598** |
| **Software 4.4%** | | |
| Activision Blizzard, Inc. | 15,708 | 608,057 |
| Adobe Systems, Inc.* | 15,518 | 1,457,761 |
| Autodesk, Inc.* | 7,096 | 432,359 |
| CA, Inc. | 9,785 | 279,460 |
| Citrix Systems, Inc.* | 4,778 | 361,456 |
| Electronic Arts, Inc.* | 9,629 | 661,705 |
| Intuit, Inc. | 8,209 | 792,168 |
| Microsoft Corp. | 248,579 | 13,791,163 |
| Oracle Corp. | 99,615 | 3,638,936 |
| Red Hat, Inc.* | 5,706 | 472,514 |
| salesforce.com, Inc.* | 19,411 | 1,521,822 |
| Symantec Corp. | 21,226 | 445,746 |
| | | **24,463,147** |
| **Technology Hardware, Storage & Peripherals 4.1%** | | |
| Apple, Inc. | 173,499 | 18,262,505 |
| EMC Corp. | 60,310 | 1,548,761 |
| Hewlett Packard Enterprise Co. (a) | 55,842 | 848,798 |
| HP, Inc. | 56,619 | 670,369 |
| NetApp, Inc. | 9,180 | 243,545 |
| SanDisk Corp. | 6,222 | 472,810 |
| Seagate Technology PLC | 9,409 | 344,934 |
| Western Digital Corp. | 7,142 | 428,877 |
| | | **22,820,599** |
| **Materials 2.7%** | | |
| **Chemicals 2.1%** | | |
| Air Products & Chemicals, Inc. | 6,068 | 789,507 |
| Airgas, Inc. | 2,046 | 283,003 |
| CF Industries Holdings, Inc. | 7,197 | 293,710 |
| Dow Chemical Co. | 34,974 | 1,800,461 |
| E.I. du Pont de Nemours & Co. | 27,266 | 1,815,916 |
| Eastman Chemical Co. | 4,620 | 311,896 |
| Ecolab, Inc. | 8,314 | 950,955 |
| FMC Corp. (a) | 4,189 | 163,916 |
| International Flavors & Fragrances, Inc. | 2,454 | 293,597 |
| LyondellBasell Industries NV "A" | 11,172 | 970,847 |
| Monsanto Co. | 13,720 | 1,351,694 |
| PPG Industries, Inc. | 8,376 | 827,716 |
| Praxair, Inc. | 8,854 | 906,650 |
| The Mosaic Co. | 10,465 | 288,729 |
| The Sherwin-Williams Co. | 2,442 | 633,943 |
| | | **11,682,540** |
| **Construction Materials 0.1%** | | |
| Martin Marietta Materials, Inc. | 2,090 | 285,452 |
| Vulcan Materials Co. | 4,119 | 391,182 |
| | | **676,634** |
| **Containers & Packaging 0.3%** | | |
| Avery Dennison Corp. | 2,786 | 174,571 |
| Ball Corp. | 4,271 | 310,630 |
| International Paper Co. | 13,008 | 490,401 |
| Owens-Illinois, Inc.* | 5,288 | 92,117 |
| Sealed Air Corp. | 6,090 | 271,614 |
| WestRock Co. | 8,085 | 368,838 |
| | | **1,708,171** |
| **Metals & Mining 0.2%** | | |
| Alcoa, Inc. | 40,415 | 398,896 |
| Freeport-McMoRan, Inc. (a) | 35,221 | 238,446 |
| Newmont Mining Corp. | 16,259 | 292,500 |
| Nucor Corp. | 9,948 | 400,904 |
| | | **1,330,746** |
| **Telecommunication Services 2.4%** | | |
| **Diversified Telecommunication Services** | | |
| AT&T, Inc. (a) | 191,447 | 6,587,691 |
| CenturyLink, Inc. | 16,962 | 426,764 |
| Frontier Communications Corp. (a) | 37,080 | 173,164 |

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

| | Shares | Value ($) |
|---|---|---|
| Level 3 Communications, Inc.* | 9,035 | 491,142 |
| Verizon Communications, Inc. | 126,627 | 5,852,700 |
| | | **13,531,461** |

## Utilities 3.0%

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

| | Principal Amount ($) | Value ($) |
|---|---|---|

## Government & Agency Obligations 0.1%

### U.S. Treasury Obligations

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

## Securities Lending Collateral 5.1%

| | Shares | Value ($) |
|---|---|---|
| Daily Assets Fund, 0.36% (c) (d) (Cost $28,790,180) | 28,790,180 | **28,790,180** |

## Cash Equivalents 0.4%

| | Shares | Value ($) |
|---|---|---|
| Central Cash Management Fund, 0.25% (c) (Cost $1,984,717) | 1,984,717 | **1,984,717** |

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

* Non-income producing security.

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

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

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $27,876,908, which is 5.0% of net assets.

(b) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

REIT: Real Estate Investment Trust

S&P: Standard & Poor's

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

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

| **Currency Abbreviation** | |
|---|---|
| USD | United States Dollar |

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

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments.

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

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

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

(e) See Investment Portfolio for additional detailed categorizations.

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

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

# Statement of Assets and Liabilities

as of December 31, 2015

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

* Represents collateral on securities loaned.

# Statement of Operations

for the year ended December 31, 2015

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

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

# Statement of Changes in Net Assets

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

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

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

# Financial Highlights

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

a Based on average shares outstanding during the period.

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

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

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

a Based on average shares outstanding during the period.

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

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

| Class B2 | Years Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$20.40** | **$18.99** | **$14.99** | **$13.18** | **$13.15** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | .28 | .27 | .23 | .22 | .18 |
| Net realized and unrealized gain (loss) | (.10) | 2.09 | 4.37 | 1.78 | .02 |
| **Total from investment operations** | .18 | 2.36 | 4.60 | 2.00 | .20 |
| *Less distributions from:* | | | | | |
| Net investment income | (.26) | (.29) | (.24) | (.19) | (.17) |
| Net realized gains | (.93) | (.66) | (.36) | — | — |
| **Total distributions** | (1.19) | (.95) | (.60) | (.19) | (.17) |
| **Net asset value, end of period** | **$19.39** | **$20.40** | **$18.99** | **$14.99** | **$13.18** |
| Total Return (%) | .76[b] | 13.00[b] | 31.44[b] | 15.26[b] | 1.43 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 17 | 19 | 20 | 19 | 18 |
| Ratio of expenses before expense reductions (%) | .74 | .74 | .74 | .75 | .73 |
| Ratio of expenses after expense reductions (%) | .68 | .68 | .72 | .74 | .73 |
| Ratio of net investment income (loss) (%) | 1.42 | 1.35 | 1.39 | 1.55 | 1.34 |
| Portfolio turnover rate (%) | 3 | 3 | 4[c] | 4 | 6 |

a Based on average shares outstanding during the period.

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

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

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

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

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

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

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

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

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

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

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

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

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

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

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

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

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

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

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

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

**Real Estate Investment Trusts.** The Fund periodically recharacterizes distributions received from a Real Estate Investment Trust ("REIT") investment based on information provided by the REIT into the following categories: ordinary income, long-term and short-term capital gains, and return of capital. If information is not available timely from a REIT, the recharacterization will be estimated for financial statement purposes and a recharacterization will be made within the accounting records in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset valuation calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Derivative Instruments

A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2015, the Fund invested in futures to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. Upon a futures contract close out or expiration, realized gain or loss is recognized.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

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

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

| **Liability Derivative** | **Futures Contracts** |
|---|---|
| Equity Contracts (a) | $ (6,410) |

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

| Realized Gain (Loss) | Futures Contracts |
|---|---|
| Equity Contracts (a) | $ 523,959 |

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

(a) Net realized gain (loss) from futures

| Change in Net Unrealized Appreciation (Depreciation) | Futures Contracts |
|---|---|
| Equity Contracts (a) | $ (142,149) |

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

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

## C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $19,175,828 and $82,438,316, respectively.

## D. Related Parties

**Management Agreement.** Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold, or entered into by the Fund or delegates such responsibility to the Fund's subadvisor. Northern Trust Investments, Inc. ("NTI") serves as subadvisor. As a subadvisor to the Fund, NTI makes investment decisions and buys and sells securities for the Fund. NTI is paid by the Advisor for the services NTI provides to the Fund.

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

| | |
|---|---|
| First $1 billion of the Fund's average daily net assets | .200% |
| Next $1 billion of such net assets | .175% |
| Over $2 billion of such net assets | .150% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.20% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

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

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

| | |
|---|---|
| Class A | .33% |
| Class B | .62% |
| Class B2 | .72% |

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

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

**Administration Fee.** Pursuant to the Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $616,144, of which $48,195 is unpaid.

**Distribution Service Agreement.** DeAWM Distributors, Inc. ("DDI"), an affiliate of the Advisor, is the Fund's distributor. In accordance with the Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B and B2 shares. For the year ended December 31, 2015, the Distribution Service Fees were as follows:

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

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent of the Fund. Pursuant to a sub-transfer agency agreement among DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee they receive from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

| **Services to Shareholders** | **Total Aggregated** | **Unpaid at December 31, 2015** |
|---|---|---|
| Class A | $ 481 | $ 79 |
| Class B | 91 | 14 |
| Class B2 | 61 | 10 |
| | **$ 633** | **$ 103** |

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,859, of which $8,970 is unpaid.

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

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

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,543.

## E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

## F. Ownership of the Fund

At December 31, 2015, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 48% and 17%, respectively. At December 31, 2015, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 63% and 21%. At December 31, 2015, one participating insurance company was a beneficial owner of record of 96% of the total outstanding Class B2 shares of the Fund.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Investments VIT Funds and the Shareholders of Deutsche Equity 500 Index VIP:**

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Deutsche Equity 500 Index VIP (formerly DWS Equity 500 Index VIP) (the "Fund") at December 31, 2015, and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

PricewaterhouseCoopers LLP

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** | **Class B2** |
|---|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,000.50 | $ 999.50 | $ 998.50 |
| Expenses Paid per $1,000* | $ 1.66 | $ 2.92 | $ 3.43 |
| **Hypothetical 5% Fund Return** | **Class A** | **Class B** | **Class B2** |
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,023.54 | $1,022.28 | $1,021.78 |
| Expenses Paid per $1,000* | $ 1.68 | $ 2.96 | $ 3.47 |

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

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

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

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

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

# Tax Information

**(Unaudited)**

The fund paid distributions of $0.91 per share from net long-term capital gains during its year ended December 31, 2015.

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

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015 qualified for the dividends received deduction.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, contact your insurance provider.

# Proxy Voting

The Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Equity 500 Index VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DIMA and Northern Trust Investments, Inc. ("NTI") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreements, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA and NTI provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board also requested and received information regarding DIMA's oversight of Fund sub-advisers, including NTI. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile, and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, sub-advisory fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). With respect to the sub-advisory fee paid to NTI, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that DIMA pays NTI's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DIMA.

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

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

**Compliance.** The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of the individual serving as DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DIMA to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreements is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreements.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

## Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

Deutsche
Asset Management

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

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series 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 than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The Fund may lend securities to approved institutions. See the prospectus for details.

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

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

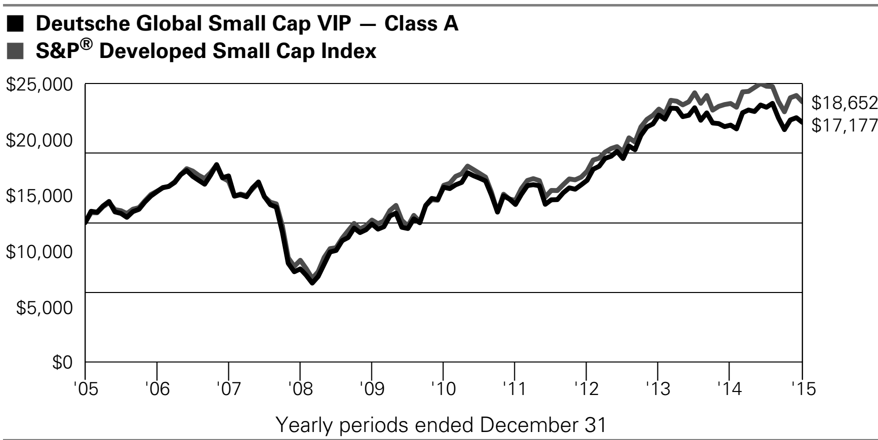
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 1.13% and 1.41% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment




The S&P® Developed SmallCap comprises the stocks representing the lowest 15% of float-adjusted market cap in each developed country. It Is a subset of the S&P® Global BMI, a comprehensive, rules-based index measuring global stock market performance.

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

## Comparative Results

| **Deutsche Global Small Cap VIP** | | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $10,116 | $13,184 | $13,705 | $17,177 |
| | Average annual total return | 1.16% | 9.65% | 6.51% | 5.56% |
| S&P Developed Small Cap Index | Growth of $10,000 | $10,065 | $13,641 | $14,723 | $18,652 |
| | Average annual total return | 0.65% | 10.90% | 8.04% | 6.43% |

| **Deutsche Global Small Cap VIP** | | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
|---|---|---|---|---|---|
| **Class B** | Growth of $10,000 | $10,086 | $13,092 | $13,538 | $16,715 |
| | Average annual total return | 0.86% | 9.40% | 6.25% | 5.27% |
| S&P Developed Small Cap Index | Growth of $10,000 | $10,065 | $13,641 | $14,723 | $18,652 |
| | Average annual total return | 0.65% | 10.90% | 8.04% | 6.43% |

The growth of $10,000 is cumulative.

# Management Summary

**December 31, 2015 (Unaudited)**

Deutsche Global Small Cap VIP returned 1.16% in 2015 (Class A shares, unadjusted for contract charges), outpacing the 0.65% return of the S&P® Developed SmallCap Index.[1]

The past year was characterized by an environment of positive, but slow, global economic growth. While the U.S. economy remained healthy and Europe showed signs of emerging from its recession, these factors were offset by worries about the potential for a slowdown in China. Tepid global growth prompted investors to seek companies capable of delivering strong, organic earnings gains independent of economic trends, which contributed to outperformance for small-cap stocks relative to large caps. Small caps in Europe and Japan performed particularly well, even when the impact of negative currency translation was taken into account. Domestic small companies lagged somewhat despite the backdrop of improving economic growth and U.S. dollar strength, which may reflect the higher valuations in the U.S. market vs. the rest of the world.

While our primary emphasis is on individual stock selection, country and sector allocations can also have an impact on the Fund's results. During the past year, for instance, the Fund was helped by having an overweight position in Europe and a corresponding underweight in North America.[2] At the sector level, the Fund benefited from its underweight positions in the poor-performing energy and material segments, both of which were hit hard by the sharp downturn in commodity prices. Overweight positions in the health care and consumer staples sectors also aided performance.[3] On the negative side, the Fund lost some ground through its underweight position in the financial sector. The Fund has held this underweight since the financial crisis of 2008, and it had a positive impact on performance in subsequent years before detracting during the past 12 months. An overweight in the industrials sector also cost the Fund some performance.

Our individual stock selection made a robust contribution to the Fund's 12-month results.[4] The Fund delivered the largest margin of outperformance in the consumer discretionary, energy and health care sectors. The leading individual contributors for the year were Kusuri No Aoki Co., Ltd., a Japanese drugstore operator that grew by expanding its product offerings and adding new locations, and PATRIZIA Immobilien AG, which benefited from a well-received transition of its business to real-estate property management. Thoratec Corp.,* which was taken over at a premium, also contributed positively to Fund performance.

We continue to find compelling opportunities in the small-cap space. While small companies remain expensive based on their own history, they have fallen to levels that we believe are attractive relative to large caps. As a result, we are finding a wider range of opportunities to purchase fast-growing, high-quality companies at reasonable valuations. Europe and Asia, in particular, feature a wealth of stocks whose values we believe fail to reflect their underlying growth potential. We believe this creates a favorable opportunity set for the Fund given our emphasis on fast-growing, undervalued world-class businesses.

Joseph Axtell, CFA
Portfolio Manager

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

1 The S&P Developed SmallCap Index tracks the performance of small-capitalization stocks in 22 countries. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

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

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

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

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

# Portfolio Summary

**(Unaudited)**

| **Asset Allocation** (As a % of Investment Portfolio excluding Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Common Stocks | 98% | 95% |
| Cash Equivalents | 2% | 5% |
| Convertible Preferred Stock | 0% | — |
| Right | — | 0% |
| Warrant | 0% | 0% |
| | 100% | 100% |

**Geographical Diversification**

| (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| United States | 42% | 47% |
| United Kingdom | 13% | 13% |
| Japan | 10% | 8% |
| Germany | 7% | 5% |
| Ireland | 5% | 4% |
| France | 4% | 2% |
| Netherlands | 3% | 3% |
| Hong Kong | 2% | 4% |
| Canada | 2% | 3% |
| Malaysia | 2% | — |
| Other | 10% | 11% |
| | 100% | 100% |

**Sector Diversification**

| (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Consumer Discretionary | 26% | 25% |
| Industrials | 22% | 24% |
| Information Technology | 15% | 10% |
| Health Care | 13% | 14% |
| Financials | 13% | 15% |
| Consumer Staples | 7% | 8% |
| Energy | 3% | 3% |
| Materials | 1% | 1% |
| | 100% | 100% |

Portfolio holdings and characteristics are subject to change.

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

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

# Investment Portfolio

December 31, 2015

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 96.2%** | | |
| **Australia 1.3%** | | |
| Austal Ltd. | 454,499 | 518,651 |
| G8 Education Ltd. (a) | 338,760 | 880,476 |
| (Cost $1,511,030) | | **1,399,127** |
| **Bermuda 1.0%** | | |
| Lazard Ltd. "A" (b) (Cost $588,361) | 24,236 | **1,090,862** |
| **Canada 2.0%** | | |
| Quebecor, Inc. "B" | 52,640 | 1,288,895 |
| SunOpta, Inc.* | 127,599 | 872,777 |
| (Cost $2,038,753) | | **2,161,672** |
| **China 0.6%** | | |
| Minth Group Ltd. (Cost $97,573) | 297,036 | **590,936** |
| **Finland 1.1%** | | |
| Cramo Oyj (Cost $1,232,113) | 57,429 | **1,185,427** |
| **France 3.6%** | | |
| Altran Technologies SA | 41,000 | 550,223 |
| Flamel Technologies SA (ADR)* | 135,526 | 1,654,772 |
| JC Decaux SA | 26,499 | 1,017,112 |
| Parrot SA* | 22,680 | 666,225 |
| (Cost $3,239,392) | | **3,888,332** |
| **Germany 6.6%** | | |
| M.A.X. Automation AG | 122,583 | 746,681 |
| PATRIZIA Immobilien AG* | 53,855 | 1,577,915 |
| Rational AG | 2,744 | 1,252,364 |
| United Internet AG (Registered) | 47,466 | 2,610,326 |
| VIB Vermoegen AG | 47,734 | 886,902 |
| (Cost $2,274,016) | | **7,074,188** |
| **Hong Kong 2.3%** | | |
| K Wah International Holdings Ltd. | 957,757 | 411,407 |
| REXLot Holdings Ltd. | 12,174,509 | 509,460 |
| Techtronic Industries Co., Ltd. | 390,369 | 1,592,538 |
| (Cost $1,159,468) | | **2,513,405** |
| **India 0.9%** | | |
| WNS Holdings Ltd. (ADR)* (Cost $850,197) | 29,288 | **913,493** |
| **Indonesia 0.4%** | | |
| PT Arwana Citramulia Tbk (Cost $757,229) | 11,282,309 | **406,896** |
| **Ireland 4.8%** | | |
| Greencore Group PLC | 273,692 | 1,428,244 |
| Paddy Power PLC (c) | 28 | 3,752 |
| Paddy Power PLC (c) | 11,896 | 1,591,434 |
| Ryanair Holdings PLC | 130,408 | 2,127,230 |
| (Cost $1,709,161) | | **5,150,660** |
| **Italy 1.1%** | | |
| Prysmian SpA (Cost $995,445) | 52,526 | **1,155,211** |
| **Japan 9.5%** | | |
| Ai Holdings Corp. | 55,217 | 1,399,364 |
| Avex Group Holdings, Inc. | 41,734 | 496,409 |
| Kusuri No Aoki Co., Ltd. | 32,858 | 1,605,110 |
| MISUMI Group, Inc. | 71,874 | 993,773 |
| Nippon Seiki Co., Ltd. | 84,964 | 1,954,245 |
| Syuppin Co., Ltd. (a) | 27,500 | 285,994 |
| Topcon Corp. (a) | 63,700 | 1,077,185 |
| United Arrows Ltd. | 23,857 | 1,027,206 |
| Universal Entertainment Corp. | 41,314 | 753,195 |
| UT Group Co., Ltd.* | 115,924 | 566,142 |
| (Cost $6,297,739) | | **10,158,623** |
| **Korea 0.4%** | | |
| Suprema HQ, Inc.* (Cost $575,431) | 28,635 | **398,064** |
| **Malaysia 1.8%** | | |
| Hartalega Holdings Bhd. | 332,946 | 461,117 |
| Nirvana Asia Ltd. 144A | 3,103,512 | 945,063 |
| Tune Protect Group Bhd. | 1,742,814 | 522,995 |
| (Cost $2,110,568) | | **1,929,175** |
| **Netherlands 2.6%** | | |
| Brunel International NV | 44,489 | 812,694 |
| Core Laboratories NV (a) (d) | 9,925 | 1,079,244 |
| SBM Offshore NV* | 73,726 | 933,685 |
| (Cost $2,607,948) | | **2,825,623** |
| **Panama 0.8%** | | |
| Banco Latinoamericano de Comercio Exterior SA "E" (Cost $756,863) | 31,717 | **822,422** |
| **Philippines 0.6%** | | |
| Alliance Global Group, Inc. (Cost $452,645) | 1,798,250 | **616,030** |
| **Singapore 0.4%** | | |
| Lian Beng Group Ltd. (Cost $325,048) | 1,065,455 | **378,986** |
| **Sweden 0.9%** | | |
| Nobina AB 144A* (Cost $910,627) | 217,514 | **997,197** |
| **Switzerland 0.8%** | | |
| Dufry AG (Registered)* (Cost $860,924) | 7,444 | **891,471** |
| **United Kingdom 12.6%** | | |
| Arrow Global Group PLC | 300,923 | 1,170,050 |
| AVEVA Group PLC | 12,082 | 288,103 |
| Babcock International Group PLC | 138,584 | 2,077,985 |
| Clinigen Healthcare Ltd. | 108,185 | 1,133,948 |
| Crest Nicholson Holdings PLC | 157,264 | 1,290,232 |
| Domino's Pizza Group PLC | 79,589 | 1,234,221 |
| Hargreaves Lansdown PLC | 55,211 | 1,226,525 |
| Howden Joinery Group PLC | 183,640 | 1,425,081 |
| Jardine Lloyd Thompson Group PLC | 45,569 | 621,681 |
| Nanoco Group PLC* (a) | 230,225 | 196,910 |
| Polypipe Group PLC | 250,702 | 1,289,851 |
| Rotork PLC | 94,260 | 254,036 |
| Spirax-Sarco Engineering PLC | 17,079 | 827,689 |
| Telit Communications PLC* (a) | 136,000 | 427,287 |
| (Cost $9,234,977) | | **13,463,599** |
| **United States 40.1%** | | |
| Advance Auto Parts, Inc. | 6,131 | 922,777 |
| Affiliated Managers Group, Inc.* | 3,173 | 506,918 |
| AZZ, Inc. | 17,230 | 957,471 |

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

| | Shares | Value ($) |
|---|---|---|
| Berry Plastics Group, Inc.* | 26,724 | 966,874 |
| Cardtronics, Inc.* (a) | 30,591 | 1,029,387 |
| Casey's General Stores, Inc. | 14,048 | 1,692,082 |
| Cognex Corp. | 18,327 | 618,903 |
| Del Taco Restaurants, Inc.* (a) | 73,400 | 781,710 |
| Diamondback Energy, Inc.* (a) | 7,946 | 531,587 |
| DigitalGlobe, Inc.* | 33,142 | 519,004 |
| Encore Capital Group, Inc.* (a) | 16,302 | 474,062 |
| FCB Financial Holdings, Inc. "A"* | 17,169 | 614,479 |
| Fox Factory Holding Corp.* | 66,182 | 1,093,988 |
| Gentherm, Inc.* | 28,447 | 1,348,388 |
| Hain Celestial Group, Inc.* (a) | 14,185 | 572,932 |
| Jack in the Box, Inc. (a) | 14,260 | 1,093,885 |
| Jarden Corp.* | 14,140 | 807,677 |
| Kindred Healthcare, Inc. (a) | 46,086 | 548,884 |
| Knowles Corp.* (a) | 58,157 | 775,233 |
| Leucadia National Corp. (a) | 40,870 | 710,729 |
| Ligand Pharmaceuticals, Inc.* (a) | 7,534 | 816,836 |
| Matador Resources Co.* (a) | 29,637 | 585,924 |
| MAXIMUS, Inc. (a) | 21,084 | 1,185,975 |
| Middleby Corp.* | 14,408 | 1,554,191 |
| Molina Healthcare, Inc.* (a) | 17,578 | 1,056,965 |
| NantKwest, Inc.* (a) | 17,400 | 301,542 |
| Neurocrine Biosciences, Inc.* | 7,157 | 404,871 |
| On Assignment, Inc.* | 14,000 | 629,300 |
| Orexigen Therapeutics, Inc.* (a) | 102,500 | 176,300 |
| Pacira Pharmaceuticals, Inc.* (a) | 20,497 | 1,573,965 |
| PAREXEL International Corp.* | 16,919 | 1,152,522 |
| Primoris Services Corp. (a) | 65,968 | 1,453,275 |
| Providence Service Corp.* | 38,100 | 1,787,652 |
| Retrophin, Inc.* | 44,483 | 858,077 |
| Roadrunner Transportation Systems, Inc.* | 31,427 | 296,357 |
| Sinclair Broadcast Group, Inc. "A" (a) | 33,682 | 1,096,012 |
| South State Corp. | 7,208 | 518,616 |
| Super Micro Computer, Inc.* (a) | 21,296 | 521,965 |
| Tenneco, Inc.* | 19,466 | 893,684 |
| The WhiteWave Foods Co.* | 31,168 | 1,212,747 |
| TiVo, Inc.* | 87,052 | 751,259 |
| TriNet Group, Inc.* | 28,350 | 548,573 |
| TriState Capital Holdings, Inc.* | 57,506 | 804,509 |
| Urban Outfitters, Inc.* | 24,151 | 549,435 |
| VeriFone Systems, Inc.* | 29,875 | 837,098 |
| WABCO Holdings, Inc.* | 13,332 | 1,363,330 |
| WEX, Inc.* | 6,876 | 607,838 |
| Zeltiq Aesthetics, Inc.* (a) | 42,751 | 1,219,686 |
| Zions Bancorp. (a) | 33,141 | 904,749 |
| Zoe's Kitchen, Inc.* (a) | 19,836 | 555,011 |
| (Cost $34,904,508) | | **42,785,234** |
| **Total Common Stocks** (Cost $75,490,016) | | **102,796,633** |

## Convertible Preferred Stock 0.2%

### United States

| | Shares | Value ($) |
|---|---|---|
| Providence Service Corp. (Cost $196,900) | 1,969 | **231,659** |

## Warrant 0.0%

### France

| | Shares | Value ($) |
|---|---|---|
| Parrot SA, Expiration Date 12/22/2022* (Cost $0) | 26,460 | **25,056** |

## Securities Lending Collateral 17.9%

| | Shares | Value ($) |
|---|---|---|
| Daily Assets Fund, 0.36% (e) (f) (Cost $19,125,623) | 19,125,623 | **19,125,623** |

## Cash Equivalents 2.4%

| | Shares | Value ($) |
|---|---|---|
| Central Cash Management Fund, 0.25% (e) (Cost $2,517,382) | 2,517,382 | **2,517,382** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $97,329,921)† | 116.7 | **124,696,353** |
| **Other Assets and Liabilities, Net** | (16.7) | **(17,884,362)** |
| **Net Assets** | 100.0 | **106,811,991** |

* Non-income producing security.

† The cost for federal income tax purposes was $99,101,785. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $25,594,568. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $32,323,323 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,728,755.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $18,546,151, which is 17.4% of net assets.

(b) Listed on the NASDAQ Exchange.

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

(d) Listed on the New York Stock Exchange.

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

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

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

ADR: American Depositary Receipt

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common Stocks | | | | |
| Australia | $ — | $ 1,399,127 | $ — | $ 1,399,127 |
| Bermuda | 1,090,862 | — | — | 1,090,862 |
| Canada | 2,161,672 | — | — | 2,161,672 |
| China | — | 590,936 | — | 590,936 |
| Finland | — | 1,185,427 | — | 1,185,427 |
| France | 1,654,772 | 2,233,560 | — | 3,888,332 |
| Germany | — | 7,074,188 | — | 7,074,188 |
| Hong Kong | — | 2,003,945 | 509,460 | 2,513,405 |
| India | 913,493 | — | — | 913,493 |
| Indonesia | — | 406,896 | — | 406,896 |
| Ireland | — | 5,150,660 | — | 5,150,660 |
| Italy | — | 1,155,211 | — | 1,155,211 |
| Japan | — | 10,158,623 | — | 10,158,623 |
| Korea | — | — | 398,064 | 398,064 |
| Malaysia | — | 1,929,175 | — | 1,929,175 |
| Netherlands | 1,079,244 | 1,746,379 | — | 2,825,623 |
| Panama | 822,422 | — | — | 822,422 |
| Philippines | — | 616,030 | — | 616,030 |
| Singapore | — | 378,986 | — | 378,986 |
| Sweden | — | 997,197 | — | 997,197 |
| Switzerland | — | 891,471 | — | 891,471 |
| United Kingdom | — | 13,463,599 | — | 13,463,599 |
| United States | 42,785,234 | — | — | 42,785,234 |
| Convertible Preferred Stock | — | — | 231,659 | 231,659 |
| Warrant | — | — | 25,056 | 25,056 |
| Short-Term Investments (g) | 21,643,005 | — | — | 21,643,005 |
| **Total** | **$ 72,150,704** | **$ 51,381,410** | **$ 1,164,239** | **$124,696,353** |

(g) See Investment Portfolio for additional detailed categorizations.

## Level 3 Reconciliation

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

| | Common Stocks | Convertible Preferred Stocks | Rights | Warrants | Total |
|---|---|---|---|---|---|
| **Balance as of December 31, 2014** | $ — | $ — | $ 104,334 | $ — | $ 104,334 |
| Realized gains (loss) | 104,754 | — | 2,456 | — | 107,210 |
| Change in unrealized appreciation (depreciation) | (760,435) | 34,759 | — | 25,056 | (700,620) |
| Purchases | 613,152 | 196,900 | — | 0 | 810,052 |
| (Sales) | (247,837) | — | (106,790) | — | (354,627) |
| Transfers into Level 3 (h) | 1,197,890 | — | — | — | 1,197,890 |
| Transfers (out) of Level 3 | — | — | — | — | — |
| **Balance as of December 31, 2015** | **$ 907,524** | **$ 231,659** | **$ —** | **$ 25,056** | **$ 1,164,239** |
| **Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2015** | **$ (760,435)** | **$ 34,759** | **$ —** | **$ 25,056** | **$ (700,620)** |

(h) During the period ended December 31, 2015, the amount of transfers between Level 2 and Level 3 was $1,197,890. The security was halted on the exchange and is valued in accordance with procedures approved by the Board. A significant difference between the value and the price of the security once it resumes trading on the securities exchange could have a material change in the fair value measurement.

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

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

## Statement of Assets and Liabilities

as of December 31, 2015

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in non-affiliated securities, at value (cost $75,686,916) — including $18,546,151 of securities loaned | $ | 103,053,348 |
| Investment in Daily Assets Fund (cost $19,125,623)* | | 19,125,623 |
| Investment in Central Cash Management Fund (cost $2,517,382) | | 2,517,382 |
| Total investments in securities, at value (cost $97,329,921) | | 124,696,353 |
| Foreign currency, at value (cost $1,446,572) | | 1,440,336 |
| Receivable for Fund shares sold | | 3,654 |
| Dividends receivable | | 55,647 |
| Interest receivable | | 14,370 |
| Foreign taxes recoverable | | 96,758 |
| Other assets | | 2,687 |
| Total assets | | 126,309,805 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 19,125,623 |
| Payable for investments purchased | | 18,363 |
| Payable for Fund shares redeemed | | 173,848 |
| Accrued management fee | | 74,195 |
| Accrued Trustees' fees | | 1,756 |
| Other accrued expenses and payables | | 104,029 |
| Total liabilities | | 19,497,814 |
| **Net assets, at value** | **$** | **106,811,991** |
| **Net Assets Consist of** | | |
| Distributions in excess of net investment income | | (906,116) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 27,366,432 |
| Foreign currency | | (16,116) |
| Accumulated net realized gain (loss) | | 10,585,414 |
| Paid-in capital | | 69,782,377 |
| **Net assets, at value** | **$** | **106,811,991** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($104,138,995 ÷ 7,905,300 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **13.17** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($2,672,996 ÷ 207,982 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.85** |

* Represents collateral on securities loaned.

## Statement of Operations

for the year ended December 31, 2015

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $56,036) | $ | 1,791,824 |
| Income distributions — Central Cash Management Fund | | 3,417 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 68,493 |
| Total income | | 1,863,734 |
| Expenses: | | |
| Management fee | | 1,184,371 |
| Administration fee | | 133,075 |
| Services to shareholders | | 2,521 |
| Distribution service fee (Class B) | | 7,090 |
| Record keeping fee (Class B) | | 920 |
| Custodian fee | | 49,397 |
| Professional fees | | 70,227 |
| Reports to shareholders | | 24,240 |
| Trustees' fees and expenses | | 6,893 |
| Other | | 23,427 |
| Total expenses before expense reductions | | 1,502,161 |
| Expense reductions | | (177,546) |
| Total expenses after expense reductions | | 1,324,615 |
| **Net investment income (loss)** | | **539,119** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from: | | |
| Investments | | 11,548,394 |
| Foreign currency | | (46,789) |
| | | 11,501,605 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investments | | (9,980,649) |
| Foreign currency | | (5,800) |
| | | (9,986,449) |
| **Net gain (loss)** | | **1,515,156** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **2,054,275** |

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 539,119 | $ 395,121 |
| Net realized gain (loss) | 11,501,605 | 14,181,990 |
| Change in net unrealized appreciation (depreciation) | (9,986,449) | (20,736,955) |
| Net increase (decrease) in net assets resulting from operations | 2,054,275 | (6,159,844) |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (1,276,149) | (1,278,879) |
| Class B | (19,017) | (17,935) |
| Net realized gains: | | |
| Class A | (13,898,697) | (16,572,319) |
| Class B | (305,692) | (315,539) |
| Total distributions | (15,499,555) | (18,184,672) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 4,131,476 | 5,579,529 |
| Reinvestment of distributions | 15,174,846 | 17,851,198 |
| Payments for shares redeemed | (36,780,664) | (18,702,818) |
| Net increase (decrease) in net assets from Class A share transactions | (17,474,342) | 4,727,909 |
| **Class B** | | |
| Proceeds from shares sold | 564,366 | 1,189,539 |
| Reinvestment of distributions | 324,709 | 333,474 |
| Payments for redeemed | (706,649) | (885,837) |
| Net increase (decrease) in net assets from Class B share transactions | 182,426 | 637,176 |
| **Increase (decrease) in net assets** | (30,737,196) | (18,979,431) |
| Net assets at beginning of period | 137,549,187 | 156,528,618 |
| Net assets at end of period (including distributions in excess of net investment income of $906,116 and $353,727, respectively) | **$ 106,811,991** | **$ 137,549,187** |

| **Other Information** | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 9,224,528 | 8,893,756 |
| Shares sold | 286,903 | 350,707 |
| Shares issued to shareholders in reinvestment of distributions | 1,081,600 | 1,182,981 |
| Shares redeemed | (2,687,731) | (1,202,916) |
| Net increase (decrease) in Class A shares | (1,319,228) | 330,772 |
| Shares outstanding at end of period | **7,905,300** | **9,224,528** |
| **Class B** | | |
| Shares outstanding at beginning of period | 194,372 | 154,023 |
| Shares sold | 41,126 | 77,557 |
| Shares issued to shareholders in reinvestment of distributions | 23,684 | 22,563 |
| Shares redeemed | (51,200) | (59,771) |
| Net increase (decrease) in Class B shares | 13,610 | 40,349 |
| Shares outstanding at end of period | **207,982** | **194,372** |

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

# Financial Highlights

| Class A | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | | | Years Ended December 31, | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$14.61** | **$17.31** | **$13.78** | **$12.67** | **$14.28** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | .06 | .04 | .04 | .09 | .08 |
| Net realized and unrealized gain (loss) | .21 | (.69) | 4.66 | 1.83 | (1.45) |
| **Total from investment operations** | .27 | (.65) | 4.70 | 1.92 | (1.37) |
| *Less distributions from:* | | | | | |
| Net investment income | (.14) | (.15) | (.10) | (.09) | (.24) |
| Net realized gains | (1.57) | (1.90) | (1.07) | (.72) | — |
| **Total distributions** | (1.71) | (2.05) | (1.17) | (.81) | (.24) |
| **Net asset value, end of period** | **$13.17** | **$14.61** | **$17.31** | **$13.78** | **$12.67** |
| Total Return (%)[b] | 1.16 | (4.13) | 35.94 | 15.37 | (9.90) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 104 | 135 | 154 | 124 | 123 |
| Ratio of expenses before expense reductions (%) | 1.12 | 1.13 | 1.14 | 1.11 | 1.12 |
| Ratio of expenses after expense reductions (%) | .99 | .97 | .94 | .98 | 1.00 |
| Ratio of net investment income (loss) (%) | .41 | .27 | .28 | .69 | .57 |
| Portfolio turnover rate (%) | 27 | 33 | 39 | 36 | 31 |

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

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

| Class B | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | | | Years Ended December 31, | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$14.29** | **$16.97** | **$13.52** | **$12.45** | **$14.03** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | .02 | .00* | .01 | .06 | .05 |
| Net realized and unrealized gain (loss) | .21 | (.67) | 4.57 | 1.79 | (1.43) |
| **Total from investment operations** | .23 | (.67) | 4.58 | 1.85 | (1.38) |
| *Less distributions from:* | | | | | |
| Net investment income | (.10) | (.11) | (.06) | (.06) | (.20) |
| Net realized gains | (1.57) | (1.90) | (1.07) | (.72) | — |
| **Total distributions** | (1.67) | (2.01) | (1.13) | (.78) | (.20) |
| **Net asset value, end of period** | **$12.85** | **$14.29** | **$16.97** | **$13.52** | **$12.45** |
| Total Return (%)[b] | .86 | (4.33) | 35.67 | 15.01 | (10.08) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 3 | 3 | 3 | 2 | 2 |
| Ratio of expenses before expense reductions (%) | 1.41 | 1.41 | 1.34 | 1.43 | 1.38 |
| Ratio of expenses after expense reductions (%) | 1.24 | 1.25 | 1.15 | 1.23 | 1.25 |
| Ratio of net investment income (loss) (%) | .15 | .02 | .07 | .44 | .32 |
| Portfolio turnover rate (%) | 27 | 33 | 39 | 36 | 31 |

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

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

* Amount is less than $.005.

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Global Small Cap VIP. The Trust is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

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

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

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

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

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1 securities. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

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

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

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

**Securities Lending.** Prior to August 20, 2015, Deutsche Bank AG served as security lending agent for the Fund. Effective August 20, 2015, Brown Brothers Harriman & Co. serves as security lending agent to the Fund. The lending agent lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**Taxes.** The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

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

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

| | |
|---|---|
| Undistributed ordinary income* | $ 325,645 |
| Undistributed long-term capital gains | $ 11,125,518 |
| Net unrealized appreciation (depreciation) on investments | $ 25,594,568 |

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

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from ordinary Income* | $ 1,295,166 | $ 2,266,228 |
| Distributions from long-term capital gains | $ 14,204,389 | $ 15,918,444 |

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

**Expenses.** Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $33,813,625 and $62,787,732, respectively.

## C. Related Parties

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

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

| | |
|---|---|
| First $500 million of average daily net assets | .890% |
| Next $500 million of average daily net assets | .875% |
| Next $1 billion of average daily net assets | .860% |
| Over $2 billion of average daily net assets | .845% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.89% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

| | |
|---|---|
| Class A | .99% |
| Class B | 1.24% |

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

| | |
|---|---|
| Class A | $ 172,701 |
| Class B | 4,845 |
| | **$ 177,546** |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $133,075, of which $9,361 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

| **Services to Shareholders** | **Total Aggregated** | **Unpaid at December 31, 2015** |
|---|---|---|
| Class A | $ 498 | $ 85 |
| Class B | 193 | 32 |
| | **$ 691** | **$ 117** |

**Distribution Service Agreement.** DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee aggregated $7,090, of which $573 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,124, of which $4,996 is unpaid.

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

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

**Securities Lending Agent Fees.** Prior to August 20, 2015, Deutsche Bank AG served as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,150.

## D. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 46%, 16% and 13%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 68% and 17%, respectively.

## E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series I and the Shareholders of Deutsche Global Small Cap VIP:**

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Deutsche Global Small Cap VIP (formerly DWS Global Small Cap Growth VIP) (the "Fund") at December 31, 2015 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

PricewaterhouseCoopers LLP

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $ 940.70 | $ 940.00 |
| Expenses Paid per $1,000* | $ 4.84 | $ 6.06 |

| **Hypothetical 5% Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,020.21 | $1,018.95 |
| Expenses Paid per $1,000* | $ 5.04 | $ 6.31 |

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series I — Deutsche Global Small Cap VIP | .99% | 1.24% |

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

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

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

# Tax Information

**(Unaudited)**

The Fund paid distributions of $1.57 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $12,306,000 as capital gain dividends for its year ended December 31, 2015.

For corporate shareholders of the Fund, 14% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015 qualified for the dividends received deduction.

The Fund paid foreign taxes of $46,388 and earned $340,569 of foreign source income during the year ended December 31, 2015. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.04 per share as income earned from foreign sources for the year ended December 31, 2015.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Proxy Voting

The Trusts' policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on “proxy voting”at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trusts' policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Global Small Cap VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

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

addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 4th quartile, 3rd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board observed that there were significant limitations to the usefulness of the comparative data provided by Morningstar, noting that the applicable Morningstar universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. As a result, the Board gave increased weight to the Fund's performance relative to its benchmark than some of the additional comparative data. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2015. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Trustees also observed that the Lipper expense universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche Funds as compared to institutional accounts and that such differences made comparison difficult.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

## Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

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Deutsche
Asset Management

VS1glosc-2 (R-025821-5 2/16)

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series II

## Deutsche Government & Agency Securities VIP

# Contents



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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. The "full faith and credit" guarantee of the US government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising US government debt burden, it is possible that the US government may not be able to meet its financial obligations or that securities issued by the US government may experience credit downgrades. The Fund may lend securities to approved institutions. See the prospectus for details.

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


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

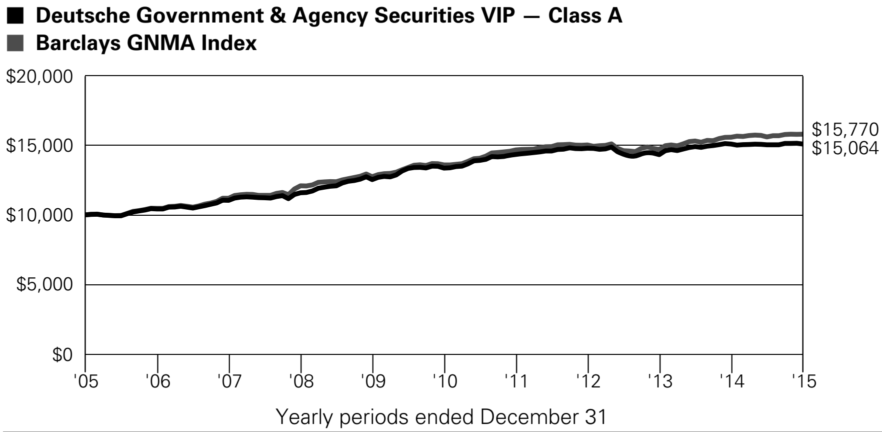
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 0.72% and 1.06% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment in Deutsche Government & Agency Securities VIP




The Barclays GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

## Comparative Results

| Deutsche Government & Agency Securities VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $9,998 | $10,206 | $11,289 | $15,064 |
| | Average annual total return | –0.02% | 0.68% | 2.45% | 4.18% |
| Barclays GNMA Index | Growth of $10,000 | $10,139 | $10,517 | $11,623 | $15,770 |
| | Average annual total return | 1.39% | 1.69% | 3.05% | 4.66% |

| Deutsche Government & Agency Securities VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class B** | Growth of $10,000 | $9,964 | $10,117 | $11,110 | $14,543 |
| | Average annual total return | –0.36% | 0.39% | 2.13% | 3.82% |
| Barclays GNMA Index | Growth of $10,000 | $10,139 | $10,517 | $11,623 | $15,770 |
| | Average annual total return | 1.39% | 1.69% | 3.05% | 4.66% |

The growth of $10,000 is cumulative.

# Management Summary

**December 31, 2015 (Unaudited)**

During the 12-month period ended December 31, 2015, the Fund provided a total return of –0.02% (Class A shares, unadjusted for contract charges), compared with the 1.39% return of its benchmark, the Barclays GNMA Index.[1]

As the period opened, there was ongoing speculation over when the U.S. Federal Reserve Board (the Fed) would initiate a cycle of hikes in its benchmark short-term lending rate, after several years of maintaining a zero-interest-rate policy. The Fed would remain in a data-dependent "wait and see" mode until December, despite the overall modest upward progress of the U.S. economy. The Fed's patient stance was supported by a strong dollar and the absence of upward pressures on U.S. inflation and wages, against a global backdrop of heightened macroeconomic and geopolitical uncertainty. U.S. Treasury yields were volatile over the 12-month period, but ended somewhat higher on all maturities as investors positioned for the Fed's hiking cycle late in the period. The agency mortgage-backed securities (MBS) market provided a marginally positive return for the year, outperforming the broader investment-grade bond market.

The Fund's positioning with respect to portfolio duration and corresponding interest rate sensitivity detracted from returns vs. the benchmark for the 12 months, as did the Fund's positioning along the yield curve. Throughout the period, the managers used interest rate derivatives as part of implementing the Fund's yield curve exposures. The Fund has had exposure to higher-yielding collateralized mortgage obligations structured to provide diversification in the event of a rising rate environment as compared to pass-through MBS. This position was adversely impacted by volatility in interest rates, but benefited as rates moved higher and was essentially neutral in terms of performance for the 12 months. The Fund has carried significant exposure to higher-coupon mortgage pools, with select characteristics related to geography and seasoning of loans in the belief that voluntary prepayments will remain manageable. During the period, prepayments remained relatively low within this position, allowing the Fund to earn incremental income. The Fund also benefited from out-of-benchmark exposure to conventional mortgages, which outperformed early in the period when lower mortgage insurance premiums drove faster prepayments on GNMAs. A position in seasoned interest-only MBS provided incremental income.

Going into 2016, we are constructive on the outlook for MBS relative to many other areas of the bond market. With inflation remaining below target, we continue to expect the Fed to withdraw support gradually and for there to be little upward pressure on mortgage rates that would extend MBS durations and increase interest rate sensitivity. In addition, we view the supply/demand outlook as favorable, with lower net supply and continued interest in GNMAs from banks facing tighter capital guidelines. As such, we have increased the Fund's MBS exposure, while taking care to maintain liquidity in order to be able to reposition to take advantage of any shift in market conditions.

William Chepolis, CFA
Scott Agi, CFA
Portfolio Managers

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

Scott Agi, CFA
Sergey Losyev, CFA
Portfolio Managers

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

1 The Barclays GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

# Portfolio Summary (Unaudited)

| Asset Allocation (As a % of Net Assets) | 12/31/15 | 12/31/14 |
|---|---|---|
| Mortgage-Backed Securities Pass-Throughs | 76% | 71% |
| Collateralized Mortgage Obligations | 22% | 26% |
| Government & Agency Obligations | 5% | 19% |
| Commercial Mortgage-Backed Securities | 2% | — |
| Short-Term US Treasury Obligations | — | 1% |
| Cash Equivalents and Other Assets and Liabilities, net | –5% | –17% |
| | 100% | 100% |

| Coupons* | 12/31/15 | 12/31/14 |
|---|---|---|
| Less than 3% | 3% | 7% |
| 3%–4.49% | 43% | 43% |
| 4.5%–5.49% | 33% | 34% |
| 5.5%–6.49% | 18% | 14% |
| 6.5%–7.49% | 2% | 2% |
| 7.5% and Greater | 1% | 0% |
| | 100% | 100% |

| Interest Rate Sensitivity | 12/31/15 | 12/31/14 |
|---|---|---|
| Effective Maturity | 6.9 years | 9.7 years |
| Effective Duration | 3.7 years | 7.8 years |

* Excludes Cash Equivalents, Securities Lending Collateral, U.S. Treasury Bills and Options Purchased.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Portfolio holdings and characteristics are subject to change.

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

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Mortgage-Backed Securities Pass-Throughs 75.6%** | | |
| Federal Home Loan Mortgage Corp., 3.5% , 5/1/2043 (a) | 3,500,000 | 3,602,846 |
| Federal National Mortgage Association: | | |
| 3.5%, 6/1/2043 (a) | 3,600,000 | 3,714,203 |
| 4.0%, with various maturities from 1/1/2042 until 8/1/2042 (a) | 3,916,012 | 4,148,514 |
| Government National Mortgage Association: | | |
| 3.5%, with various maturities from 4/15/2042 until 11/1/2043 (a) | 7,231,378 | 7,545,750 |
| 4.0%, with various maturities from 9/20/2040 until 6/20/2043 | 3,496,627 | 3,751,320 |
| 4.5%, with various maturities from 6/20/2033 until 2/20/2043 | 7,888,897 | 8,544,182 |
| 4.55%, 1/15/2041 | 302,518 | 328,052 |
| 4.625%, 5/15/2041 | 103,968 | 112,543 |
| 5.0%, with various maturities from 12/15/2032 until 4/15/2042 | 7,057,658 | 7,843,810 |
| 5.5%, with various maturities from 10/15/2032 until 7/20/2040 | 5,614,178 | 6,313,047 |
| 6.0%, with various maturities from 2/15/2034 until 2/15/2039 | 4,823,398 | 5,551,298 |
| 6.5%, with various maturities from 9/15/2036 until 2/15/2039 | 556,216 | 634,135 |
| 7.0%, with various maturities from 2/20/2027 until 11/15/2038 | 109,628 | 113,901 |
| 7.5%, 10/20/2031 | 5,534 | 6,266 |
| **Total Mortgage-Backed Securities Pass-Throughs** (Cost $51,241,440) | | **52,209,867** |

## Collateralized Mortgage Obligations 21.6%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Federal Home Loan Mortgage Corp.: | | |
| "OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036 | 127,021 | 114,558 |
| "KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043 | 1,191,210 | 765,537 |
| "YI", Series 3936, Interest Only, 3.0%, 6/15/2025 | 66,771 | 3,267 |
| "AI", Series 4016, Interest Only, 3.0%, 9/15/2025 | 862,361 | 59,098 |
| "WI", Series 3939, Interest Only, 3.0%, 10/15/2025 | 286,928 | 17,095 |
| "EI", Series 3953, Interest Only, 3.0%, 11/15/2025 | 422,077 | 27,562 |
| "IO", Series 3974, Interest Only, 3.0%, 12/15/2025 | 137,690 | 10,733 |
| "DI", Series 4010, Interest Only, 3.0%, 2/15/2027 | 112,774 | 10,184 |
| "IK", Series 4048, Interest Only, 3.0%, 5/15/2027 | 1,139,564 | 126,846 |
| "PZ", Series 4094, 3.0%, 8/15/2042 | 338,196 | 301,880 |
| "CZ", Series 4113, 3.0%, 9/15/2042 | 378,267 | 343,116 |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| "IK", Series 3754, Interest Only, 3.5%, 6/15/2025 | 620,426 | 42,189 |
| "PI", Series 3940, Interest Only, 4.0%, 2/15/2041 | 468,673 | 79,238 |
| "UA", Series 4298, 4.0%, 2/15/2054 | 281,576 | 280,809 |
| "22", Series 243, Interest Only, 4.178%*, 6/15/2021 | 183,755 | 6,506 |
| "MI", Series 3871, Interest Only, 6.0%, 4/15/2040 | 90,763 | 11,629 |
| "SP", Series 4047, Interest Only, 6.32%*, 12/15/2037 | 501,566 | 71,962 |
| "A", Series 172, Interest Only, 6.5%, 1/1/2024 | 13,222 | 2,342 |
| "DS", Series 3199, Interest Only, 6.82%*, 8/15/2036 | 1,498,916 | 285,678 |
| "S", Series 2416, Interest Only, 7.77%*, 2/15/2032 | 209,353 | 50,289 |
| "ST", Series 2411, Interest Only, 8.42%*, 6/15/2021 | 199,806 | 11,484 |
| "KS", Series 2064, Interest Only, 9.82%*, 5/15/2022 | 195,950 | 41,416 |
| Federal National Mortgage Association: | | |
| "DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026 | 128,559 | 8,025 |
| "Z", Series 2013-44, 3.0%, 5/25/2043 | 150,257 | 137,933 |
| "HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024 | 170,456 | 5,458 |
| "KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025 | 505,774 | 14,578 |
| "IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043 | 1,633,725 | 330,805 |
| "4", Series 406, Interest Only, 4.0%, 9/25/2040 | 327,542 | 63,941 |
| "ZB", Series 2010-136, 4.0%, 12/25/2040 | 3,225 | 3,190 |
| "HZ", Series 2013-20, 4.0%, 3/25/2043 | 1,616,707 | 1,752,103 |
| "25", Series 351, Interest Only, 4.5%, 5/25/2019 | 75,779 | 3,982 |
| "PZ", Series 2010-129, 4.5%, 11/25/2040 | 746,049 | 788,475 |
| "21", Series 334, Interest Only, 5.0%, 3/25/2018 | 25,745 | 999 |
| "20", Series 334, Interest Only, 5.0%, 3/25/2018 | 40,130 | 1,550 |
| ''23", Series 339, Interest Only, 5.0%, 6/25/2018 | 57,648 | 2,321 |
| "26", Series 381, Interest Only, 5.0%, 12/25/2020 | 29,582 | 2,276 |
| "30", Series 381, Interest Only, 5.5%, 11/25/2019 | 158,795 | 11,860 |
| "PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024 | 3,004,287 | 279,513 |
| "PJ", Series 2004-46, Interest Only, 5.578%*, 3/25/2034 | 231,882 | 31,917 |
| "WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040 | 171,739 | 14,067 |
| "SJ", Series 2007-36, Interest Only, 6.348%*, 4/25/2037 | 123,670 | 20,664 |
| "101", Series 383, Interest Only, 6.5%, 9/25/2022 | 607,983 | 80,788 |
| "KI", Series 2005-65, Interest Only, 6.578%*, 8/25/2035 | 69,039 | 12,550 |
| "SA", Series G92-57, IOette, 81.227%*, 10/25/2022 | 24,369 | 45,241 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Government National Mortgage Association: | | |
| "BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029 | 761,046 | 83,707 |
| "JY", Series 2010-20, 4.0%, 12/20/2033 | 2,181,276 | 2,276,124 |
| "IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040 | 1,833,446 | 236,001 |
| "PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044 | 548,020 | 70,494 |
| "LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018 | 94,984 | 4,636 |
| "NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037 | 243,663 | 14,539 |
| "CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038 | 1,251,588 | 234,441 |
| "PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039 | 390,971 | 64,698 |
| "MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040 | 494,066 | 69,155 |
| "Z", Series 2010-169, 4.5%, 12/20/2040 | 598,460 | 631,199 |
| "IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044 | 272,922 | 45,879 |
| "GZ", Series 2005-24, 5.0%, 3/20/2035 | 572,787 | 664,324 |
| "ZA", Series 2005-75, 5.0%, 10/16/2035 | 644,376 | 732,783 |
| "MZ", Series 2009-98, 5.0%, 10/16/2039 | 1,156,241 | 1,382,647 |
| "Z", Series 2009-112, 5.0%, 11/20/2039 | 1,354,639 | 1,495,718 |
| "AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023 | 94,041 | 5,699 |
| "GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033 | 511,860 | 101,051 |
| "IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038 | 144,319 | 25,892 |
| "BS", Series 2011-93, Interest Only, 5.756%*, 7/16/2041 | 876,967 | 151,340 |
| "SA", Series 2012-84, Interest Only, 5.898%*, 12/20/2038 | 939,141 | 109,765 |
| "DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038 | 210,995 | 37,314 |
| "QA", Series 2007-57, Interest Only, 6.098%*, 10/20/2037 | 195,828 | 32,036 |
| "IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039 | 56,322 | 14,052 |
| "SK", Series 2003-11, Interest Only, 7.356%*, 2/16/2033 | 335,927 | 57,965 |
| "IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027 | 402,988 | 97,552 |
| **Total Collateralized Mortgage Obligations** (Cost $13,562,298) | | **14,914,665** |

## Commercial Mortgage-Backed Securities 1.9%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| FHLMC Multifamily Structured Pass-Through Certificates: | | |
| "A2", Series KJ02, 2.597%, 9/25/2020 | 730,000 | 739,462 |
| "A2", Series K050, 3.334%, 8/25/2025 | 580,000 | 593,421 |
| **Total Commercial Mortgage-Backed Securities** (Cost $1,334,677) | | **1,332,883** |

## Government & Agency Obligations 5.6%

### U.S. Treasury Obligations

| | Principal Amount ($) | Value ($) |
|---|---|---|
| U.S. Treasury Bill, 0.215%**, 2/11/2016 (b) | 384,000 | 383,947 |
| U.S. Treasury Notes: | | |
| 1.0%, 8/31/2016 (c) | 1,450,000 | 1,452,945 |
| 1.0%, 9/30/2016 | 2,000,000 | 2,003,984 |
| **Total Government & Agency Obligations** (Cost $3,848,460) | | **3,840,876** |

## Cash Equivalents 3.0%

| | Shares | Value ($) |
|---|---|---|
| Central Cash Management Fund, 0.25% (d) (Cost $2,046,967) | 2,046,967 | **2,046,967** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $72,033,842)† | 107.7 | **74,345,258** |
| **Other Assets and Liabilities, Net** | (7.7) | **(5,283,889)** |
| **Net Assets** | 100.0 | **69,061,369** |

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

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

† The cost for federal income tax purposes was $72,039,137. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $2,306,121. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,150,177 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $844,056.

(a) When-issued or delayed delivery securities included.

(b) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

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

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

IOettes: These securities represent the right to receive interest payments on an underlying pool of mortgages with similar features as those associated with IO securities. Unlike IO's, a nominal amount of principal is assigned to an IOette which is small in relation to the interest flow that constitutes almost all of the IOette cash flow. The effective yield of this security is lower than the stated interest rate.

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

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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

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

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

| Futures | Currency | Expiration Date | Contracts | Notional Value ($) | Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| 10 Year U.S. Treasury Note | USD | 3/21/2016 | 22 | 2,769,938 | (10,532) |
| 5 Year U.S. Treasury Note | USD | 3/31/2016 | 79 | 9,347,305 | (5,865) |
| U.S. Treasury Long Bond | USD | 3/21/2016 | 3 | 461,250 | (50) |
| **Total unrealized depreciation** | | | | | **(16,447)** |

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

| Futures | Currency | Expiration Date | Contracts | Notional Value ($) | Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| Ultra Long U.S. Treasury Bond | USD | 3/21/2016 | 82 | 13,012,375 | **(75,533)** |

| Currency Abbreviation | |
|---|---|
| USD | United States Dollar |

At December 31, 2015, open written options contracts were as follows:

| Options on Interest Rate Swap Contracts | Swap Effective/ Expiration Dates | Contract Amount | Option Expiration Date | Premiums Received ($) | Value ($) (e) |
|---|---|---|---|---|---|
| **Call Options** | | | | | |
| Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR (Cost $28,320) | 3/17/2016 3/17/2026 | 2,400,000[1] | 3/15/2016 | 28,320 | 0 |

(e) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2015 was $28,320.

At December 31, 2015, open interest rate swap contracts were as follows:

**Centrally Cleared Swaps**

| Effective/ Expiration Dates | Notional Amount ($) | Cash Flows Paid by the Fund | Cash Flows Received by the Fund | Value ($) | Unrealized Appreciation/ (Depreciation) ($) |
|---|---|---|---|---|---|
| 11/12/2015 11/12/2045 | 1,900,000 | Fixed — 2.761% | Floating — 3-Month LIBOR | (55,362) | (17,267) |
| 9/16/2015 9/16/2017 | 7,500,000 | Fixed — 1.0% | Floating — 3-Month LIBOR | (10,587) | (37,934) |
| 9/16/2015 9/16/2020 | 912,468 | Fixed — 1.75% | Floating — 3-Month LIBOR | (7,343) | (14,861) |
| 9/16/2015 9/16/2025 | 7,900,000 | Fixed — 2.5% | Floating — 3-Month LIBOR | (294,520) | (292,851) |
| 9/16/2015 9/16/2045 | 1,400,000 | Fixed — 3.0% | Floating — 3-Month LIBOR | (130,460) | (93,886) |
| 6/17/2015 6/17/2020 | 2,510,180 | Fixed — 1.5% | Floating — 3-Month LIBOR | 14,996 | (5,229) |
| 3/16/2016 3/16/2026 | 495,290 | Fixed — 2.308% | Floating — 3-Month LIBOR | (3,429) | (3,429) |
| 3/16/2016 3/16/2046 | 2,480,000 | Fixed — 2.75% | Floating — 3-Month LIBOR | (63,164) | 15,080 |
| 3/16/2016 3/16/2026 | 8,700,000 | Floating — 3-Month LIBOR | Fixed — 2.5% | 213,772 | (67,524) |
| 6/17/2015 6/17/2045 | 8,578,000 | Floating — 3-Month LIBOR | Fixed — 2.5% | (196,602) | (204,185) |
| 12/16/2015 12/16/2045 | 1,937,575 | Floating — 3-Month LIBOR | Fixed — 2.569% | (16,576) | (16,576) |
| 10/26/2015 10/26/2045 | 720,190 | Floating — 3-Month LIBOR | Fixed — 2.87% | 43,971 | (4,729) |
| **Total net unrealized depreciation** | | | | | **(743,391)** |

Counterparty:

1 BNP Paribas

For information on the Fund's policy and additional disclosures regarding futures contracts, written options contracts, and interest rate swap contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Fixed-Income Investments (f) | | | | |
| Mortgage-Backed Securities Pass-Throughs | $ — | $ 52,209,867 | $ — | $ 52,209,867 |
| Collateralized Mortgage Obligations | — | 14,914,665 | — | 14,914,665 |
| Commercial Mortgage-Backed Securities | — | 1,332,883 | — | 1,332,883 |
| Government & Agency Obligations | — | 3,840,876 | — | 3,840,876 |
| Short-Term Investments | 2,046,967 | — | — | 2,046,967 |
| Derivatives (g) | | | | |
| Interest Rate Swap Contracts | — | 15,080 | — | 15,080 |
| **Total** | **$ 2,046,967** | **$ 72,313,371** | **$ —** | **$ 74,360,338** |

| **Liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Derivatives (g) | | | | |
| Futures Contracts | $ (91,980) | $ — | $ — | $ (91,980) |
| Written Options | — | 0 | — | 0 |
| Interest Rate Swap Contracts | — | (758,471) | — | (758,471) |
| **Total** | **$ (91,980)** | **$ (758,471)** | **$ —** | **$ (850,451)** |

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

(f) See Investment Portfolio for additional detailed categorizations.

(g) Derivatives include unrealized appreciation (depreciation) on open futures contracts and interest rate swap contracts, and written options, at value.

# Statement of Assets and Liabilities

as of December 31, 2015

| | | |
|---|---|---|
| **Assets** | | |
| Investments | | |
| Investments in non-affiliated securities, at value (cost $69,986,875) | $ | 72,298,291 |
| Investment in Central Cash Management Fund (cost $2,046,967) | | 2,046,967 |
| Total investments in securities, at value (cost $72,033,842) | | 74,345,258 |
| Cash | | 11,688 |
| Receivable for investments sold | | 8,845,594 |
| Receivable for investments sold — when-issued/delayed delivery securities | | 8,342,431 |
| Receivable for Fund shares sold | | 2,082 |
| Interest receivable | | 300,333 |
| Receivable for variation margin on centrally cleared swaps | | 108,206 |
| Other assets | | 1,861 |
| Total assets | | 91,957,453 |
| **Liabilities** | | |
| Payable for investments purchased — when-issued/delayed delivery securities | | 22,525,535 |
| Payable for Fund shares redeemed | | 160,554 |
| Payable for variation margin on futures contracts | | 62,859 |
| Options written, at value (premiums received $28,320) | | 0 |
| Accrued management fee | | 30,861 |
| Accrued Trustees' fees | | 1,922 |
| Other accrued expenses and payables | | 114,353 |
| Total liabilities | | 22,896,084 |
| **Net assets, at value** | **$** | **69,061,369** |
| **Net Assets Consist of** | | |
| Undistributed net investment income | | 1,956,284 |
| Unrealized appreciation (depreciation) on: | | |
| Investments | | 2,311,416 |
| Swap contracts | | (743,391) |
| Futures | | (91,980) |
| Written options | | 28,320 |
| Accumulated net realized gain (loss) | | (591,960) |
| Paid-in capital | | 66,192,680 |
| **Net assets, at value** | **$** | **69,061,369** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($66,412,879 ÷ 5,786,470 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **11.48** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($2,648,490 ÷ 231,100 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **11.46** |

# Statement of Operations

for the year ended December 31, 2015

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Interest | $ | 2,483,645 |
| Income distributions — Central Cash Management Fund | | 3,913 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 216 |
| Total income | | 2,487,774 |
| Expenses: | | |
| Management fee | | 372,085 |
| Administration fee | | 82,686 |
| Services to shareholders | | 1,210 |
| Record keeping fees (Class B) | | 2,809 |
| Distribution service fees (Class B) | | 6,962 |
| Custodian fee | | 34,497 |
| Professional fees | | 85,966 |
| Reports to shareholders | | 20,274 |
| Trustees' fees and expenses | | 5,198 |
| Other | | 10,745 |
| Total expenses before expense reductions | | 622,432 |
| Expense reductions | | (49,917) |
| Total expenses after expense reductions | | 572,515 |
| **Net investment income** | | **1,915,259** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from: | | |
| Investments | | 780,673 |
| Swap contracts | | (478,412) |
| Futures | | (214,263) |
| Written options | | 272,505 |
| | | 360,503 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investments | | (1,836,836) |
| Swap contracts | | (734,363) |
| Futures | | (102,045) |
| Written options | | 403,508 |
| | | (2,269,736) |
| **Net gain (loss)** | | **(1,909,233)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **6,026** |

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 1,915,259 | $ 2,385,165 |
| Net realized gain (loss) | 360,503 | (778,379) |
| Change in net unrealized appreciation (depreciation) | (2,269,736) | 3,438,057 |
| Net increase (decrease) in net assets resulting from operations | 6,026 | 5,044,843 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (2,287,159) | (2,179,180) |
| Class B | (68,234) | (66,035) |
| Total distributions | (2,355,393) | (2,245,215) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 7,621,170 | 11,625,548 |
| Reinvestment of distributions | 2,287,159 | 2,179,180 |
| Payments for shares redeemed | (27,899,252) | (25,367,687) |
| Net increase (decrease) in net assets from Class A share transactions | (17,990,923) | (11,562,959) |
| **Class B** | | |
| Proceeds from shares sold | 247,684 | 277,916 |
| Reinvestment of distributions | 68,234 | 66,035 |
| Payments for shares redeemed | (610,489) | (1,055,485) |
| Net increase (decrease) in net assets from Class B share transactions | (294,571) | (711,534) |
| **Increase (decrease) in net assets** | (20,634,861) | (9,474,865) |
| Net assets at beginning of period | 89,696,230 | 99,171,095 |
| Net assets at end of period (including undistributed net investment income of $1,956,284 and $2,332,582, respectively) | **$ 69,061,369** | **$ 89,696,230** |

| Other Information | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 7,344,193 | 8,328,640 |
| Shares sold | 659,618 | 994,555 |
| Shares issued to shareholders in reinvestment of distributions | 199,403 | 189,659 |
| Shares redeemed | (2,416,744) | (2,168,661) |
| Net increase (decrease) in Class A shares | (1,557,723) | (984,447) |
| Shares outstanding at end of period | **5,786,470** | **7,344,193** |
| **Class B** | | |
| Shares outstanding at beginning of period | 256,223 | 317,145 |
| Shares sold | 21,476 | 23,866 |
| Shares issued to shareholders in reinvestment of distributions | 5,944 | 5,742 |
| Shares redeemed | (52,543) | (90,530) |
| Net increase (decrease) in Class B shares | (25,123) | (60,922) |
| Shares outstanding at end of period | **231,100** | **256,223** |

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

# Financial Highlights

| Class A | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | | Years Ended December 31, | | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$11.80** | **$11.47** | **$12.69** | **$13.12** | **$12.98** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income[a] | .27 | .29 | .24 | .34 | .48 |
| Net realized and unrealized gain (loss) | (.26) | .31 | (.59) | .03 | .45 |
| **Total from investment operations** | .01 | .60 | (.35) | .37 | .93 |
| *Less distributions from:* | | | | | |
| Net investment income | (.33) | (.27) | (.37) | (.52) | (.57) |
| Net realized gains | — | — | (.50) | (.28) | (.22) |
| **Total distributions** | (.33) | (.27) | (.87) | (.80) | (.79) |
| **Net asset value, end of period** | **$11.48** | **$11.80** | **$11.47** | **$12.69** | **$13.12** |
| Total Return (%) | .06[b] | 5.29[b] | (3.04)[b] | 2.93[b] | 7.46 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 66 | 87 | 96 | 121 | 146 |
| Ratio of expenses before expense reductions (%) | .74 | .72 | .71 | .68 | .67 |
| Ratio of expenses after expense reductions (%) | .68 | .70 | .67 | .66 | .67 |
| Ratio of net investment income (%) | 2.33 | 2.49 | 2.05 | 2.65 | 3.68 |
| Portfolio turnover rate (%) | 376 | 393 | 794 | 796 | 673 |

a Based on average shares outstanding during the period.

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

| Class B | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | | Years Ended December 31, | | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$11.79** | **$11.46** | **$12.67** | **$13.10** | **$12.95** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income[a] | .23 | .25 | .20 | .29 | .43 |
| Net realized and unrealized gain (loss) | (.27) | .31 | (.59) | .03 | .46 |
| **Total from investment operations** | (.04) | .56 | (.39) | .32 | .89 |
| *Less distributions from:* | | | | | |
| Net investment income | (.29) | (.23) | (.32) | (.47) | (.52) |
| Net realized gains | — | — | (.50) | (.28) | (.22) |
| **Total distributions** | (.29) | (.23) | (.82) | (.75) | (.74) |
| **Net asset value, end of period** | **$11.46** | **$11.79** | **$11.46** | **$12.67** | **$13.10** |
| Total Return (%) | (.36)[b] | 4.95[b] | (3.25)[b] | 2.48[b] | 7.15 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 3 | 3 | 4 | 5 | 7 |
| Ratio of expenses before expense reductions (%) | 1.09 | 1.06 | 1.06 | 1.03 | 1.01 |
| Ratio of expenses after expense reductions (%) | 1.03 | 1.03 | .99 | 1.01 | 1.01 |
| Ratio of net investment income (%) | 1.99 | 2.16 | 1.71 | 2.29 | 3.34 |
| Portfolio turnover rate (%) | 376 | 393 | 794 | 796 | 673 |

a Based on average shares outstanding during the period.

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Government & Agency Securities VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

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

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

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

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

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

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities are generally categorized as Level 2.

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

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

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid or asked price are available. Exchange-traded options are categorized as Level 1. Over-the-counter written or purchased options are valued at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options are generally categorized as Level 2.

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

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

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments. The Fund had no securities on loan at December 31, 2015.

**When-Issued/Delayed Delivery Securities.** The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment. Additionally, the Fund or the counterparty may be required to post securities and/or cash collateral in accordance with the terms of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

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

At December 31, 2015, the Fund had net tax basis capital loss carryforwards of approximately $679,000 of short-term losses, which may be applied against realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

| | |
|---|---|
| Undistributed ordinary income* | $ 1,869,015 |
| Capital loss carryforward | $ (679,000) |
| Unrealized appreciation (depreciation) on investments | $ 2,306,121 |

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

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from ordinary income* | $ 2,355,393 | $ 2,245,215 |

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

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

## B. Derivative Instruments

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

The value of a swap is adjusted daily, and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the swap, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. Upon entering into a centrally cleared swap, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

Interest rate swaps are agreements in which the Fund agrees to pay to the counterparty a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. The payment obligations are based on the notional amount of the swap. For the year ended December 31, 2015, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

For the year ended December 31, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $43,200,000 to $84,292,000.

**Options.** An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices and interest rate options, will require cash settlement by the Fund if exercised. For the year ended December 31, 2015, the Fund entered into options on interest rate swap contracts in order to hedge against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. For exchange-traded contracts, the counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts, including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

There were no open purchased option contracts as of December 31, 2015. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $1,327,000, and purchased option contracts had a total value generally indicative of a range from $0 to approximately $263,000.

**Futures Contracts.** A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2015, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2015, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,047,000 to $21,425,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $17,528,000.

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

| Asset Derivatives | Swap Contracts |
|---|---|
| Interest Rate Contracts (a) | $ 15,080 |

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

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

| Liability Derivatives | Swap Contracts | Futures Contracts | Total |
|---|---|---|---|
| Interest Rate Contracts (a) | $ (758,471) | $ (91,980) | $ (850,451) |

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

| Realized Gain (Loss) | Purchased Options | Written Options | Swap Contracts | Futures Contracts | Total |
|---|---|---|---|---|---|
| Interest Rate Contracts (a) | $ (412,606) | $ 272,505 | $ (478,412) | $ (214,263) | $ (832,776) |

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

(a) Net realized gain (loss) on investments (includes purchased options), written options, swap contracts and futures, respectively

| Change in Net Unrealized Appreciation (Depreciation) | Purchased Options | Written Options | Swap Contracts | Futures Contracts | Total |
|---|---|---|---|---|---|
| Interest Rate Contracts (a) | $ 392,067 | $ 403,508 | $ (734,363) | $ (102,045) | $ (40,833) |

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

(a) Change in net unrealized appreciation (depreciation) from investments (includes purchased options), written options, swap contracts and futures, respectively

## C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $342,926,066 and $367,368,170, respectively. Purchases and sales of U.S. Treasury securities aggregated $13,736,080 and $18,242,127, respectively.

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

| | Contract Amount | Premiums |
|---|---|---|
| Outstanding, beginning of period | 39,900,000 | $ 887,339 |
| Options written | 4,800,000 | 91,200 |
| Options closed | (27,300,000) | (753,780) |
| Options exercised | (6,500,000) | (87,064) |
| Options expired | (8,500,000) | (109,375) |
| Outstanding, end of period | **2,400,000** | **$ 28,320** |

## D. Related Parties

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

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

| | |
|---|---|
| First $250 million | .450% |
| Next $750 million | .430% |
| Next $1.5 billion | .410% |
| Next $2.5 billion | .400% |
| Next $2.5 billion | .380% |
| Next $2.5 billion | .360% |
| Next $2.5 billion | .340% |
| Over $12.5 billion | .320% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.45% of the Fund's average daily net assets.

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

| | |
|---|---|
| Class A | .71% |
| Class B | 1.06% |

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive all or a portion of its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

| | |
|---|---|
| Class A | .58% |
| Class B | .93% |

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

| | |
|---|---|
| Class A | $ 48,115 |
| Class B | 1,802 |
| | **$ 49,917** |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $82,686, of which $5,997 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

| | Total Aggregated | Unpaid at December 31, 2015 |
|---|---|---|
| Class A | $ 289 | $ 48 |
| Class B | 71 | 12 |
| | **$ 360** | **$ 60** |

**Distribution Service Agreement**. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee aggregated $6,962, of which $564 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,440, of which $5,935 is unpaid.

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

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

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $19.

## E. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 33% and 21%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

## F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Government & Agency Securities VIP:**

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Government & Agency Securities VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

# Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,003.50 | $1,002.60 |
| Expenses Paid per $1,000* | $ 3.28 | $ 5.05 |

| **Hypothetical 5% Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,021.93 | $1,020.16 |
| Expenses Paid per $1,000* | $ 3.31 | $ 5.09 |

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series II — Deutsche Government & Agency Securities VIP | .65% | 1.00% |

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

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

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

# Tax Information

**(Unaudited)**

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Government & Agency Securities VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

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

addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

# Notes

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Deutsche
Asset Management

VS2GAS-2 (R-025831-5 2/16)

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series II

## Deutsche High Income VIP

# Contents



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

Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

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

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

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

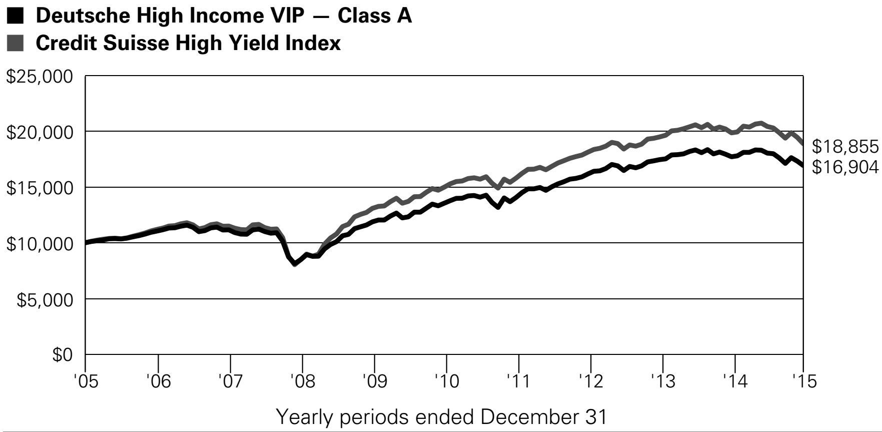
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 0.75% and 1.13% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment in Deutsche High Income VIP




The Credit Suisse High Yield Index tracks the performance of the global high-yield debt market.

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

## Comparative Results

| Deutsche High Income VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $9,556 | $10,464 | $12,487 | $16,904 |
| | Average annual total return | –4.44% | 1.52% | 4.54% | 5.39% |
| Credit Suisse High Yield Index | Growth of $10,000 | $9,507 | $10,413 | $12,599 | $18,855 |
| | Average annual total return | –4.93% | 1.36% | 4.73% | 6.55% |

| Deutsche High Income VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class B** | Growth of $10,000 | $9,505 | $10,337 | $12,280 | $16,367 |
| | Average annual total return | –4.95% | 1.11% | 4.19% | 5.05% |
| Credit Suisse High Yield Index | Growth of $10,000 | $9,507 | $10,413 | $12,599 | $18,855 |
| | Average annual total return | –4.93% | 1.36% | 4.73% | 6.55% |

The growth of $10,000 is cumulative.

The Fund returned –4.44% during 2015 (Class A shares, unadjusted for contract charges), which compares with a return of –4.93% for the Credit Suisse High Yield Index.[1]

The sharp drop in commodity prices, which led to a weaker earnings outlook for the many energy and mining issuers with below-investment-grade ratings, was the primary factor weighing on the high-yield market during the past year. Although many segments of the market held up well on a relative basis — including domestic-focused issuers and the restaurant, gaming and real estate industries — the weakness in the resources space hurt the return of the asset class as a whole. High-yield bonds were also pressured by a general decrease in investors' appetite for risk, as well as substantial outflows from high-yield mutual funds and exchange-traded funds.

While our primary emphasis is on bottom-up credit research and individual security selection, the Fund's broader allocations can also have an impact on performance. During the past year, for instance, the Fund was helped by having an underweight position in the underperforming metals and mining industry.[2] Our positioning within energy was an additional plus, as we reduced the Fund's weighting in the sector and moved up in quality early in the period. This shift enabled us to dampen the impact of the sector's continued underperformance through the remainder of the year. Among individual positions, Tenet Healthcare Corp. and Fage Dairy Industry were the leading contributors to performance, while Chesapeake Energy Corp. and Sprint Corp. detracted.

We hold a neutral view regarding the U.S. high-yield market. Valuations are reasonable, but we also see the potential for additional near-term volatility stemming from oil price swings, geopolitical developments and shifting sentiment regarding the timing of a U.S. Federal Reserve Board (the Fed) rate increase. With this said, we believe the risk of a recession remains low and the outlook for defaults is positive outside of the commodity-related sectors.

We retained a favorable view on issues rated single B, which we saw as offering the best risk-adjusted return potential in the market. We were selective with respect to CCC-rated debt, with a focus on bonds that we believed offer a favorable risk/return profile, as well as in BB-rated issues, where we favored bonds we saw as having the highest return potential relative to their sectors and ratings. The Fund was underweight in the BB tier overall, as it has a higher sensitivity to government bond yields. With yields already so low, we did not see a meaningful benefit from emphasizing securities with an above-average correlation to interest rates. In addition, the popularity of higher-quality issues has reduced the degree of value present in the BB space.

More broadly speaking, we continue to manage the portfolio from a long-term perspective rather than taking excessive risks in an effort to boost short-term returns. Instead, we strive to generate outperformance over a multiyear period by achieving an appropriate balance of risk and return.

Gary Russell, CFA
Portfolio Manager

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

Gary Russell, CFA
Thomas R. Bouchard
Portfolio Managers

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

1 The Credit Suisse High Yield Index tracks the performance of the global high-yield debt market. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

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

# Portfolio Summary **(Unaudited)**

| **Asset Allocation** (As a % of Investment Portfolio excluding Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Corporate Bonds | 92% | 87% |
| Cash Equivalents | 4% | 7% |
| Convertible Bond | 1% | 2% |
| Government & Agency Obligations | 1% | 1% |
| Preferred Security | 1% | 1% |
| Loan Participations and Assignments | 1% | 1% |
| Preferred Stock | 0% | 1% |
| Common Stocks | 0% | 0% |
| Warrant | 0% | 0% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Consumer Discretionary | 29% | 20% |
| Telecommunication Services | 14% | 20% |
| Industrials | 12% | 12% |
| Energy | 10% | 10% |
| Materials | 9% | 9% |
| Health Care | 9% | 8% |
| Information Technology | 5% | 8% |
| Financials | 5% | 5% |
| Consumer Staples | 4% | 5% |
| Utilities | 3% | 3% |
| | 100% | 100% |

| **Quality** (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| AAA | 1% | 1% |
| BBB | 4% | 2% |
| BB | 54% | 43% |
| B | 37% | 41% |
| CCC | 3% | 12% |
| Not Rated | 1% | 1% |
| | 100% | 100% |

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc. ("Fitch") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's, Fitch and S&P represent their opinions as to the quality of the securities they rate. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Portfolio holdings and characteristics are subject to change.

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

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Corporate Bonds 90.4%** | | |
| **Consumer Discretionary 26.8%** | | |
| 1011778 BC Unlimited Liability Co., 144A, 4.625%, 1/15/2022 | 125,000 | 125,313 |
| Ally Financial, Inc.: | | |
| 3.25%, 11/5/2018 | 620,000 | 608,375 |
| 4.125%, 3/30/2020 (a) | 285,000 | 283,575 |
| Altice Financing SA: | | |
| 144A, 6.5%, 1/15/2022 | 200,000 | 198,000 |
| 144A, 7.875%, 12/15/2019 | 235,000 | 244,400 |
| Altice Finco SA, 144A, 9.875%, 12/15/2020 | 235,000 | 250,275 |
| AMC Entertainment, Inc., 5.875%, 2/15/2022 | 220,000 | 223,300 |
| AmeriGas Finance LLC: | | |
| 6.75%, 5/20/2020 | 460,000 | 447,350 |
| 7.0%, 5/20/2022 | 350,000 | 338,625 |
| APX Group, Inc., 6.375%, 12/1/2019 | 205,000 | 196,288 |
| Asbury Automotive Group, Inc.: | | |
| 6.0%, 12/15/2024 | 495,000 | 511,087 |
| 144A, 6.0%, 12/15/2024 | 390,000 | 402,675 |
| Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022 | 330,000 | 344,025 |
| Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021 | 360,000 | 306,000 |
| Avis Budget Car Rental LLC: | | |
| 144A, 5.25%, 3/15/2025 | 480,000 | 454,800 |
| 5.5%, 4/1/2023 (a) | 660,000 | 661,650 |
| Beacon Roofing Supply, Inc., 144A, 6.375%, 10/1/2023 (a) | 160,000 | 163,000 |
| Block Communications, Inc., 144A, 7.25%, 2/1/2020 | 375,000 | 373,125 |
| Boyd Gaming Corp., 6.875%, 5/15/2023 | 140,000 | 143,850 |
| Caleres, Inc., 6.25%, 8/15/2023 | 110,000 | 108,350 |
| CCO Holdings LLC: | | |
| 144A, 5.125%, 5/1/2023 | 385,000 | 385,000 |
| 144A, 5.375%, 5/1/2025 (a) | 285,000 | 283,575 |
| 144A, 5.875%, 5/1/2027 | 480,000 | 477,600 |
| 7.0%, 1/15/2019 | 51,000 | 52,084 |
| CCOH Safari LLC, 144A, 5.75%, 2/15/2026 | 545,000 | 546,362 |
| Cequel Communications Holdings I LLC: | | |
| 144A, 5.125%, 12/15/2021 | 602,000 | 541,800 |
| 144A, 6.375%, 9/15/2020 | 940,000 | 918,850 |
| Churchill Downs, Inc., 144A, 5.375%, 12/15/2021 | 134,529 | 134,865 |
| Clear Channel Worldwide Holdings, Inc.: | | |
| Series A, 6.5%, 11/15/2022 | 250,000 | 241,250 |
| Series B, 6.5%, 11/15/2022 | 365,000 | 355,875 |
| Series A, 7.625%, 3/15/2020 | 110,000 | 100,100 |
| Series B, 7.625%, 3/15/2020 (a) | 1,115,000 | 1,029,981 |
| Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020 | 20,000 | 19,950 |
| CSC Holdings LLC, 5.25%, 6/1/2024 (a) | 585,000 | 513,337 |
| D.R. Horton, Inc., 4.0%, 2/15/2020 | 100,000 | 100,570 |
| Dana Holding Corp., 5.5%, 12/15/2024 | 180,000 | 174,600 |
| DISH DBS Corp.: | | |
| 4.25%, 4/1/2018 | 270,000 | 270,675 |
| 5.0%, 3/15/2023 | 1,225,000 | 1,062,687 |
| 6.75%, 6/1/2021 | 50,000 | 50,375 |
| 7.875%, 9/1/2019 | 270,000 | 293,625 |
| Dollar Tree, Inc.: | | |
| 144A, 5.25%, 3/1/2020 | 420,000 | 433,650 |
| 144A, 5.75%, 3/1/2023 (a) | 350,000 | 362,250 |
| Fiat Chrysler Automobiles NV: | | |
| 4.5%, 4/15/2020 | 345,000 | 349,312 |
| 5.25%, 4/15/2023 | 445,000 | 437,212 |
| Global Partners LP, 7.0%, 6/15/2023 | 235,000 | 192,700 |
| Goodyear Tire & Rubber Co., 5.125%, 11/15/2023 | 165,000 | 169,125 |
| Group 1 Automotive, Inc.: | | |
| 5.0%, 6/1/2022 (a) | 455,000 | 450,450 |
| 144A, 5.25%, 12/15/2023 | 545,000 | 539,550 |
| HD Supply, Inc.: | | |
| 144A, 5.25%, 12/15/2021 | 275,000 | 280,500 |
| 7.5%, 7/15/2020 | 95,000 | 98,800 |
| 11.5%, 7/15/2020 | 345,000 | 382,087 |
| Hertz Corp., 6.75%, 4/15/2019 | 305,000 | 311,557 |
| Hot Topic, Inc., 144A, 9.25%, 6/15/2021 | 140,000 | 123,900 |
| Lennar Corp., 4.75%, 11/15/2022 | 400,000 | 396,600 |
| Live Nation Entertainment, Inc.: | | |
| 144A, 5.375%, 6/15/2022 | 50,000 | 49,250 |
| 144A, 7.0%, 9/1/2020 | 345,000 | 357,075 |
| MDC Partners, Inc., 144A, 6.75%, 4/1/2020 | 370,000 | 381,100 |
| Mediacom Broadband LLC: | | |
| 5.5%, 4/15/2021 | 50,000 | 48,125 |
| 6.375%, 4/1/2023 | 425,000 | 415,437 |
| Mediacom LLC, 7.25%, 2/15/2022 | 110,000 | 111,100 |
| MGM Resorts International: | | |
| 6.0%, 3/15/2023 (a) | 280,000 | 277,900 |
| 6.75%, 10/1/2020 (a) | 526,000 | 540,465 |
| 8.625%, 2/1/2019 | 510,000 | 564,983 |
| NCL Corp. Ltd., 144A, 4.625%, 11/15/2020 | 235,000 | 230,117 |
| Neptune Finco Corp.: | | |
| 144A, 10.125%, 1/15/2023 | 200,000 | 208,500 |
| 144A, 10.875%, 10/15/2025 | 275,000 | 288,063 |
| Nielsen Finance LLC, 144A, 5.0%, 4/15/2022 | 155,000 | 153,063 |
| Numericable-SFR, 144A, 4.875%, 5/15/2019 | 520,000 | 515,450 |
| Penske Automotive Group, Inc., 5.375%, 12/1/2024 | 660,000 | 666,600 |
| Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018 | 315,000 | 323,269 |
| Pinnacle Entertainment, Inc., 6.375%, 8/1/2021 | 160,000 | 168,200 |
| Quebecor Media, Inc., 5.75%, 1/15/2023 | 205,000 | 206,538 |
| Sabre GLBL, Inc.: | | |
| 144A, 5.25%, 11/15/2023 | 55,000 | 54,381 |
| 144A, 5.375%, 4/15/2023 (a) | 25,000 | 24,875 |
| Sally Holdings LLC, 5.625%, 12/1/2025 | 395,000 | 398,950 |
| Schaeffler Finance BV, 144A, 4.75%, 5/15/2023 | 365,000 | 357,700 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021 (a) | 125,000 | 124,688 |
| Serta Simmons Bedding LLC, 144A, 8.125%, 10/1/2020 | 230,000 | 240,350 |
| Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (a) | 195,000 | 204,263 |
| Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025 | 120,000 | 123,000 |
| Springs Industries, Inc., 6.25%, 6/1/2021 | 295,000 | 292,050 |
| Starz LLC, 5.0%, 9/15/2019 | 175,000 | 177,188 |
| Suburban Propane Partners LP, 5.75%, 3/1/2025 | 145,000 | 117,450 |
| Toll Brothers Finance Corp., 4.875%, 11/15/2025 | 270,000 | 265,275 |
| TRI Pointe Holdings, Inc., 4.375%, 6/15/2019 | 145,000 | 141,738 |
| UCI International LLC, 8.625%, 2/15/2019 | 310,000 | 106,950 |
| Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023 | 945,000 | 942,637 |
| Viking Cruises Ltd.: | | |
| 144A, 6.25%, 5/15/2025 | 240,000 | 196,800 |
| 144A, 8.5%, 10/15/2022 | 205,000 | 194,238 |
| | | **27,932,685** |
| **Consumer Staples 3.8%** | | |
| Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (a) | 160,000 | 163,000 |
| Chiquita Brands International, Inc., 7.875%, 2/1/2021 | 90,000 | 94,275 |
| Constellation Brands, Inc., 4.75%, 12/1/2025 | 65,000 | 66,219 |
| Cott Beverages, Inc.: | | |
| 5.375%, 7/1/2022 | 445,000 | 436,100 |
| 6.75%, 1/1/2020 | 180,000 | 185,850 |
| FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020 | 810,000 | 842,400 |
| JBS Investments GmbH: | | |
| 144A, 7.25%, 4/3/2024 | 265,000 | 240,487 |
| 144A, 7.75%, 10/28/2020 | 405,000 | 388,800 |
| JBS U.S.A. LLC: | | |
| 144A, 5.75%, 6/15/2025 | 190,000 | 165,300 |
| 144A, 7.25%, 6/1/2021 | 485,000 | 481,362 |
| 144A, 8.25%, 2/1/2020 (a) | 160,000 | 160,000 |
| Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025 (a) | 200,000 | 194,500 |
| Post Holdings, Inc., 144A, 6.75%, 12/1/2021 (a) | 110,000 | 112,200 |
| Smithfield Foods, Inc., 6.625%, 8/15/2022 | 9,000 | 9,338 |
| The WhiteWave Foods Co., 5.375%, 10/1/2022 | 370,000 | 391,275 |
| | | **3,931,106** |
| **Energy 9.4%** | | |
| Antero Resources Corp.: | | |
| 5.125%, 12/1/2022 | 330,000 | 250,800 |
| 5.375%, 11/1/2021 | 250,000 | 200,000 |
| 144A, 5.625%, 6/1/2023 | 205,000 | 159,900 |
| Baytex Energy Corp.: | | |
| 144A, 5.125%, 6/1/2021 | 70,000 | 47,075 |
| 144A, 5.625%, 6/1/2024 | 95,000 | 63,650 |
| Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022 | 205,000 | 141,450 |
| California Resources Corp.: | | |
| 5.0%, 1/15/2020 | 17,000 | 6,056 |
| 6.0%, 11/15/2024 (a) | 32,000 | 9,760 |
| 144A, 8.0%, 12/15/2022 (a) | 124,000 | 65,255 |
| Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023 | 235,000 | 190,350 |
| Chesapeake Energy Corp., 5.75%, 3/15/2023 (a) | 350,000 | 101,500 |
| Concho Resources, Inc., 5.5%, 4/1/2023 (a) | 530,000 | 490,250 |
| Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023 | 95,000 | 66,263 |
| Endeavor Energy Resources LP: | | |
| 144A, 7.0%, 8/15/2021 | 275,000 | 244,750 |
| 144A, 8.125%, 9/15/2023 | 285,000 | 256,500 |
| EP Energy LLC, 6.375%, 6/15/2023 (a) | 210,000 | 105,000 |
| Gulfport Energy Corp., 6.625%, 5/1/2023 | 95,000 | 79,325 |
| Hilcorp Energy I LP: | | |
| 144A, 5.0%, 12/1/2024 | 195,000 | 161,850 |
| 144A, 5.75%, 10/1/2025 | 335,000 | 291,450 |
| Holly Energy Partners LP, 6.5%, 3/1/2020 | 105,000 | 103,950 |
| Laredo Petroleum, Inc., 6.25%, 3/15/2023 | 295,000 | 256,650 |
| MEG Energy Corp.: | | |
| 144A, 6.5%, 3/15/2021 | 235,000 | 164,500 |
| 144A, 7.0%, 3/31/2024 | 320,000 | 227,200 |
| Memorial Resource Development Corp., 5.875%, 7/1/2022 | 195,000 | 170,625 |
| Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023 | 290,000 | 304,500 |
| Newfield Exploration Co., 5.375%, 1/1/2026 | 155,000 | 128,262 |
| Northern Oil & Gas, Inc., 8.0%, 6/1/2020 | 440,000 | 292,600 |
| Oasis Petroleum, Inc.: | | |
| 6.875%, 3/15/2022 | 610,000 | 390,400 |
| 6.875%, 1/15/2023 | 210,000 | 130,200 |
| Parsley Energy LLC, 144A, 7.5%, 2/15/2022 | 35,000 | 33,425 |
| Range Resources Corp., 144A, 4.875%, 5/15/2025 (a) | 390,000 | 296,400 |
| Regency Energy Partners LP: | | |
| 5.0%, 10/1/2022 | 125,000 | 110,735 |
| 5.875%, 3/1/2022 | 25,000 | 23,564 |
| Rice Energy, Inc., 144A, 7.25%, 5/1/2023 | 50,000 | 36,500 |
| RSP Permian, Inc.: | | |
| 144A, 6.625%, 10/1/2022 | 95,000 | 87,400 |
| 6.625%, 10/1/2022 | 460,000 | 423,200 |
| Sabine Pass Liquefaction LLC: | | |
| 5.625%, 2/1/2021 | 690,000 | 634,800 |
| 5.625%, 4/15/2023 | 155,000 | 136,012 |
| 144A, 5.625%, 3/1/2025 | 255,000 | 215,794 |
| 5.75%, 5/15/2024 | 675,000 | 587,250 |
| Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023 | 70,000 | 58,800 |
| Sunoco LP: | | |
| 144A, 5.5%, 8/1/2020 | 130,000 | 123,175 |
| 144A, 6.375%, 4/1/2023 | 140,000 | 131,600 |
| Talos Production LLC, 144A, 9.75%, 2/15/2018 | 205,000 | 88,150 |
| Targa Resources Partners LP, 4.125%, 11/15/2019 | 70,000 | 58,275 |
| Welltec AS, 144A, 8.0%, 2/1/2019 | 400,000 | 375,000 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Whiting Petroleum Corp.: | | |
| 5.75%, 3/15/2021 (a) | 80,000 | 58,320 |
| 6.25%, 4/1/2023 (a) | 910,000 | 655,200 |
| Williams Partners LP, 6.125%, 7/15/2022 | 325,000 | 307,440 |
| WPX Energy, Inc., 8.25%, 8/1/2023 | 245,000 | 196,000 |
| | | **9,737,111** |
| **Financials 5.0%** | | |
| AerCap Ireland Capital Ltd., 4.625%, 10/30/2020 | 375,000 | 383,906 |
| Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017 | 255,000 | 257,550 |
| CNO Financial Group, Inc.: | | |
| 4.5%, 5/30/2020 | 70,000 | 71,400 |
| 5.25%, 5/30/2025 | 140,000 | 142,450 |
| Credit Agricole SA, 144A, 7.875%, 1/29/2049 (a) | 330,000 | 337,425 |
| Denali Borrower LLC, 144A, 5.625%, 10/15/2020 | 285,000 | 298,538 |
| E*TRADE Financial Corp.: | | |
| 4.625%, 9/15/2023 | 200,000 | 203,250 |
| 5.375%, 11/15/2022 | 170,000 | 178,075 |
| Equinix, Inc.: | | |
| (REIT), 5.375%, 1/1/2022 | 225,000 | 230,625 |
| (REIT), 5.375%, 4/1/2023 | 725,000 | 739,500 |
| (REIT), 5.75%, 1/1/2025 | 170,000 | 173,825 |
| (REIT), 5.875%, 1/15/2026 | 135,000 | 139,050 |
| International Lease Finance Corp.: | | |
| 3.875%, 4/15/2018 | 385,000 | 387,887 |
| 6.25%, 5/15/2019 | 320,000 | 342,800 |
| MPT Operating Partnership LP: | | |
| (REIT), 6.375%, 2/15/2022 | 290,000 | 295,800 |
| (REIT), 6.875%, 5/1/2021 | 295,000 | 306,063 |
| Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020 | 265,000 | 272,950 |
| Societe Generale SA, 144A, 7.875%, 12/29/2049 | 460,000 | 458,298 |
| | | **5,219,392** |
| **Health Care 8.0%** | | |
| Alere, Inc., 144A, 6.375%, 7/1/2023 | 185,000 | 172,975 |
| Community Health Systems, Inc.: | | |
| 5.125%, 8/1/2021 | 55,000 | 54,725 |
| 6.875%, 2/1/2022 (a) | 220,000 | 208,725 |
| 7.125%, 7/15/2020 (a) | 1,735,000 | 1,728,494 |
| Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023 | 95,000 | 82,413 |
| Endo Finance LLC: | | |
| 144A, 5.75%, 1/15/2022 (a) | 220,000 | 213,400 |
| 144A, 5.875%, 1/15/2023 | 215,000 | 210,700 |
| Endo Ltd.: | | |
| 144A, 6.0%, 7/15/2023 | 195,000 | 194,025 |
| 144A, 6.0%, 2/1/2025 | 150,000 | 147,750 |
| Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019 | 220,000 | 237,050 |
| HCA, Inc., 5.875%, 2/15/2026 | 530,000 | 531,987 |
| Hologic, Inc., 144A, 5.25%, 7/15/2022 | 90,000 | 91,800 |
| IMS Health, Inc., 144A, 6.0%, 11/1/2020 | 250,000 | 257,500 |
| LifePoint Health, Inc.: | | |
| 5.5%, 12/1/2021 | 275,000 | 279,813 |
| 5.875%, 12/1/2023 | 230,000 | 233,450 |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Mallinckrodt International Finance SA: | | |
| 144A, 4.875%, 4/15/2020 | 160,000 | 154,000 |
| 144A, 5.625%, 10/15/2023 | 270,000 | 256,500 |
| Tenet Healthcare Corp.: | | |
| 144A, 4.012%**, 6/15/2020 (a) | 180,000 | 175,500 |
| 6.75%, 6/15/2023 (a) | 380,000 | 352,450 |
| Valeant Pharmaceuticals International, Inc.: | | |
| 144A, 5.375%, 3/15/2020 | 365,000 | 343,100 |
| 144A, 5.875%, 5/15/2023 | 335,000 | 298,987 |
| 144A, 6.125%, 4/15/2025 (a) | 955,000 | 852,337 |
| 144A, 6.375%, 10/15/2020 | 245,000 | 236,425 |
| 144A, 7.5%, 7/15/2021 | 1,050,000 | 1,047,375 |
| | | **8,361,481** |
| **Industrials 11.0%** | | |
| ADT Corp.: | | |
| 3.5%, 7/15/2022 (a) | 150,000 | 134,250 |
| 5.25%, 3/15/2020 (a) | 300,000 | 315,000 |
| 6.25%, 10/15/2021 (a) | 395,000 | 412,597 |
| Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021 | 535,000 | 556,400 |
| Aguila 3 SA, 144A, 7.875%, 1/31/2018 | 480,000 | 481,200 |
| Allegion PLC, 5.875%, 9/15/2023 | 85,000 | 86,700 |
| Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020 | 245,000 | 217,438 |
| Belden, Inc., 144A, 5.5%, 9/1/2022 | 355,000 | 341,687 |
| Bombardier, Inc.: | | |
| 144A, 5.75%, 3/15/2022 | 315,000 | 219,713 |
| 144A, 6.0%, 10/15/2022 | 265,000 | 185,765 |
| 144A, 7.5%, 3/15/2025 | 105,000 | 73,500 |
| Casella Waste Systems, Inc., 7.75%, 2/15/2019 | 220,000 | 218,350 |
| Covanta Holding Corp., 5.875%, 3/1/2024 | 220,000 | 199,100 |
| CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019 | 275,000 | 286,687 |
| DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021 (a) | 160,000 | 134,400 |
| EnerSys, 144A, 5.0%, 4/30/2023 | 45,000 | 44,775 |
| Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019 (a) | 155,000 | 141,825 |
| FTI Consulting, Inc., 6.0%, 11/15/2022 | 205,000 | 214,738 |
| Garda World Security Corp., 144A, 7.25%, 11/15/2021 | 290,000 | 249,400 |
| Gates Global LLC, 144A, 6.0%, 7/15/2022 (a) | 190,000 | 136,800 |
| Huntington Ingalls Industries, Inc.: | | |
| 144A, 5.0%, 12/15/2021 | 395,000 | 402,406 |
| 144A, 5.0%, 11/15/2025 | 165,000 | 167,475 |
| Masonite International Corp., 144A, 5.625%, 3/15/2023 | 220,000 | 227,150 |
| Meritor, Inc.: | | |
| 6.25%, 2/15/2024 (a) | 215,000 | 183,825 |
| 6.75%, 6/15/2021 | 300,000 | 276,000 |
| Moog, Inc., 144A, 5.25%, 12/1/2022 | 165,000 | 166,650 |
| Nortek, Inc., 8.5%, 4/15/2021 | 440,000 | 456,544 |
| OPE KAG Finance Sub, Inc., 144A, 7.875%, 7/31/2023 | 220,000 | 218,625 |
| Oshkosh Corp.: | | |
| 5.375%, 3/1/2022 | 165,000 | 165,000 |
| 5.375%, 3/1/2025 | 25,000 | 24,500 |
| Ply Gem Industries, Inc., 6.5% , 2/1/2022 (a) | 415,000 | 377,625 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| SBA Communications Corp., 5.625%, 10/1/2019 | 200,000 | 208,500 |
| Spirit AeroSystems, Inc., 5.25%, 3/15/2022 | 285,000 | 290,877 |
| Summit Materials LLC, 144A, 6.125%, 7/15/2023 | 275,000 | 270,875 |
| Titan International, Inc., 6.875%, 10/1/2020 (a) | 170,000 | 126,650 |
| Triumph Group, Inc., 5.25%, 6/1/2022 | 130,000 | 104,650 |
| United Rentals North America, Inc.: | | |
| 4.625%, 7/15/2023 | 160,000 | 159,600 |
| 6.125%, 6/15/2023 (a) | 25,000 | 25,563 |
| 7.375%, 5/15/2020 | 595,000 | 627,725 |
| 7.625%, 4/15/2022 | 595,000 | 635,876 |
| USG Corp., 144A, 5.5%, 3/1/2025 | 10,000 | 10,150 |
| Wise Metals Group LLC, 144A, 8.75%, 12/15/2018 | 250,000 | 189,375 |
| XPO Logistics, Inc., 144A, 6.5%, 6/15/2022 (a) | 230,000 | 212,750 |
| ZF North America Capital, Inc.: | | |
| 144A, 4.0%, 4/29/2020 (a) | 358,000 | 360,953 |
| 144A, 4.5%, 4/29/2022 (a) | 510,000 | 498,525 |
| 144A, 4.75%, 4/29/2025 | 410,000 | 390,525 |
| | | **11,428,719** |
| **Information Technology 4.7%** | | |
| ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020 | 105,000 | 108,150 |
| Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021 | 805,000 | 843,237 |
| Audatex North America, Inc.: | | |
| 144A, 6.0%, 6/15/2021 | 315,000 | 317,362 |
| 144A, 6.125%, 11/1/2023 | 115,000 | 115,719 |
| BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021 | 215,000 | 142,975 |
| Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK) (a) | 320,000 | 198,400 |
| Cardtronics, Inc., 5.125%, 8/1/2022 | 145,000 | 139,925 |
| CDW LLC: | | |
| 5.5%, 12/1/2024 (a) | 330,000 | 345,675 |
| 6.0%, 8/15/2022 (a) | 370,000 | 390,350 |
| EarthLink Holdings Corp., 7.375%, 6/1/2020 | 245,000 | 249,288 |
| Entegris, Inc., 144A, 6.0%, 4/1/2022 | 160,000 | 162,000 |
| First Data Corp., 144A, 7.0%, 12/1/2023 | 275,000 | 275,000 |
| Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022 | 275,000 | 288,063 |
| Infor U.S., Inc., 144A, 6.5%, 5/15/2022 (a) | 215,000 | 181,675 |
| Informatica LLC, 144A, 7.125%, 7/15/2023 (a) | 95,000 | 85,975 |
| Micron Technology, Inc., 144A, 5.25%, 8/1/2023 | 250,000 | 224,375 |
| NCR Corp.: | | |
| 5.875%, 12/15/2021 | 55,000 | 54,175 |
| 6.375%, 12/15/2023 | 135,000 | 132,975 |
| NXP BV, 144A, 3.75%, 6/1/2018 | 250,000 | 251,250 |
| Open Text Corp., 144A, 5.625%, 1/15/2023 | 200,000 | 198,000 |
| Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023 | 155,000 | 143,375 |
| Sanmina Corp., 144A, 4.375%, 6/1/2019 | 25,000 | 25,125 |
| | | **4,873,069** |
| **Materials 5.7%** | | |
| ArcelorMittal, 5.125%, 6/1/2020 | 60,000 | 49,800 |
| Ardagh Packaging Finance PLC, 144A, 3.512%**, 12/15/2019 | 310,000 | 303,025 |
| Ball Corp.: | | |
| 4.375%, 12/15/2020 | 110,000 | 111,719 |
| 5.25%, 7/1/2025 | 225,000 | 230,062 |
| Berry Plastics Corp., 5.5%, 5/15/2022 | 435,000 | 433,369 |
| Cascades, Inc., 144A, 5.5%, 7/15/2022 | 145,000 | 140,650 |
| Chemours Co.: | | |
| 144A, 6.625%, 5/15/2023 | 165,000 | 115,500 |
| 144A, 7.0%, 5/15/2025 | 80,000 | 54,600 |
| Clearwater Paper Corp., 144A, 5.375%, 2/1/2025 | 195,000 | 188,663 |
| Coveris Holding Corp., 144A, 10.0%, 6/1/2018 | 230,000 | 218,500 |
| Coveris Holdings SA, 144A, 7.875%, 11/1/2019 | 330,000 | 287,925 |
| Crown Americas LLC, 6.25%, 2/1/2021 | 50,000 | 51,625 |
| First Quantum Minerals Ltd.: | | |
| 144A, 6.75%, 2/15/2020 | 36,000 | 23,220 |
| 144A, 7.0%, 2/15/2021 | 475,000 | 298,062 |
| Hexion, Inc., 6.625%, 4/15/2020 (a) | 540,000 | 419,850 |
| Perstorp Holding AB, 144A, 8.75%, 5/15/2017 (a) | 455,000 | 450,450 |
| Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021 | 250,000 | 241,250 |
| Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022 (a) | 230,000 | 198,950 |
| Reynolds Group Issuer, Inc., 5.75%, 10/15/2020 | 1,390,000 | 1,413,894 |
| Sealed Air Corp.: | | |
| 144A, 4.875%, 12/1/2022 | 115,000 | 115,288 |
| 144A, 5.125%, 12/1/2024 | 55,000 | 55,000 |
| Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022 | 210,000 | 178,500 |
| Tronox Finance LLC: | | |
| 6.375%, 8/15/2020 (a) | 200,000 | 120,360 |
| 144A, 7.5%, 3/15/2022 | 245,000 | 142,100 |
| WR Grace & Co-Conn: | | |
| 144A, 5.125%, 10/1/2021 | 90,000 | 90,900 |
| 144A, 5.625%, 10/1/2024 | 45,000 | 45,450 |
| | | **5,978,712** |
| **Telecommunication Services 13.2%** | | |
| B Communications Ltd., 144A, 7.375%, 2/15/2021 | 270,000 | 290,790 |
| CenturyLink, Inc.: | | |
| Series V, 5.625%, 4/1/2020 | 105,000 | 103,819 |
| Series T, 5.8%, 3/15/2022 | 380,000 | 348,270 |
| Series S, 6.45%, 6/15/2021 | 445,000 | 433,875 |
| Series W, 6.75%, 12/1/2023 (a) | 500,000 | 468,750 |
| CommScope, Inc.: | | |
| 144A, 4.375%, 6/15/2020 | 115,000 | 115,863 |
| 144A, 5.0%, 6/15/2021 | 260,000 | 249,275 |
| CyrusOne LP, 6.375%, 11/15/2022 (a) | 310,000 | 319,300 |
| Digicel Group Ltd.: | | |
| 144A, 7.125%, 4/1/2022 | 265,000 | 198,750 |
| 144A, 8.25%, 9/30/2020 | 960,000 | 792,000 |
| Digicel Ltd.: | | |
| 144A, 6.75%, 3/1/2023 | 390,000 | 325,650 |
| 144A, 7.0%, 2/15/2020 | 200,000 | 182,000 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Frontier Communications Corp.: | | |
| 6.25%, 9/15/2021 | 140,000 | 118,650 |
| 7.125%, 1/15/2023 | 605,000 | 521,812 |
| 144A, 10.5%, 9/15/2022 | 615,000 | 612,694 |
| 144A, 11.0%, 9/15/2025 | 430,000 | 425,700 |
| Hughes Satellite Systems Corp., 7.625%, 6/15/2021 | 230,000 | 243,800 |
| Intelsat Jackson Holdings SA: | | |
| 5.5%, 8/1/2023 | 465,000 | 365,025 |
| 7.25%, 10/15/2020 | 810,000 | 708,750 |
| Level 3 Financing, Inc.: | | |
| 5.375%, 8/15/2022 | 675,000 | 685,125 |
| 144A, 5.375%, 1/15/2024 (a) | 165,000 | 165,825 |
| 144A, 5.375%, 5/1/2025 | 200,000 | 199,000 |
| 6.125%, 1/15/2021 | 165,000 | 170,775 |
| Millicom International Cellular SA, 144A, 4.75%, 5/22/2020 | 370,000 | 331,150 |
| Plantronics, Inc., 144A, 5.5%, 5/31/2023 | 95,000 | 94,525 |
| Sprint Communications, Inc., 144A, 7.0%, 3/1/2020 | 245,000 | 245,613 |
| Sprint Corp., 7.125%, 6/15/2024 | 1,345,000 | 970,081 |
| T-Mobile U.S.A., Inc.: | | |
| 6.125%, 1/15/2022 | 110,000 | 113,025 |
| 6.375%, 3/1/2025 | 497,000 | 501,970 |
| 6.5%, 1/15/2026 | 15,000 | 15,142 |
| 6.625%, 11/15/2020 | 705,000 | 732,840 |
| UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025 | 955,000 | 900,087 |
| UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022 | 270,000 | 285,525 |
| Virgin Media Secured Finance PLC, 144A, 5.25%, 1/15/2026 | 200,000 | 194,500 |
| Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020 | 195,000 | 204,019 |
| Windstream Services LLC, 7.875%, 11/1/2017 | 495,000 | 506,390 |
| Zayo Group LLC: | | |
| 6.0%, 4/1/2023 | 440,000 | 415,800 |
| 6.375%, 5/15/2025 | 240,000 | 223,200 |
| | | **13,779,365** |
| **Utilities 2.8%** | | |
| Calpine Corp.: | | |
| 5.375%, 1/15/2023 (a) | 240,000 | 215,400 |
| 5.75%, 1/15/2025 (a) | 240,000 | 211,800 |
| Dynegy, Inc.: | | |
| 7.375%, 11/1/2022 | 235,000 | 204,450 |
| 7.625%, 11/1/2024 (a) | 425,000 | 363,290 |
| Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024* | 550,000 | 451,000 |
| NGL Energy Partners LP, 5.125%, 7/15/2019 (a) | 190,000 | 150,100 |
| NRG Energy, Inc.: | | |
| 6.25%, 5/1/2024 (a) | 1,270,000 | 1,067,054 |
| 7.875%, 5/15/2021 | 215,000 | 201,562 |
| Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019 | 95,000 | 71,250 |
| | | **2,935,906** |
| **Total Corporate Bonds** (Cost $100,990,711) | | **94,177,546** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Government & Agency Obligation 0.5%** | | |
| **U.S. Treasury Obligation** | | |
| U.S. Treasury Note, 1.0%, 8/31/2016 (b) (Cost $552,031) | 550,000 | **551,117** |
| **Loan Participations and Assignments 0.5%** | | |
| **Senior Loans**** | | |
| Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010* | 700,000 | 0 |
| Berry Plastics Holding Corp., Term Loan D, 3.5%, 2/8/2020 | 498,718 | 490,387 |
| **Total Loan Participations and Assignments** (Cost $1,196,011) | | **490,387** |
| **Convertible Bond 1.5%** | | |
| **Materials** | | |
| GEO Specialty Chemicals, Inc., 144A, 7.5% PIK, 10/30/2018 (Cost $1,296,366) | 1,322,667 | **1,551,885** |
| **Preferred Security 0.9%** | | |
| **Materials** | | |
| Hercules, Inc., 6.5%, 6/30/2029 (Cost $785,132) | 1,135,000 | **959,075** |

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 0.1%** | | |
| **Consumer Discretionary 0.0%** | | |
| Dawn Holdings, Inc.* (c) | 15 | **26,534** |
| **Industrials 0.0%** | | |
| Congoleum Corp.* | 24,000 | 0 |
| Quad Graphics, Inc. | 224 | 2,083 |
| | | **2,083** |
| **Materials 0.1%** | | |
| GEO Specialty Chemicals, Inc.* | 144,027 | 66,051 |
| GEO Specialty Chemicals, Inc. 144A* | 2,206 | 1,012 |
| | | **67,063** |
| **Total Common Stocks** (Cost $345,503) | | **95,680** |
| **Warrant 0.0%** | | |
| **Materials** | | |
| Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286) | 1,100 | **1,879** |
| **Securities Lending Collateral 16.0%** | | |
| Daily Assets Fund, 0.36% (d) (e) (Cost $16,678,089) | 16,678,089 | **16,678,089** |
| **Cash Equivalents 4.3%** | | |
| Central Cash Management Fund, 0.25% (d) (Cost $4,473,274) | 4,473,274 | **4,473,274** |

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

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $126,561,403)[†] | 114.2 | **118,978,932** |
| **Other Assets and Liabilities, Net** | (14.2) | **(14,828,156)** |
| **Net Assets** | 100.0 | **104,150,776** |

The following table represents bonds and senior loans that are in default:

| Security | Coupon | Maturity Date | Principal Amount | | Cost ($) | Value ($) |
|---|---|---|---|---|---|---|
| Alliance Mortgage Cycle Loan* | 9.5% | 6/15/2010 | USD | 700,000 | 700,000 | 0 |
| Energy Future Holdings Corp.* | 6.5% | 11/15/2024 | USD | 550,000 | 340,511 | 451,000 |
| | | | | | **1,040,511** | **451,000** |

* Non-income producing security.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2015.

† The cost for federal income tax purposes was $126,561,403. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $7,582,471. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,435,728 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,018,199.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $16,061,207, which is 15.4% of net assets.

(b) At December 31, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(c) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

| Schedule of Restricted Securities | Acquisition Date | Cost ($) | Value ($) | Value as % of Net Assets |
|---|---|---|---|---|
| Dawn Holdings, Inc.* | August 2013 | 53,353 | 26,534 | 0.03 |

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

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

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

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REIT: Real Estate Investment Trust

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

**Bilateral Swaps**

| Effective/ Expiration Dates | Notional Amount ($) (f) | Fixed Cash Flows Received | Underlying Debt Obligation/ Quality Rating (g) | Value ($) | Upfront Payments Paid ($) | Unrealized Appreciation/ (Depreciation) ($) |
|---|---|---|---|---|---|---|
| 3/20/2015 6/20/2020 | 240,000[1] | 5.0% | CCO Holdings LLC, 7.375%, 6/1/2020, BB- | 34,268 | 20,615 | 13,653 |
| 9/22/2014 12/20/2019 | 630,000[2] | 5.0% | Community Health Systems, Inc., 8.0%, 11/15/2019, B- | 9,124 | 33,678 | (24,554) |
| 12/20/2013 3/20/2019 | 3,000,000[3] | 5.0% | Sprint Communications, Inc., 6.0%, 12/1/2016, B+ | (346,321) | 200,218 | (546,539) |
| **Total net unrealized depreciation** | | | | | | **(557,440)** |

(f) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation, if any.

(g) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings and are unaudited.

Counterparties:

1 Barclays Bank PLC

2 Morgan Stanley

3 Goldman Sachs & Co.

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

**Currency Abbreviation**

USD United States Dollar

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

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Fixed Income Investments (h) | | | | |
| Corporate Bonds | $ — | $ 94,177,546 | $ — | $ 94,177,546 |
| Government & Agency Obligation | — | 551,117 | — | 551,117 |
| Loan Participations and Assignments | — | 490,387 | 0 | 490,387 |
| Convertible Bond | — | — | 1,551,885 | 1,551,885 |
| Preferred Security | — | 959,075 | — | 959,075 |
| Common Stocks (h) | 2,083 | — | 93,597 | 95,680 |
| Warrants | — | — | 1,879 | 1,879 |
| Short-Term Investments (h) | 21,151,363 | — | — | 21,151,363 |
| Derivatives (i) | | | | |
| Credit Default Swap Contracts | — | 13,653 | — | 13,653 |
| **Total** | **$ 21,153,446** | **$ 96,191,778** | **$ 1,647,361** | **$118,992,585** |

| **Liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Derivatives (i) | | | | |
| Credit Default Swap Contracts | $ — | $ (571,093) | $ — | $ (571,093) |
| **Total** | **$ —** | **$ (571,093)** | **$ —** | **$ (571,093)** |

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

(h) See Investment Portfolio for additional detailed categorizations.

(i) Derivatives include credit default swap contracts.

## Level 3 Reconciliation

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

| | **Corporate Bonds** | **Loan Participations and Assignments** | **Convertible Bonds** | **Common Stocks** | **Warrants** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as of December 31, 2014** | $ 0 | $ 0 | $ 2,241,938 | $ 59,212 | $ 89,364 | **$2,390,514** |
| Realized gains (loss) | (92,199) | — | — | (911) | — | **(93,110)** |
| Change in unrealized appreciation (depreciation) | 92,199 | 0 | (691,934) | 34,098 | (87,485) | **(653,122)** |
| Amortization of premium/accretion of discount | — | — | (22,993) | — | — | **(22,993)** |
| Purchases | — | — | 24,874 | 1,198 | — | **26,072** |
| (Sales) | 0 | — | — | 0 | — | **—** |
| Transfer into Level 3 | — | — | — | — | — | — |
| Transfer (out) of Level 3 | — | — | — | — | — | — |
| **Balance as of December 31, 2015** | **$ —** | **$ 0** | **$ 1,551,885** | **$ 93,597** | **$ 1,879** | **$1,647,361** |
| **Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2015** | **$ —** | **$ —** | **$ (691,934)** | **$ 34,098** | **$ (87,485)** | **$ (745,321)** |

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

### Quantitative Disclosure About Significant Unobservable Inputs

| Asset Class | Fair Value at 12/31/15 | Valuation Technique(s) | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| **Common Stocks** | | | | |
| Consumer Discretionary | $ 26,534 | Market Approach | EV/EBITDA Multiple | 9.18 |
| | | | Discount to public comparables | 15% |
| | | | Discount for lack of marketability | 15% |
| Industrials | $ 0 | Asset Valuation | Book Value of Equity | 0% |
| Materials | $ 67,063 | Market Approach | EV/EBITDA Multiple | 5.88 |
| | | | Discount to public comparables | 20% |
| | | | Discount for lack of marketability | 25% |
| **Warrants** | | | | |
| Materials | $ 1,879 | Black Scholes Option Pricing Model | Implied Volatility | 23.5% |
| | | | Discount for lack of marketability | 20% |
| **Loan Participations & Assignments** | | | | |
| Senior Loans | $ 0 | Market Approach | Evaluated Price | 0 |
| **Convertible Bonds** | | | | |
| Materials | $ 1,551,885 | Convertible Bond Methodology | EV/EBITDA Multiple | 5.88 |
| | | | Discount to public comparable | 20% |
| | | | Discount for lack of marketability | 25% |

### Qualitative Disclosure About Unobservable Inputs

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's equity investments include enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio with a discount for lack of marketability. A significant change in the EV to EBITDA ratio may result in a significant change in the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement.

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's fixed income investments include the convertible bond methodology. A significant change in the EV to EBITDA ratio could have a material change on the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement. Generally, there is a direct relationship between the EV to EBITDA ratio and the fair value measurement of a fixed income investment.

# Statement of Assets and Liabilities

as of December 31, 2015

| | |
|---|---|
| **Assets** | |
| Investments: | |
| Investments in non-affiliated securities, at value (cost $105,410,040) — including $16,061,207 of securities loaned | $ 97,827,569 |
| Investment in Daily Assets Fund (cost $16,678,089)* | 16,678,089 |
| Investment in Central Cash Management Fund (cost $4,473,274) | 4,473,274 |
| Total investments in securities, at value (cost $126,561,403) | 118,978,932 |
| Cash | 18,445 |
| Receivable for investments sold | 1,282 |
| Receivable for Fund shares sold | 962,546 |
| Interest receivable | 1,562,138 |
| Unrealized appreciation on bilateral swap contracts | 13,653 |
| Upfront payments paid on bilateral swap contracts | 254,511 |
| Other assets | 2,119 |
| Total assets | 121,793,626 |
| **Liabilities** | |
| Payable upon return of securities loaned | 16,678,089 |
| Payable for Fund shares redeemed | 183,982 |
| Unrealized depreciation on bilateral swap contracts | 571,093 |
| Accrued management fee | 47,683 |
| Accrued Trustees' fees | 2,421 |
| Other accrued expenses and payables | 159,582 |
| Total liabilities | 17,642,850 |
| **Net assets, at value** | **$ 104,150,776** |
| **Net Assets Consist of** | |
| Undistributed net investment income | 6,775,642 |
| Net unrealized appreciation (depreciation) on: | |
| Investments | (7,582,471) |
| Swap contracts | (557,440) |
| Accumulated net realized gain (loss) | (41,154,585) |
| Paid-in capital | 146,669,630 |
| **Net assets, at value** | **$ 104,150,776** |
| **Class A** | |
| **Net Asset Value,** offering and redemption price per share ($101,002,118 ÷ 17,025,372 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$ 5.93** |
| **Class B** | |
| **Net Asset Value,** offering and redemption price per share ($3,148,658 ÷ 530,185 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$ 5.94** |

* Represents collateral on securities loaned.

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

# Statement of Operations

for the year ended December 31, 2015

| | | |
|---|---|---|
| **Investment Income** | | |
| Interest | $ | 7,479,309 |
| Dividends | | 58,969 |
| Income distributions — Central Cash Management Fund | | 7,402 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 39,625 |
| Total income | | 7,585,305 |
| Expenses:<br>Management fee | | 652,029 |
| Administration fee | | 130,406 |
| Distribution service fee (Class B) | | 4,461 |
| Recordkeeping fees (Class B) | | 2,552 |
| Services to shareholders | | 1,511 |
| Custodian fee | | 25,865 |
| Professional fees | | 95,365 |
| Reports to shareholders | | 26,965 |
| Trustees' fees and expenses | | 6,578 |
| Other | | 42,383 |
| Total expenses before expense reductions | | 988,115 |
| Expense reductions | | (40,961) |
| Total expenses after expense reductions | | 947,154 |
| **Net investment income (loss)** | | **6,638,151** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from:<br>Investments | | (4,522,816) |
| Swap contracts | | 299,641 |
| Foreign currency | | (136) |
| | | (4,223,311) |
| Change in net unrealized appreciation (depreciation) on:<br>Investments | | (6,475,389) |
| Swap contracts | | (571,075) |
| Foreign currency | | 4 |
| | | (7,046,460) |
| **Net gain (loss)** | | **(11,269,771)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(4,631,620)** |

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 6,638,151 | $ 8,068,202 |
| Net realized gain (loss) | (4,223,311) | 1,188,317 |
| Change in net unrealized appreciation (depreciation) | (7,046,460) | (6,349,088) |
| Net increase (decrease) in net assets resulting from operations | (4,631,620) | 2,907,431 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (8,457,661) | (10,554,088) |
| Class B | (6,469) | (119,183) |
| Total distributions | (8,464,130) | (10,673,271) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 17,956,787 | 12,833,015 |
| Reinvestment of distributions | 8,457,661 | 10,554,088 |
| Payments for shares redeemed | (47,358,324) | (45,572,381) |
| Net increase (decrease) in net assets from Class A share transactions | (20,943,876) | (22,185,278) |
| **Class B** | | |
| Proceeds from shares sold | 29,829,991 | 7,949,939 |
| Reinvestment of distributions | 6,469 | 119,183 |
| Payments for shares redeemed | (26,867,647) | (8,248,423) |
| Net increase (decrease) in net assets from Class B share transactions | 2,968,813 | (179,301) |
| **Increase (decrease) in net assets** | (31,070,813) | (30,130,419) |
| Net assets at beginning of period | 135,221,589 | 165,352,008 |
| Net assets at end of period (including undistributed net investment income of $6,775,642 and $8,342,159, respectively) | **104,150,776** | **$ 135,221,589** |

| Other Information | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 20,495,541 | 23,727,813 |
| Shares sold | 2,794,697 | 1,881,827 |
| Shares issued to shareholders in reinvestment of distributions | 1,315,344 | 1,575,237 |
| Shares redeemed | (7,580,210) | (6,689,336) |
| Net increase (decrease) in Class A shares | (3,470,169) | (3,232,272) |
| Shares outstanding at end of period | **17,025,372** | **20,495,541** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,764 | 46,339 |
| Shares sold | 4,790,954 | 1,159,065 |
| Shares issued to shareholders in reinvestment of distributions | 998 | 17,657 |
| Shares redeemed | (4,265,531) | (1,219,297) |
| Net increase (decrease) in Class B shares | 526,421 | (42,575) |
| Shares outstanding at end of period | **530,185** | **3,764** |

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

# Financial Highlights

| Class A | Years Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 6.60** | **$ 6.96** | **$ 6.93** | **$ 6.56** | **$ 6.90** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income[a] | .32 | .36 | .39 | .45 | .51 |
| Net realized and unrealized gain (loss) | (.58) | (.25) | .14 | .48 | (.24) |
| **Total from investment operations** | (.26) | .11 | .53 | .93 | .27 |
| *Less distributions from:* | | | | | |
| Net investment income | (.41) | (.47) | (.50) | (.56) | (.61) |
| **Net asset value, end of period** | **$ 5.93** | **$ 6.60** | **$ 6.96** | **$ 6.93** | **$ 6.56** |
| Total Return (%) | (4.44)[b] | 1.47[b] | 7.91[b] | 14.91 | 3.84 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 101 | 135 | 165 | 178 | 169 |
| Ratio of expenses before expense reductions (%) | .75 | .75 | .73 | .72 | .72 |
| Ratio of expenses after expense reductions (%) | .72 | .73 | .72 | .72 | .72 |
| Ratio of net investment income (%) | 5.09 | 5.21 | 5.69 | 6.68 | 7.59 |
| Portfolio turnover rate (%) | 47 | 52 | 58 | 58 | 59 |

a Based on average shares outstanding during the period.

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

| Class B | Years Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 6.63** | **$ 6.99** | **$ 6.97** | **$ 6.59** | **$ 6.93** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income[a] | .32 | .35 | .36 | .43 | .49 |
| Net realized and unrealized gain (loss) | (.61) | (.26) | .15 | .49 | (.24) |
| **Total from investment operations** | (.29) | .09 | .51 | .92 | .25 |
| *Less distributions from:* | | | | | |
| Net investment income | (.40) | (.45) | (.49) | (.54) | (.59) |
| **Net asset value, end of period** | **$ 5.94** | **$ 6.63** | **$ 6.99** | **$ 6.97** | **$ 6.59** |
| Total Return (%) | (4.95)[b] | 1.22[b] | 7.44[b] | 14.70[b] | 3.57 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 3 | .03 | .32 | .09 | .09 |
| Ratio of expenses before expense reductions (%) | 1.14 | 1.13 | 1.10 | .99 | .99 |
| Ratio of expenses after expense reductions (%) | 1.02 | .97 | .97 | .99 | .99 |
| Ratio of net investment income (%) | 4.86 | 5.09 | 5.29 | 6.42 | 7.33 |
| Portfolio turnover rate (%) | 47 | 52 | 58 | 58 | 59 |

a Based on average shares outstanding during the period.

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche High Income VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

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

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

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

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

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

Debt securities and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers and loan participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. These securities are generally categorized as Level 2.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1 securities.

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

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

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

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

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Loan Participations and Assignments.** Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These floating-rate loans ("Loans") in which the Fund invests are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy outs and refinancing. The Fund invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of Loans from third parties ("Assignments"). Participations typically result in the Fund having a contractual relationship with only the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. If affiliates of the Advisor participate in the primary and secondary market for senior loans, legal limitations may restrict the Fund's ability to participate in restructuring or acquiring some senior loans. All Loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

**When-Issued/Delayed Delivery Securities.** The Fund may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transaction from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

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

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

At December 31, 2015, the Fund had a net tax basis capital loss carryforward of approximately $41,155,000, including $34,532,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($17,300,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first; and approximately $6,623,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,905,000) and long-term losses ($4,718,000 ).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

| | |
|---|---|
| Undistributed ordinary income* | $ 6,294,432 |
| Capital loss carryforwards | $ (41,155,000) |
| Unrealized appreciation (depreciation) on investments | $ (7,582,471) |

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

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from ordinary income* | $ 8,464,130 | $ 10,673,271 |

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

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on ex-dividend date. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund, with the exception of securities in default of principal.

## B. Derivative Instruments

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

The value of a swap is adjusted daily, and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the swap, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. Upon entering into a centrally cleared swap, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the swap provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund sells a credit default swap, it will cover its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the reference entities for all outstanding credit default swaps sold by the Fund. For the year ended December 31, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in the Statement of Operations. Payments received or made as a result of a credit event or termination of the swap are recognized, net of a proportional amount of the upfront payment, as realized gains or losses in the Statement of Operations.

A summary of the open credit default swap contracts as of December 31, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $3,870,000 to $7,200,000.

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

| **Asset Derivative** | **Swap Contracts** |
|---|---|
| Credit Contract (a) | $ 13,653 |

The above derivative is located in the following Statement of Assets and Liabilities account:
(a) Unrealized appreciation on bilateral swap contracts

| **Liability Derivative** | **Swap Contracts** |
|---|---|
| Credit Contracts (a) | $ (571,093) |

The above derivative is located in the following Statement of Assets and Liabilities account:
(a) Unrealized depreciation on bilateral swap contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

| **Realized Gain (Loss)** | **Swap Contracts** |
|---|---|
| Credit Contracts (a) | $ 299,641 |

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

| **Change in Net Unrealized Appreciation (Depreciation)** | **Swap Contracts** |
|---|---|
| Credit Contracts (a) | $ (571,075) |

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

As of December 31, 2015, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following table:

| **Counterparty** | **Gross Amounts of Assets Presented in the Statement of Assets and Liabilities** | **Financial Instruments and Derivatives Available for Offset** | **Collateral Received** | **Net Amount of Derivative Assets** |
|---|---|---|---|---|
| Barclays Bank PLC | $ 13,653 | $ — | $ — | $ 13,653 |

| **Counterparty** | **Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities** | **Financial Instruments and Derivatives Available for Offset** | **Collateral Pledged** | **Net Amount of Derivative Liabilities** |
|---|---|---|---|---|
| Goldman Sachs & Co. | $ 546,539 | $ — | $ — | $ 546,539 |
| Morgan Stanley | 24,554 | — | — | 24,554 |
| | **$ 571,093** | **$ —** | **$ —** | **$ 571,093** |

† The actual collateral received and/or pledged may be more than the amounts shown.

## C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $55,035,625 and $68,152,808, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,009,066 and 1,502,925, respectively.

## D. Related Parties

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

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

| | |
|---|---|
| First $250 million | .500% |
| Next $750 million | .470% |
| Next $1.5 billion | .450% |
| Next $2.5 billion | .430% |
| Next $2.5 billion | .400% |
| Next $2.5 billion | .380% |
| Next $2.5 billion | .360% |
| Over $12.5 billion | .340% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.50% of the Fund's average daily net assets.

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

| | |
|---|---|
| Class A | .72% |
| Class B | 1.00% |

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

| | |
|---|---|
| Class A | .72% |
| Class B | 1.11% |

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

| | |
|---|---|
| Class A | .72% |
| Class B | .98% |

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

| | |
|---|---|
| Class A | $ 38,720 |
| Class B | 2,241 |
| | **$ 40,961** |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $130,406, of which $9,037 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

| Services to Shareholders | Total Aggregated | Unpaid at December 31, 2015 |
|---|---|---|
| Class A | $ 308 | $ 50 |
| Class B | 62 | 12 |
| | **$ 370** | **$ 62** |

**Distribution Service Agreement**. Under the Fund's Class B 12b-1 plans, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee was $4,461, of which $269 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,829, of which $6,225 is unpaid.

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

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

**Security Lending Fees.** Deutsche Bank AG serves as lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $3,446.

## E. Investing in High-Yield Securities

The Fund's performance could be hurt if a security declines in credit quality or goes into default, or if an issuer does not make timely payments of interest or principal. Because the issuers of high-yield debt securities or junk bonds (debt securities rated below the fourth-highest category) may be in uncertain financial health, the risk of loss from default by the issuer is significantly greater. Prices and yields of high-yield securities will fluctuate over time and, during periods of economic uncertainty, volatility of high-yield securities may adversely affect a fund's net asset value. Because the Fund may invest in securities not paying current interest or in securities already in default, these risks may be more pronounced.

## F. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 57% and 29%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 68%.

## G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche High Income VIP:**

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche High Income VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

# Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $ 938.30 | $ 935.40 |
| Expenses Paid per $1,000* | $ 3.52 | $ 5.22 |

| **Hypothetical 5% Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,021.58 | $1,019.81 |
| Expenses Paid per $1,000* | $ 3.67 | $ 5.45 |

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series II — Deutsche High Income VIP | .72% | 1.07% |

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

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

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

## Tax Information

**(Unaudited)**

For corporate shareholders, 1% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015, qualified for the dividends received deduction.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

## Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

## Notes

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Deutsche
Asset Management

VS2HI-2 (R-025832-5 2/16)

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series II

## Deutsche Large Cap Value VIP

# Contents



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

Stocks may decline in value. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

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

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

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

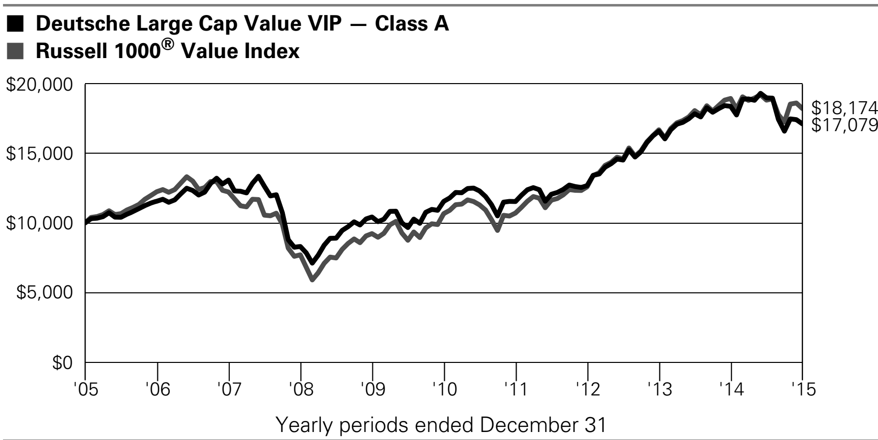
# Performance Summary

**December 31, 2015 (Unaudited)**

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

**The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 are 0.78% and 1.09% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.**

## Growth of an Assumed $10,000 Investment in Deutsche Large Cap Value VIP




The Russell 1000® Value Index is an unmanaged index that consists of those stocks in the Russell 1000® Index with less-than-average growth orientation. The Russell 1000® Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded.

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

## Comparative Results

| **Deutsche Large Cap Value VIP** | | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $9,313 | $13,496 | $14,807 | $17,079 |
| | Average annual total return | –6.87% | 10.51% | 8.17% | 5.50% |
| Russell 1000® Value Index | Growth of $10,000 | $9,617 | $14,460 | $17,058 | $18,174 |
| | Average annual total return | –3.83% | 13.08% | 11.27% | 6.16% |

| **Deutsche Large Cap Value VIP** | | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
|---|---|---|---|---|---|
| **Class B** | Growth of $10,000 | $9,284 | $13,374 | $14,583 | $16,530 |
| | Average annual total return | –7.16% | 10.18% | 7.84% | 5.15% |
| Russell 1000® Value Index | Growth of $10,000 | $9,617 | $14,460 | $17,058 | $18,714 |
| | Average annual total return | –3.83% | 13.08% | 11.27% | 6.16% |

The growth of $10,000 is cumulative.

# Management Summary

December 31, 2015 (Unaudited)

Deutsche Large Cap Value VIP returned –6.87% in 2015 (Class A shares, unadjusted for contract charges), below the –3.83% return of its benchmark, the Russell 1000™ Value Index.[1]

During the past 12 months, U.S. economic growth was slow to moderate, but stronger than overall global growth. At the start of 2015, concerns resurfaced regarding global growth and the rapidly rising U.S. dollar. For the summer of 2015, uncertainty regarding the timing of a rate increase by the U.S. Federal Reserve Board (the Fed) spurred increased market volatility. A bearish mood prevailed during the calendar third quarter as China's surprise yuan devaluation in mid-August exacerbated concerns that global growth might slow further, particularly because of currency instability in emerging markets and plunging commodity prices. Toward the end of the period, we saw investors rotate from longer-term growth stocks into more cyclical issues that had lagged the market.

For the period, the largest detractor from relative performance was the Fund's positioning in the health care sector. In particular, holdings in two health care firms involved in merger & acquisition activity, Cigna Corp. and Centene Corp., subtracted significantly from returns. Investors questioned whether the Justice Department would launch antitrust actions against the Cigna/Anthem, Inc. merger and Centene's acquisition of Health Net, Inc. We continue to hold Cigna and Centene for these reasons: shareholders have approved both transactions; we do not believe that market share shifts will be that significant following the closing of both deals; and therefore, we are skeptical that the transactions will ultimately be challenged on an antitrust basis. In contrast, the Fund benefited from its underweight position in the energy sector compared with the benchmark as oil prices declined approximately 50% in value.[2] Within the energy sector, the Fund also received a positive contribution from its holdings in the refining company Valero Energy Corp., which benefited from steady, incremental increases in automobile miles driven and solid demand for gasoline in the United States.

We look for financial conditions both domestically and globally to remain fairly consistent, with slow-to-moderate U.S. growth and a comparatively lower level of economic activity worldwide. We also believe that the Fed will tighten its monetary policy cautiously, based on current conditions. Consequently, we have reduced the Fund's underweight in financials. The Fund retains its overweight in health care, which continues to post the best earnings growth of any equity market sector. Within consumer discretionary, the Fund is heavily weighted towards media companies as consumers engage with more media content through the use of handheld devices.[3] In addition, the Fund is underweight retailers based on the fact that the retailing model is gradually changing from "brick and mortar" stores to online sales, where profit margins are comparatively squeezed. Overall, we believe that fundamentally solid companies with attractive valuations should outperform in the coming months.

Deepak Khanna, CFA
Lead Portfolio Manager

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

1 The Russell 1000 Value Index is an unmanaged index that consists of those stocks in the Russell 1000® Index with less-than-average growth orientation. The Russell 1000 Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

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

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

# Portfolio Summary (Unaudited)

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

| **Sector Diversification** (As a % of Common Stocks) | **12/31/15** | **12/31/14** |
|---|---|---|
| Health Care | 31% | 24% |
| Financials | 17% | 21% |
| Consumer Discretionary | 16% | 10% |
| Energy | 9% | 11% |
| Consumer Staples | 8% | 5% |
| Industrials | 8% | 10% |
| Information Technology | 6% | 14% |
| Utilities | 4% | 2% |
| Materials | 1% | 3% |
| | 100% | 100% |

Portfolio holdings and characteristics are subject to change.

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

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

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.5%** | | |
| **Consumer Discretionary 15.8%** | | |
| **Auto Components 1.4%** | | |
| BorgWarner, Inc. | 93,296 | **4,033,186** |
| **Automobiles 3.0%** | | |
| Ford Motor Co. | 280,267 | 3,948,962 |
| General Motors Co. | 142,202 | 4,836,290 |
| | | **8,785,252** |
| **Hotels, Restaurants & Leisure 1.2%** | | |
| Del Taco Restaurants, Inc.* | 211,900 | 2,256,735 |
| Yum! Brands, Inc. | 17,271 | 1,261,646 |
| | | **3,518,381** |
| **Household Durables 0.3%** | | |
| Whirlpool Corp. | 6,859 | **1,007,381** |
| **Media 6.2%** | | |
| CBS Corp. "B" | 61,680 | 2,906,978 |
| Comcast Corp. "A" | 53,853 | 3,038,925 |
| Starz "A"* (a) | 121,380 | 4,066,230 |
| Viacom, Inc. "B" | 207,935 | 8,558,605 |
| | | **18,570,738** |
| **Specialty Retail 3.7%** | | |
| Best Buy Co., Inc. (a) | 124,595 | 3,793,918 |
| Home Depot, Inc. | 27,883 | 3,687,527 |
| Signet Jewelers Ltd. | 29,319 | 3,626,467 |
| | | **11,107,912** |
| **Consumer Staples 8.6%** | | |
| **Beverages 3.1%** | | |
| Dr. Pepper Snapple Group, Inc. (a) | 35,016 | 3,263,491 |
| PepsiCo, Inc. | 57,990 | 5,794,361 |
| | | **9,057,852** |
| **Food Products 2.4%** | | |
| Mondelez International, Inc. "A" | 36,399 | 1,632,131 |
| The JM Smucker Co. | 39,132 | 4,826,541 |
| The WhiteWave Foods Co.* | 19,863 | 772,869 |
| | | **7,231,541** |
| **Household Products 3.1%** | | |
| Colgate-Palmolive Co. | 73,894 | 4,922,818 |
| Kimberly-Clark Corp. | 32,788 | 4,173,913 |
| | | **9,096,731** |
| **Energy 8.7%** | | |
| **Oil, Gas & Consumable Fuels** | | |
| Anadarko Petroleum Corp. | 117,492 | 5,707,761 |
| EOG Resources, Inc. | 96,632 | 6,840,579 |
| Marathon Petroleum Corp. | 31,021 | 1,608,129 |
| Pioneer Natural Resources Co. | 43,949 | 5,510,326 |
| Tesoro Corp. | 28,771 | 3,031,600 |
| Valero Energy Corp. | 46,325 | 3,275,641 |
| | | **25,974,036** |
| **Financials 16.6%** | | |
| **Banks 10.6%** | | |
| Bank of America Corp. | 627,734 | 10,564,763 |
| Citigroup, Inc. | 192,421 | 9,957,787 |
| JPMorgan Chase & Co. | 165,950 | 10,957,679 |
| | | **31,480,229** |

| | Shares | Value ($) |
|---|---|---|
| **Capital Markets 2.3%** | | |
| Affiliated Managers Group, Inc.* | 18,109 | 2,893,094 |
| Charles Schwab Corp. | 120,983 | 3,983,970 |
| | | **6,877,064** |
| **Insurance 1.0%** | | |
| Hartford Financial Services Group, Inc. | 66,741 | **2,900,564** |
| **Real Estate Investment Trusts 2.7%** | | |
| AvalonBay Communities, Inc. (REIT) | 27,069 | 4,984,215 |
| Prologis, Inc. (REIT) | 74,571 | 3,200,587 |
| | | **8,184,802** |
| **Health Care 30.2%** | | |
| **Biotechnology 11.4%** | | |
| Alexion Pharmaceuticals, Inc.* | 49,562 | 9,453,952 |
| Celgene Corp.* | 71,724 | 8,589,666 |
| Gilead Sciences, Inc. | 62,141 | 6,288,048 |
| Puma Biotechnology, Inc.* (a) | 72,926 | 5,717,398 |
| Sarepta Therapeutics, Inc.* (a) | 102,859 | 3,968,300 |
| | | **34,017,364** |
| **Health Care Equipment & Supplies 1.6%** | | |
| Medtronic PLC | 63,813 | **4,908,496** |
| **Health Care Providers & Services 11.0%** | | |
| Anthem, Inc. | 43,309 | 6,039,007 |
| Centene Corp.* | 82,141 | 5,405,699 |
| Cigna Corp. | 120,040 | 17,565,453 |
| Community Health Systems, Inc.* | 89,172 | 2,365,733 |
| Tenet Healthcare Corp.* (a) | 41,446 | 1,255,814 |
| | | **32,631,706** |
| **Pharmaceuticals 6.2%** | | |
| Bristol-Myers Squibb Co. | 157,272 | 10,818,741 |
| Endo International PLC* | 122,889 | 7,523,265 |
| | | **18,342,006** |
| **Industrials 7.7%** | | |
| **Aerospace & Defense 4.7%** | | |
| Lockheed Martin Corp. | 22,162 | 4,812,478 |
| Northrop Grumman Corp. | 17,976 | 3,394,049 |
| Raytheon Co. | 45,282 | 5,638,967 |
| | | **13,845,494** |
| **Building Products 1.1%** | | |
| A.O. Smith Corp. | 41,354 | **3,168,130** |
| **Electrical Equipment 1.3%** | | |
| Rockwell Automation, Inc. | 38,760 | **3,977,164** |
| **Machinery 0.6%** | | |
| Wabtec Corp. | 26,455 | **1,881,480** |
| **Information Technology 6.4%** | | |
| **Communications Equipment 2.8%** | | |
| Cisco Systems, Inc. | 309,628 | **8,407,948** |
| **Software 3.6%** | | |
| Microsoft Corp. | 190,743 | **10,582,422** |
| **Materials 0.8%** | | |
| **Chemicals** | | |
| Valspar Corp. | 29,832 | **2,474,564** |

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

| | Shares | Value ($) |
|---|---|---|
| **Utilities 3.7%** | | |
| **Electric Utilities 1.2%** | | |
| NextEra Energy, Inc. | 34,529 | **3,587,218** |
| **Multi-Utilities 2.5%** | | |
| Dominion Resources, Inc. | 30,237 | 2,045,231 |
| Sempra Energy | 41,595 | 3,910,346 |
| WEC Energy Group, Inc. | 29,608 | 1,519,185 |
| | | **7,474,762** |
| **Total Common Stocks** (Cost $292,807,358) | | **293,124,423** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 4.0%** | | |
| Daily Assets Fund, 0.36% (b) (c) (Cost $11,897,236) | 11,897,236 | **11,897,236** |
| **Cash Equivalents 1.5%** | | |
| Central Cash Management Fund, 0.27% (b) (Cost $4,398,244) | 4,398,244 | **4,398,244** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $309,102,838)† | 104.0 | **309,419,903** |
| **Other Assets and Liabilities, Net** | (4.0) | **(11,965,783)** |
| **Net Assets** | 100.0 | **297,454,120** |

* Non-income producing security.

† The cost for federal income tax purposes was $311,536,069. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $2,116,166. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,686,980 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $23,803,146.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $11,637,500, which is 3.9% of net assets.

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

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

REIT: Real Estate Investment Trust

## Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common Stocks (d) | $293,124,423 | $ — | $ — | $293,124,423 |
| Short-Term Investments | 16,295,480 | — | — | 16,295,480 |
| **Total** | **$309,419,903** | **$ —** | **$ —** | **$309,419,903** |

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

(d) See Investment Portfolio for additional detailed categorizations.

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

# Statement of Assets and Liabilities

as of December 31, 2015

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in non-affiliated securities, at value (cost $292,807,358) — including $11,637,500 of securities loaned | $ | 293,124,423 |
| Investment in Daily Assets Fund (cost $11,897,236)* | | 11,897,236 |
| Investment in Central Cash Management Fund (cost $4,398,244) | | 4,398,244 |
| Total investments in securities, at value (cost $309,102,838) | | 309,419,903 |
| Receivable for Fund shares sold | | 8,277 |
| Dividends receivable | | 377,540 |
| Interest receivable | | 3,984 |
| Other assets | | 6,073 |
| Total assets | | 309,815,777 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 11,897,236 |
| Payable for Fund shares redeemed | | 192,275 |
| Accrued management fee | | 148,370 |
| Accrued Trustees' fees | | 6,176 |
| Other accrued expenses and payables | | 117,600 |
| Total liabilities | | 12,361,657 |
| **Net assets, at value** | **$** | **297,454,120** |
| **Net Assets Consist of** | | |
| Undistributed net investment income | | 2,410,518 |
| Net unrealized appreciation (depreciation) on investments | | 317,065 |
| Accumulated net realized gain (loss) | | 9,697,372 |
| Paid-in capital | | 285,029,165 |
| **Net assets, at value** | **$** | **297,454,120** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($292,982,420 ÷ 19,157,658 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **15.29** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($4,471,700 ÷ 291,996 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **15.31** |

* Represents collateral on securities loaned.

# Statement of Operations

for the year ended December 31, 2015

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 5,421,349 |
| Income distributions — Central Cash Management Fund | | 3,415 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 49,708 |
| Total income | | 5,474,472 |
| Expenses: | | |
| Management fee | | 2,548,671 |
| Administration fee | | 397,788 |
| Services to shareholders | | 4,762 |
| Record keeping fees (Class B) | | 2,986 |
| Distribution and service fee (Class B) | | 12,342 |
| Custodian fee | | 19,328 |
| Professional fees | | 76,460 |
| Reports to shareholders | | 20,572 |
| Trustees' fees and expenses | | 17,764 |
| Other | | 21,660 |
| Total expenses before expense reductions | | 3,122,333 |
| Expense reductions | | (201,297) |
| Total expenses after expense reductions | | 2,921,036 |
| **Net investment income** | **$** | **2,553,436** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from: | | |
| Investments | | 10,082,714 |
| Foreign currency | | (3,911) |
| | | 10,078,803 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investments | | (38,130,803) |
| Foreign currency | | 2,503 |
| | | (38,128,300) |
| **Net gain (loss)** | | **(28,049,497)** |
| **Net increase (decrease) in net assets resulting from operations** | | **(25,496,061)** |

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

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 2,553,436 | $ 6,247,902 |
| Net realized gain (loss) | 10,078,803 | 115,236,680 |
| Change in net unrealized appreciation (depreciation) | (38,128,300) | (77,036,705) |
| Net increase (decrease) in net assets resulting from operations | (25,496,061) | 44,447,877 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (5,899,426) | (7,350,279) |
| Class B | (54,717) | (66,263) |
| Net realized gains: | | |
| Class A | (17,852,466) | — |
| Class B | (214,368) | — |
| Total distributions | (24,020,977) | (7,416,542) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 6,111,736 | 11,756,922 |
| Reinvestment of distributions | 23,751,892 | 7,350,279 |
| Payments for shares redeemed | (118,444,533) | (57,676,534) |
| Net increase (decrease) in net assets from Class A share transactions | (88,580,905) | (38,569,333) |
| **Class B** | | |
| Proceeds from shares sold | 538,133 | 1,147,061 |
| Reinvestment of distributions | 269,085 | 66,263 |
| Payments for shares redeemed | (881,598) | (1,111,822) |
| Net increase (decrease) in net assets from Class B share transactions | (74,380) | 101,502 |
| **Increase (decrease) in net assets** | (138,172,323) | (1,436,496) |
| Net assets at beginning of period | 435,626,443 | 437,062,939 |
| Net assets at end of period (including undistributed net investment income of $2,410,518 and $5,982,096, respectively) | **$ 297,454,120** | **$ 435,626,443** |

| **Other Information** | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 24,769,255 | 27,072,074 |
| Shares sold | 372,428 | 711,170 |
| Shares issued to shareholders in reinvestment of distributions | 1,389,812 | 455,690 |
| Shares redeemed | (7,373,837) | (3,469,679) |
| Net increase (decrease) in Class A shares | (5,611,597) | (2,302,819) |
| Shares outstanding at end of period | **19,157,658** | **24,769,255** |
| **Class B** | | |
| Shares outstanding at beginning of period | 297,108 | 289,672 |
| Shares sold | 32,072 | 68,963 |
| Shares issued to shareholders in reinvestment of distributions | 15,690 | 4,095 |
| Shares redeemed | (52,874) | (65,622) |
| Net increase (decrease) in Class B shares | (5,112) | 7,436 |
| Shares outstanding at end of period | **291,996** | **297,108** |

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

# Financial Highlights

| Class A | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | Years Ended December 31, | | | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$17.38** | **$15.97** | **$12.45** | **$11.56** | **$11.80** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | .11 | .24 | .26 | .25 | .25 |
| Net realized and unrealized gain (loss) | (1.20) | 1.45 | 3.54 | .87 | (.24) |
| **Total from investment operations** | (1.09) | 1.69 | 3.80 | 1.12 | .01 |
| *Less distributions from:* | | | | | |
| Net investment income | (.25) | (.28) | (.28) | (.23) | (.25) |
| Net realized gains on investment transactions | (.75) | — | — | — | — |
| **Total distributions** | (1.00) | (.28) | (.28) | (.23) | (.25) |
| **Net asset value, end of period** | **$15.29** | **$17.38** | **$15.97** | **$12.45** | **$11.56** |
| Total Return (%) | (6.87)[b] | 10.72[b] | 30.89[b] | 9.79[b] | (.07) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 293 | 430 | 432 | 377 | 396 |
| Ratio of expenses before expense reductions (%) | .78 | .78 | .78 | .78 | .79 |
| Ratio of expenses after expense reductions (%) | .73 | .73 | .74 | .77 | .79 |
| Ratio of net investment income (loss) (%) | .65 | 1.43 | 1.82 | 2.04 | 2.15 |
| Portfolio turnover rate (%) | 121 | 133 | 54 | 63 | 28 |

a Based on average shares outstanding during the period.

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

| Class B | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | Years Ended December 31, | | | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$17.40** | **$15.99** | **$12.46** | **$11.57** | **$11.81** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | .06 | .18 | .22 | .21 | .22 |
| Net realized and unrealized gain (loss) | (1.21) | 1.46 | 3.55 | .88 | (.25) |
| **Total from investment operations** | (1.15) | 1.64 | 3.77 | 1.09 | (.03) |
| *Less distributions from:* | | | | | |
| Net investment income | (.19) | (.23) | (.24) | (.20) | (.21) |
| Net realized gains on investment transactions | (.75) | — | — | — | — |
| **Total distributions** | (.94) | (.23) | (.24) | (.20) | (.21) |
| **Net asset value, end of period** | **$15.31** | **$17.40** | **$15.99** | **$12.46** | **$11.57** |
| Total Return (%) | (7.16)[b] | 10.36[b] | 30.54[b] | 9.44[b] | (.36) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 4 | 5 | 5 | 4 | 3 |
| Ratio of expenses before expense reductions (%) | 1.10 | 1.09 | 1.09 | 1.09 | 1.10 |
| Ratio of expenses after expense reductions (%) | 1.04 | 1.04 | 1.05 | 1.08 | 1.10 |
| Ratio of net investment income (loss) (%) | .35 | 1.10 | 1.52 | 1.73 | 1.84 |
| Portfolio turnover rate (%) | 121 | 133 | 54 | 63 | 28 |

a Based on average shares outstanding during the period.

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

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Large Cap Value VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

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

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

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

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

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1.

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

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

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

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

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

| | |
|---|---|
| Undistributed ordinary income* | $ 2,410,518 |
| Undistributed long-term capital gains | $ 12,130,603 |
| Unrealized appreciation (depreciation) on investments | $ (2,116,166) |

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

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from ordinary income | $ 5,954,143 | $ 7,416,542 |
| Distribution from long-term capital gains | $ 18,066,834 | $ — |

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

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

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

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $470,761,503 and $582,907,611, respectively.

## C. Related Parties

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

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

| | |
|---|---|
| First $250 million | .650% |
| Next $750 million | .625% |
| Next $1.5 billion | .600% |
| Next $2.5 billion | .575% |
| Next $2.5 billion | .550% |
| Next $2.5 billion | .525% |
| Next $2.5 billion | .500% |
| Over $12.5 billion | .475% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.64% of the Fund's average daily net assets.

For the period from January 1, 2015 through April 30, 2016, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

| | |
|---|---|
| Class A | .73% |
| Class B | 1.04% |

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

| | | |
|---|---|---|
| Class A | $ | 198,537 |
| Class B | | 2,760 |
| | **$** | **201,297** |

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $397,788, of which $26,038 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC were as follows:

| **Services to Shareholders** | **Total Aggregated** | **Unpaid at December 31, 2015** |
|---|---|---|
| Class A | $ 416 | $ 72 |
| Class B | 228 | 37 |
| | **$ 644** | **$ 109** |

**Distribution Service Agreement**. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2015, the Distribution Service Fee aggregated $12,342, of which $946 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,152, of which $4,149 is unpaid.

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

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

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,323.

## D. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54%, 28% and 13%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 65% and 13%.

## E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Large Cap Value VIP:**

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Large Cap Value VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $ 901.50 | $ 900.60 |
| Expenses Paid per $1,000* | $ 3.50 | $ 4.98 |
| **Hypothetical 5% Fund Return** | **Class A** | **Class B** |
| Beginning Account Value 7/1/15 | $1,000.00 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,021.53 | $1,019.96 |
| Expenses Paid per $1,000* | $ 3.72 | $ 5.30 |

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

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Deutsche Variable Series II — Deutsche Large Cap Value VIP | .73% | 1.04% |

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

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

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

# Tax Information

**(Unaudited)**

The Fund paid distributions of $0.75 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $13,384,000 as capital gain dividends for its year ended December 31, 2015.

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015, qualified for the dividends received deduction.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Large Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

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

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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

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

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

addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 2nd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board noted the disappointing investment performance of the Fund in some past periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance in 2014 and during the first seven months of 2015. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

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

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

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

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

## Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

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

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

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

3 Executive title, not a board directorship.

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

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

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

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

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

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

Deutsche
Asset Management

VS2LCV-2 (R-025833-5 2/16)

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series II

## Deutsche Money Market VIP

# Contents



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

**An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price.** You should not rely on or expect the Advisor to enter into support agreements or take other actions to maintain the Fund's $1.00 share price. The credit quality of the Fund's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the Fund's share price. The Fund's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. The actions of a few large investors in the Fund may have a significant adverse effect on the share price of the Fund. See the prospectus for specific details regarding the Fund's risk profile.

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


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

# Performance Summary

**December 31, 2015 (Unaudited)**

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the Fund than the total return quotation.**

**An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price.**

| | 7-Day Current Yield |
|---|---|
| December 31, 2015 | .01%* |
| December 31, 2014 | .01%* |

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

During the 12-month period ended December 31, 2015, the Fund provided a total return of 0.01% (Class A shares, unadjusted for contract charges). All performance is historical and does not guarantee future results. Yields fluctuate and are not guaranteed.

Over the past 12 months, rate levels within the money market yield curve — including short-term money market rates — fluctuated based on varying economic reports, investors' interest rate expectations, geopolitical uncertainty and evolving U.S. Federal Reserve Board (the Fed) statements.[1] Despite temporary conditions such as the harsh winter weather that many said was to blame for disappointing first-quarter 2015 U.S. GDP growth, in April the Fed anticipated that U.S. economic conditions would improve.[2] A second-quarter rebound in U.S. GDP growth set the stage for a possible rate hike as early as September of 2015. In late August, the focus shifted to China, as news of that country's economic slowdown spurred additional market volatility. In September, the Fed declined to raise rates, citing concerns over China's stumbling economy. However, in October the comments by the Fed turned more hawkish, not mentioning China but expressing the desire to raise rates at the next Federal Open Market Committee (FOMC) meeting. This set the stage for short-term rates to rise as markets "priced in" an eventual raising of the federal funds rate by 25 basis points in mid-December.

We were able to maintain a competitive yield for the Fund during the annual period ended December 31, 2015. We continued to seek ample liquidity, high credit quality and strong diversification across sectors and geographic regions by maintaining a neutral portfolio duration (or interest rate sensitivity). We pursued this strategy in light of the outlook for continued near-zero short-term interest rates and limited money market supply. In addition, outside of mandated liquidity requirements, we looked to keep the Fund's cash position relatively low in order to take advantage of higher yields available from six-month-to-one-year money market securities.

Within money markets, we believe that the current balance of tight supply and heavy demand will most likely persist. These technical market conditions, along with issues surrounding money market reform, should in our view create a steeper money market yield curve, keeping yields low at the short end of the curve. Our current forecast is for the federal funds rate to be raised two to three additional times during 2016. In preparation, we are maintaining a cautious approach, with a shorter duration, an emphasis on short fixed maturities and floating-rate notes, and increased selectivity regarding longer maturities.[3] Our goal, as always, is to maintain ample liquidity, high credit quality and strong diversification across geographic regions and market sectors.

A group of investment professionals is responsible for the day-to-day management of the Fund. These investment professionals have a broad range of experience managing money market funds.

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

1 The yield curve is a graphical representation of how yields on bonds of different maturities compare. Normally, yield curves slant up, as bonds with longer maturities typically offer higher yields than short-term bonds.

2 GDP, or gross domestic product, is the value of all goods and services produced by a country's economy.

3 Floating-rate securities are debt instruments with floating-rate coupons that generally reset every 30 to 90 days. While floating-rate loans are senior to equity and fixed-income securities, there is no guaranteed return of principal in case of default. Floating-rate loans often have less interest-rate risk than other fixed-income investments. Floating-rate loans are most often secured assets, generally senior to a company's secured debt and can be transferred to debt holders, providing potential downside protection.

# Portfolio Summary **(Unaudited)**

| **Asset Allocation** (As a % of Investment Portfolio) | **12/31/15** | **12/31/14** |
|---|---|---|
| Commercial Paper | 40% | 54% |
| Certificates of Deposit and Bank Notes | 23% | 10% |
| Municipal Bonds and Notes | 13% | 1% |
| Repurchase Agreements | 9% | 20% |
| Government & Agency Obligations | 6% | 5% |
| Short-Term Notes | 5% | 6% |
| Time Deposits | 4% | 4% |
| | 100% | 100% |

| **Weighted Average Maturity*** | **12/31/15** | **12/31/14** |
|---|---|---|
| Deutsche Variable Series II — Deutsche Money Market VIP | 29 days | 46 days |
| First Tier Retail Money Fund Average | 29 days | 40 days |

* The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely recognized composite of money market funds that invest in only first tier (highest rating) securities. Portfolio Holdings of First Tier funds include U.S. Treasury, U.S. Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.

Weighted average maturity, also known as effective maturity, is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. In addition, each month, information about the Fund and its portfolio holdings is filed with the SEC on Form N-MFP. The SEC delays the public availability of the information filed on Form N-MFP for 60 days after the end of the reporting period included in the filing. These forms will be available on the SEC's Web site at sec.gov, and they may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Certificates of Deposit and Bank Notes 23.1%** | | |
| Banco del Estado de Chile, 0.57%, 4/28/2016 | 1,500,000 | 1,500,000 |
| Bank of Nova Scotia, 0.638%, 11/23/2016 | 1,000,000 | 1,000,000 |
| Canadian Imperial Bank of Commerce, 0.65%, 6/30/2016 | 1,500,000 | 1,500,000 |
| Cooperatieve Centrale Raiffeisen-Boerenleenbank BA: | | |
| 0.43%, 3/4/2016 | 1,200,000 | 1,200,000 |
| 0.497%, 4/14/2016 | 1,000,000 | 1,000,000 |
| 0.582%, 5/19/2016 | 1,000,000 | 1,000,000 |
| Dexia Credit Local, 0.431%, 5/4/2016 | 1,000,000 | 1,000,000 |
| DZ Bank AG, 0.36%, 1/4/2016 | 1,500,000 | 1,500,000 |
| Mitsubishi UFJ Trust & Banking Corp., 0.38%, 1/19/2016 | 1,000,000 | 1,000,000 |
| Mizuho Bank Ltd.: | | |
| 0.29%, 1/20/2016 | 1,000,000 | 1,000,000 |
| 0.29%, 1/29/2016 | 1,500,000 | 1,500,000 |
| 0.3%, 2/11/2016 | 1,500,000 | 1,500,000 |
| Nordea Bank Finland PLC: | | |
| 0.45%, 3/18/2016 | 1,500,000 | 1,500,000 |
| 0.5%, 3/9/2016 | 1,000,000 | 1,000,000 |
| Royal Bank of Canada, 0.71%, 5/2/2016 | 1,500,000 | 1,500,000 |
| Sumitomo Mitsui Banking Corp.: | | |
| 0.4%, 2/18/2016 | 2,000,000 | 2,000,000 |
| 0.54%, 3/16/2016 | 1,000,000 | 1,000,000 |
| Svenska Handelsbanken AB: | | |
| 0.495%, 2/29/2016 | 1,500,000 | 1,500,012 |
| 0.584%, 7/1/2016 | 800,000 | 800,206 |
| Swedbank AB, 0.453%, 3/10/2016 | 1,000,000 | 1,000,000 |
| Toronto-Dominion Bank, 0.43%, 3/2/2016 | 1,500,000 | 1,500,000 |
| Wells Fargo Bank NA: | | |
| 0.394%, 6/3/2016 | 1,000,000 | 1,000,000 |
| 0.457%, 4/11/2016 | 1,000,000 | 1,000,000 |
| 0.65%, 7/1/2016 | 1,500,000 | 1,500,000 |
| Westpac Banking Corp., 0.552%, 5/27/2016 | 1,000,000 | 1,000,000 |
| **Total Certificates of Deposit and Bank Notes** (Cost $31,000,218) | | **31,000,218** |
| **Commercial Paper 40.2%** | | |
| **Issued at Discount** 28.3%** | | |
| Albion Capital LLC, 0.35%, 1/20/2016 | 1,000,000 | 999,815 |
| Bank Nederlandse Gemeenten, 0.381%, 3/4/2016 | 2,000,000 | 1,998,670 |
| BMW U.S. Capital LLC, 0.381%, 1/4/2016 | 1,000,000 | 999,968 |
| Caisse Centrale Desjardins du Quebec, 0.37%, 2/2/2016 | 1,250,000 | 1,249,589 |
| Caisse des Depots et Consignations, 0.31%, 2/16/2016 | 2,500,000 | 2,499,010 |
| Coca-Cola Co., 0.511%, 3/18/2016 | 1,000,000 | 998,909 |
| Collateralized Commercial Paper II Co., LLC, 0.481%, 4/6/2016 | 1,000,000 | 998,720 |
| DBS Bank Ltd., 0.34%, 1/28/2016 | 1,500,000 | 1,499,618 |
| Erste Abwicklungsanstalt: | | |
| 0.33%, 2/3/2016 | 1,000,000 | 999,698 |
| 0.531%, 4/4/2016 | 1,500,000 | 1,497,924 |
| Exxon Mobil Corp., 0.45%, 2/1/2016 | 5,000,000 | 4,998,062 |
| Hannover Funding Co., LLC, 0.45%, 1/4/2016 | 2,000,000 | 1,999,925 |
| Kells Funding LLC: | | |
| 0.37%, 2/2/2016 | 1,000,000 | 999,698 |
| 144A, 0.401%, 1/8/2016 | 1,000,000 | 999,922 |
| 0.431%, 3/14/2016 | 1,500,000 | 1,498,692 |
| Manhattan Asset Funding Co., LLC, 0.38%, 1/27/2016 | 1,500,000 | 1,499,588 |
| Matchpoint Finance PLC, 0.35%, 1/4/2016 | 4,000,000 | 3,999,883 |
| Nestle Capital Corp., 0.27%, 2/26/2016 | 1,000,000 | 999,580 |
| Regency Markets No. 1 LLC, 0.45%, 1/20/2016 | 1,000,000 | 999,763 |
| Sinopec Century Bright Capital Investment Ltd., 0.5%, 1/11/2016 | 1,000,000 | 999,861 |
| Standard Chartered Bank: | | |
| 0.401%, 1/13/2016 | 1,300,000 | 1,299,827 |
| 0.42%, 1/8/2016 | 1,500,000 | 1,499,877 |
| 0.501%, 4/5/2016 | 1,500,000 | 1,498,021 |
| Swedbank AB, 0.366%, 2/1/2016 | 1,000,000 | 999,686 |
| | | **38,034,306** |
| **Issued at Par* 11.9%** | | |
| ASB Finance Ltd., 0.429%, 1/5/2016 | 1,500,000 | 1,500,000 |
| Bank Nederlandse Gemeenten: | | |
| 0.439%, 5/6/2016 | 1,500,000 | 1,500,000 |
| 0.522%, 2/25/2016 | 1,000,000 | 1,000,000 |
| Bank of Nova Scotia, 0.57%, 2/12/2016 | 2,200,000 | 2,200,000 |
| Bedford Row Funding Corp.: | | |
| 0.351%, 1/14/2016 | 1,000,000 | 1,000,000 |
| 144A, 0.517%, 4/12/2016 | 500,000 | 500,000 |
| Commonwealth Bank of Australia: | | |
| 0.379%, 4/7/2016 | 1,000,000 | 999,983 |
| 0.42%, 3/4/2016 | 1,000,000 | 1,000,000 |
| Crown Point Capital Co., LLC, 0.718%, 8/25/2016 | 1,000,000 | 1,000,000 |
| HSBC Bank PLC, 144A, 0.678%, 6/24/2016 | 1,250,000 | 1,250,000 |
| Nederlandse Waterschapsbank NV, 144A, 0.53%, 3/18/2016 | 1,000,000 | 1,000,000 |
| Old Line Funding LLC, 144A, 0.496%, 2/8/2016 | 2,000,000 | 2,000,000 |
| Westpac Banking Corp., 144A, 0.5%, 3/10/2016 | 1,000,000 | 1,000,000 |
| | | **15,949,983** |
| **Total Commercial Paper** (Cost $53,984,289) | | **53,984,289** |
| **Short-Term Notes 4.7%** | | |
| Bank of Nova Scotia, 2.9%, 3/29/2016 | 1,000,000 | 1,005,626 |
| GE Capital International Funding Co.: | | |
| 144A, 0.964%, 4/15/2016 | 1,000,000 | 1,001,359 |
| 0.964%, 4/15/2016 | 500,000 | 500,599 |
| Home Depot, Inc., 5.4%, 3/1/2016 | 750,000 | 756,010 |

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

| | Principal Amount ($) | Value ($) |
|---|---|---|
| JPMorgan Chase Bank NA, 0.48%*, 11/22/2016 | 2,000,000 | 2,000,000 |
| Svenska Handelsbanken AB, 144A, 0.584%*, 3/3/2016 | 1,000,000 | 1,000,228 |
| **Total Short-Term Notes** (Cost $6,263,822) | | **6,263,822** |

## Time Deposit 4.7%

| | | |
|---|---|---|
| Credit Agricole SA, 0.25%, 1/4/2016 (Cost $6,279,008) | 6,279,008 | **6,279,008** |

## Government & Agency Obligations 5.6%

### U.S. Government Sponsored Agencies

| | | |
|---|---|---|
| Federal Home Loan Bank: | | |
| 0.371%**, 5/16/2016 | 1,300,000 | 1,298,183 |
| 0.476%**, 3/9/2016 | 1,000,000 | 999,103 |
| Federal National Mortgage Association: | | |
| 0.05%**, 1/4/2016 | 3,000,000 | 2,999,988 |
| 0.207%**, 10/21/2016 | 1,300,000 | 1,299,943 |
| 0.255%**, 2/2/2016 | 1,000,000 | 999,773 |
| **Total Government & Agency Obligations** (Cost $7,596,990) | | **7,596,990** |

## Municipal Bonds and Notes 12.7%

| | | |
|---|---|---|
| Georgia, JPMorgan Chase Putters/Drivers Trust, Series SGT05, 0.45%***, 1/1/2035, INS: FGIC, NATL, LIQ: Societe Generale, LOC: Societe Generale | 1,000,000 | 1,000,000 |
| Michigan, RIB Floater Trust, Series 6WE, 144A, 0.16%***, 7/1/2018, LOC: Barclays Bank PLC | 3,000,000 | 3,000,000 |
| Michigan, State Finance Authority Revenue, School Loan, Series B, 0.35%***, 9/1/2050, LOC: PNC Bank NA | 1,000,000 | 1,000,000 |
| New Jersey, RBC Municipal Products, Inc. Trust, Series E-60, 144A, 0.42%***, 6/28/2016, LOC: Royal Bank of Canada | 1,500,000 | 1,500,000 |
| New York, State Housing Finance Agency, Series B, 0.38%***, 5/15/2033 | 2,000,000 | 2,000,000 |
| New York, State Housing Finance Agency Revenue, 605 West 42nd Street, Series B, 144A, 0.45%***, 5/1/2048, LOC: Bank of China | 1,000,000 | 1,000,000 |
| RIB Floater Trust, Series 8UE, 144A, 0.54%***, 12/27/2016, LOC: Barclays Bank PLC | 3,500,000 | 3,500,000 |
| San Jose, CA, Financing Authority Lease Revenue, TECP, 0.52%, 1/5/2016, LOC: Barclays Bank PLC | 2,000,000 | 2,000,000 |
| Texas, RIB Floater Trust, Series 5WE, 144A, 0.16%***, 7/1/2018, LOC: Barclays Bank PLC | 2,000,000 | 2,000,000 |
| **Total Municipal Bonds and Notes** (Cost $17,000,000) | | **17,000,000** |

## Repurchase Agreements 9.1%

| | | |
|---|---|---|
| BNP Paribas, 0.27%, dated 6/10/2015, to be repurchased at $1,502,689 on 2/4/2016 (a) (b) | 1,500,000 | 1,500,000 |
| JPMorgan Securities, Inc., 0.475%, dated 4/14/2015, to be repurchased at $1,255,806 on 3/31/2016 (a) (c) | 1,250,000 | 1,250,000 |
| JPMorgan Securities, Inc., 0.506%, dated 4/15/2015, to be repurchased at $2,512,334 on 3/31/2016 (a) (d) | 2,500,000 | 2,500,000 |
| Merrill Lynch & Co., Inc., 0.29%, dated 12/31/2015, to be repurchased at $7,000,226 on 1/4/2016 (e) | 7,000,000 | 7,000,000 |
| **Total Repurchase Agreements** (Cost $12,250,000) | | **12,250,000** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $134,374,327)† | 100.1 | **134,374,327** |
| **Other Assets and Liabilities, Net** | (0.1) | **(154,110)** |
| **Net Assets** | 100.0 | **134,220,217** |

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2015.

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

*** Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are payable on demand and are shown at their current rates as of December 31, 2015.

† The cost for federal income tax purposes was $134,374,327.

(a) Open maturity repurchase agreement whose interest rate resets periodically and is shown at the current rate as of December 31, 2015. The dated date is the original day the repurchase agreement was entered into, the maturity date represents the next repurchase date. Upon notice, both the Fund and counterparty have the right to terminate the repurchase agreement at any time.

(b) Collateralized by $1,569,147 Madison Park Funding XVII Ltd., 1.729%, maturing on 7/21/2027 with a value of $1,545,001.

(c) Collateralized by $1,276,458 Federal Home Loan Mortgage Corp., 3.0%, maturing on 12/1/2042 with a value of $1,277,381.

(d) Collateralized by $2,505,857 Federal Home Loan Mortgage Corp., 3.5%, maturing on 7/1/2044 with a value of $2,551,278.

(e) Collateralized by $7,197,400 U.S. Treasury Note, 1.375%, maturing on 2/29/2020 with a value of $7,140,026.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

FGIC: Financial Guaranty Insurance Co.

INS: Insured

LIQ: Liquidity Facility

The accompanying notes are an integral part of the financial statements.

LOC: Letter of Credit

NATL: National Public Finance Guarantee Corp.

TECP: Tax Exempt Commercial Paper

## Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments in Securities (f) | $ — | $122,124,327 | $ — | $122,124,327 |
| Repurchase Agreements | — | 12,250,000 | — | 12,250,000 |
| **Total** | **$ —** | **$134,374,327** | **$ —** | **$134,374,327** |

(f) See Investment Portfolio for additional detailed categorizations.

The accompanying notes are an integral part of the financial statements.

# Statement of Assets and Liabilities

as of December 31, 2015

| | | |
|---|---|---|
| **Assets** | | |
| Investments in non-affiliated securities, valued at amortized cost | $ | 134,374,327 |
| Cash | | 4,766 |
| Receivable for Fund shares sold | | 72,772 |
| Interest receivable | | 66,613 |
| Other assets | | 2,615 |
| Total assets | | 134,521,093 |
| **Liabilities** | | |
| Payable for Fund shares redeemed | | 163,761 |
| Distributions payable | | 602 |
| Accrued management fee | | 15,820 |
| Accrued Trustees' fees | | 2,978 |
| Other accrued expenses and payables | | 117,715 |
| Total liabilities | | 300,876 |
| **Net assets, at value** | **$** | **134,220,217** |
| **Net Assets Consist of** | | |
| Undistributed net investment income | | 800 |
| Accumulated net realized gain (loss) | | (122) |
| Paid-in capital | | 134,219,539 |
| **Net assets, at value** | **$** | **134,220,217** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($134,220,217 ÷ 134,303,255 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **1.00** |

# Statement of Operations

for the year ended December 31, 2015

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Interest | $ | 416,677 |
| Expenses: | | |
| Management fee | | 455,343 |
| Administration fee | | 159,769 |
| Services to shareholders | | 1,601 |
| Custodian fee | | 23,578 |
| Professional fees | | 63,525 |
| Reports to shareholders | | 59,015 |
| Trustees' fee and expenses | | 8,273 |
| Other | | 8,821 |
| Total expenses before expense reductions | | 779,925 |
| Expense reductions | | (379,244) |
| Total expenses after expense reductions | | 400,681 |
| **Net investment income** | | **15,996** |
| **Net realized gain (loss) from investments** | | **(122)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **15,874** |

The accompanying notes are an integral part of the financial statements.

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 15,996 | $ 17,035 |
| Net realized gain (loss) | (122) | 81 |
| Net increase (decrease) in net assets resulting from operations | 15,874 | 17,116 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (15,989) | (17,036) |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 150,185,171 | 130,299,481 |
| Reinvestment of distributions | 16,193 | 16,947 |
| Cost of shares redeemed | (193,027,682) | (126,949,638) |
| Net increase (decrease) in net assets from Class A share transactions | (42,826,318) | 3,366,790 |
| **Increase (decrease) in net assets** | (42,826,433) | 3,366,870 |
| Net assets at beginning of period | 177,046,650 | 173,679,780 |
| Net assets at end of period (including undistributed net investment income of $800 and $793, respectively) | **$ 134,220,217** | **$ 177,046,650** |

| **Other Information** | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 177,129,573 | 173,762,783 |
| Shares sold | 150,185,171 | 130,299,481 |
| Shares issued to shareholders in reinvestment of distributions | 16,193 | 16,947 |
| Shares redeemed | (193,027,682) | (126,949,638) |
| Net increase (decrease) in Class A shares | (42,826,318) | 3,366,790 |
| Shares outstanding at end of period | **134,303,255** | **177,129,573** |

The accompanying notes are an integral part of the financial statements.

# Financial Highlights

| Class A | Years Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 1.00** | **$ 1.00** | **$ 1.00** | **$ 1.00** | **$ 1.00** |
| *Income from investment operations:* | | | | | |
| Net investment income | .000* | .000* | .000* | .000* | .000* |
| Net realized gain (loss) | (.000)* | .000* | .000* | .000* | .000* |
| **Total from investment operations** | .000* | .000* | .000* | .000* | .000* |
| *Less distributions from:* | | | | | |
| Net investment income | (.000)* | (.000)* | (.000)* | (.000)* | (.000)* |
| **Net asset value, end of period** | **$ 1.00** | **$ 1.00** | **$ 1.00** | **$ 1.00** | **$ 1.00** |
| Total Return (%)[a] | .01 | .01 | .01 | .01 | .01 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 134 | 177 | 174 | 196 | 217 |
| Ratio of expenses before expense reductions (%) | .49 | .49 | .49 | .45 | .51 |
| Ratio of expenses after expense reductions (%) | .25 | .18 | .20 | .31 | .25 |
| Ratio of net investment income (%) | .01 | .01 | .01 | .01 | .01 |

[a] Total return would have been lower had certain expenses not been reduced.

* Amount is less than $.0005.

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Money Market VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

**Security Valuation.** Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The Fund values all securities utilizing the amortized cost method permitted in accordance with Rule 2a-7 under the 1940 Act and certain conditions therein. Under this method, which does not take into account unrealized capital gains or losses on securities, an instrument is initially valued at its cost and thereafter assumes a constant accretion/amortization rate to maturity of any discount or premium. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

**Repurchase Agreements.** The Fund may enter into repurchase agreements, under the terms of a Master Repurchase Agreement, with certain banks and broker/dealers whereby the Fund, through its custodian or a sub-custodian bank, receives delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodian bank or another designated sub-custodian holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the Fund has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Fund's claim on the collateral may be subject to legal proceedings.

As of December 31, 2015, the Fund held repurchase agreements with a gross value of $12,250,000. The value of the related collateral exceeded the value of the repurchase agreements at period end. The detail of the related collateral is included in the footnotes following the Fund's Investment Portfolio.

**Federal Income Taxes.** The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

**Distribution of Income and Gains.** Net investment income of the Fund is declared as a daily dividend and is distributed to shareholders monthly. The Fund may take into account capital gains and losses in its daily dividend declarations. The Fund may also make additional distributions for tax purposes if necessary.

Permanent book and tax differences relating to shareholder distributions will result in reclassifications to paid-in capital. Temporary book and tax differences will reverse in a subsequent period. There were no significant book to tax differences for the Fund.

At December 31, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income* | $ 800 |

In addition, the tax character of distributions paid by the Fund is summarized as follows:

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from ordinary income* | $ 15,989 | $ 17,036 |

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

**Contingencies.** In the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been made. However, based on experience, the Fund expects the risk of loss to be remote.

**Other.** Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

## B. Related Parties

**Management Agreement.** Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

| | |
|---|---|
| First $500 million | .285% |
| Next $500 million | .270% |
| Next $1.0 billion | .255% |
| Over $2.0 billion | .240% |

For the period from January 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.51%.

In addition, the Advisor has agreed to voluntarily waive additional expenses. The waiver may be changed or terminated at any time without notice. Under this arrangement, the Advisor waived certain expenses of the Fund.

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement aggregated $455,343, of which $378,609 was waived, resulting in an annual effective rate of 0.05% of the Fund's average daily net assets.

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $159,769, of which $11,671 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC aggregated $635, all of which was waived.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,074, of which $4,079 is unpaid.

**Trustees' Fees and Expenses.** The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

**Transactions with Affiliates.** The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the year ended December 31, 2015, the Fund engaged in securities purchases of $4,550,000 with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

## C. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 45%, 23% and 14%.

## D. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate, plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement: The Fund had no outstanding loans at December 31, 2015.

## E. Additional Information

Effective on or about May 2, 2016, the Fund will operate as a government money market fund under the amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended, that were adopted in July 2014 with final compliance dates ranging between July 2015 and October 2016. As currently structured, on the final compliance date for the Rule 2a-7 amendments, the Fund would be required to implement a floating net asset value and would be allowed, and in certain situations, required, to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will continue to seek to maintain a stable $1.00 net asset value (although the Fund will seek to maintain a $1.00 net asset value, there is no guarantee that it will be able do so and if the net asset value falls below $1.00, you would lose money) and the Fund will not be required to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will invest at least 99.5% of the fund's total assets in cash, US government securities, and/or repurchase agreements that are collateralized by these same securities.

In order for the Fund to operate as a government money market fund, shareholders approved revisions to the Fund's fundamental investment policy relating to concentration (the "Concentration Policy") such that the Fund would no longer be required to invest more than 25% of its total assets in obligations of banks and other financial institutions. If not revised, the current Concentration Policy would have precluded the Fund from operating as a government money market fund.

In addition to the revised Concentration Policy, the following changes to the Fund for it to operate as a government money market fund will also take effect on May 2, 2016:

(i) The adoption of a principal investment strategy to invest at least 99.5% of the Fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities;

(ii) Name change from Deutsche Money Market VIP to Deutsche Government Money Market VIP;

(iii) The adoption of a principal investment strategy to invest at least 80% of net assets, plus the amount of any borrowings for investment purposes, in government securities and/or repurchase agreements that are collateralized by government securities; and

(iv) A reduction in the management fee rate paid by the Fund to DIMA as set forth below:

| Current Management Fee Rate Schedule | | Revised Management Fee Rate Schedule | |
|---|---|---|---|
| **Average Daily Assets** | **Management Fee Rate** | **Average Daily Assets** | **Management Fee Rate** |
| First $500 Million | .285% | First $500 Million | .235% |
| Next $500 Million | .270% | Next $500 Million | .220% |
| Next $1 Billion | .255% | Next $1 Billion | .205% |
| Over $2 Million | .240% | Over $2 Million | .190% |

To ensure an orderly transition to a government money market fund, DIMA anticipates that it will begin to gradually implement changes to the Fund beginning in the first quarter of 2016. As a result, it is expected that the Fund gradually will allocate a larger percentage of its assets to government securities over time until it reaches its new allocation on or about May 2, 2016. Because the yields on government securities generally may be expected to be lower than the yields on comparable non-government securities, it should be expected that the Fund's yield may decrease as more assets are invested in government securities.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Money Market VIP:**

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Money Market VIP (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Money Market VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts
February 12, 2016

# Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| Actual Fund Return | Class A |
|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,000.05 |
| Expenses Paid per $1,000* | $ 1.46 |

| Hypothetical 5% Fund Return | Class A |
|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,023.74 |
| Expenses Paid per $1,000* | $ 1.48 |

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

| Annualized Expense Ratio | Class A |
|---|---|
| Deutsche Variable Series II — Deutsche Money Market VIP | .29% |

For more information, please refer to the Fund's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

# Tax Information

**(Unaudited)**

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Other Information

### Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Shareholder Meeting Results (Unaudited)

A special Meeting of Shareholders (the "Meeting") of Deutsche Money Market VIP (the "Fund") was called to order on December 21, 2015 at the offices of Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. At the Meeting, the following matter was voted upon by the shareholders of the Fund (the resulting votes are presented below).

1. Approval of a Revised Fundamental Investment Policy Relating to Concentration.

| Number of Votes: | | | |
|---|---|---|---|
| **For** | **Against** | **Abstain** | **Broker Non-Votes*** |
| 86,960,739 | 1,533,144 | 6,719,138 | 0 |

* Broker non-votes are proxies received by the funds from brokers or nominees when the broker or nominee neither has received instructions from the beneficial owner or other persons entitled to vote nor has discretionary power to vote in a particular matter.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Money Market VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a peer universe compiled using information supplied by iMoneyNet, an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one- and three-year periods ended December 31, 2014, the Fund's gross performance (Class A shares) was in the 2nd quartile of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board considered that the Fund's management fee would be reduced by 0.05% at all breakpoint levels if shareholders approve a proposal that would result in the Fund being restructured into a government money market fund. The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (4th quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees ("Lipper Universe Expenses"). The Board noted the expense limitation agreed to by DIMA. The Board also noted the significant voluntary fee waivers implemented by DIMA to ensure the Fund maintained a positive yield. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

**Economies of Scale.** The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

**Other Benefits to DIMA and Its Affiliates.** The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

**Compliance.** The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of the individual serving as DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

## Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Jack Clark[7] (1967)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |
| Diane Kenneally[7] (1966)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche funds currently overseen by the Board.

2 A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.

5 The length of time served represents the year in which the officer was first elected in such capacity for one or more Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: (800) 728-3337.

# Notes

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Deutsche
Asset Management

VS2MM-2 (R-025834-5 2/16)

Deutsche
Asset Management

December 31, 2015

# Annual Report

Deutsche Variable Series II

## Deutsche Small Mid Cap Growth VIP

# Contents

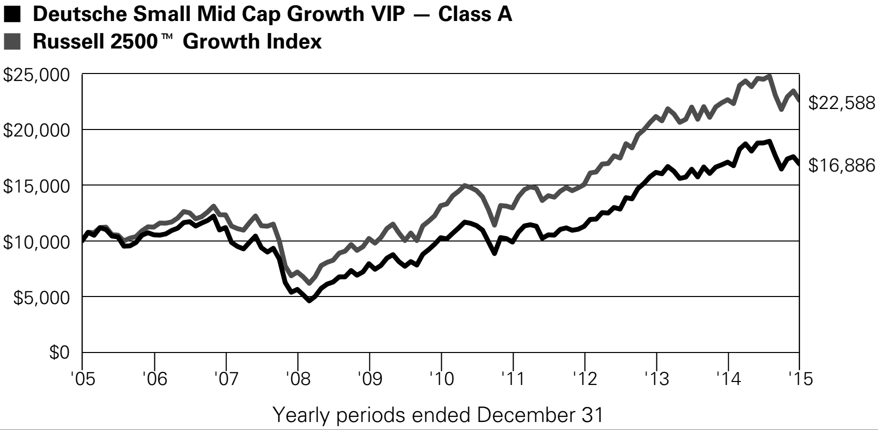
## Performance Summary

**December 31, 2015 (Unaudited)**

**Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.**

**The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2015 is 0.73% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.**

### Growth of an Assumed $10,000 Investment in Deutsche Small Mid Cap Growth VIP




The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

### Comparative Results

| Deutsche Small Mid Cap Growth VIP | | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **Class A** | Growth of $10,000 | $9,910 | $14,957 | $16,435 | $16,886 |
| | Average annual total return | –0.90% | 14.36% | 10.45% | 5.38% |
| Russell 2500 Growth Index | Growth of $10,000 | $9,981 | $15,029 | $17,179 | $22,588 |
| | Average annual total return | –0.19% | 14.54% | 11.43% | 8.49% |

The growth of $10,000 is cumulative.

# Management Summary



For the 12-month period ended December 31, 2015, the Fund returned –0.90% (Class A shares, unadjusted for contract charges) in comparison to the –0.19% return of the Russell 2500™ Growth Index.[1]

At the start of 2015 concerns resurfaced regarding global growth and the rapidly rising U.S. dollar. During the summer, continued uncertainty as to the timing of a possible short-term interest rate increase by the U.S. Federal Reserve Board (the Fed) spurred increased market volatility. The markets then entered "risk-off" mode in late June as drastic declines in China's stock market and the possibility of a default in Greece took center stage. The bearish mood carried over into the third quarter, which was one of the most volatile market periods in recent years. China's surprise yuan devaluation in mid-August exacerbated concerns that global growth might slow further. Throughout most of the fourth quarter, uncertainty regarding anticipated Fed moves dominated market sentiment, especially given the mixed economic pace in the United States. In mid-December, the Fed raised short-term rates by 25 basis points, the first U.S. rate hike in nearly 10 years. Continued high levels of investor anxiety surrounding weak economic data in the United States and abroad, along with declining oil prices, dampened investor enthusiasm into year end.

The Fund's underperformance was derived primarily from unfavorable sector allocation, based on overweights in energy, health care and industrials. Underweights in materials, information technology and financials contributed positively to returns.[2] Stock selection was positive across health care, industrials and energy. In contrast, selection within materials and consumer staples detracted.[3]

We continue to position the Fund for sustained economic recovery and remain focused on our bottom-up stock selection process. We maintain a long-term perspective, investing in quality small- and mid-cap growth stocks that trade at attractive valuations and are likely to benefit from a strong merger and acquisition cycle.

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

1 The Russell 2500 Growth Index is an unmanaged, capitalization-weighted measure of the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes Russell 2500™ Index companies with higher price-to-book ratios and higher forecasted growth values. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

2 "Overweight" means that the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means that the Fund holds a lower weighting.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs and household products.

# Portfolio Summary

**(Unaudited)**

| **Asset Allocation** (As a % of Investment Portfolio excluding Securities Lending Collateral) | **12/31/15** | **12/31/14** |
|---|---|---|
| Common Stocks | 98% | 97% |
| Cash Equivalents | 2% | 2% |
| Convertible Preferred Stock | 0% | — |
| Exchange-Traded Funds | — | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks and Convertible Preferred Stock) | **12/31/15** | **12/31/14** |
|---|---|---|
| Health Care | 23% | 20% |
| Consumer Discretionary | 20% | 21% |
| Information Technology | 20% | 21% |
| Industrials | 17% | 18% |
| Financials | 9% | 7% |
| Materials | 5% | 4% |
| Consumer Staples | 4% | 5% |
| Energy | 2% | 3% |
| Telecommunication Services | — | 1% |
| | 100% | 100% |

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

# Investment Portfolio

December 31, 2015

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 97.8%** | | |
| **Consumer Discretionary 19.9%** | | |
| **Auto Components 3.5%** | | |
| American Axle & Manufacturing Holdings, Inc.* | 68,587 | 1,299,038 |
| Gentherm, Inc.* | 39,010 | 1,849,074 |
| Tenneco, Inc.* | 35,282 | 1,619,796 |
| | | **4,767,908** |
| **Hotels, Restaurants & Leisure 4.1%** | | |
| Fogo De Chao, Inc.* (a) | 38,723 | 587,041 |
| Jack in the Box, Inc. | 25,352 | 1,944,752 |
| La Quinta Holdings, Inc.* | 61,449 | 836,321 |
| Panera Bread Co. "A"* | 11,006 | 2,143,748 |
| | | **5,511,862** |
| **Household Durables 2.7%** | | |
| iRobot Corp.* (a) | 54,832 | 1,941,053 |
| Jarden Corp.* | 30,265 | 1,728,737 |
| | | **3,669,790** |
| **Leisure Products 0.9%** | | |
| Polaris Industries, Inc. | 15,019 | **1,290,883** |
| **Media 1.0%** | | |
| Cinemark Holdings, Inc. | 40,318 | **1,347,831** |
| **Multiline Retail 0.5%** | | |
| Burlington Stores, Inc.* | 15,800 | **677,820** |
| **Specialty Retail 4.9%** | | |
| DSW, Inc. "A" | 31,568 | 753,212 |
| Outerwall, Inc. (a) | 18,731 | 684,431 |
| Penske Automotive Group, Inc. | 30,344 | 1,284,765 |
| The Children's Place, Inc. | 19,936 | 1,100,467 |
| Ulta Salon, Cosmetics & Fragrance, Inc.* | 11,169 | 2,066,265 |
| Urban Outfitters, Inc.* (a) | 31,105 | 707,639 |
| | | **6,596,779** |
| **Textiles, Apparel & Luxury Goods 2.3%** | | |
| Carter's, Inc. | 12,886 | 1,147,241 |
| Hanesbrands, Inc. | 65,194 | 1,918,659 |
| | | **3,065,900** |
| **Consumer Staples 4.2%** | | |
| **Food & Staples Retailing 1.9%** | | |
| Casey's General Stores, Inc. | 16,982 | 2,045,482 |
| United Natural Foods, Inc.* | 13,464 | 529,943 |
| | | **2,575,425** |
| **Food Products 2.3%** | | |
| Hain Celestial Group, Inc.* | 32,943 | 1,330,568 |
| The WhiteWave Foods Co.* | 45,730 | 1,779,354 |
| | | **3,109,922** |
| **Energy 1.6%** | | |
| **Energy Equipment & Services 0.8%** | | |
| Core Laboratories NV (a) | 7,074 | 769,227 |
| Dril-Quip, Inc.* | 6,684 | 395,893 |
| | | **1,165,120** |
| **Oil, Gas & Consumable Fuels 0.8%** | | |
| Diamondback Energy, Inc.* (a) | 11,120 | 743,928 |
| Gulfport Energy Corp.* | 12,094 | 297,150 |
| | | **1,041,078** |
| **Financials 9.1%** | | |
| **Banks 6.6%** | | |
| FCB Financial Holdings, Inc. "A"* | 31,540 | 1,128,817 |
| Pinnacle Financial Partners, Inc. | 33,373 | 1,714,037 |
| Signature Bank* | 12,364 | 1,896,267 |

| | Shares | Value ($) |
|---|---|---|
| South State Corp. | 11,983 | 862,177 |
| SVB Financial Group* | 9,441 | 1,122,535 |
| Talmer Bancorp., Inc. "A" | 122,884 | 2,225,429 |
| | | **8,949,262** |
| **Capital Markets 2.5%** | | |
| Lazard Ltd. "A" | 29,974 | 1,349,130 |
| Moelis & Co. "A" | 45,102 | 1,316,076 |
| Oaktree Capital Group LLC (a) | 15,342 | 732,120 |
| | | **3,397,326** |
| **Health Care 21.9%** | | |
| **Biotechnology 7.1%** | | |
| ACADIA Pharmaceuticals, Inc.* (a) | 22,027 | 785,263 |
| Alkermes PLC* | 16,514 | 1,310,881 |
| Anacor Pharmaceuticals, Inc.* | 9,733 | 1,099,537 |
| Ligand Pharmaceuticals, Inc.* (a) | 20,682 | 2,242,343 |
| NantKwest, Inc.* (a) | 25,928 | 449,332 |
| Neurocrine Biosciences, Inc.* (a) | 15,201 | 859,921 |
| Orexigen Therapeutics, Inc.* | 222,200 | 382,184 |
| Retrophin, Inc.* | 72,725 | 1,402,865 |
| Spectrum Pharmaceuticals, Inc.* | 185,970 | 1,121,399 |
| | | **9,653,725** |
| **Health Care Equipment & Supplies 3.1%** | | |
| NxStage Medical, Inc.* | 15,325 | 335,771 |
| Orthofix International NV* | 48,312 | 1,894,313 |
| Zeltiq Aesthetics, Inc.* | 68,151 | 1,944,348 |
| | | **4,174,432** |
| **Health Care Providers & Services 5.8%** | | |
| Centene Corp.* | 30,312 | 1,994,833 |
| Kindred Healthcare, Inc. | 93,058 | 1,108,321 |
| Molina Healthcare, Inc.* (a) | 27,405 | 1,647,862 |
| Providence Service Corp.* | 64,652 | 3,033,472 |
| | | **7,784,488** |
| **Life Sciences Tools & Services 1.2%** | | |
| PAREXEL International Corp.* | 23,153 | **1,577,182** |
| **Pharmaceuticals 4.7%** | | |
| Flamel Technologies SA (ADR)* | 211,276 | 2,579,680 |
| Medicines Co.* (a) | 37,131 | 1,386,471 |
| Pacira Pharmaceuticals, Inc.* | 31,283 | 2,402,222 |
| | | **6,368,373** |
| **Industrials 16.2%** | | |
| **Aerospace & Defense 1.1%** | | |
| DigitalGlobe, Inc.* | 31,613 | 495,059 |
| HEICO Corp. (a) | 19,122 | 1,039,472 |
| | | **1,534,531** |
| **Airlines 1.0%** | | |
| JetBlue Airways Corp.* | 60,173 | **1,362,918** |
| **Building Products 2.4%** | | |
| A.O. Smith Corp. | 15,341 | 1,175,274 |
| Fortune Brands Home & Security, Inc. | 37,243 | 2,066,987 |
| | | **3,242,261** |
| **Construction & Engineering 1.5%** | | |
| Primoris Services Corp. | 89,208 | **1,965,252** |
| **Electrical Equipment 3.6%** | | |
| Acuity Brands, Inc. | 11,253 | 2,630,951 |
| AZZ, Inc. | 27,522 | 1,529,398 |
| Thermon Group Holdings, Inc.* | 42,776 | 723,770 |
| | | **4,884,119** |
| **Machinery 5.1%** | | |
| Altra Industrial Motion Corp. (a) | 22,041 | 552,788 |
| IDEX Corp. | 13,100 | 1,003,591 |

The accompanying notes are an integral part of the financial statements.

| | Shares | Value ($) |
|---|---|---|
| Middleby Corp.* | 21,760 | 2,347,251 |
| WABCO Holdings, Inc.* | 21,822 | 2,231,518 |
| Watts Water Technologies, Inc. "A" | 16,595 | 824,274 |
| | | **6,959,422** |
| **Professional Services 1.5%** | | |
| On Assignment, Inc.* (a) | 43,844 | **1,970,788** |
| **Information Technology 19.9%** | | |
| **Communications Equipment 0.6%** | | |
| Palo Alto Networks, Inc.* | 4,248 | **748,243** |
| **Electronic Equipment, Instruments & Components 2.5%** | | |
| Cognex Corp. | 45,416 | 1,533,698 |
| IPG Photonics Corp.* (a) | 20,728 | 1,848,109 |
| | | **3,381,807** |
| **Internet Software & Services 3.4%** | | |
| CoStar Group, Inc.* (a) | 8,527 | 1,762,446 |
| LogMeIn, Inc.* | 22,800 | 1,529,880 |
| WebMD Health Corp.* | 28,445 | 1,373,893 |
| | | **4,666,219** |
| **IT Services 6.6%** | | |
| Broadridge Financial Solutions, Inc. | 24,270 | 1,304,027 |
| Cardtronics, Inc.* (a) | 68,408 | 2,301,929 |
| MAXIMUS, Inc. | 32,334 | 1,818,788 |
| VeriFone Systems, Inc.* | 50,938 | 1,427,283 |
| WEX, Inc.* | 9,298 | 821,943 |
| WNS Holdings Ltd. (ADR)* | 39,628 | 1,235,997 |
| | | **8,909,967** |
| **Semiconductors & Semiconductor Equipment 1.1%** | | |
| Advanced Energy Industries, Inc.* | 53,932 | **1,522,500** |
| **Software 5.7%** | | |
| Aspen Technology, Inc.* | 35,583 | 1,343,614 |
| Qlik Technologies, Inc.* | 27,102 | 858,049 |
| Splunk, Inc.* (a) | 19,500 | 1,146,795 |
| Tyler Technologies, Inc.* | 14,292 | 2,491,382 |
| Ultimate Software Group, Inc.* | 9,243 | 1,807,099 |
| | | **7,646,939** |

| | Shares | Value ($) |
|---|---|---|
| **Materials 4.7%** | | |
| **Chemicals 2.7%** | | |
| A. Schulman, Inc. | 54,315 | 1,664,212 |
| Huntsman Corp. | 74,512 | 847,201 |
| Minerals Technologies, Inc. | 23,578 | 1,081,287 |
| | | **3,592,700** |
| **Construction Materials 0.9%** | | |
| Eagle Materials, Inc. | 20,787 | **1,256,158** |
| **Containers & Packaging 1.1%** | | |
| Berry Plastics Group, Inc.* | 42,248 | **1,528,533** |
| **Telecommunication Services 0.3%** | | |
| **Wireless Telecommunication Services** | | |
| SBA Communications Corp. "A"* | 3,555 | **373,523** |
| **Total Common Stocks** (Cost $103,384,064) | | **132,270,986** |
| **Convertible Preferred Stock 0.2%** | | |
| **Health Care** | | |
| Providence Service Corp., 5.5% (Cost $283,300) | 2,833 | **333,311** |
| **Securities Lending Collateral 13.4%** | | |
| Daily Assets Fund, 0.36% (b) (c) (Cost $18,077,894) | 18,077,894 | **18,077,894** |
| **Cash Equivalents 1.7%** | | |
| Central Cash Management Fund, 0.25% (b) (Cost $2,265,809) | 2,265,809 | **2,265,809** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $124,011,067)† | 113.1 | **152,948,000** |
| **Other Assets and Liabilities, Net** | (13.1) | **(17,753,275)** |
| **Net Assets** | 100.0 | **135,194,725** |

* Non-income producing security.

† The cost for federal income tax purposes was $124,804,014. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $28,143,986. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $36,225,659 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,081,673.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2015 amounted to $17,468,532, which is 12.9% of net assets.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

(c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

ADR: American Depositary Receipt

## Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2015 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Common Stocks (d) | $132,270,986 | $ — | $ — | $132,270,986 |
| Convertible Preferred Stock | — | — | 333,311 | 333,311 |
| Short-Term Investments (d) | 20,343,703 | — | — | 20,343,703 |
| **Total** | **$152,614,689** | **$ —** | **$ 333,311** | **$152,948,000** |

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(d) See Investment Portfolio for additional detailed categorizations.

The accompanying notes are an integral part of the financial statements.

# Statement of Assets and Liabilities

as of December 31, 2015

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in non-affiliated securities, at value (cost $103,667,364) — including $17,468,532 of securities loaned | $ | 132,604,297 |
| Investment in Daily Assets Fund (cost $18,077,894)* | | 18,077,894 |
| Investment in Central Cash Management Fund (cost $2,265,809) | | 2,265,809 |
| Total investments in securities, at value (cost $124,011,067) | | 152,948,000 |
| Cash | | 10,000 |
| Receivable for investments sold | | 141,372 |
| Receivable for Fund shares sold | | 485,831 |
| Dividends receivable | | 22,092 |
| Interest receivable | | 6,821 |
| Other assets | | 2,863 |
| Total assets | | 153,616,979 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 18,077,894 |
| Payable for Fund shares redeemed | | 176,211 |
| Accrued management fee | | 65,340 |
| Accrued Trustees' fees | | 2,806 |
| Other accrued expenses and payables | | 100,003 |
| Total liabilities | | 18,422,254 |
| **Net assets, at value** | **$** | **135,194,725** |
| **Net Assets Consist of** | | |
| Net unrealized appreciation (depreciation) on investments | | 28,936,933 |
| Accumulated net realized gain (loss) | | 19,482,584 |
| Paid-in capital | | 86,775,208 |
| **Net assets, at value** | **$** | **135,194,725** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($135,194,725 ÷ 6,467,679 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **20.90** |

* Represents collateral on securities loaned.

# Statement of Operations

for the year ended December 31, 2015

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends (net of foreign taxes withheld of $654) | $ | 779,133 |
| Income distributions — Central Cash Management Fund | | 2,913 |
| Securities lending income, including income from Daily Assets Fund, net of borrower rebates | | 120,854 |
| Total income | | 902,900 |
| Expenses: | | |
| Management fee | | 936,289 |
| Administration fee | | 170,234 |
| Services to shareholders | | 2,094 |
| Custodian fee | | 11,954 |
| Professional fees | | 77,063 |
| Reports to shareholders | | 14,618 |
| Trustees' fees and expenses | | 8,260 |
| Other | | 9,414 |
| Total expenses | | 1,229,926 |
| **Net investment income (loss)** | | **(327,026)** |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) from investments | | 21,100,175 |
| Change in net unrealized appreciation (depreciation) on investments | | (21,155,273) |
| **Net gain (loss)** | | **(55,098)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(382,124)** |

The accompanying notes are an integral part of the financial statements.

# Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (327,026) | $ (196,065) |
| Net realized gain (loss) | 21,100,175 | 20,390,112 |
| Change in net unrealized appreciation (depreciation) | (21,155,273) | (10,889,918) |
| Net increase (decrease) in net assets resulting from operations | (382,124) | 9,304,129 |
| Distributions to shareholders from: | | |
| Net realized gains | | |
| Class A | (13,914,292) | — |
| Total distributions | (13,914,292) | — |
| Fund share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 9,710,776 | 5,733,576 |
| Reinvestment of distributions | 13,914,292 | — |
| Cost of shares redeemed | (46,020,854) | (30,428,185) |
| Net increase (decrease) in net assets from Class A share transactions | (22,395,786) | (24,694,609) |
| **Increase (decrease) in net assets** | (36,692,202) | (15,390,480) |
| Net assets at beginning of period | 171,886,927 | 187,277,407 |
| Net assets at end of period | **$ 135,194,725** | **$ 171,886,927** |

| Other Information | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 7,527,702 | 8,676,171 |
| Shares sold | 422,288 | 261,454 |
| Shares issued to shareholders in reinvestment of distributions | 604,706 | — |
| Shares redeemed | (2,087,017) | (1,409,923) |
| Net increase (decrease) in Class A shares | (1,060,023) | (1,148,469) |
| Shares outstanding at end of period | **6,467,679** | **7,527,702** |

The accompanying notes are an integral part of the financial statements.

# Financial Highlights

| Class A | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | Years Ended December 31, | | | | |
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$22.83** | **$21.59** | **$15.14** | **$13.24** | **$13.85** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[a] | (.04) | (.02) | (.04) | .02 | (.03) |
| Net realized and unrealized gain (loss) | (.00) | 1.26 | 6.51 | 1.88 | (.50) |
| **Total from investment operations** | (.04) | 1.24 | 6.47 | 1.90 | (.53) |
| *Less distributions from:* | | | | | |
| Net investment income | — | — | (.02) | — | (.08) |
| Net realized gains | (1.89) | — | — | — | — |
| **Total distributions** | (1.89) | — | (.02) | — | (.08) |
| **Net asset value, end of period** | **$20.90** | **$22.83** | **$21.59** | **$15.14** | **$13.24** |
| Total Return (%) | (.90) | 5.74 | 42.78 | 14.35 | (3.91) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 135 | 172 | 187 | 145 | 147 |
| Ratio of expenses (%) | .72 | .73 | .72 | .74 | .73 |
| Ratio of net investment income (loss) (%) | (.19) | (.11) | (.22) | .11 | (.23) |
| Portfolio turnover rate (%) | 42 | 44 | 56 | 57 | 84 |

[a] Based on average shares outstanding during the period.

# Notes to Financial Statements

## A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Growth VIP (the "Fund") is a diversified series of Deutsche Variable Series II (the "Trust"), which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

**Security Valuation.** Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Equity securities and exchange-trade fund ("ETF") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities and ETFs are generally categorized as Level 1.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors considered in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold; and with respect to debt securities, the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

**Securities Lending.** Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of December 31, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

**Federal Income Taxes.** The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

**Distribution of Income and Gains.** Distributions from net investment income of the Fund, if any, are declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to net operating losses and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

At December 31, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income* | $ 264,764 |
| Undistributed long-term capital gains | $ 20,010,781 |
| Net unrealized appreciation (depreciation) on investments | $ 28,143,986 |

In addition, the tax character of distributions paid by the Fund is summarized as follows:

| | Years Ended December 31, 2015 | 2014 |
|---|---|---|
| Distributions from long-term capital gains* | $ 13,914,292 | $ — |

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

**Expenses.** Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

**Contingencies.** In the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been made. However, based on experience, the Fund expects the risk of loss to be remote.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

## B. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $69,015,442 and $104,324,529, respectively.

## C. Related Parties

**Management Agreement.** Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

| | |
|---|---|
| First $250 million | .550% |
| Next $750 million | .525% |
| Over $1 billion | .500% |

Accordingly, for the year ended December 31, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2015 through September 30, 2015, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.98%.

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.86%.

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2015, the Administration Fee was $170,234, of which $11,880 is unpaid.

**Service Provider Fees.** DeAWM Service Company ("DSC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2015, the amounts charged to the Fund by DSC aggregated $404, of which $72 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,453, of which $4,311 is unpaid.

**Trustees' Fees and Expenses.** The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

**Affiliated Cash Management Vehicles.** The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the 1940 Act, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

**Securities Lending Agent Fees.** Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $10,509.

**Transactions with Affiliates.** The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the year ended December 31, 2015, the Fund engaged in securities sales of $112,459, which resulted in realized gains of $49,999, with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

## D. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 71% and 24%.

## E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2015.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Small Mid Cap Growth VIP:**

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Small Mid Cap Growth VIP (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Small Mid Cap Growth VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

# Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2015 to December 31, 2015).

The tables illustrate your Fund's expenses in two ways:

— **Actual Fund Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Fund using the Fund's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

— **Hypothetical 5% Fund Return.** This helps you to compare your Fund's ongoing expenses (but not transaction costs) with those of other mutual funds using the Fund's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended December 31, 2015

| **Actual Fund Return** | **Class A** |
|---|---|
| Beginning Account Value 7/1/15 | $1,000.00 |
| Ending Account Value 12/31/15 | $ 900.10 |
| Expenses Paid per $1,000* | $ 3.45 |
| **Hypothetical 5% Fund Return** | **Class A** |
| Beginning Account Value 7/1/15 | $1,000.00 |
| Ending Account Value 12/31/15 | $1,021.58 |
| Expenses Paid per $1,000* | $ 3.67 |

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

| **Annualized Expense Ratio** | **Class A** |
|---|---|
| Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP | .72% |

For more information, please refer to the Fund's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

# Tax Information

**(Unaudited)**

The Fund paid distributions of $1.89 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $22,023,000 as capital gain dividends for its year ended December 31, 2015.

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

# Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

# Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Small Mid Cap Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2015, all of the Fund's Trustees were independent of DIMA and its affiliates.

— The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability from a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

— Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

**Nature, Quality and Extent of Services.** The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives additional reporting from DIMA regarding such funds and, where appropriate, DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Lipper Inc. ("Lipper") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

**Profitability.** The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

**Economies of Scale.** The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

**Other Benefits to DIMA and Its Affiliates.** The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

**Compliance.** The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of the individual serving as DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination, the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the Agreement.

# Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each Independent Board Member is c/o Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. Except as otherwise noted below, the term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

### Independent Board Members

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Kenneth C. Froewiss (1945)<br>Chairperson since 2013, and Board Member since 2001 | Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996) | 106 | — |
| William McClayton (1944)<br>Vice Chairperson since 2013, and Board Member since 2004 | Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival | 106 | — |
| John W. Ballantine (1946)<br>Board Member since 1999 | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International | 106 | Portland General Electric[2] (utility company) (2003–present) |
| Henry P. Becton, Jr. (1943)<br>Board Member since 1990 | Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) |
| Dawn-Marie Driscoll (1946)<br>Board Member since 1987 | Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees) | 106 | — |
| Keith R. Fox, CFA (1954)<br>Board Member since 1996 | Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012) | 106 | — |
| Paul K. Freeman (1950)<br>Board Member since 1993 | Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International | 106 | — |

| Name, Year of Birth, Position with the Fund and Length of Time Served[1] | Business Experience and Directorships During the Past Five Years | Number of Funds in Deutsche Fund Complex Overseen | Other Directorships Held by Board Member |
|---|---|---|---|
| Richard J. Herring (1946)<br>Board Member since 1990 | Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center; Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006) | 106 | Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010) |
| Rebecca W. Rimel (1951)<br>Board Member since 1995 | President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012) | 106 | Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present) |
| William N. Searcy, Jr. (1946)<br>Board Member since 1993 | Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012) | 106 | — |
| Jean Gleason Stromberg (1943)<br>Board Member since 1997 | Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996) | 106 | — |

## Officers[4]

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Brian E. Binder[8] (1972)<br>President and Chief Executive Officer, 2013–present | Managing Director[3] and Head of Fund Administration, Deutsche Asset Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012) |
| John Millette[7] (1962)<br>Vice President and Secretary, 1999–present | Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016) |
| Melinda Morrow[6] (1970)<br>Vice President, 2012–present | Director,[3] Deutsche Asset Management |
| Paul H. Schubert[6] (1963)<br>Chief Financial Officer, 2004–present<br>Treasurer, 2005–present | Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013) |
| Caroline Pearson[7] (1962)<br>Chief Legal Officer, 2010–present | Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company |
| Robert Kloby[6] (1962)<br>Chief Compliance Officer, 2006–present | Managing Director,[3] Deutsche Asset Management |
| Wayne Salit[6] (1967)<br>Anti-Money Laundering Compliance Officer, 2014–present | Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011) |
| Hepsen Uzcan[6] (1974)<br>Assistant Secretary, 2013–present | Director,[3] Deutsche Asset Management |
| Paul Antosca[7] (1957)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

| Name, Year of Birth, Position with the Fund and Length of Time Served[5] | Business Experience and Directorships During the Past Five Years |
|---|---|
| Jack Clark[7] (1967)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |
| Diane Kenneally[7] (1966)<br>Assistant Treasurer, 2007–present | Director,[3] Deutsche Asset Management |

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche funds currently overseen by the Board.

2 A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.

5 The length of time served represents the year in which the officer was first elected in such capacity for one or more Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: (800) 728-3337.

## Notes

Deutsche
Asset Management

VS2SMCG-2 (R-025835-5 2/16)

# Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio

**ANNUAL REPORT**
December 31, 2015

BNY MELLON | Dreyfus

# Contents

THE FUND



FOR MORE INFORMATION

## A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio, covering the 12-month period from January 1, 2015, through December 31, 2015. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

2015 was a year of varied and, at times, conflicting economic influences. On one hand, the U.S. economy continued to grow as domestic labor markets posted significant gains, housing markets recovered, and lower fuel prices put cash in consumers' pockets. Indeed, these factors, along with low inflation, prompted the Federal Reserve Board in December to raise short-term interest rates for the first time in nearly a decade. On the other hand, the global economy continued to disappoint, particularly in China and other emerging markets, when reduced industrial demand and declining currency values sparked substantial declines in commodity prices.

Although several broad measures of stock and bond performance ended 2015 roughly unchanged, high levels of volatility prevailed across most financial markets. Among U.S. equities, moderate gains from consumer discretionary and health care stocks were balanced by pronounced weakness in the energy and materials sectors. Bonds also saw bifurcated performance, with municipal bonds and intermediate-term U.S. government securities faring well compared to high yield and emerging-markets debt.

Market volatility is likely to persist until investors see greater clarity from the global economy. We expect to see wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets in 2016, suggesting that selectivity may be an important determinant of investment success. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2016

# DISCUSSION OF FUND PERFORMANCE

*For the period of January 1, 2015, through December 31, 2015, as provided by David A. Daglio, Primary Portfolio Manager; James Boyd and Dale Dutile, Portfolio Managers*

## Fund and Market Performance Overview

For the 12-month period ended December 31, 2015, Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio's Initial shares produced a total return of –2.28%, and its Service shares returned –2.52%.[1] In comparison, the Russell 2000® Index, the fund's benchmark, produced a total return of –4.41% for the same period.[2]

Small-cap stocks lost value in 2015 amid shifting economic sentiment. Underweighted exposure to the energy sector and favorable stock selections in the health care and materials sectors helped the fund outperform its benchmark.

## The Fund's Investment Approach

The fund seeks capital growth. Stocks are selected for the fund's portfolio based primarily on bottom-up, fundamental analysis. The fund's portfolio managers use a disciplined investment process that relies, in general, on proprietary fundamental research and valuation. Generally, elements of the process include analysis of mid-cycle business prospects, estimation of the intrinsic value of the company, and the identification of a revaluation trigger. Intrinsic value is based on the combination of the valuation assessment of the company's operating divisions with the firm's economic balance sheet. Mid-cycle estimates, growth prospects, and competitive advantages are some of the factors used in the valuation assessment. A company's stated and hidden liabilities and assets are included in the portfolio managers' economic balance sheet calculation. Sector overweights and underweights are a function of the relative attractiveness of securities within the fund's investable universe. The fund's portfolio managers invest in stocks that they believe have attractive reward to risk opportunities and may actively adjust the fund's portfolio to reflect new developments.

## Global Economic Concerns Sparked Market Turmoil

Small-cap stocks stumbled early in 2015 when global economic instability and plummeting commodity prices intensified. These worries appeared to fade in February, and stocks resumed their rally until investors responded negatively in early March to sluggish domestic economic growth caused by severe winter weather and a strengthening U.S. dollar.

The U.S. economy regained traction in the spring, and by late June the Russell 2000 Index had advanced to new record highs. However, a debt crisis in Greece and moderating growth in China subsequently sent stocks lower. In August, the market fell sharply after China's central bank unexpectedly devalued the country's currency, intensifying concerns that the emerging markets could be slowing more than anticipated.

U.S. economic growth decelerated during the third quarter. Stocks remained in negative territory as investors grew more risk-averse, but a strong rally in October and early November enabled the Russell 2000 Index to nearly erase previous losses. Stock prices remained volatile over the remainder of the year amid renewed worries that global instability might dampen domestic economic growth. The market rebounded briefly in December after the Federal Reserve Board ended months of uncertainty by raising short-term interest rates, but it was not enough to fully offset earlier declines.

## Stock Selections Supported Relative Performance

The fund achieved especially strong relative results in the health care sector, where a number of small pharmaceutical developers created and commercialized new products. Women's health care specialist TherapeuticsMD developed a new class of hormone replacement drugs, Revance Therapeutics produced a topical form of botulinum toxin, and anthrax vaccine maker Emergent BioSolutions reinvested its free cash flow in its business.

The fund fared well through minimal exposure to the hard-hit energy sector in 2015. The fund's lone energy holding, *Western Refining*, gained value due to reduced raw materials costs and rising demand for gasoline. We sold the stock when it reached our estimate of intrinsic value, and the fund held no exposure to energy stocks over the remainder of the year. In the materials sector, lower oil prices helped reduce input costs for polymers maker Trinseo, and specialty chemicals company *Chemtura* saw improved financial results after streamlining its product lines and business divisions.

Our security selection strategies proved less effective in the consumer discretionary sector, as *Apollo Education Group* encountered disappointing enrollment volumes and identity theft protection provider *Lifelock* became subject to a regulatory investigation. We sold both stocks when they violated our investment theses. Among financial stocks, foreign exchange trader *FXCM* was hurt severely when Swiss officials unpegged the Swiss franc from the euro, and student loans provider SLM struggled with negative headlines.

## Maintaining an Opportunistic Approach

The U.S. economic recovery has remained intact, and recently indiscriminate market declines may have produced attractive values among fundamentally sound companies. We are particularly optimistic about the prospect for small-cap earnings and revenue growth in light of today's low fuel prices, rising interest rates, and increased technology spending. Therefore, while market volatility appears likely to persist, we have identified a number of opportunities that seem poised to benefit from these trends. The fund ended 2015 with overweighted exposure to the financials, information technology, and media industry groups, but we have maintained relatively light positions in the energy and consumer sectors.

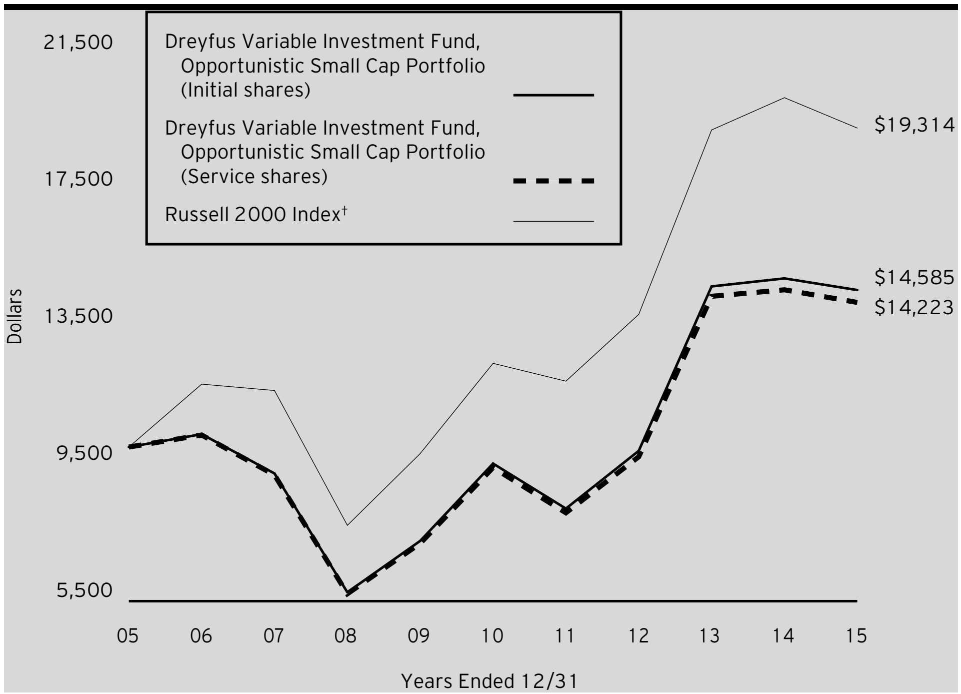
January 15, 2016

*Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.*
*Equity funds are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.*
*Stocks of small- and/or midcap companies often experience sharper price fluctuations than stocks of large-cap companies.*
*The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio made available through insurance products may be similar to other funds managed or advised by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.*

[1] *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

[2] *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Russell 2000® Index is an unmanaged index of small-cap stock performance and is composed of the 2,000 smallest companies in the Russell 3000® Index. The Russell 3000® Index is composed of the 3,000 largest U.S. companies based on total market capitalization. Investors cannot invest directly in any index.*

## FUND PERFORMANCE




Comparison of change in value of $10,000 investment in Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio Initial shares and Service shares and the Russell 2000 Index

### Average Annual Total Returns as of 12/31/15

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Initial shares** | **-2.28%** | **8.91%** | **3.85%** |
| **Service shares** | **-2.52%** | **8.64%** | **3.59%** |
| **Russell 2000 Index** | **-4.41%** | **9.19%** | **6.80%** |

† *Source: Lipper Inc.*

*Past performance is not predictive of future performance. The fund's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.*

***The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts which will reduce returns.***

*The above graph compares a $10,000 investment made in Initial and Service shares of Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio on 12/31/05 to a $10,000 investment made in the Russell 2000 Index (the "Index") on that date.*

*The fund's Initial shares are not subject to a Rule 12b-1 fee. The fund's Service shares are subject to a 0.25% annual Rule 12b-1 fee. All dividends and capital gain distributions are reinvested.*

*The fund's performance shown in the line graph above takes into account all applicable fund fees and expenses for Initial and Service shares. The Index is an unmanaged index and is composed of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index is composed of 3,000 of the largest U.S. companies by 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.*

## 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 Variable Investment Fund, Opportunistic Small Cap Portfolio from July 1, 2015 to December 31, 2015. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

| **Expenses and Value of a $1,000 Investment**<br>assuming actual returns for the six months ended December 31, 2015 | **Initial Shares** | **Service Shares** |
|---|---|---|
| Expenses paid per $1,000† | $ 4.04 | $ 5.23 |
| Ending value (after expenses) | $ 886.90 | $ 885.80 |

## 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**<br>assuming a hypothetical 5% annualized return for the six months ended December 31, 2015 | **Initial Shares** | **Service Shares** |
|---|---|---|
| Expenses paid per $1,000† | $ 4.33 | $ 5.60 |
| Ending value (after expenses) | $ 1,020.92 | $ 1,019.66 |

† *Expenses are equal to the fund's annualized expense ratio of .85% for Initial shares and 1.10% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

## STATEMENT OF INVESTMENTS
December 31, 2015

| Common Stocks - 98.9% | Shares | | Value ($) |
|---|---|---|---|
| **Banks - 18.2%** | | | |
| Ameris Bancorp | 76,040 | | 2,584,600 |
| BofI Holding | 118,556 | a,b | 2,495,604 |
| Columbia Banking System | 94,383 | | 3,068,391 |
| EverBank Financial | 147,878 | | 2,363,090 |
| FCB Financial Holdings, Cl. A | 77,217 | b | 2,763,596 |
| First Interstate BancSystem, Cl. A | 59,890 | | 1,741,002 |
| Pinnacle Financial Partners | 34,689 | | 1,781,627 |
| Simmons First National, Cl. A | 21,210 | | 1,089,346 |
| South State | 39,034 | | 2,808,496 |
| SVB Financial Group | 52,292 | b | 6,217,519 |
| Talmer Bancorp, Cl. A | 210,937 | | 3,820,069 |
| | | | **30,733,340** |
| **Capital Goods - 4.9%** | | | |
| Altra Industrial Motion | 29,312 | | 735,146 |
| CLARCOR | 17,858 | | 887,185 |
| Encore Wire | 26,795 | | 993,827 |
| Simpson Manufacturing | 90,331 | | 3,084,804 |
| Thermon Group Holdings | 151,926 | b | 2,570,588 |
| | | | **8,271,550** |
| **Commercial & Professional Services - 9.2%** | | | |
| Herman Miller | 59,044 | | 1,694,563 |
| HNI | 29,932 | | 1,079,348 |
| Huron Consulting Group | 13,166 | b | 782,060 |
| Interface | 183,061 | | 3,503,788 |
| Knoll | 27,618 | | 519,218 |
| Korn/Ferry International | 43,524 | | 1,444,126 |
| Steelcase, Cl. A | 185,771 | | 2,767,988 |
| TrueBlue | 141,404 | b | 3,642,567 |
| | | | **15,433,658** |
| **Consumer Durables & Apparel - 1.2%** | | | |
| WCI Communities | 93,671 | b | **2,086,990** |
| **Consumer Services - 1.7%** | | | |
| Fogo De Chao | 28,953 | a | 438,928 |
| Houghton Mifflin Harcourt | 72,267 | b | 1,573,975 |
| Potbelly | 79,733 | b | 933,673 |
| | | | **2,946,576** |

| Common Stocks - 98.9% (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Diversified Financials - 3.9%** | | | |
| FNFV Group | 55,839 | b | 627,072 |
| Raymond James Financial | 53,547 | | 3,104,120 |
| SLM | 433,143 | b | 2,824,092 |
| | | | **6,555,284** |
| **Exchange-Traded Funds - .6%** | | | |
| iShares Russell 2000 ETF | 9,066 | a | **1,021,013** |
| **Health Care Equipment & Services - 1.6%** | | | |
| HeartWare International | 55,271 | a,b | **2,785,658** |
| **Insurance - 2.0%** | | | |
| Primerica | 71,402 | | **3,372,316** |
| **Materials - 3.2%** | | | |
| New Gold | 786,676 | b | 1,825,088 |
| OMNOVA Solutions | 233,158 | b | 1,429,259 |
| Trinseo SA | 18,697 | a,b | 527,255 |
| Yamana Gold | 834,345 | | 1,551,882 |
| | | | **5,333,484** |
| **Media - 6.0%** | | | |
| Media General | 96,318 | a,b | 1,555,536 |
| Nexstar Broadcasting Group, Cl. A | 76,540 | | 4,492,898 |
| Sinclair Broadcast Group, Cl. A | 127,102 | | 4,135,899 |
| | | | **10,184,333** |
| **Pharmaceuticals, Biotechnology & Life Sciences - 14.5%** | | | |
| Emergent BioSolutions | 107,819 | b | 4,313,838 |
| Flamel Technologies, ADR | 215,476 | b | 2,630,962 |
| Flexion Therapeutics | 32,998 | b | 635,872 |
| GW Pharmaceuticals, ADR | 48,199 | b | 3,346,939 |
| Revance Therapeutics | 133,979 | a,b | 4,576,723 |
| Sangamo BioSciences | 102,845 | a,b | 938,975 |
| TherapeuticsMD | 772,830 | a,b | 8,014,247 |
| | | | **24,457,556** |
| **Real Estate - 2.2%** | | | |
| Realogy Holdings | 99,257 | b | **3,639,754** |
| **Retailing - .6%** | | | |
| Vitamin Shoppe | 28,735 | b | **939,635** |
| **Semiconductors & Semiconductor Equipment - 6.7%** | | | |
| Applied Micro Circuits | 377,913 | b | 2,407,306 |
| Mellanox Technologies | 49,903 | b | 2,102,912 |
| Microsemi | 99,136 | b | 3,230,842 |

| Common Stocks - 98.9% (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Semiconductors & Semiconductor Equipment - 6.7% (continued)** | | | |
| Veeco Instruments | 170,810 | b | 3,511,854 |
| | | | **11,252,914** |
| **Software & Services - 6.1%** | | | |
| CommVault Systems | 52,026 | b | 2,047,223 |
| CoreLogic | 114,723 | b | 3,884,521 |
| Infoblox | 196,762 | b | 3,618,453 |
| Tableau Software, Cl. A | 7,103 | b | 669,245 |
| | | | **10,219,442** |
| **Technology Hardware & Equipment - 12.9%** | | | |
| Ciena | 147,026 | b | 3,041,968 |
| FEI | 23,355 | | 1,863,495 |
| Jabil Circuit | 23,042 | | 536,648 |
| Keysight Technologies | 29,637 | b | 839,616 |
| Lumentum Holdings | 85,256 | b | 1,877,337 |
| Methode Electronics | 74,501 | | 2,371,367 |
| ScanSource | 74,828 | b | 2,410,958 |
| Sierra Wireless | 91,258 | a,b | 1,436,401 |
| Tech Data | 10,777 | a,b | 715,377 |
| Universal Display | 87,843 | b | 4,782,173 |
| Viavi Solutions | 303,935 | b | 1,850,964 |
| | | | **21,726,304** |
| **Transportation - 3.4%** | | | |
| ArcBest | 32,788 | | 701,335 |
| Diana Shipping | 238,930 | b | 1,039,346 |
| Knight Transportation | 114,062 | | 2,763,722 |
| Scorpio Bulkers | 14,257 | b | 141,001 |
| Werner Enterprises | 43,200 | | 1,010,448 |
| | | | **5,655,852** |
| **Total Common Stocks** (cost $154,537,641) | | | **166,615,659** |
| **Other Investment - 1.2%** | | | |
| **Registered Investment Company;** | | | |
| Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,081,640) | 2,081,640 | c | **2,081,640** |

| Investment of Cash Collateral for Securities Loaned - 7.2% | Shares | Value ($) |
|---|---|---|
| **Registered Investment Company;** | | |
| Dreyfus Institutional Cash Advantage Fund (cost $12,095,923) | 12,095,923 [c] | **12,095,923** |
| **Total Investments** (cost $168,715,204) | **107.3%** | **180,793,222** |
| **Liabilities, Less Cash and Receivables** | **(7.3%)** | **(12,273,114)** |
| **Net Assets** | **100.0%** | **168,520,108** |

*ADR—American Depository Receipt*
*ETF—Exchange-Traded Fund*

[a] *Security, or portion thereof, on loan. At December 31, 2015, the value of the fund's securities on loan was $12,780,620 and the value of the collateral held by the fund was $13,523,307 consisting of cash collateral of $12,095,923 and U.S. Government & Agency securities valued at $1,427,384.*
[b] *Non-income producing security.*
[c] *Investment in affiliated money market mutual fund.*

| Portfolio Summary (Unaudited) † | Value (%) |
|---|---|
| Banks | 18.2 |
| Pharmaceuticals, Biotechnology & Life Sciences | 14.5 |
| Technology Hardware & Equipment | 12.9 |
| Commercial & Professional Services | 9.2 |
| Money Market Investments | 8.4 |
| Semiconductors & Semiconductor Equipment | 6.7 |
| Software & Services | 6.1 |
| Media | 6.0 |
| Capital Goods | 4.9 |
| Diversified Financials | 3.9 |
| Transportation | 3.4 |
| Materials | 3.2 |
| Real Estate | 2.2 |
| Insurance | 2.0 |
| Consumer Services | 1.7 |
| Health Care Equipment & Services | 1.6 |
| Consumer Durables & Apparel | 1.2 |
| Exchange-Traded Funds | .6 |
| Retailing | .6 |
| | **107.3** |

† *Based on net assets.*
*See notes to financial statements.*

# STATEMENT OF ASSETS AND LIABILITIES

December 31, 2015

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities—See Statement of Investments | | |
| (including securities on loan, valued at $12,780,620)—Note 1(b): | | |
| Unaffiliated issuers | 154,537,641 | 166,615,659 |
| Affiliated issuers | 14,177,563 | 14,177,563 |
| Cash | | 14,221 |
| Receivable for investment securities sold | | 701,352 |
| Dividends and securities lending income receivable | | 59,499 |
| Prepaid expenses | | 8,285 |
| | | **181,576,579** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(b) | | 143,712 |
| Liability for securities on loan—Note 1(b) | | 12,095,923 |
| Payable for investment securities purchased | | 671,807 |
| Payable for shares of Beneficial Interest redeemed | | 80,692 |
| Accrued expenses | | 64,337 |
| | | **13,056,471** |
| **Net Assets ($)** | | **168,520,108** |
| **Composition of Net Assets ($):** | | |
| Paid-in capital | | 143,510,704 |
| Accumulated investment (loss)—net | | (13,968) |
| Accumulated net realized gain (loss) on investments | | 12,945,354 |
| Accumulated net unrealized appreciation (depreciation) | | |
| on investments | | 12,078,018 |
| **Net Assets ($)** | | **168,520,108** |

| **Net Asset Value Per Share** | Initial Shares | Service Shares |
|---|---|---|
| Net Assets ($) | 151,992,467 | 16,527,641 |
| Shares Outstanding | 3,302,720 | 368,084 |
| **Net Asset Value Per Share ($)** | **46.02** | **44.90** |

*See notes to financial statements.*

# STATEMENT OF OPERATIONS

Year Ended December 31, 2015

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Cash dividends (net of $9,566 foreign taxes withheld at source): | |
| Unaffiliated issuers | 982,682 |
| Affiliated issuers | 1,973 |
| Income from securities lending—Note 1(b) | 68,484 |
| **Total Income** | **1,053,139** |
| **Expenses:** | |
| Investment advisory fee—Note 3(a) | 1,371,374 |
| Professional fees | 59,489 |
| Distribution fees—Note 3(b) | 44,131 |
| Custodian fees—Note 3(b) | 41,529 |
| Prospectus and shareholders' reports | 33,168 |
| Trustees' fees and expenses—Note 3(c) | 14,548 |
| Loan commitment fees—Note 2 | 2,050 |
| Shareholder servicing costs—Note 3(b) | 1,220 |
| Interest expense—Note 2 | 33 |
| Miscellaneous | 21,682 |
| **Total Expenses** | **1,589,224** |
| Less—reduction in fees due to earnings credits—Note 3(b) | (4) |
| **Net Expenses** | **1,589,220** |
| **Investment (Loss)—Net** | **(536,081)** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments | 13,124,653 |
| Net unrealized appreciation (depreciation) on investments | (16,041,434) |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **(2,916,781)** |
| **Net (Decrease) in Net Assets Resulting from Operations** | **(3,452,862)** |

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Operations ($):** | | |
| Investment (loss)—net | (536,081) | (106,205) |
| Net realized gain (loss) on investments | 13,124,653 | 20,642,102 |
| Net unrealized appreciation (depreciation) on investments | (16,041,434) | (17,676,537) |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | **(3,452,862)** | **2,859,360** |
| **Dividends to Shareholders from ($):** | | |
| Net realized gain on investments: | | |
| Initial Shares | (2,507,973) | - |
| Service Shares | (273,325) | - |
| **Total Dividends** | **(2,781,298)** | **-** |
| **Beneficial Interest Transactions ($):** | | |
| Net proceeds from shares sold: | | |
| Initial Shares | 8,289,478 | 12,156,105 |
| Service Shares | 994,117 | 1,343,199 |
| Dividends reinvested: | | |
| Initial Shares | 2,507,973 | - |
| Service Shares | 273,325 | - |
| Cost of shares redeemed: | | |
| Initial Shares | (23,808,813) | (32,908,362) |
| Service Shares | (2,165,747) | (3,078,631) |
| **Increase (Decrease) in Net Assets from Beneficial Interest Transactions** | **(13,909,667)** | **(22,487,689)** |
| **Total Increase (Decrease) in Net Assets** | **(20,143,827)** | **(19,628,329)** |
| **Net Assets ($):** | | |
| Beginning of Period | 188,663,935 | 208,292,264 |
| **End of Period** | **168,520,108** | **188,663,935** |
| Accumulated investment (loss)—net | (13,968) | - |
| **Capital Share Transactions (Shares):** | | |
| **Initial Shares** | | |
| Shares sold | 174,530 | 266,416 |
| Shares issued for dividends reinvested | 50,779 | - |
| Shares redeemed | (492,761) | (708,339) |
| **Net Increase (Decrease) in Shares Outstanding** | **(267,452)** | **(441,923)** |
| **Service Shares** | | |
| Shares sold | 21,206 | 29,718 |
| Shares issued for dividends reinvested | 5,661 | - |
| Shares redeemed | (45,843) | (67,278) |
| **Net Increase (Decrease) in Shares Outstanding** | **(18,976)** | **(37,560)** |

*See notes to financial statements.*

## FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Initial Shares** | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 47.78 | 47.03 | 31.66 | 26.26 | 30.58 |
| Investment Operations: | | | | | |
| Investment (loss)—net[a] | (.13) | (.01) | (.09) | (.02) | (.10) |
| Net realized and unrealized gain (loss) on investments | (.91) | .76 | 15.46 | 5.42 | (4.10) |
| Total from Investment Operations | (1.04) | .75 | 15.37 | 5.40 | (4.20) |
| Distributions: | | | | | |
| Dividends from investment income—net | - | - | - | - | (.12) |
| Dividends from net realized gain on investments | (.72) | - | - | - | - |
| Total Distributions | (.72) | - | - | - | (.12) |
| Net asset value, end of period | 46.02 | 47.78 | 47.03 | 31.66 | 26.26 |
| **Total Return (%)** | (2.28) | 1.60 | 48.55 | 20.56 | (13.82) |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | .85 | .83 | .93 | .88 | .88 |
| Ratio of net expenses to average net assets | .85 | .83 | .93 | .88 | .82 |
| Ratio of net investment (loss) to average net assets | (.27) | (.03) | (.23) | (.05) | (.36) |
| Portfolio Turnover Rate | 65.26 | 77.96 | 84.80 | 61.38 | 91.45 |
| Net Assets, end of period ($ x 1,000) | 151,992 | 170,570 | 188,702 | 181,323 | 165,656 |

[a] *Based on average shares outstanding.*
*See notes to financial statements.*

| Service Shares | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | | |
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 46.75 | 46.14 | 31.13 | 25.89 | 30.20 |
| Investment Operations: | | | | | |
| Investment (loss)—net[a] | (.24) | (.13) | (.18) | (.09) | (.17) |
| Net realized and unrealized gain (loss) on investments | (.89) | .74 | 15.19 | 5.33 | (4.05) |
| Total from Investment Operations | (1.13) | .61 | 15.01 | 5.24 | (4.22) |
| Distributions: | | | | | |
| Dividends from investment income—net | - | - | - | - | (.09) |
| Dividends from net realized gain on investments | (.72) | - | - | - | - |
| Total Distributions | (.72) | - | - | - | (.09) |
| Net asset value, end of period | 44.90 | 46.75 | 46.14 | 31.13 | 25.89 |
| **Total Return (%)** | (2.52) | 1.32 | 48.22 | 20.24 | (14.03) |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | 1.10 | 1.08 | 1.18 | 1.13 | 1.13 |
| Ratio of net expenses to average net assets | 1.10 | 1.08 | 1.18 | 1.13 | 1.07 |
| Ratio of net investment (loss) to average net assets | (.52) | (.28) | (.48) | (.30) | (.61) |
| Portfolio Turnover Rate | 65.26 | 77.96 | 84.80 | 61.38 | 91.45 |
| Net Assets, end of period ($ x 1,000) | 16,528 | 18,094 | 19,590 | 14,078 | 12,902 |

[a] *Based on average shares outstanding.*

*See notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1—Significant Accounting Policies:

Opportunistic Small Cap Portfolio (the "fund") is a separate diversified series of Dreyfus Variable Investment Fund (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 seven 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 capital growth. The Dreyfus Corporation (the "Manager" or "Dreyfus"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of Dreyfus, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan, and the expenses borne by each class, the allocation of certain transfer agency costs, and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Company accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The Company enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

> **Level 1**—unadjusted quoted prices in active markets for identical investments.
>
> **Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).
>
> **Level 3**—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. For open short positions, asked prices are used for valuation purposes. Bid price is used when no asked price is available. Registered investment companies that are not traded on an exchange are valued at their net asset value. All of the preceding securities are generally categorized within Level 1 of the fair value hierarchy.

Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices. These securities are generally categorized within Level 2 of the fair value hierarchy.

Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADRs and financial futures. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Company's Board of Trustees (the "Board"). Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of December 31, 2015 in valuing the fund's investments:

| | Level 1 - Unadjusted Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Assets ($)** | | | | |
| Investments in Securities: | | | | |
| Equity Securities - Domestic Common Stocks† | 153,764,028 | - | - | **153,764,028** |
| Equity Securities - Foreign Common Stocks† | 11,830,618 | - | - | **11,830,618** |

| | Level 1 - Unadjusted Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| Exchange-Traded Funds | 1,021,013 | - | - | **1,021,013** |
| Mutual Funds | 14,177,563 | - | - | **14,177,563** |

† *See Statement of Investments for additional detailed categorizations.*

At December 31, 2015, there were no transfers between levels of the fair value hierarchy.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by Dreyfus, or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund or credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended December 31, 2015, The Bank of New York Mellon earned $16,420 from lending portfolio securities, pursuant to the securities lending agreement.

**(c) Affiliated issuers:** Investments in other investment companies advised by Dreyfus are defined as "affiliated" under the Act. Investments in affiliated investment companies during the period ended December 31, 2015 were as follows:

| Affiliated Investment Company | Value 12/31/2014 ($) | Purchases ($) | Sales ($) | Value 12/31/2015 ($) | Net Assets (%) |
|---|---|---|---|---|---|
| Dreyfus Institutional Preferred Plus Money Market Fund | 1,512,119 | 49,627,267 | 49,057,746 | 2,081,640 | 1.2 |
| Dreyfus Institutional Cash Advantage Fund | 5,164,901 | 151,286,481 | 144,355,459 | 12,095,923 | 7.2 |
| **Total** | **6,677,020** | **200,913,748** | **193,413,205** | **14,177,563** | **8.4** |

**(d) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gains, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

As of and during the period ended December 31, 2015, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period ended December 31, 2015, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2015 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2015, the components of accumulated earnings on a tax basis were as follows: undistributed capital gains $13,196,097 and unrealized appreciation $11,813,307.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2015 and December 31, 2014 were as follows: long-term capital gains $2,781,298 and $0, respectively.

During the period ended December 31, 2015, as a result of permanent book to tax differences, primarily due to the tax treatment for net operating losses and passive foreign investment companies, the fund increased accumulated undistributed investment income-net by $522,113, decreased accumulated net realized gain (loss) on investments by $55,766 and decreased paid-in capital by $466,347. Net assets and net asset value per share were not affected by this reclassification.

## NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $480 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. Prior to October 7, 2015, the unsecured credit facility with Citibank, N.A. was $430 million. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing.

The average amount of borrowings outstanding under the Facilities during the period ended December 31, 2015 was approximately $3,000 with a related weighted average annualized interest rate of 1.11%.

## NOTE 3—Investment Advisory Fee and Other Transactions with Affiliates:

**(a)** Pursuant to an investment advisory agreement with Dreyfus, the investment advisory fee is computed at the annual rate of .75% of the value of the fund's average daily net assets and is payable monthly.

**(b)** Under the Distribution Plan adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing its shares, for servicing and/or maintaining Service shares' shareholder accounts and for advertising and marketing for Service shares. The Distribution Plan provides for payments to be made at an annual rate of .25% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Distribution Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2015, Service shares were charged $44,131 pursuant to the Distribution Plan.

The fund has arrangements with the transfer agent and the custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset transfer agency and custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of Dreyfus, under a transfer agency agreement for providing transfer agency and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended December 31, 2015, the fund was charged $1,015 for transfer agency services and $76 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $4.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended December 31, 2015, the fund was charged $41,529 pursuant to the custody agreement.

During the period ended December 31, 2015, the fund was charged $10,946 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees $109,252, Distribution Plan fees $3,562, custodian fees $28,117, Chief Compliance Officer fees $2,647 and transfer agency fees $134.

**(c)** Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

## NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2015, amounted to $117,011,810 and $133,129,728, respectively.

At December 31, 2015, the cost of investments for federal income tax purposes was $168,979,915; accordingly, accumulated net unrealized appreciation on investments was $11,813,307, consisting of $25,374,552 gross unrealized appreciation and $13,561,245 gross unrealized depreciation.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Shareholders and Board of Trustees**
**Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio**

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio (one of the series comprising Dreyfus Variable Investment Fund) as of December 31, 2015, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015 by correspondence with the custodian and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2016

## IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby reports $.7214 per share as a long-term capital gain distribution paid on March 23, 2015.

## BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

### Joseph S. DiMartino (72)
### Chairman of the Board (1995)

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee (1995-present)

*Other Public Company Board Memberships During Past 5 Years:*

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)

*No. of Portfolios for which Board Member Serves:* 139

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### Peggy C. Davis (72)
### Board Member (2006)

*Principal Occupation During Past 5 Years:*

- Shad Professor of Law, New York University School of Law (1983-present)

*No. of Portfolios for which Board Member Serves:* 50

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### David P. Feldman (76)
### Board Member (1994)

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee (1985-present)

*Other Public Company Board Memberships During Past 5 Years:*

- BBH Mutual Funds Group (5 registered mutual funds), Director (1992-2014)

*No. of Portfolios for which Board Member Serves:* 36

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### Ehud Houminer (75)
### Board Member (2006)

*Principal Occupation During Past 5 Years:*

- Executive-in-Residence at the Columbia Business School, Columbia University (1992-present)

*Other Public Company Board Memberships During Past 5 Years:*

- Avnet, Inc., an electronics distributor, Director (1993-2012)

*No. of Portfolios for which Board Member Serves:* 60

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## Lynn Martin (76)
## Board Member (2012)

*Principal Occupation During Past 5 Years:*

- President of The Martin Hall Group LLC, a human resources consulting firm (2005-2012)

*Other Public Company Board Memberships During Past 5 Years:*

- AT&T, Inc., a telecommunications company, Director (1999-2012)
- Ryder System, Inc., a supply chain and transportation management company, Director (1993-2012)

*No. of Portfolios for which Board Member Serves:* 36

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## Robin A. Melvin (52)
## Board Member (2012)

*Principal Occupation During Past 5 Years:*

- Co-chairman, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois; (2014-present; a board member since 2013)
- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

*No. of Portfolios for which Board Member Serves:* 110

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## Dr. Martin Peretz (76)
## Board Member (1990)

*Principal Occupation During Past 5 Years:*

- Editor-in-Chief Emeritus of The New Republic Magazine (2011-2012) (previously, Editor-in-Chief, 1974-2011)
- Director of TheStreet.com, a financial information service on the web (1996-2010)
- Lecturer at Harvard University (1969-2012)

*No. of Portfolios for which Board Member Serves:* 36

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*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.*

*James F. Henry, Emeritus Board Member*
*Dr. Paul A. Marks, Emeritus Board Member*
*Philip L. Toia, Emeritus Board Member*

# OFFICERS OF THE FUND (Unaudited)

**BRADLEY J. SKAPYAK, President since January 2010.**

Chief Operating Officer and a director of the Manager since June 2009, Chairman of Dreyfus Transfer, Inc., an affiliate of the Manager and the transfer agent of the funds, since May 2011 and Executive Vice President of the Distributor since June 2007. From April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 65 investment companies (comprised of 139 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since February 1988.

**BENNETT A. MACDOUGALL, Chief Legal Officer since October 2015**

Chief Legal Officer of the Manager since June 2015; from June 2005 to June 2015, Director and Associate General Counsel of Deutsche Bank – Asset & Wealth Management Division, and Chief Legal Officer of Deutsche Investment Management Americas Inc. He is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since June 2015.

**JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.**

Assistant General Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since February 1984.

**JAMES BITETTO, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since December 1996.

**JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 60 years old and has been an employee of the Manager since October 1988.

**JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since June 2000.

**MAUREEN E. KANE, Vice President and Assistant Secretary since April 2015.**

Managing Counsel of BNY Mellon since July 2014; from October 2004 until July 2014, General Counsel, and from May 2009 until July 2014, Chief Compliance Officer of Century Capital Management. She is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since July 2014.

**SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.**

Senior Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 40 years old and has been an employee of the Manager since March 2013.

**JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.**

Senior Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since October 1990.

**JAMES WINDELS, Treasurer since November 2001.**

Director – Mutual Fund Accounting of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since April 1985.

**RICHARD CASSARO, Assistant Treasurer since January 2008.**

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since September 1982.

**GAVIN C. REILLY, Assistant Treasurer since December 2005.**

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since April 1991.

**ROBERT S. ROBOL, Assistant Treasurer since August 2005.**

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since October 1988.

**ROBERT SALVIOLO, Assistant Treasurer since July 2007.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since June 1989.

**ROBERT SVAGNA, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since November 1990.

**JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (66 investment companies, comprised of 164 portfolios). He is 58 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

**CARI M. CAROSELLA, Anti-Money Laundering Compliance Officer since January 2016**

Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust since January 2016; from May 2015 to December 2015, Interim Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust and the Distributor; from January 2012 to May 2015, AML Surveillance Officer of the Distributor and from 2007 to December 2011, Financial Processing Manager of the Distributor. She is an officer of 62 investment companies (comprised of 160 portfolios) managed by the Manager. She is 47 years old and has been an employee of the Distributor since 1997.

# For More Information

**Dreyfus Variable Investment Fund, Opportunistic Small Cap Portfolio**

200 Park Avenue
New York, NY 10166

**Investment Adviser**

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

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**Mail** The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144 Attn: Institutional Services Department

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**Internet** Information can be viewed online or downloaded at www.dreyfus.com

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the most recent 12-month period ended June 30 is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-DREYFUS.


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BNY MELLON | Dreyfus

# Dreyfus Variable Investment Fund, Quality Bond Portfolio

**ANNUAL REPORT**
December 31, 2015

BNY MELLON | Dreyfus

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

# Contents

## A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Variable Investment Fund, Quality Bond Portfolio, covering the 12-month period from January 1, 2015, through December 31, 2015. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

2015 was a year of varied and, at times, conflicting economic influences. On one hand, the U.S. economy continued to grow as domestic labor markets posted significant gains, housing markets recovered, and lower fuel prices put cash in consumers' pockets. Indeed, these factors, along with low inflation, prompted the Federal Reserve Board in December to raise short-term interest rates for the first time in nearly a decade. On the other hand, the global economy continued to disappoint, particularly in China and other emerging markets, when reduced industrial demand and declining currency values sparked substantial declines in commodity prices.

Although several broad measures of stock and bond performance ended 2015 roughly unchanged, high levels of volatility prevailed across most financial markets. Among U.S. equities, moderate gains from consumer discretionary and health care stocks were balanced by pronounced weakness in the energy and materials sectors. Bonds also saw bifurcated performance, with municipal bonds and intermediate-term U.S. government securities faring well compared to high yield and emerging-markets debt.

Market volatility is likely to persist until investors see greater clarity from the global economy. We expect to see wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets in 2016, suggesting that selectivity may be an important determinant of investment success. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2016

# DISCUSSION OF FUND PERFORMANCE

*For the period of January 1, 2015, through December 31, 2015, as provided by David Bowser, CFA, and David Horsfall, CFA, Portfolio Managers*

## Fund and Market Performance Overview

For the 12-month period ended December 31, 2015, Dreyfus Variable Investment Fund, Quality Bond Portfolio's Initial shares produced a total return of –1.65%, and its Service shares produced a total return of –1.89%.[1] The Barclays U.S. Aggregate Bond Index (the "Index"), the fund's benchmark, achieved a total return of 0.55% for the same period.[2]

Fixed-income securities produced disparate returns over the reporting period, with intermediate-term U.S. government securities outperforming riskier corporate-backed bonds. The fund lagged its benchmark, mainly due to shortfalls among corporate-backed securities and European sovereign bonds.

## The Fund's Investment Approach

The fund seeks to maximize total return consisting of capital appreciation and current income. To pursue this goal, the fund normally invests at least 80% of its net assets in bonds, including corporate bonds, debentures, notes, mortgage-related securities, collateralized mortgage obligations and asset-backed securities, convertible debt obligations, preferred stocks, convertible preferred stocks, municipal obligations, and zero coupon bonds, that, when purchased, are rated A or better or what we believe are the unrated equivalent, and in securities issued or guaranteed by the U.S. government or its agencies or its instrumentalities. The fund also may invest in fixed income securities rated lower than A (but not lower than B), at the time of purchase, up to 10% of its net assets in bonds issued by foreign issuers that are denominated in foreign currencies, and up to 20% of its net assets in bonds issued by foreign issuers whether denominated in U.S. dollars or in a foreign currency.

## Volatility Roiled Bond Markets

Although the fund's benchmark ended 2015 with roughly flat returns, the bond market encountered heightened volatility throughout the reporting period. The year began during a U.S. bond market rally in which aggressively accommodative monetary policies in major overseas markets sent yields of sovereign bonds sharply lower, sparking a surge in demand for U.S. Treasury securities. Investor demand began to normalize as the first quarter progressed, and robust employment gains briefly sent long-term bond yields higher until investors responded to weaker-than-expected U.S. economic data over the winter. The economy regained strength in the spring, and rising long-term Treasury yields erased previous price gains. However, worries about an economic slowdown in China and renewed declines in commodity prices again triggered a flight to quality over the summer, causing long-term bond yields to moderate and prices to rise. Volatility continued through the fall when investors reacted to weak global economic data and expectations that the Federal Reserve Board (the "Fed") would begin to raise short-term interest rates, as indeed it did in December.

Intermediate-term U.S. government securities produced positive absolute returns in this turbulent environment, but investment-grade corporate bonds lost some value and high yield bonds fell more sharply as credit spreads widened. Emerging-market debt securities fared particularly poorly amid persistent economic concerns and plummeting commodity prices.

## Security Selections Dampened Fund Results

The fund's underperformance compared to its benchmark was due, in part, to our security selections among investment-grade and high yield corporate bonds, as portfolio holdings from metals-and-mining companies and energy producers were hit hard by falling commodity prices. Relative results also were hurt by sovereign bonds from European nations, such as Italy and Spain, which lost value around midyear during an intensifying debt crisis in Greece. We sold the affected sovereign bonds from the fund's portfolio, and the fund did not participate in subsequent rebounds. Our relatively defensive interest rate strategies also detracted mildly from performance when a modestly-short average duration prevented the fund from participating in higher yields among longer-term securities.

The fund fared better in other areas of the bond market. Overweighted exposure to asset-backed securities proved especially beneficial, as the U.S. automobile loan receivables that comprise these holdings were generally unaffected by global economic concerns. Our currency strategies also fared relatively well due to a long position in the strengthening U.S. dollar and short positions in emerging-market currencies.

At times, we employed futures contracts and currency forward contracts to help establish the fund's interest rate and currency strategies, respectively, and we successfully used swap options to take advantage of changing inflation expectations.

## Finding Value in Dislocated Markets

Heightened market volatility appears likely to persist over the near term. The Fed is expected to implement more rate hikes in 2016, but central banks in Europe, Japan, and China seem set for more accommodative monetary policies.

As of the reporting period's end, we have maintained a cautiously constructive investment posture. The fund's positioning reflected modestly overweighted exposure to corporate bonds with a focus on those with sound underlying fundamentals and attractive valuations. We also have placed a mild emphasis on asset-backed securities and mortgage-backed securities. Finally, we have maintained a somewhat shorter-than-average duration posture due to concerns that the market's current expectations of future rate hikes may be understated.

January 15, 2016

*Bond funds are subject generally to interest rate, credit, liquidity, and market risks, to varying degrees, all of which are more fully described in the fund's prospectus. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines.*

*Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Each of these risks could increase the fund's volatility.*

*High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity.*

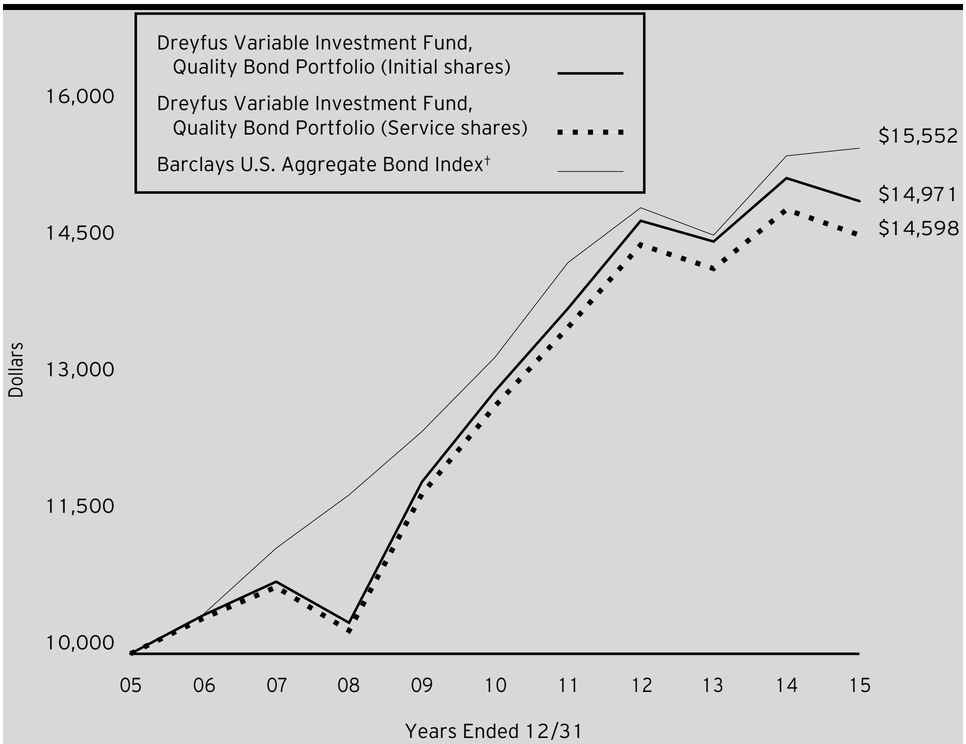
*The fund may use derivative instruments, such as options, futures, and options on futures, forward contracts, swaps (including credit default swaps on corporate bonds and asset-backed securities), options on swaps, and other credit derivatives. A small investment in derivatives could have a potentially large impact on the fund's performance.*

*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 Variable Investment Fund, Quality Bond Portfolio made available through insurance products may be similar to other funds managed or advised by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.*

[1] *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

[2] *SOURCE: Lipper Inc. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Barclays U.S. Aggregate Bond Index is a widely accepted, unmanaged total return index of corporate, U.S. government and U.S. government agency debt instruments, mortgage-backed securities, and asset-backed securities with an average maturity of 1-10 years. The Index does not include fees and expenses to which the fund is subject. Investors cannot invest directly in any index.*

# FUND PERFORMANCE




Comparison of change in value of $10,000 investment in Dreyfus Variable Investment Fund, Quality Bond Portfolio Initial shares and Service shares and the Barclays U. S. Aggregate Bond Index

**Average Annual Total Returns as *of 12/31/15***

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Initial shares** | **-1.65%** | **3.05%** | **4.12%** |
| **Service shares** | **-1.89%** | **2.80%** | **3.86%** |
| **Barclays U. S. Aggregate Bond Index** | **0.55%** | **3.25%** | **4.51%** |

*† Source: Lipper Inc.*

*Past performance is not predictive of future performance. The fund's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.*

***The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts which will reduce returns.***

*The above graph compares a $10,000 investment made in Initial and Service shares of Dreyfus Variable Investment Fund, Quality Bond Portfolio on 12/31/05 to a $10,000 investment made in the Barclays U.S. Aggregate Bond Index (the "Index") on that date. The fund's Initial shares are not subject to a Rule 12b-1 fee. The fund's Service shares are subject to a 0.25% annual Rule 12b-1 fee. All dividends and capital gain distributions are reinvested.*

*The fund's performance shown in the line graph above takes into account all applicable fund fees and expenses for Initial and Service shares. The Index is a widely accepted, unmanaged index of corporate, U.S. government and U.S. government agency debt instruments, mortgage-backed securities and asset-backed securities with an average maturity of 1-10 years. Unlike a mutual fund, the Index is not subject to charges, fees and other expenses. Investors cannot invest directly in any index. Further information relating to fund performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.*

## UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads), redemption fees and expenses associated with variable annuity or insurance contracts, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.*

### Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in Dreyfus Variable Investment Fund, Quality Bond Portfolio from July 1, 2015 to December 31, 2015. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

**Expenses and Value of a $1,000 Investment**

assuming actual returns for the six months ended December 31, 2015

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.62 | $ 5.87 |
| Ending value (after expenses) | $ 991.60 | $ 989.60 |

## COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

**Expenses and Value of a $1,000 Investment**

assuming a hypothetical 5% annualized return for the six months ended December 31, 2015

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.69 | $ 5.96 |
| Ending value (after expenses) | $ 1,020.57 | $ 1,019.31 |

† *Expenses are equal to the fund's annualized expense ratio of .92% for Initial shares and 1.17% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

# STATEMENT OF INVESTMENTS

December 31, 2015

| Bonds and Notes - 107.0% | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Asset-Backed Ctfs./Auto Receivables - 5.7%** | | | | |
| AmeriCredit Automobile Receivables Trust, Ser. 2011-5, Cl. D | 5.05 | 12/8/17 | 490,000 | 494,768 |
| AmeriCredit Automobile Receivables Trust, Ser. 2012-4, Cl. D | 2.68 | 10/9/18 | 245,000 | 246,930 |
| AmeriCredit Automobile Receivables Trust, Ser. 2012-5, Cl. D | 2.35 | 12/10/18 | 155,000 | 155,764 |
| AmeriCredit Automobile Receivables Trust, Ser. 2013-1, Cl. D | 2.09 | 2/8/19 | 305,000 | 305,026 |
| AmeriCredit Automobile Receivables Trust, Ser. 2014-1, Cl. D | 2.54 | 6/8/20 | 275,000 | 274,691 |
| Capital Auto Receivables Asset Trust, Ser. 2013-1, Cl. D | 2.19 | 9/20/21 | 160,000 | 159,589 |
| Santander Drive Auto Receivables Trust, Ser. 2011-3, Cl. D | 4.23 | 5/15/17 | 129,187 | 129,249 |
| Santander Drive Auto Receivables Trust, Ser. 2011-4, Cl. D | 4.74 | 9/15/17 | 215,684 | 217,401 |
| Santander Drive Auto Receivables Trust, Ser. 2012-1, Cl. C | 3.78 | 11/15/17 | 1,276 | 1,277 |
| Santander Drive Auto Receivables Trust, Ser. 2012-5, Cl. C | 2.70 | 8/15/18 | 330,051 | 331,751 |
| Santander Drive Auto Receivables Trust, Ser. 2012-6, Cl. D | 2.52 | 9/17/18 | 285,000 | 286,386 |
| Santander Drive Auto Receivables Trust, Ser. 2013-1, Cl. D | 2.27 | 1/15/19 | 210,000 | 210,110 |
| Santander Drive Auto Receivables Trust, Ser. 2013-2, Cl. D | 2.57 | 3/15/19 | 510,000 | 513,475 |
| | | | | **3,326,417** |
| **Asset-Backed Ctfs./Home Equity Loans - .2%** | | | | |
| First NLC Trust, Ser. 2005-2, Cl. M1 | 0.90 | 9/25/35 | 118,172 [a] | **116,269** |
| **Casinos - .3%** | | | | |
| International Game Technology, Sr. Scd. Notes | 6.25 | 2/15/22 | 215,000 [b] | **202,100** |
| **Commercial Mortgage Pass-Through Ctfs. - 5.8%** | | | | |
| Aventura Mall Trust, Ser. 2013-AVM, Cl. C | 3.87 | 12/5/32 | 420,000 [a,b] | 427,677 |
| Citigroup Commercial Mortgage Trust, Ser. 2007-C6, Cl. A4 | 5.90 | 12/10/49 | 200,000 [a] | 206,870 |
| Commercial Mortgage Trust, Ser. 2013-LC13, Cl. C | 5.21 | 8/10/46 | 130,000 [a,b] | 136,874 |
| Commercial Mortgage Trust, Ser. 2013-WWP, Cl. B | 3.73 | 3/10/31 | 150,000 [b] | 150,836 |
| Commercial Mortgage Trust, Ser. 2013-WWP, Cl. C | 3.54 | 3/10/31 | 175,000 [b] | 173,448 |
| Commercial Mortgage Trust, Ser. 2014-UBS2, Cl. AM | 4.20 | 3/10/47 | 70,000 | 72,847 |
| Commercial Mortgage Trust, Ser. 2014-UBS2, Cl. B | 4.70 | 3/10/47 | 50,000 | 52,815 |
| Commercial Mortgage Trust, Ser. 2015-LC19, Cl. AM | 3.53 | 2/10/48 | 170,000 | 169,876 |
| Credit Suisse Mortgage Trust, Ser. 2014-USA, Cl. B | 4.18 | 9/15/37 | 315,000 [b] | 322,302 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Commercial Mortgage Pass-Through Ctfs. - 5.8% (continued)** | | | | |
| Credit Suisse Mortgage Trust, Ser. 2014-USA, Cl. D | 4.37 | 9/15/37 | 175,000 [b] | 167,898 |
| Credit Suisse Mortgage Trust, Ser. 2014-USA, Cl. E | 4.37 | 9/15/37 | 190,000 [b] | 172,799 |
| Extended Stay America Trust, Ser. 2013-ESH7, Cl. C7 | 3.90 | 12/5/31 | 225,000 [b] | 225,795 |
| GAHR Commercial Mortgage Trust, Ser. 2015-NRF, Cl. BFX | 3.38 | 12/15/19 | 95,000 [a,b] | 95,023 |
| GAHR Commercial Mortgage Trust, Ser. 2015-NRF, Cl. DFX | 3.38 | 12/15/19 | 215,000 [a,b] | 207,480 |
| Hilton USA Trust, Ser. 2013-HLT, Cl. CFX | 3.71 | 11/5/30 | 345,000 [b] | 345,995 |
| Houston Galleria Mall Trust, Ser. 2015-HGLR, Cl. A1A2 | 3.09 | 3/5/37 | 100,000 [b] | 97,793 |
| Houston Galleria Mall Trust, Ser. 2015-HGLR, Cl. B | 3.19 | 3/5/37 | 220,000 [b] | 211,642 |
| JP Morgan Chase Commercial Mortgage Securities Trust, Ser. 2013-LC11, Cl. C | 3.96 | 4/15/46 | 165,000 [a] | 159,294 |
| | | | | **3,397,264** |
| **Consumer Discretionary - 3.0%** | | | | |
| 21st Century Fox America, Gtd. Notes | 4.00 | 10/1/23 | 90,000 | 93,116 |
| Comcast, Gtd. Notes | 6.30 | 11/15/17 | 85,000 | 92,503 |
| Cox Communications, Sr. Unscd. Notes | 6.25 | 6/1/18 | 205,000 [b] | 220,413 |
| CVS Pass-Through Trust, Pass Thru Certificates Notes | 6.04 | 12/10/28 | 246,967 | 271,638 |
| CVS Pass-Through Trust, Pass Thru Certificates Notes | 8.35 | 7/10/31 | 231,507 [b] | 286,963 |
| Dollar Tree, Gtd. Notes | 5.75 | 3/1/23 | 145,000 [b] | 150,800 |
| Sky, Gtd. Notes | 3.75 | 9/16/24 | 345,000 [b] | 337,571 |
| Time Warner, Gtd. Debs. | 5.35 | 12/15/43 | 210,000 | 210,454 |
| United Rentals North America, Gtd. Notes | 5.50 | 7/15/25 | 120,000 | 116,850 |
| | | | | **1,780,308** |
| **Consumer Staples - 1.6%** | | | | |
| Kraft Heinz Foods, Gtd. Notes | 3.95 | 7/15/25 | 155,000 [b] | 156,745 |
| Reynolds American, Gtd. Notes | 3.75 | 5/20/23 | 215,000 | 214,850 |
| Reynolds American, Gtd. Notes | 4.85 | 9/15/23 | 310,000 | 331,921 |
| Wm. Wrigley Jr., Sr. Unscd. Notes | 3.38 | 10/21/20 | 235,000 [b] | 239,841 |
| | | | | **943,357** |
| **Energy - 6.3%** | | | | |
| Anadarko Petroleum, Sr. Unscd. Notes | 6.38 | 9/15/17 | 165,000 | 173,092 |
| Carrizo Oil & Gas, Gtd. Notes | 7.50 | 9/15/20 | 215,000 | 188,931 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Energy - 6.3% (continued)** | | | | |
| Carrizo Oil & Gas, Gtd. Notes | 6.25 | 4/15/23 | 60,000 | 48,900 |
| Columbia Pipeline Group, Gtd. Notes | 4.50 | 6/1/25 | 195,000 [b] | 177,047 |
| Continental Resources, Gtd. Notes | 5.00 | 9/15/22 | 165,000 | 121,894 |
| Continental Resources, Gtd. Notes | 3.80 | 6/1/24 | 130,000 | 91,729 |
| Continental Resources, Gtd. Notes | 4.90 | 6/1/44 | 95,000 | 57,449 |
| Energy Transfer Partners, Sr. Unscd. Notes | 4.90 | 2/1/24 | 210,000 | 187,507 |
| Energy Transfer Partners, Sr. Unscd. Notes | 5.15 | 2/1/43 | 270,000 | 193,612 |
| Ensco, Sr. Unscd. Notes | 4.50 | 10/1/24 | 395,000 | 272,358 |
| Freeport-McMoran Oil & Gas, Gtd. Notes | 6.88 | 2/15/23 | 310,000 | 196,075 |
| Kinder Morgan, Gtd. Notes | 7.75 | 1/15/32 | 235,000 | 223,989 |
| Kinder Morgan Energy Partners, Sr. Unscd. Notes | 6.85 | 2/15/20 | 170,000 | 175,991 |
| Laredo Petroleum, Gtd. Notes | 7.38 | 5/1/22 | 190,000 [c] | 175,750 |
| Marathon Petroleum, Sr. Unscd. Notes | 3.63 | 9/15/24 | 355,000 | 331,407 |
| Sempra Energy, Sr. Unscd. Notes | 6.50 | 6/1/16 | 295,000 | 300,388 |
| Spectra Energy Partners, Sr. Unscd. Notes | 2.95 | 9/25/18 | 80,000 | 78,656 |
| Spectra Energy Partners, Sr. Unscd. Notes | 4.75 | 3/15/24 | 70,000 | 67,921 |
| Talisman Energy, Sr. Unscd. Notes | 3.75 | 2/1/21 | 135,000 | 122,542 |
| Unit, Gtd. Notes | 6.63 | 5/15/21 | 85,000 | 61,625 |
| Whiting Petroleum, Gtd. Notes | 5.75 | 3/15/21 | 155,000 [c] | 113,770 |
| Williams Partners, Sr. Unscd. Notes | 3.35 | 8/15/22 | 125,000 | 95,016 |
| Williams Partners, Sr. Unscd. Notes | 4.50 | 11/15/23 | 180,000 | 145,922 |
| Williams Partners, Sr. Unscd. Notes | 6.30 | 4/15/40 | 65,000 | 50,012 |
| | | | | **3,651,583** |
| **Financials - 14.8%** | | | | |
| ABN AMRO Bank, Sr. Unscd. Notes | 2.50 | 10/30/18 | 230,000 [b] | 231,784 |
| American Express Credit, Unscd. Notes | 2.60 | 9/14/20 | 135,000 | 135,399 |
| Bank of America, Sr. Unscd. Notes | 1.36 | 1/15/19 | 400,000 [a] | 401,764 |
| Bank of America, Sr. Unscd. Notes | 5.63 | 7/1/20 | 40,000 | 44,475 |
| Bank of America, Sr. Unscd. Notes | 4.00 | 4/1/24 | 365,000 | 373,944 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Financials - 14.8% (continued)** | | | | |
| Bank of America, Sub. Notes | 5.70 | 5/2/17 | 320,000 | 333,827 |
| Bank of America, Sub. Notes | 4.25 | 10/22/26 | 60,000 | 59,517 |
| Barclays, Sub. Notes | 4.38 | 9/11/24 | 355,000 | 347,801 |
| CIT Group, Sr. Unscd. Notes | 5.00 | 5/15/17 | 85,000 [c] | 87,762 |
| Citigroup, Sr. Unscd. Notes | 4.65 | 7/30/45 | 185,000 | 188,495 |
| Citigroup, Sub. Notes | 5.50 | 9/13/25 | 255,000 | 277,325 |
| DDR, Sr. Unscd. Notes | 4.75 | 4/15/18 | 340,000 | 355,855 |
| Denali Borrower, Sr. Scd. Notes | 5.63 | 10/15/20 | 170,000 [b] | 178,500 |
| Discover Financial Services, Sr. Unscd. Notes | 5.20 | 4/27/22 | 274,000 | 293,395 |
| ERAC USA Finance, Gtd. Notes | 6.38 | 10/15/17 | 120,000 [b] | 128,919 |
| ERAC USA Finance, Gtd. Notes | 3.85 | 11/15/24 | 60,000 [b] | 60,134 |
| Ford Motor Credit, Sr. Unscd. Notes, Ser. 1 | 1.33 | 3/12/19 | 315,000 [a] | 308,599 |
| General Electric Capital, Gtd. Notes | 0.83 | 1/14/19 | 360,000 [a] | 359,810 |
| Goldman Sachs Group, Sr. Unscd. Notes | 1.46 | 11/15/18 | 385,000 [a] | 386,833 |
| Goldman Sachs Group, Sr. Unscd. Notes | 2.75 | 9/15/20 | 105,000 | 105,046 |
| Goldman Sachs Group, Sr. Unscd. Notes | 2.01 | 11/29/23 | 375,000 [a] | 379,014 |
| Health Care REIT, Sr. Unscd. Notes | 5.13 | 3/15/43 | 280,000 | 281,704 |
| HSBC Holdings, Sr. Unscd. Notes | 4.00 | 3/30/22 | 335,000 | 351,963 |
| JPMorgan Chase & Co., Sr. Notes | 4.25 | 10/1/27 | 360,000 | 359,963 |
| JPMorgan Chase & Co., Sr. Unscd. Notes | 4.35 | 8/15/21 | 150,000 | 159,754 |
| Morgan Stanley, Sr. Unscd. Bonds | 3.70 | 10/23/24 | 60,000 | 60,401 |
| Morgan Stanley, Sr. Unscd. Notes | 5.50 | 7/28/21 | 100,000 | 112,173 |
| Morgan Stanley, Sr. Unscd. Notes | 3.75 | 2/25/23 | 65,000 | 66,681 |
| Morgan Stanley, Sr. Unscd. Notes | 4.00 | 7/23/25 | 55,000 | 56,750 |
| Pacific LifeCorp, Sr. Unscd. Notes | 5.13 | 1/30/43 | 360,000 [b] | 369,494 |
| Prudential Financial, Jr. Sub. Notes | 5.88 | 9/15/42 | 240,000 [a] | 250,680 |
| Quicken Loans, Gtd. Notes | 5.75 | 5/1/25 | 140,000 [b] | 133,875 |
| Regency Centers, Gtd. Notes | 5.88 | 6/15/17 | 96,000 | 101,270 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Financials - 14.8% (continued)** | | | | |
| Royal Bank of Scotland, Sub. Notes | 9.50 | 3/16/22 | 445,000 [a] | 482,740 |
| Synchrony Financial, Sr. Unscd. Notes | 3.75 | 8/15/21 | 160,000 | 160,025 |
| UBS Group Funding, Gtd. Notes | 4.13 | 9/24/25 | 200,000 [b] | 200,190 |
| Volkswagen Group of America Finance, Gtd. Notes | 1.25 | 5/23/17 | 200,000 [b] | 195,285 |
| Wells Fargo & Co., Sub. Notes | 4.30 | 7/22/27 | 230,000 | 235,273 |
| | | | | **8,616,419** |
| **Foreign/Governmental - 2.1%** | | | | |
| Brazilian Government, Sr. Unscd. Notes | 2.63 | 1/5/23 | 355,000 [c] | 270,687 |
| Comision Federal de Electricidad, Sr. Unscd. Notes | 4.88 | 1/15/24 | 310,000 [b] | 306,900 |
| Mexican Government, Sr. Unscd. Notes | 4.75 | 3/8/44 | 200,000 | 182,700 |
| Petroleos Mexicanos, Gtd. Notes | 5.50 | 1/21/21 | 140,000 | 141,568 |
| Portuguese Government, Unscd. Notes | 5.13 | 10/15/24 | 180,000 [b] | 184,104 |
| Uruguayan Government, Sr. Unscd. Notes | 4.50 | 8/14/24 | 55,000 [c] | 55,962 |
| Uruguayan Government, Sr. Unscd. Notes | 4.38 | 10/27/27 | 95,000 | 93,812 |
| | | | | **1,235,733** |
| **Health Care - 2.8%** | | | | |
| AmerisourceBergen, Sr. Unscd. Notes | 3.25 | 3/1/25 | 95,000 | 92,158 |
| Anthem, Sr. Unscd. Notes | 2.30 | 7/15/18 | 300,000 | 299,617 |
| Celgene, Sr. Unscsd. Notes | 3.55 | 8/15/22 | 155,000 | 156,736 |
| Endo Finance, Gtd. Notes | 6.00 | 7/15/23 | 235,000 [b] | 235,000 |
| Fresenius Medical Care US Finance II, Gtd. Notes | 4.13 | 10/15/20 | 110,000 [b] | 111,650 |
| Gilead Sciences, Sr. Unscd. Notes | 3.65 | 3/1/26 | 155,000 | 156,508 |
| Gilead Sciences, Sr. Unscd. Notes | 4.75 | 3/1/46 | 200,000 [c] | 202,889 |
| Medtronic, Gtd. Notes | 4.63 | 3/15/45 | 195,000 | 201,622 |
| Zimmer Holdings, Sr. Unscd. Notes | 3.55 | 4/1/25 | 160,000 | 155,778 |
| | | | | **1,611,958** |
| **Industrials - .2%** | | | | |
| Waste Management, Gtd. Notes | 6.10 | 3/15/18 | 105,000 | **114,512** |
| **Information Technology - .3%** | | | | |
| Hewlett Packard Enterprise, Gtd. Notes | 4.40 | 10/15/22 | 175,000 [b] | **174,582** |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Materials - 2.0%** | | | | |
| Agrium, Sr. Unscd. Bonds | 4.13 | 3/15/35 | 70,000 | 59,732 |
| Agrium, Sr. Unscd. Notes | 3.38 | 3/15/25 | 115,000 | 105,124 |
| Dow Chemical, Sr. Unscd. Bonds | 3.50 | 10/1/24 | 195,000 | 189,424 |
| Freeport-McMoRan, Gtd. Notes | 5.45 | 3/15/43 | 325,000 | 170,625 |
| Glencore Funding, Gtd. Notes | 4.63 | 4/29/24 | 165,000 [b] | 120,645 |
| LYB International Finance, Gtd. Bonds | 4.00 | 7/15/23 | 120,000 | 119,817 |
| Mosaic, Sr. Unscd. Notes | 4.25 | 11/15/23 | 235,000 | 233,135 |
| Rio Tinto Finance USA, Gtd. Notes | 3.75 | 6/15/25 | 175,000 | 159,165 |
| | | | | **1,157,667** |
| **Municipal Bonds - 2.0%** | | | | |
| California, GO (Build America Bonds) | 7.30 | 10/1/39 | 340,000 | 476,201 |
| Chicago, GO (Project and Refunding Series) | 6.31 | 1/1/44 | 65,000 | 62,250 |
| Illinois, GO (Pension Funding Series) | 5.10 | 6/1/33 | 110,000 | 104,131 |
| New Jersey Economic Development Authority, School Facilities Construction Revenue | 4.45 | 6/15/20 | 305,000 | 304,713 |
| New York City, GO (Build America Bonds) | 5.99 | 12/1/36 | 200,000 | 244,678 |
| | | | | **1,191,973** |
| **Telecommunications - 2.5%** | | | | |
| AT&T, Sr. Unscd. Notes | 1.32 | 11/27/18 | 310,000 [a] | 310,489 |
| Digicel, Sr. Unscd. Notes | 6.00 | 4/15/21 | 200,000 [b] | 169,500 |
| Frontier Communications, Sr. Unscd. Notes | 8.75 | 4/15/22 | 175,000 | 162,750 |
| Rogers Communications, Gtd. Notes | 4.10 | 10/1/23 | 185,000 | 190,926 |
| T-Mobile USA, Gtd. Bonds | 6.13 | 1/15/22 | 90,000 | 92,700 |
| Verizon Communications, Sr. Unscd. Notes | 5.15 | 9/15/23 | 160,000 | 176,174 |
| West, Gtd. Notes | 5.38 | 7/15/22 | 175,000 [b] | 151,594 |
| Wind Acquisition Finance, Scd. Notes | 7.38 | 4/23/21 | 200,000 [b] | 189,500 |
| | | | | **1,443,633** |
| **U.S. Government Agencies/Mortgage-Backed - 30.0%** | | | | |
| Federal Home Loan Mortgage Corp. | | | | |
| 4.00% | | | 2,135,000 [d,e] | 2,255,552 |
| 3.50%, 8/1/45 | | | 248,562 [d] | 256,460 |
| 5.50%, 5/1/40 | | | 12,128 [d] | 13,419 |
| Federal National Mortgage Association | | | | |
| 4.50% | | | 300,000 [d,e] | 324,009 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **U.S. Government Agencies/Mortgage-Backed - 30.0% (continued)** | | | | |
| 2.96%, 10/1/25 | | | 310,000 [d] | 310,171 |
| 3.00%, 12/1/25-7/1/43 | | | 2,649,618 [d] | 2,714,637 |
| 3.02%, 1/1/26 | | | 200,000 [d] | 201,875 |
| 3.03%, 12/1/25 | | | 170,000 [d] | 171,241 |
| 3.23%, 1/29/26 | | | 200,000 [d] | 203,094 |
| 3.50%, 5/1/30-11/1/45 | | | 4,328,076 [d] | 4,480,390 |
| 4.00%, 12/1/43 | | | 780,357 [d] | 829,495 |
| 5.00%, 3/1/21-10/1/33 | | | 989,678 [d] | 1,089,401 |
| 5.50%, 2/1/34-7/1/40 | | | 234,838 [d] | 264,382 |
| 6.00%, 2/1/39 | | | 27,763 [d] | 31,350 |
| 7.00%, 6/1/29-9/1/29 | | | 19,581 [d] | 20,695 |
| Government National Mortgage Association I | | | | |
| 5.50%, 4/15/33 | | | 386,321 | 437,722 |
| Government National Mortgage Association II | | | | |
| 4.50% | | | 1,555,000 [e] | 1,670,896 |
| 3.00%, 10/20/45-11/20/45 | | | 2,178,233 | 2,211,414 |
| 7.00%, 9/20/28-7/20/29 | | | 4,864 | 5,644 |
| | | | | **17,491,847** |
| **U.S. Government Securities - 23.9%** | | | | |
| U.S. Treasury Bonds | 2.50 | 2/15/45 | 1,970,000 [c] | 1,768,075 |
| U.S. Treasury Bonds | 3.00 | 5/15/45 | 1,480,000 | 1,473,612 |
| U.S. Treasury Floating Rate Notes | 0.33 | 7/31/16 | 2,450,000 [a] | 2,450,639 |
| U.S. Treasury Floating Rate Notes | 0.34 | 7/31/17 | 3,000,000 [a] | 2,995,389 |
| U.S. Treasury Notes | 0.63 | 6/30/17 | 1,745,000 [c] | 1,736,446 |
| U.S. Treasury Notes | 0.63 | 7/31/17 | 1,575,000 [c] | 1,566,418 |
| U.S. Treasury Notes | 0.88 | 7/15/18 | 745,000 | 738,350 |
| U.S. Treasury Notes | 1.63 | 7/31/20 | 205,000 | 204,039 |
| U.S. Treasury Notes | 1.38 | 9/30/20 | 1,030,000 | 1,012,317 |
| | | | | **13,945,285** |
| **Utilities - 3.5%** | | | | |
| AES, | | | | |
| Sr. Unscd. Notes | 8.00 | 6/1/20 | 80,000 [c] | 88,400 |
| Calpine, | | | | |
| Sr. Unscd. Notes | 5.75 | 1/15/25 | 330,000 | 292,462 |
| Consolidated Edison Company of New York, | | | | |
| Sr. Unscd. Debs., Ser. 06-D | 5.30 | 12/1/16 | 400,000 | 414,942 |
| Dominion Resources, | | | | |
| Sr. Unscd. Notes | 3.90 | 10/1/25 | 115,000 | 115,351 |
| Dynegy, | | | | |
| Gtd. Notes | 6.75 | 11/1/19 | 35,000 | 33,075 |
| Dynegy, | | | | |
| Gtd. Notes | 7.38 | 11/1/22 | 310,000 | 271,250 |
| Enel Finance International, | | | | |
| Gtd. Notes | 6.00 | 10/7/39 | 160,000 [b] | 179,495 |
| Exelon Generation, | | | | |
| Sr. Unscd. Notes | 6.25 | 10/1/39 | 185,000 | 187,724 |
| Kentucky Utilities, | | | | |
| First Mortgage Bonds | 4.38 | 10/1/45 | 80,000 | 82,427 |
| Louisville Gas & Electric, | | | | |
| First Mortgage Bonds | 4.38 | 10/1/45 | 90,000 | 92,179 |
| Nevada Power, | | | | |
| Mortgage Notes, Ser. R | 6.75 | 7/1/37 | 150,000 | 190,629 |

| Bonds and Notes - 107.0% (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | Value ($) |
|---|---|---|---|---|
| **Utilities - 3.5% (continued)** | | | | |
| NRG Energy, | | | | |
| Gtd. Notes | 6.25 | 7/15/22 | 145,000 | 124,265 |
| | | | | **2,072,199** |
| **Total Bonds and Notes** (cost $63,277,358) | | | | **62,473,106** |
| **Short-Term Investments - .1%** | | | | |
| U.S. Treasury Bills | 0.00 | 2/11/16 | 10,000 [f] | 9,999 |
| U.S. Treasury Bills | 0.13 | 3/31/16 | 65,000 [f] | 64,974 |
| **Total Short-Term Investments** (cost $74,978) | | | | **74,973** |
| **Other Investment - 1.0%** | | | Shares | Value ($) |
| **Registered Investment Company;** | | | | |
| Dreyfus Institutional Preferred Plus Money Market Fund (cost $580,061) | | | 580,061 [g] | **580,061** |
| **Investment of Cash Collateral for Securities Loaned - .5%** | | | | |
| **Registered Investment Company;** | | | | |
| Dreyfus Institutional Cash Advantage Fund (cost $266,500) | | | 266,500 [g] | **266,500** |
| **Total Investments** (cost $64,198,897) | | | **108.6%** | **63,394,640** |
| **Liabilities, Less Cash and Receivables** | | | **(8.6%)** | **(5,023,185)** |
| **Net Assets** | | | **100.0%** | **58,371,455** |

*GO—General Obligation*
*REIT—Real Estate Investment Trust*

[a] *Variable rate security—interest rate subject to periodic change.*
[b] *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, 2015, these securities were valued at $7,828,193 or 13.41% of net assets.*
[c] *Security, or portion thereof, on loan. At December 31, 2015, the value of the fund's securities on loan was $4,498,324 and the value of the collateral held by the fund was $4,622,544 consisting of cash collateral of $266,500 and U.S. Government & Agency securities valued at $4,356,044.*
[d] *The Federal Housing Finance Agency ("FHFA") placed the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association into conservatorship with FHFA as the conservator. As such, the FHFA oversees the continuing affairs of these companies.*
[e] *Purchased on a forward commitment basis.*
[f] *Held by or on behalf of a counterparty for open financial futures contracts.*
[g] *Investment in affiliated money market mutual fund.*

| Portfolio Summary (Unaudited) † | Value (%) |
|---|---|
| U.S. Government and Agencies/Mortgage-Backed | 53.9 |
| Corporate Bonds | 37.3 |
| Asset-Backed | 5.9 |
| Commercial Mortgage Pass-Through Ctfs. | 5.8 |
| Foreign/Governmental | 2.1 |
| Municipal Bonds | 2.0 |
| Short-Term/Money Market Investments | 1.6 |
| | **108.6** |

† *Based on net assets.*
*See notes to financial statements.*

# STATEMENT OF FINANCIAL FUTURES
December 31, 2015

| | Contracts | Market Value Covered by Contracts ($) | Expiration | Unrealized Appreciation (Depreciation) at 12/31/2015 ($) |
|---|---|---|---|---|
| **Financial Futures Long** | | | | |
| Australian 3 Year Bond | 30 | 2,436,778 | March 2016 | 5,064 |
| U.S. Treasury 2 Year Notes | 6 | 1,303,406 | March 2016 | (2,156) |
| U.S. Treasury 5 Year Notes | 24 | 2,839,688 | March 2016 | (4,508) |
| **Financial Futures Short** | | | | |
| U.S. Treasury 10 Year Notes | 30 | (3,777,188) | March 2016 | 8,781 |
| **Gross Unrealized Appreciation** | | | | **13,845** |
| **Gross Unrealized Depreciation** | | | | **(6,664)** |

*See notes to financial statements.*

# STATEMENT OF OPTIONS WRITTEN
December 31, 2015

| | | Face Amount Covered by Contracts[a] | Value ($) |
|---|---|---|---|
| **Call Options:** | | | |
| Brazilian Real, February 2016 @ BRL 4.4 | | 90,000 | (923) |
| Colombian Peso, January 2016 @ COP 3,200 | | 90,000 | (673) |
| Euro, March 2016 @ EUR 1.06 | | 90,000 | (651) |
| Hungarian Forint, February 2016 @ HUF 302 | | 90,000 | (264) |
| Malaysian Ringgit, January 2016 @ MYR 4.4 | | 90,000 | (309) |
| New Zealand Dollar, January 2016 @ NZD 1.12 | AUD | 130,000 | - |
| South African Rand, January 2016 @ ZAR 14.5 | | 90,000 | (6,011) |
| South African Rand, January 2016 @ ZAR 15 | | 90,000 | (2,889) |
| South African Rand, March 2016 @ ZAR 16 | | 90,000 | (2,350) |
| South Korean Won, February 2016 @ KRW 1,210 | | 90,000 | (408) |
| Swedish Krona, February 2016 @ SEK 9.5 | EUR | 85,000 | (51) |
| Turkish Lira, January 2016 @ TRY 3.1 | | 90,000 | (72) |
| **Put Options:** | | | |
| Brazilian Real, January 2016 @ BRL 3.7 | | 90,000 | (1) |
| Brazilian Real, February 2016 @ BRL 3.5 | | 90,000 | (120) |
| Chilean Peso, January 2016 @ CLP 650 | | 90,000 | - |
| Euro, March 2016 @ EUR 1.13 | | 90,000 | (326) |

| | | Face Amount Covered by Contracts[a] | Value ($) |
|---|---|---|---|
| Mexican New Peso, | | | |
| January 2016 @ MXN 16.1 | | 90,000 | - |
| New Zealand Dollar, | | | |
| January 2016 @ NZD 1.05 | AUD | 130,000 | (22) |
| South Korean Won, | | | |
| January 2016 @ KRW 1,110 | | 90,000 | (6) |
| **Total Options Written** | | | |
| (premiums received $19,588) | | | **(15,076)** |

[a] *Face amount denominated in U.S. Dollars unless otherwise indicated.*

*AUD—Australian Dollar*
*BRL—Brazilian Real*
*CLP—Chilean Peso*
*COP—Colombian Peso*
*EUR—Euro*
*HUF—Hungarian Forint*
*KRW—South Korean Won*
*MXN—Mexican New Peso*
*MYR—Malaysian Ringgit*
*NZD—New Zealand Dollar*
*SEK—Swedish Krona*
*TRY—Turkish Lira*
*ZAR—South African Rand*

*See notes to financial statements.*

# STATEMENT OF ASSETS AND LIABILITIES

December 31, 2015

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities—See Statement of Investments | | |
| (including securities on loan, valued at $4,498,324)—Note 1(c): | | |
| Unaffiliated issuers | 63,352,336 | 62,548,079 |
| Affiliated issuers | 846,561 | 846,561 |
| Cash | | 5,589 |
| Cash denominated in foreign currency | 1,143 | 1,153 |
| Receivable for investment securities sold | | 640,267 |
| Dividends, interest and securities lending income receivable | | 409,977 |
| Unrealized appreciation on swap agreements—Note 4 | | 40,821 |
| Unrealized appreciation on forward foreign | | |
| currency exchange contracts—Note 4 | | 35,297 |
| Prepaid expenses | | 923 |
| | | **64,528,667** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(b) | | 46,905 |
| Payable for open mortgage dollar roll transactions—Note 4 | | 4,260,533 |
| Payable for investment securities purchased | | 1,468,907 |
| Liability for securities on loan—Note 1(c) | | 266,500 |
| Unrealized depreciation on forward foreign | | |
| currency exchange contracts—Note 4 | | 19,649 |
| Outstanding options written, at value (premiums received | | |
| $19,588)—See Statement of Options Written—Note 4 | | 15,076 |
| Payable for futures variation margin—Note 4 | | 5,934 |
| Payable for shares of Beneficial Interest redeemed | | 5,678 |
| Accrued expenses | | 68,030 |
| | | **6,157,212** |
| **Net Assets ($)** | | **58,371,455** |
| **Composition of Net Assets ($):** | | |
| Paid-in capital | | 59,920,984 |
| Accumulated undistributed investment income—net | | 79,232 |
| Accumulated net realized gain (loss) on investments | | (887,092) |
| Accumulated net unrealized appreciation (depreciation) | | |
| on investments, options transactions, swap transactions and | | |
| foreign currency transactions (including $7,181 net | | |
| unrealized appreciation on financial futures) | | (741,669) |
| **Net Assets ($)** | | **58,371,455** |

| **Net Asset Value Per Share** | Initial Shares | Service Shares |
|---|---|---|
| Net Assets ($) | 44,056,995 | 14,314,460 |
| Shares Outstanding | 3,759,764 | 1,226,867 |
| **Net Asset Value Per Share ($)** | **11.72** | **11.67** |

*See notes to financial statements.*

# STATEMENT OF OPERATIONS

Year Ended December 31, 2015

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Interest | 1,783,107 |
| Dividends from affiliated issuers | 1,613 |
| Income from securities lending—Note 1(c) | 7,572 |
| **Total Income** | **1,792,292** |
| **Expenses:** | |
| Investment advisory fee—Note 3(a) | 411,495 |
| Professional fees | 69,595 |
| Distribution fees—Note 3(b) | 39,941 |
| Prospectus and shareholders' reports | 32,641 |
| Custodian fees—Note 3(b) | 12,301 |
| Trustees' fees and expenses—Note 3(c) | 4,809 |
| Loan commitment fees—Note 2 | 922 |
| Shareholder servicing costs—Note 3(b) | 561 |
| Miscellaneous | 51,014 |
| **Total Expenses** | **623,279** |
| Less—reduction in fees due to earnings credits—Note 3(b) | (2) |
| **Net Expenses** | **623,277** |
| **Investment Income—Net** | **1,169,015** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments and foreign currency transactions | 494,770 |
| Net realized gain (loss) on options transactions | (51,923) |
| Net realized gain (loss) on financial futures | (9,502) |
| Net realized gain (loss) on swap transactions | 16,406 |
| Net realized gain (loss) on forward foreign currency exchange contracts | 170,228 |
| **Net Realized Gain (Loss)** | **619,979** |
| Net unrealized appreciation (depreciation) on investments and foreign currency transactions | (2,861,244) |
| Net unrealized appreciation (depreciation) on options transactions | 4,512 |
| Net unrealized appreciation (depreciation) on financial futures | 26,486 |
| Net unrealized appreciation (depreciation) on swap transactions | 40,821 |
| Net unrealized appreciation (depreciation) on forward foreign currency exchange contracts | (5,767) |
| **Net Unrealized Appreciation (Depreciation)** | **(2,795,192)** |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **(2,175,213)** |
| **Net (Decrease) in Net Assets Resulting from Operations** | **(1,006,198)** |

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Operations ($):** | | |
| Investment income—net | 1,169,015 | 1,166,231 |
| Net realized gain (loss) on investments | 619,979 | 1,158,831 |
| Net unrealized appreciation (depreciation) on investments | (2,795,192) | 1,045,303 |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | **(1,006,198)** | **3,370,365** |
| **Dividends to Shareholders from ($):** | | |
| Investment income—net: | | |
| Initial Shares | (962,905) | (1,134,201) |
| Service Shares | (289,220) | (348,565) |
| **Total Dividends** | **(1,252,125)** | **(1,482,766)** |
| **Beneficial Interest Transactions ($):** | | |
| Net proceeds from shares sold: | | |
| Initial Shares | 4,199,364 | 2,812,762 |
| Service Shares | 887,312 | 1,451,337 |
| Dividends reinvested: | | |
| Initial Shares | 962,905 | 1,134,201 |
| Service Shares | 289,220 | 348,565 |
| Cost of shares redeemed: | | |
| Initial Shares | (9,288,329) | (10,808,535) |
| Service Shares | (3,660,289) | (4,484,712) |
| **Increase (Decrease) in Net Assets from Beneficial Interest Transactions** | **(6,609,817)** | **(9,546,382)** |
| **Total Increase (Decrease) in Net Assets** | **(8,868,140)** | **(7,658,783)** |
| **Net Assets ($):** | | |
| Beginning of Period | 67,239,595 | 74,898,378 |
| **End of Period** | **58,371,455** | **67,239,595** |
| Undistributed investment income—net | 79,232 | 209,710 |

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Capital Share Transactions (Shares):** | | |
| **Initial Shares** | | |
| Shares sold | 347,625 | 233,647 |
| Shares issued for dividends reinvested | 79,851 | 94,271 |
| Shares redeemed | (770,402) | (896,303) |
| **Net Increase (Decrease) in Shares Outstanding** | **(342,926)** | **(568,385)** |
| **Service Shares** | | |
| Shares sold | 73,533 | 120,720 |
| Shares issued for dividends reinvested | 24,073 | 29,099 |
| Shares redeemed | (304,358) | (373,952) |
| **Net Increase (Decrease) in Shares Outstanding** | **(206,752)** | **(224,133)** |

*See notes to financial statements.*

## FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Initial Shares** | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 12.16 | 11.85 | 12.37 | 11.92 | 11.55 |
| Investment Operations: | | | | | |
| Investment income—net[a] | .23 | .20 | .21 | .22 | .29 |
| Net realized and unrealized gain (loss) on investments | (.43) | .36 | (.39) | .59 | .51 |
| Total from Investment Operations | (.20) | .56 | (.18) | .81 | .80 |
| Distributions: | | | | | |
| Dividends from investment income-net | (.24) | (.25) | (.34) | (.36) | (.43) |
| Net asset value, end of period | 11.72 | 12.16 | 11.85 | 12.37 | 11.92 |
| **Total Return (%)** | (1.65) | 4.79 | (1.54) | 7.00 | 7.04 |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | .92 | .85 | .92 | .84 | .79 |
| Ratio of net expenses to average net assets | .92 | .85 | .92 | .84 | .79 |
| Ratio of net investment income to average net assets | 1.91 | 1.68 | 1.76 | 1.80 | 2.54 |
| Portfolio Turnover Rate[b] | 314.50 | 387.86 | 397.26 | 518.55 | 379.94 |
| Net Assets, end of period ($ x 1,000) | 44,057 | 49,880 | 55,337 | 66,251 | 69,072 |

[a] *Based on average shares outstanding.*
[b] *The portfolio turnover rates excluding mortgage dollar roll transactions for the periods ended December 31, 2015, 2014, 2013, 2012 and 2011 were 120.54%, 182.67%, 176.37%, 269.42% and 162.19%, respectively.*
*See notes to financial statements.*

| Service Shares | Year Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 12.11 | 11.80 | 12.33 | 11.88 | 11.51 |
| Investment Operations: | | | | | |
| Investment income—net[a] | .20 | .17 | .18 | .19 | .26 |
| Net realized and unrealized gain (loss) on investments | (.42) | .36 | (.40) | .59 | .51 |
| Total from Investment Operations | (.22) | .53 | (.22) | .78 | .77 |
| Distributions: | | | | | |
| Dividends from investment income-net | (.22) | (.22) | (.31) | (.33) | (.40) |
| Net asset value, end of period | 11.67 | 12.11 | 11.80 | 12.33 | 11.88 |
| **Total Return (%)** | (1.89) | 4.56 | (1.80) | 6.70 | 6.78 |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | 1.17 | 1.10 | 1.17 | 1.09 | 1.04 |
| Ratio of net expenses to average net assets | 1.17 | 1.10 | 1.17 | 1.09 | 1.04 |
| Ratio of net investment income to average net assets | 1.66 | 1.43 | 1.51 | 1.55 | 2.22 |
| Portfolio Turnover Rate[b] | 314.50 | 387.86 | 397.26 | 518.55 | 379.94 |
| Net Assets, end of period ($ x 1,000) | 14,314 | 17,359 | 19,561 | 24,378 | 26,776 |

[a] *Based on average shares outstanding.*

[b] *The portfolio turnover rates excluding mortgage dollar roll transactions for the periods ended December 31, 2015, 2014, 2013, 2012 and 2011 were 120.54%, 182.67%, 176.37%, 269.42% and 162.19%, respectively.*

*See notes to financial statements.*

**NOTE 1—Significant Accounting Policies:**

Quality Bond Portfolio (the "fund") is a separate diversified series of Dreyfus Variable Investment Fund (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 seven 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 to maximize total return, consisting of capital appreciation and current income. The Dreyfus Corporation (the "Manager" or "Dreyfus"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of Dreyfus, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan and the expenses borne by each class, the allocation of certain transfer agency costs, and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Company accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The Company enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

> **Level 1**—unadjusted quoted prices in active markets for identical investments.
>
> **Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).
>
> **Level 3**—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Registered investment companies that are not traded on an exchange are valued at their net asset value and are generally categorized within Level 1 of the fair value hierarchy.

Investments in securities, excluding short-term investments (other than U.S. Treasury Bills), financial futures, options and forward foreign currency exchange contracts ("forward contracts") are valued each business day by an independent pricing service (the "Service") approved by the Company's Board of Trustees (the "Board"). Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are valued as determined by the Service, based on methods which include consideration of the following: yields or prices of securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. These securities are generally categorized within Level 2 of the fair value hierarchy.

U.S. Treasury Bills are valued at the mean price between quoted bid prices and asked prices by the Service. These securities are generally categorized within Level 2 of the fair value hierarchy.

The Service's procedures are reviewed by Dreyfus under the general supervision of the Board.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. 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.

Financial futures and options, which are traded on an exchange, are valued at the last sales price on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market on each business day and are generally categorized within Level 1 of the fair value hierarchy. Options traded over-the-counter ("OTC") are valued at the mean between the bid and asked price and are generally categorized within Level 2 of the fair value hierarchy. Investments in swap transactions are valued each business day by the Service. Swaps are valued by the Service by using a swap pricing model which incorporates among other factors, default probabilities, recovery rates, credit curves of the underlying issuer and swap spreads on interest rates and are generally categorized within Level 2 of the fair value hierarchy. 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, 2015 in valuing the fund's investments:

| | Level 1 - Unadjusted Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Assets ($)** | | | | |
| Investments in Securities: | | | | |
| Asset-Backed | - | 3,442,686 | - | **3,442,686** |
| Commercial Mortgage-Backed | - | 3,397,264 | - | **3,397,264** |
| Corporate Bonds† | - | 21,768,318 | - | **21,768,318** |
| Foreign Government | - | 1,235,733 | - | **1,235,733** |
| Municipal Bonds† | - | 1,191,973 | - | **1,191,973** |
| Mutual Funds | 846,561 | - | - | **846,561** |
| U.S. Government Agencies/ Mortgage-Backed | - | 17,289,972 | - | **17,289,972** |
| U.S. Treasury | - | 14,020,258 | - | **14,020,258** |
| Other Financial Instruments: | | | | |
| Financial Futures†† | 13,845 | - | - | **13,845** |
| Forward Foreign Currency Exchange Contracts†† | - | 35,297 | - | **35,297** |
| Swaps†† | - | 40,821 | - | **40,821** |

| | Level 1 - Unadjusted Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Liabilities ($)** | | | | |
| Other Financial Instruments: | | | | |
| Financial Futures†† | (6,664) | - | - | **(6,664)** |
| Forward Foreign Currency Exchange Contracts†† | - | (19,649) | - | **(19,649)** |
| Options Written | - | (15,076) | - | **(15,076)** |

† *See Statement of Investments for additional detailed categorizations.*
†† *Amount shown represents unrealized appreciation (depreciation) at period end.*

At December 31, 2015, there were no transfers between levels of the fair value hierarchy.

**(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. During the period ended December 31, 2015, The Bank of New York Mellon earned $1,807 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. Investments in affiliated investment companies during the period ended December 31, 2015 were as follows:

| Affiliated Investment Company | Value 12/31/2014 ($) | Purchases ($) | Sales ($) | Value 12/31/2015 ($) | Net Assets (%) |
|---|---|---|---|---|---|
| Dreyfus Institutional Preferred Plus Money Market Fund | 383,669 | 32,536,096 | 32,339,704 | 580,061 | 1.0 |
| Dreyfus Institutional Cash Advantage Fund | 683,250 | 4,696,451 | 5,113,201 | 266,500 | .5 |
| **Total** | **1,066,919** | **37,232,547** | **37,452,905** | **846,561** | **1.5** |

**(e) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net are normally declared and paid on a monthly basis. 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.

On December 31, 2015, the Board declared a cash dividend of $.026 and $.023 per share for the Initial shares and Service shares, respectively, from undistributed investment income-net payable on January 4, 2016 (ex-dividend date) to shareholders of record as of the close of business on December 31, 2015.

**(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, 2015, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period ended December 31, 2015, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2015 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2015, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $79,233, accumulated capital losses $718,077 and unrealized depreciation $849,655. In addition, the fund had $61,030 of capital losses realized after October 31, 2015, which were deferred for tax purposes to the first day of the following fiscal year.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

The accumulated capital loss carryover is available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to December 31, 2015. If not applied, the carryover expires in fiscal year 2017.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2015 and December 31, 2014 were as follows: ordinary income $1,252,125 and $1,482,766, respectively.

During the period ended December 31, 2015, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization of premiums, paydown gains and losses, consent fees and foreign currency transactions, the fund decreased accumulated undistributed investment income-net by $47,368 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

## NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $480 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. Prior to October 7, 2015, the unsecured credit facility with Citibank, N.A. was $430 million. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended December 31, 2015, the fund did not borrow under the Facilities.

## NOTE 3—Investment Advisory Fee and Other Transactions with Affiliates:

**(a)** Pursuant to an investment advisory agreement with Dreyfus, the investment advisory fee is computed at the annual rate of .65% of the value of the fund's average daily net assets and is payable monthly.

**(b)** Under the Distribution Plan adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing its shares, for servicing and/or maintaining Service shares' shareholder accounts and for advertising and marketing for Service shares. The Distribution Plan provides for payments to be made at an annual rate of .25% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Distribution Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2015, Service shares were charged $39,941 pursuant to the Distribution Plan.

The fund has arrangements with the transfer agent and the custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset transfer agency and custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of Dreyfus, under a transfer agency agreement for providing transfer agency and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended December 31, 2015, the fund was charged $503 for transfer agency services and $37 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $2.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended December 31, 2015, the fund was charged $12,301 pursuant to the custody agreement.

During the period ended December 31, 2015, the fund was charged $10,946 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees $32,585, Distribution Plan fees $3,073, custodian fees $8,568, Chief Compliance Officer fees $2,647 and transfer agency fees $32.

**(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 (including paydowns)of investment securities, excluding short-term securities, forward contracts, financial futures, options transactions and swap transactions, during the period ended December 31, 2015, amounted to $232,207,130 and $249,159,720, respectively, of which $143,206,446 in purchases and $146,436,818 in sales were from mortgage dollar roll transactions.

**Mortgage Dollar Rolls:** A mortgage dollar roll transaction involves a sale by the fund of mortgage related securities that it holds with an agreement by the fund to repurchase similar securities at an agreed upon price and date. The securities purchased will bear the same interest rate as those sold, but generally will be collateralized by pools of mortgages with different prepayment histories than those securities sold. The fund accounts for mortgage dollar rolls as purchases and sales transactions.

**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 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, 2015 is discussed below.

**Financial Futures:** In the normal course of pursuing its investment objective, the fund is exposed to market risk, including interest rate risk, as a result of changes in value of underlying financial instruments. The fund invests in financial futures in order to manage its exposure to or protect against changes in the market. A financial futures contract represents a commitment for the future purchase or a sale of an asset at a specified date. Upon entering into such contracts, these investments require initial margin deposits with a counterparty, which consist of cash or cash equivalents. The amount of these deposits is determined by the exchange or Board of Trade on which the contract is traded and is subject to change. Accordingly, variation margin payments are received or made to reflect daily unrealized gains or losses which are recorded in the Statement of Operations. When the contracts are closed, the fund recognizes a realized gain or loss which is reflected in the Statement of Operations. There is minimal counterparty credit risk to the fund with financial futures since they are exchange traded, and the exchange guarantees the financial futures against default. Financial futures open at December 31, 2015 are set forth in the Statement of Financial Futures.

**Options Transactions**: The fund purchases and writes (sells) put and call options to hedge against changes in interest rates and foreign currencies or as a substitute for an investment. The fund is subject to market risk, interest rate risk and currency risk in the course of pursuing its investment objectives through its investments in options contracts. A call option gives the purchaser of the option the right (but not the obligation) to buy, and obligates the writer to sell, the underlying financial instrument at the exercise price at any time during the option period, or at a specified date. Conversely, a put option gives the purchaser of the option the right (but not the obligation) to sell, and obligates the writer to buy the underlying financial instrument at the exercise price at any time during the option period, or at a specified date.

As a writer of call options, the fund receives a premium at the outset and then bears the market risk of unfavorable changes in the price of the financial instrument underlying the option. Generally, the fund realizes a gain, to the extent of the premium, if the price of the underlying financial instrument decreases between the date the option is written and the date on which the option is terminated. Generally, the fund incurs a loss if the price of the financial instrument increases between those dates.

As a writer of put options, the fund receives a premium at the outset and then bears the market risk of unfavorable changes in the price of the financial instrument underlying the option. Generally, the fund realizes a gain, to the extent of the premium, if the price of the underlying financial instrument increases between the date the option is written and the date on which the option is terminated. Generally, the fund incurs a loss if the price of the financial instrument decreases between those dates.

As a writer of an option, the fund has no control over whether the underlying financial 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 financial instrument underlying the written option. There is a risk of loss from a change in value of such options which may exceed the related premiums received. This risk is mitigated by Master Agreements 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. The Statement of Operations reflects any unrealized gains or losses which occurred during the period as well as any realized gains or losses which occurred upon the expiration or closing of the option transaction.

The following summarizes the fund's call/put options written during the period ended December 31, 2015:

| Option Written: | Premiums Received ($) | Options Terminated Cost ($) | Options Terminated Net Realized Gain (Loss) ($) |
|---|---|---|---|
| Contracts outstanding December 31, 2014 | - | | |
| Contracts written | 144,063 | | |
| Contracts terminated: | | | |
| Contracts closed | 66,871 | 176,398 | (109,527) |
| Contracts expired | 57,604 | - | 57,604 |
| Total contracts terminated | 124,475 | 176,398 | (51,923) |
| Contracts outstanding December 31, 2015 | **19,588** | | |

**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. The following summarizes open forward contracts at December 31, 2015:

| Forward Foreign Currency Exchange Contracts | Foreign Currency Amounts | Cost/ Proceeds ($) | Value ($) | Unrealized Appreciation (Depreciation)($) |
|---|---|---|---|---|
| **Purchases:** | | | | |
| **Bank of America** | | | | |
| Australian Dollar, Expiring 1/29/2016 | 125,000 | 90,408 | 90,953 | 545 |

| Forward Foreign Currency Exchange Contracts | Foreign Currency Amounts | Cost/ Proceeds ($) | Value ($) | Unrealized Appreciation (Depreciation)($) |
|---|---|---|---|---|
| **Purchases: (continued)** | | | | |
| **Bank of America (continued)** | | | | |
| Mexican New Peso, Expiring 1/29/2016 | 4,345,000 | 258,170 | 251,567 | (6,603) |
| **Citigroup** | | | | |
| Indian Rupee, Expiring 1/29/2016 | 11,960,000 | 178,730 | 179,904 | 1,174 |
| **JP Morgan Chase Bank** | | | | |
| Chilean Peso, Expiring 1/29/2016 | 59,660,000 | 83,417 | 83,901 | 484 |
| **UBS** | | | | |
| Norwegian Krone, Expiring 1/29/2016 | 2,995,000 | 342,384 | 338,253 | (4,131) |
| **Sales:** | | | | |
| **Bank of America** | | | | |
| Thai Baht, Expiring 1/29/2016 | 6,390,000 | 176,106 | 177,433 | (1,327) |
| **Citigroup** | | | | |
| Taiwan Dollar, Expiring 1/29/2016 | 3,050,000 | 92,987 | 92,868 | 119 |
| **Deutsche Bank** | | | | |
| Hungarian Forint, Expiring 1/29/2016 | 25,120,000 | 85,881 | 86,505 | (624) |
| Turkish Lira, Expiring 1/29/2016 | 180,000 | 61,521 | 61,190 | 331 |
| **Goldman Sachs International** | | | | |
| Swiss Franc, Expiring 1/29/2016 | 175,000 | 175,964 | 174,940 | 1,024 |
| Turkish Lira, Expiring 1/29/2016 | 80,000 | 27,345 | 27,196 | 149 |

| Forward Foreign Currency Exchange Contracts | Foreign Currency Amounts | Cost/ Proceeds ($) | Value ($) | Unrealized Appreciation (Depreciation)($) |
|---|---|---|---|---|
| **Sales: (continued)** | | | | |
| **JP Morgan Chase Bank** | | | | |
| Euro, Expiring 1/29/2016 | 249,000 | 273,342 | 270,801 | 2,541 |
| Malaysian Ringgit, Expiring 1/29/2016 | 370,000 | 84,072 | 85,988 | (1,916) |
| Peruvian New Sol, Expiring 10/21/2016 | 1,275,000 | 366,075 | 357,147 | 8,928 |
| South African Rand, Expiring 1/29/2016 | 3,790,000 | 263,654 | 243,741 | 19,913 |
| South Korean Won, Expiring 1/29/2016 | 109,455,000 | 93,360 | 93,271 | 89 |
| Taiwan Dollar, Expiring 1/29/2016 | 8,670,000 | 262,349 | 263,990 | (1,641) |
| **UBS** | | | | |
| Canadian Dollar, Expiring 1/29/2016 | 120,000 | 86,046 | 86,729 | (683) |
| New Zealand Dollar, Expiring 1/29/2016 | 280,000 | 188,395 | 191,119 | (2,724) |
| **Gross Unrealized Appreciation** | | | | **35,297** |
| **Gross Unrealized Depreciation** | | | | **(19,649)** |

**Swap Transactions:** The fund enters into swap agreements to exchange the interest rate on, or return generated by, one nominal instrument for the return generated by another nominal instrument. Swap agreements are privately negotiated in the OTC market or centrally cleared. The fund enters into these agreements to hedge certain market or interest rate risks, to manage the interest rate sensitivity (sometimes called duration) of fixed income securities, to provide a substitute for purchasing or selling particular securities or to increase potential returns.

For OTC swaps, the fund accrues for the interim payments on a daily basis, with the net amount recorded within unrealized appreciation (depreciation) on swap agreements in the Statement of Assets and Liabilities. Once the interim payments are settled in cash, the net amount is recorded as a realized gain (loss) on swaps, in addition to realized gain (loss) recorded upon the termination of swap transactions in the Statement of Operations. Upfront payments made and/or received by the fund, are recorded as an asset and/or liability in the Statement of Assets and Liabilities and are recorded as a realized gain or loss ratably over the agreement's term/event with the exception of forward starting interest rate swaps which are recorded as realized gains or losses on the termination date.

Fluctuations in the value of swap agreements are recorded for financial statement purposes as unrealized appreciation or depreciation on swap transactions.

**Interest Rate Swaps:** Interest rate swaps involve the exchange of commitments to pay and receive interest based on a notional principal amount. The fund may elect to pay a fixed rate and receive a floating rate, or receive a fixed rate and pay a floating rate on a notional principal amount. The net interest received or paid on interest rate swap agreements is included within realized gain (loss) on swap transactions in the Statement of Operations. Interest rate swap agreements are subject to general market risk, liquidity risk, counterparty risk and interest rate risk.

For OTC swaps, the fund's maximum risk of loss from counterparty risk is the discounted value of the cash flows to be received from the counterparty over the agreement's remaining life, to the extent that the amount is positive. 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. The following summarizes open interest rate swaps entered into by the fund at December 31, 2015:

**OTC Interest Rate Swaps**

| Notional Amount ($) | Currency/ Floating Rate | Counterparty | (Pay) Receive Fixed Rate (%) | Expiration | Unrealized Appreciation ($) |
|---|---|---|---|---|---|
| 5,340,000 | USD - 1 Year US CPI Urban Consumers NSA | Deutsche Bank | 0.34 | 10/1/2016 | 15,990 |

**OTC Interest Rate Swaps**

| Notional Amount ($) | Currency/ Floating Rate | Counterparty | (Pay) Receive Fixed Rate (%) | Expiration | Unrealized Appreciation ($) |
|---|---|---|---|---|---|
| 10,600,000 | USD - 1 Year US CPI Urban Consumers NSA | Deutsche Bank | 0.41 | 10/2/2016 | 24,831 |
| **Gross Unrealized Appreciation** | | | | | **40,821** |

CPI—Consumer Price Index
NSA—Not Seasonally Adjusted
USD—US Dollar

The following tables show the fund's exposure to different types of market risk as it relates to the Statement of Assets and Liabilities and the Statement of Operations, respectively.

Fair value of derivative instruments as of December 31, 2015 is shown below:

| | Derivative Assets ($) | | Derivative Liabilities ($) |
|---|---|---|---|
| Interest rate risk [1,2] | 54,666 | Interest rate risk [1] | (6,664) |
| Foreign exchange risk [3] | 35,297 | Foreign exchange risk [3,4] | (34,725) |
| **Gross fair value of derivatives contracts** | **89,963** | | **(41,389)** |

Statement of Assets and Liabilities location:

[1] *Includes cumulative appreciation (depreciation) on financial futures as reported in the Statement of Financial Futures, but only the unpaid variation margin is reported in the Statement of Assets and Liabilities.*
[2] *Unrealized appreciation (depreciation) on swap agreements.*
[3] *Unrealized appreciation (depreciation) on forward foreign currency exchange contracts.*
[4] *Outstanding options written, at value.*

The effect of derivative instruments in the Statement of Operations during the period ended December 31, 2015 is shown below:

| Amount of realized gain (loss) on derivatives recognized in income ($) | | | | | |
|---|---|---|---|---|---|
| Underlying risk | Financial Futures[5] | Options Transactions[6] | Forward Contracts[7] | Swap Transactions[8] | Total |
| Interest rate | (9,502) | 13,496 | - | 16,406 | **20,400** |
| Foreign exchange | - | (65,419) | 170,228 | - | **104,809** |
| **Total** | **(9,502)** | **(51,923)** | **170,228** | **16,406** | **125,209** |

| Change in unrealized appreciation (depreciation) on derivatives recognized in income ($) | | | | | |
|---|---|---|---|---|---|
| Underlying risk | Financial Futures[9] | Options Transactions[10] | Forward Contracts[11] | Swap Transactions[12] | Total |
| Interest rate | 26,486 | - | - | 40,821 | **67,307** |
| Foreign exchange | - | 4,512 | (5,767) | - | **(1,255)** |
| **Total** | **26,486** | **4,512** | **(5,767)** | **40,821** | **66,052** |

Statement of Operations location:

[5] *Net realized gain (loss) on financial futures.*
[6] *Net realized gain (loss) on options transactions.*
[7] *Net realized gain (loss) on forward foreign currency exchange contracts.*
[8] *Net realized gain (loss) on swap transactions.*
[9] *Net unrealized appreciation (depreciation) on financial futures.*
[10] *Net unrealized appreciation (depreciation) on options transactions.*
[11] *Net unrealized appreciation (depreciation) on forward foreign currency exchange contracts.*
[12] *Net unrealized appreciation (depreciation) on swap transactions.*

The provisions of ASC Topic 210 "Disclosures about Offsetting Assets and Liabilities" require disclosure on the offsetting of financial assets and liabilities. These disclosures are required for certain investments, including derivative financial instruments subject to Master Agreements which are eligible for offsetting in the Statement of Assets and Liabilities and require the fund to disclose both gross and net information with respect to such investments. For financial reporting purposes, the fund does not offset derivative assets and derivative liabilities that are subject to Master Agreements in the Statement of Assets and Liabilities.

At December 31, 2015, derivative assets and liabilities (by type) on a gross basis are as follows:

| Derivative Financial Instruments: | Assets ($) | Liabilities ($) |
|---|---|---|
| Financial futures | 13,845 | (6,664) |
| Options | - | (15,076) |
| Forward contracts | 35,297 | (19,649) |
| Swaps | 40,821 | - |
| Total gross amount of derivative assets and liabilities in the Statement of Assets and Liabilities | 89,963 | (41,389) |
| Derivatives not subject to Master Agreements | (13,845) | 6,664 |
| Total gross amount of assets and liabilities subject to Master Agreements | 76,118 | (34,725) |

The following tables present derivative assets and liabilities net of amounts available for offsetting under Master Agreements and net of related collateral received or pledged, if any, as of December 31, 2015:†

| Counterparty | Gross Amount of Assets ($)[1] | Financial Instruments and Derivatives Available for Offset ($) | Collateral Received ($) | Net Amount of Assets ($) |
|---|---|---|---|---|
| Bank of America | 545 | (545) | - | - |
| Citigroup | 1,293 | (1,137) | - | 156 |
| Deutsche Bank | 41,152 | (3,513) | - | 37,639 |
| Goldman Sachs International | 1,173 | (1,173) | - | - |
| JP Morgan Chase Bank | 31,955 | (4,501) | - | 27,454 |
| **Total** | **76,118** | **(10,869)** | **-** | **65,249** |

| Counterparty | Gross Amount of Liabilities ($)[1] | Financial Instruments and Derivatives Available for Offset ($) | Collateral Pledged ($) | Net Amount of Liabilities ($) |
|---|---|---|---|---|
| Bank of America | (7,930) | 545 | - | (7,385) |
| Barclays Bank | (309) | - | - | (309) |
| Citigroup | (1,137) | 1,137 | - | - |
| Deutsche Bank | (3,513) | 3,513 | - | - |
| Goldman Sachs International | (9,797) | 1,173 | - | (8,624) |
| JP Morgan Chase Bank | (4,501) | 4,501 | - | - |
| UBS | (7,538) | - | - | (7,538) |
| **Total** | **(34,725)** | **10,869** | **-** | **(23,856)** |

[1] *Absent a default event or early termination, OTC derivative assets and liabilities are presented at gross amounts and are not offset in the Statement of Assets and Liabilities.*

† *See Statement of Investments for detailed information regarding collateral held for open financial futures contracts.*

The following summarizes the average market value of derivatives outstanding during the period ended December 31, 2015:

| | Average Market Value ($) |
|---|---|
| Interest rate financial futures | 9,252,432 |
| Interest rate options contracts | 3,173 |
| Foreign currency options contracts | 23,318 |
| Forward contracts | 6,288,258 |

The following summarizes the average notional value of swap agreements outstanding during the period ended December 31, 2015:

| | Average Notional Value ($) |
|---|---|
| Interest rate swap agreements | 4,912,308 |

At December 31, 2015, the cost of investments for federal income tax purposes was $64,294,208; accordingly, accumulated net unrealized depreciation on investments was $899,568, consisting of $705,782 gross unrealized appreciation and $1,605,350 gross unrealized depreciation.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Shareholders and Board of Trustees**
**Dreyfus Variable Investment Fund, Quality Bond Portfolio**

We have audited the accompanying statement of assets and liabilities, including the statements of investments, financial futures and options written, of Dreyfus Variable Investment Fund, Quality Bond Portfolio (one of the series comprising Dreyfus Variable Investment Fund) as of December 31, 2015, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015 by correspondence with the custodian and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Variable Investment Fund, Quality Bond Portfolio at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2016

## BOARD MEMBERS INFORMATION (Unaudited)
INDEPENDENT BOARD MEMBERS

### Joseph S. DiMartino (72)
### Chairman of the Board (1995)

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee (1995-present)

*Other Public Company Board Memberships During Past 5 Years:*

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)

*No. of Portfolios for which Board Member Serves:* 139

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### Peggy C. Davis (72)
### Board Member (2006)

*Principal Occupation During Past 5 Years:*

- Shad Professor of Law, New York University School of Law (1983-present)

*No. of Portfolios for which Board Member Serves:* 50

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### David P. Feldman (76)
### Board Member (1994)

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee (1985-present)

*Other Public Company Board Memberships During Past 5 Years:*

- BBH Mutual Funds Group (5 registered mutual funds), Director (1992-2014)

*No. of Portfolios for which Board Member Serves:* 36

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### Ehud Houminer (75)
### Board Member (2006)

*Principal Occupation During Past 5 Years:*

- Executive-in-Residence at the Columbia Business School, Columbia University (1992-present)

*Other Public Company Board Memberships During Past 5 Years:*

- Avnet, Inc., an electronics distributor, Director (1993-2012)

*No. of Portfolios for which Board Member Serves:* 60

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## Lynn Martin (76)
## Board Member (2012)

*Principal Occupation During Past 5 Years:*

- President of The Martin Hall Group LLC, a human resources consulting firm (2005-2012)

*Other Public Company Board Memberships During Past 5 Years:*

- AT&T, Inc., a telecommunications company, Director (1999-2012)
- Ryder System, Inc., a supply chain and transportation management company, Director (1993-2012)

*No. of Portfolios for which Board Member Serves:* 36

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## Robin A. Melvin (52)
## Board Member (2012)

*Principal Occupation During Past 5 Years:*

- Co-chairman, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois; (2014-present; a board member since 2013)
- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

*No. of Portfolios for which Board Member Serves:* 110

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## Dr. Martin Peretz (76)
## Board Member (1990)

*Principal Occupation During Past 5 Years:*

- Editor-in-Chief Emeritus of The New Republic Magazine (2011-2012) (previously, Editor-in-Chief, 1974-2011)
- Director of TheStreet.com, a financial information service on the web (1996-2010)
- Lecturer at Harvard University (1969-2012)

*No. of Portfolios for which Board Member Serves:* 36

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*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.*

*James F. Henry, Emeritus Board Member*
*Dr. Paul A. Marks, Emeritus Board Member*
*Philip L. Toia, Emeritus Board Member*

# OFFICERS OF THE FUND (Unaudited)

**BRADLEY J. SKAPYAK, President since January 2010.**

Chief Operating Officer and a director of the Manager since June 2009, Chairman of Dreyfus Transfer, Inc., an affiliate of the Manager and the transfer agent of the funds, since May 2011 and Executive Vice President of the Distributor since June 2007. From April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 65 investment companies (comprised of 139 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since February 1988.

**BENNETT A. MACDOUGALL, Chief Legal Officer since October 2015**

Chief Legal Officer of the Manager since June 2015; from June 2005 to June 2015, Director and Associate General Counsel of Deutsche Bank – Asset & Wealth Management Division, and Chief Legal Officer of Deutsche Investment Management Americas Inc. He is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since June 2015.

**JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.**

Assistant General Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since February 1984.

**JAMES BITETTO, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since December 1996.

**JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 60 years old and has been an employee of the Manager since October 1988.

**JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since June 2000.

**MAUREEN E. KANE, Vice President and Assistant Secretary since April 2015.**

Managing Counsel of BNY Mellon since July 2014; from October 2004 until July 2014, General Counsel, and from May 2009 until July 2014, Chief Compliance Officer of Century Capital Management. She is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since July 2014.

**SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.**

Senior Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 40 years old and has been an employee of the Manager since March 2013.

**JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.**

Senior Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since October 1990.

**JAMES WINDELS, Treasurer since November 2001.**

Director – Mutual Fund Accounting of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since April 1985.

**RICHARD CASSARO, Assistant Treasurer since January 2008.**

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since September 1982.

**GAVIN C. REILLY, Assistant Treasurer since December 2005.**

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since April 1991.

**ROBERT S. ROBOL, Assistant Treasurer since August 2005.**

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since October 1988.

**ROBERT SALVIOLO, Assistant Treasurer since July 2007.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since June 1989.

**ROBERT SVAGNA, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since November 1990.

**JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (66 investment companies, comprised of 164 portfolios). He is 58 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

**CARI M. CAROSELLA, Anti-Money Laundering Compliance Officer since January 2016**

Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust since January 2016; from May 2015 to December 2015, Interim Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust and the Distributor; from January 2012 to May 2015, AML Surveillance Officer of the Distributor and from 2007 to December 2011, Financial Processing Manager of the Distributor. She is an officer of 62 investment companies (comprised of 160 portfolios) managed by the Manager. She is 47 years old and has been an employee of the Distributor since 1997.

# For More Information

**Dreyfus Variable Investment Fund, Quality Bond Portfolio**

200 Park Avenue
New York, NY 10166

**Investment Adviser**

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

**Custodian**

The Bank of New York Mellon
225 Liberty Street
New York, NY 10286

**Transfer Agent & Dividend Disbursing Agent**

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

**Distributor**

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

**Telephone** 1-800-242-8671 or 1-800-346-3621

**Mail** The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144 Attn: Institutional Services Department

**E-mail** Send your request to info@dreyfus.com

**Internet** Information can be viewed online or downloaded at www.dreyfus.com

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the most recent 12-month period ended June 30 is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-DREYFUS.


0120AR1215

# The Dreyfus Socially Responsible Growth Fund, Inc.

**ANNUAL REPORT**
December 31, 2015

BNY MELLON | Dreyfus

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

# Contents

## THE FUND



## FOR MORE INFORMATION

## A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2015, through December 31, 2015. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

2015 was a year of varied and, at times, conflicting economic influences. On one hand, the U.S. economy continued to grow as domestic labor markets posted significant gains, housing markets recovered, and lower fuel prices put cash in consumers' pockets. Indeed, these factors, along with low inflation, prompted the Federal Reserve Board in December to raise short-term interest rates for the first time in nearly a decade. On the other hand, the global economy continued to disappoint, particularly in China and other emerging markets, when reduced industrial demand and declining currency values sparked substantial declines in commodity prices.

Although several broad measures of stock and bond performance ended 2015 roughly unchanged, high levels of volatility prevailed across most financial markets. Among U.S. equities, moderate gains from consumer discretionary and health care stocks were balanced by pronounced weakness in the energy and materials sectors. Bonds also saw bifurcated performance, with municipal bonds and intermediate-term U.S. government securities faring well compared to high yield and emerging-markets debt.

Market volatility is likely to persist until investors see greater clarity from the global economy. We expect to see wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets in 2016, suggesting that selectivity may be an important determinant of investment success. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2016

# DISCUSSION OF FUND PERFORMANCE

*For the reporting period of January 1, 2015, through December 31, 2015, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers*

## Fund and Market Performance Overview

For the 12-month period ended December 31, 2015, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of –3.20%, and the fund's Service shares returned –3.41%.[1] In comparison, the fund's benchmark, the Standard & Poor's 500® Composite Stock Price Index ("S&P 500 Index"), produced a total return of 1.39% for the same period.[2]

Mildly positive stock market results during 2015 masked heightened volatility amid shifting economic sentiment. The fund underperformed its benchmark, mainly due to shortfalls from our quantitative stock ranking process and environmental, social, and corporate governance (ESG) ratings.

## The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests at least 80% of its net assets in the common stocks of companies that, in our opinion, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America. In selecting stocks, we use quantitative research to identify and rank stocks within an industry or sector. Next, using fundamental analysis, we designate the most attractive of the higher ranked securities as potential purchase candidates. We then evaluate whether each company meets the fund's socially responsible investment criteria in order to determine whether the company is eligible for purchase or retention by the fund. With respect to those eligible securities, we then select investments that we consider to be the most attractive based on financial considerations.

The fund normally focuses on large-cap growth stocks; however, the fund also may invest in value-oriented stocks, midcap stocks and small-cap stocks.

## Global Economic Concerns Sparked Market Turmoil

Employment gains helped drive the S&P 500 Index higher from the start of 2015 through the end of February despite plummeting energy prices. Stocks reversed course in March when severe winter weather and a strengthening U.S. dollar dampened economic growth, but the U.S. economy soon regained traction, and by May, the benchmark had advanced to new record highs. However, uncertainty surrounding a debt crisis in Greece and slowing growth in China sent stock prices lower over the summer.

In August, the Chinese central bank unexpectedly devalued the country's currency, intensifying global economic concerns. Stocks dipped into negative territory as investors grew more risk-averse, but a strong October rally erased previous losses. Stock prices remained volatile over the remainder of the year amid renewed worries that global instability might dampen domestic economic growth. The market rebounded somewhat near year-end when the Federal Reserve Board raised short-term interest rates, ending months of uncertainty and enabling the S&P 500 Index to close 2015 in positive territory.

## Quantitative Models Dampened Relative Results

The fund lagged its benchmark in 2015 as global macroeconomic developments took investors' focus away from company fundamentals and hurt the efficacy of stock picking. In addition, because some large companies are ineligible for the fund due to low environmental, social, and corporate governance (ESG) ratings, the fund maintained a bias toward smaller companies, which generally underperformed their larger counterparts. For similar reasons, the fund held underweighted exposure to the strong-performing consumer discretionary sector. For example, the fund did not hold Internet retailer Amazon.com which more than doubled in value but ranks low on corporate governance, toxic emissions, labor relations, and health and safety factors. Apparel maker PVH Corp. fell sharply after releasing disappointing quarterly earnings.

In the information technology sector, Alphabet (formerly Google) gained considerable value, but the fund held underweighted exposure due to the company's BBB ESG rating and low ranking in one of our models. Meanwhile, data analysis specialist Teradata struggled after revenues fell below expectations due to customers deferring contracts and trading down to lower-end products. Among energy companies, Spectra Energy was hurt by plummeting oil prices.

The fund achieved better results in the consumer staples sector. Household goods maker Clorox advanced when strong organic sales growth drove earnings higher, and food-and-beverage company Mondelez International expanded its revenues and profits in an otherwise challenging global marketplace. In the health care sector, medical equipment producer PerkinElmer's environmental health business benefited from improving food safety trends in China, and rising birth rates and stronger blood screenings helped its diagnostic business. In other areas, International Flavors & Fragrances posted strong organic growth, and oil refiner Marathon Petroleum benefited from lower input costs and higher profit margins.

## Maintaining a Disciplined Approach

Although our quantitative process does not directly consider macroeconomic factors, it is worth noting that the U.S. economy has continued to grow despite global economic instability. As of year-end, our models have continued to identify opportunities meeting our criteria for attractive valuations, earnings quality, behavioral factors, and social responsibility. We have maintained mildly overweighted exposure to the health care and information technology sectors, and underweighted exposure to the consumer staples and industrial sectors.

January 15, 2016

*Equity funds are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.*

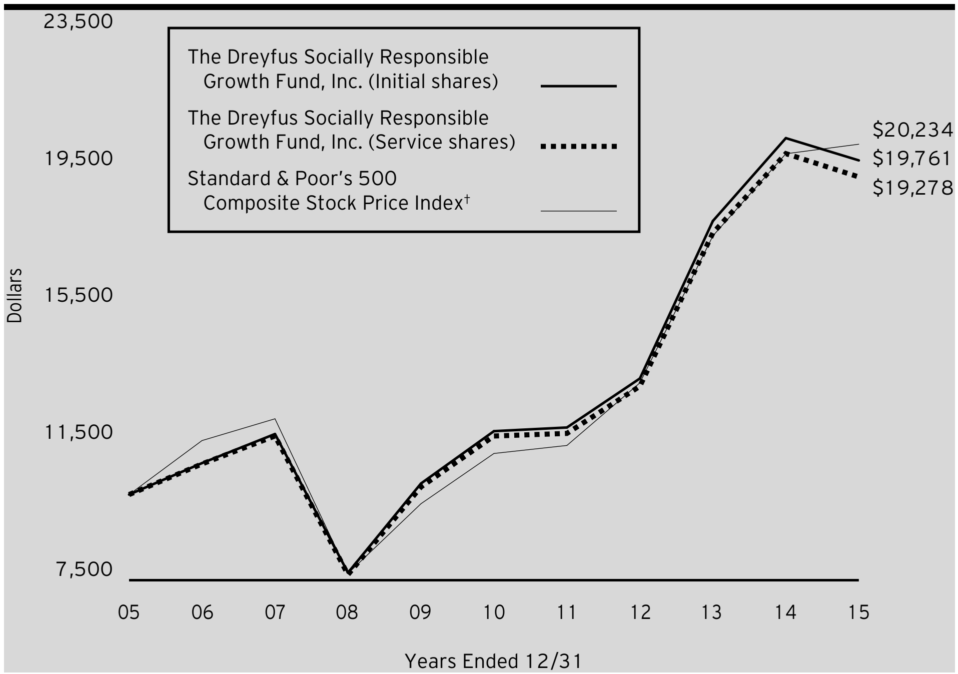
*The fund's socially responsible investment criteria may limit the number of investment opportunities available to the fund, and as a result, at times, the fund may produce more modest gains than funds that are not subject to such special investment considerations.*

*The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds managed by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.*

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

2 *SOURCE: LIPPER INC. – Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's 500® Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance. Investors cannot invest directly in any index.*

# FUND PERFORMANCE




Comparison of change in value of $10,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. Initial shares and Service shares and the Standard & Poor's 500 Composite Stock Price Index

## Average Annual Total Returns as of 12/31/15

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Initial shares** | **-3.20%** | **10.76%** | **7.05%** |
| **Service shares** | **-3.41%** | **10.48%** | **6.78%** |
| **Standard & Poor's 500 Composite Stock Price Index** | **1.39%** | **12.55%** | **7.30%** |

† *Source: Lipper Inc.*

*Past performance is not predictive of future performance. The fund's performance shown in the graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.*

***The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts which will reduce returns.***

*The above graph compares a $10,000 investment made in Initial and Service shares of The Dreyfus Socially Responsible Growth Fund, Inc. on 12/31/05 to a $10,000 investment made in the Standard & Poor's 500 Composite Stock Price Index (the "Index") on that date.*

*The fund's Initial shares are not subject to a Rule 12b-1 fee. The fund's Service shares are subject to a 0.25% annual Rule 12b-1 fee. All dividends and capital gain distributions are reinvested.*

*The fund's performance shown in the line graph above takes into account all applicable fund fees and expenses for Initial and Service shares. The Index is a widely accepted, unmanaged index of U.S. stock market performance. Unlike a mutual fund, the Index is not subject to charges, fees and other expenses. Investors cannot invest directly in any index. Further information relating to fund performance, including expense reimbursements, if applicable, is contained in the Financial Highlights section of the prospectus and elsewhere in this report.*

## UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads), redemption fees and expenses associated with variable annuity or insurance contracts, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.*

### Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. from July 1, 2015 to December 31, 2015. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

**Expenses and Value of a $1,000 Investment**

assuming actual returns for the six months ended December 31, 2015

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.31 | $ 5.55 |
| Ending value (after expenses) | $ 967.40 | $ 966.40 |

## COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

**Expenses and Value of a $1,000 Investment**

assuming a hypothetical 5% annualized return for the six months ended December 31, 2015

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.43 | $ 5.70 |
| Ending value (after expenses) | $ 1,020.82 | $ 1,019.56 |

† *Expenses are equal to the fund's annualized expense ratio of .87% for Initial shares and 1.12% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

## STATEMENT OF INVESTMENTS
December 31, 2015

| Common Stocks - 99.0% | Shares | | Value ($) |
|---|---|---|---|
| **Banks - 2.9%** | | | |
| Comerica | 27,800 | | 1,162,874 |
| People's United Financial | 116,600 | a | 1,883,090 |
| PNC Financial Services Group | 40,700 | | 3,879,117 |
| | | | **6,925,081** |
| **Capital Goods - 4.6%** | | | |
| 3M | 34,050 | | 5,129,292 |
| Cummins | 25,700 | | 2,261,857 |
| General Electric | 105,050 | | 3,272,308 |
| Snap-on | 1,750 | | 300,003 |
| | | | **10,963,460** |
| **Consumer Durables & Apparel - 3.4%** | | | |
| NIKE, Cl. B | 83,800 | | 5,237,500 |
| PVH | 38,500 | | 2,835,525 |
| | | | **8,073,025** |
| **Consumer Services - 1.2%** | | | |
| Marriott International, Cl. A | 41,050 | a | **2,751,992** |
| **Diversified Financials - 5.9%** | | | |
| American Express | 41,050 | | 2,855,028 |
| Franklin Resources | 24,100 | | 887,362 |
| Legg Mason | 33,400 | | 1,310,282 |
| Morgan Stanley | 16,000 | | 508,960 |
| Northern Trust | 56,600 | | 4,080,294 |
| T. Rowe Price Group | 60,750 | | 4,343,017 |
| | | | **13,984,943** |
| **Energy - 7.1%** | | | |
| Baker Hughes | 24,500 | | 1,130,675 |
| Exxon Mobil | 10,400 | | 810,680 |
| Hess | 41,350 | | 2,004,648 |
| Marathon Petroleum | 93,200 | | 4,831,488 |
| Phillips 66 | 13,350 | | 1,092,030 |
| Spectra Energy | 129,750 | | 3,106,215 |
| Tesoro | 2,900 | | 305,573 |
| Valero Energy | 49,200 | | 3,478,932 |
| | | | **16,760,241** |
| **Food, Beverage & Tobacco - 5.5%** | | | |
| Campbell Soup | 29,800 | a | 1,565,990 |
| Coca-Cola Enterprises | 90,850 | | 4,473,454 |

| **Common Stocks - 99.0% (continued)** | Shares | | Value ($) |
|---|---|---|---|
| **Food, Beverage & Tobacco - 5.5% (continued)** | | | |
| General Mills | 4,800 | | 276,768 |
| Mondelez International, Cl. A | 101,400 | | 4,546,776 |
| PepsiCo | 22,100 | | 2,208,232 |
| | | | **13,071,220** |
| **Health Care Equipment & Services - 5.8%** | | | |
| AmerisourceBergen | 38,400 | | 3,982,464 |
| Cardinal Health | 50,100 | | 4,472,427 |
| Cigna | 9,700 | | 1,419,401 |
| Henry Schein | 24,100 | b | 3,812,379 |
| | | | **13,686,671** |
| **Household & Personal Products - 1.5%** | | | |
| Clorox | 27,450 | | **3,481,484** |
| **Insurance - 5.4%** | | | |
| ACE | 42,300 | | 4,942,755 |
| Marsh & McLennan | 49,900 | | 2,766,955 |
| Travelers | 44,600 | | 5,033,556 |
| | | | **12,743,266** |
| **Materials - 3.0%** | | | |
| Ecolab | 35,150 | | 4,020,457 |
| International Flavors & Fragrances | 25,200 | | 3,014,928 |
| | | | **7,035,385** |
| **Media - 5.5%** | | | |
| Discovery Communications, Cl. A | 46,900 | a,b | 1,251,292 |
| Time Warner | 60,300 | | 3,899,601 |
| Time Warner Cable | 16,150 | | 2,997,279 |
| Walt Disney | 47,700 | | 5,012,316 |
| | | | **13,160,488** |
| **Pharmaceuticals, Biotechnology & Life Sciences - 13.2%** | | | |
| Agilent Technologies | 106,050 | | 4,433,950 |
| Biogen | 9,150 | b | 2,803,102 |
| Gilead Sciences | 64,750 | | 6,552,052 |
| Johnson & Johnson | 16,400 | | 1,684,608 |
| Merck & Co. | 101,800 | | 5,377,076 |
| PerkinElmer | 30,400 | | 1,628,528 |
| Waters | 32,450 | b | 4,367,121 |
| Zoetis | 93,600 | | 4,485,312 |
| | | | **31,331,749** |
| **Retailing - 2.7%** | | | |
| Best Buy | 8,000 | a | 243,600 |

| Common Stocks - 99.0% (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Retailing - 2.7% (continued)** | | | |
| Signet Jewelers | 21,200 | | 2,622,228 |
| Tiffany & Co. | 46,700 | | 3,562,743 |
| | | | **6,428,571** |
| **Semiconductors & Semiconductor Equipment - 4.2%** | | | |
| Avago Technologies | 19,800 | a | 2,873,970 |
| Intel | 24,300 | | 837,135 |
| NVIDIA | 125,900 | | 4,149,664 |
| Skyworks Solutions | 27,300 | | 2,097,459 |
| | | | **9,958,228** |
| **Software & Services - 10.4%** | | | |
| Accenture, Cl. A | 49,650 | | 5,188,425 |
| Alphabet, Cl. A | 1,500 | b | 1,167,015 |
| Alphabet, Cl. C | 1,500 | b | 1,138,320 |
| Electronic Arts | 53,300 | b | 3,662,776 |
| Intuit | 26,450 | | 2,552,425 |
| Microsoft | 142,750 | | 7,919,770 |
| Symantec | 50 | | 1,050 |
| Teradata | 50,300 | b | 1,328,926 |
| Xerox | 160,300 | | 1,703,989 |
| | | | **24,662,696** |
| **Technology Hardware & Equipment - 8.8%** | | | |
| Apple | 107,100 | | 11,273,346 |
| Cisco Systems | 182,175 | | 4,946,962 |
| Corning | 191,500 | | 3,500,620 |
| EMC | 49,625 | | 1,274,370 |
| | | | **20,995,298** |
| **Telecommunication Services - 1.4%** | | | |
| CenturyLink | 129,000 | | 3,245,640 |
| Verizon Communications | 4,000 | | 184,880 |
| | | | **3,430,520** |
| **Transportation - 2.4%** | | | |
| Expeditors International of Washington | 19,400 | | 874,940 |
| Southwest Airlines | 113,200 | | 4,874,392 |
| | | | **5,749,332** |
| **Utilities - 4.1%** | | | |
| Exelon | 156,900 | | 4,357,113 |
| NextEra Energy | 51,400 | | 5,339,946 |
| | | | **9,697,059** |
| **Total Common Stocks** (cost $199,472,035) | | | **234,890,709** |

| Other Investment - 1.0% | Shares | Value ($) |
|---|---|---|
| **Registered Investment Company;** | | |
| Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,404,446) | 2,404,446 [c] | **2,404,446** |
| **Investment of Cash Collateral for Securities Loaned - .9%** | | |
| **Registered Investment Company;** | | |
| Dreyfus Institutional Cash Advantage Fund (cost $2,079,721) | 2,079,721 [c] | **2,079,721** |
| **Total Investments** (cost $203,956,202) | **100.9%** | **239,374,876** |
| **Liabilities, Less Cash and Receivables** | **(.9%)** | **(2,022,757)** |
| **Net Assets** | **100.0%** | **237,352,119** |

[a] *Security, or portion thereof, on loan. At December 31, 2015, the value of the fund's securities on loan was $7,821,086 and the value of the collateral held by the fund was $8,084,890, consisting of cash collateral of $2,079,721 and U.S. Government & Agency securities valued at $6,005,169.*
[b] *Non-income producing security.*
[c] *Investment in affiliated money market mutual fund.*

| Portfolio Summary (Unaudited) † | Value (%) |
|---|---|
| Pharmaceuticals, Biotechnology & Life Sciences | 13.2 |
| Software & Services | 10.4 |
| Technology Hardware & Equipment | 8.8 |
| Energy | 7.1 |
| Diversified Financials | 5.9 |
| Health Care Equipment & Services | 5.8 |
| Media | 5.5 |
| Food, Beverage & Tobacco | 5.5 |
| Insurance | 5.4 |
| Capital Goods | 4.6 |
| Semiconductors & Semiconductor Equipment | 4.2 |
| Utilities | 4.1 |
| Consumer Durables & Apparel | 3.4 |
| Materials | 3.0 |
| Banks | 2.9 |
| Retailing | 2.7 |
| Transportation | 2.4 |
| Money Market Investments | 1.9 |
| Household & Personal Products | 1.5 |
| Telecommunication Services | 1.4 |
| Consumer Services | 1.2 |
| | **100.9** |

† *Based on net assets.*
*See notes to financial statements.*

# STATEMENT OF ASSETS AND LIABILITIES

December 31, 2015

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities—See Statement of Investments | | |
| (including securities on loan, valued at $7,821,086)—Note 1(b): | | |
| Unaffiliated issuers | 199,472,035 | 234,890,709 |
| Affiliated issuers | 4,484,167 | 4,484,167 |
| Cash | | 36,383 |
| Dividends and securities lending income receivable | | 321,804 |
| Prepaid expenses | | 8,614 |
| | | **239,741,677** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(c) | | 173,707 |
| Liability for securities on loan—Note 1(b) | | 2,079,721 |
| Payable for shares of Common Stock redeemed | | 34,989 |
| Accrued expenses | | 101,141 |
| | | **2,389,558** |
| **Net Assets ($)** | | **237,352,119** |
| **Composition of Net Assets ($):** | | |
| Paid-in capital | | 176,348,136 |
| Accumulated undistributed investment income—net | | 2,958,265 |
| Accumulated net realized gain (loss) on investments | | 22,627,044 |
| Accumulated net unrealized appreciation (depreciation) on investments | | 35,418,674 |
| **Net Assets ($)** | | **237,352,119** |

| **Net Asset Value Per Share** | Initial Shares | Service Shares |
|---|---|---|
| Net Assets ($) | 227,482,967 | 9,869,152 |
| Shares Outstanding | 5,899,114 | 258,429 |
| **Net Asset Value Per Share ($)** | **38.56** | **38.19** |

*See notes to financial statements.*

# STATEMENT OF OPERATIONS
Year Ended December 31, 2015

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Cash dividends: | |
| Unaffiliated issuers | 5,246,291 |
| Affiliated issuers | 2,236 |
| Income from securities lending—Note 1(b) | 8,871 |
| **Total Income** | **5,257,398** |
| **Expenses:** | |
| Management fee—Note 3(a) | 1,974,147 |
| Professional fees | 92,342 |
| Prospectus and shareholders' reports | 78,143 |
| Directors' fees and expenses—Note 3(d) | 68,672 |
| Distribution fees—Note 3(b) | 26,453 |
| Custodian fees—Note 3(c) | 24,787 |
| Loan commitment fees—Note 2 | 2,532 |
| Shareholder servicing costs—Note 3(c) | 1,871 |
| Miscellaneous | 26,744 |
| **Total Expenses** | **2,295,691** |
| Less—reduction in fees due to earnings credits—Note 3(c) | (5) |
| **Net Expenses** | **2,295,686** |
| **Investment Income—Net** | **2,961,712** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments | 22,653,145 |
| Net unrealized appreciation (depreciation) on investments | (33,587,174) |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **(10,934,029)** |
| **Net (Decrease) in Net Assets Resulting from Operations** | **(7,972,317)** |

*See notes to financial statements.*

# STATEMENT OF CHANGES IN NET ASSETS

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Operations ($):** | | |
| Investment income—net | 2,961,712 | 2,774,159 |
| Net realized gain (loss) on investments | 22,653,145 | 35,125,017 |
| Net unrealized appreciation (depreciation) on investments | (33,587,174) | (3,224,985) |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | **(7,972,317)** | **34,674,191** |
| **Dividends to Shareholders from ($):** | | |
| Investment income—net: | | |
| Initial Shares | (2,689,794) | (2,824,636) |
| Service Shares | (85,867) | (79,619) |
| Net realized gain on investments: | | |
| Initial Shares | (33,743,127) | (18,473,730) |
| Service Shares | (1,384,964) | (647,248) |
| **Total Dividends** | **(37,903,752)** | **(22,025,233)** |
| **Capital Stock Transactions ($):** | | |
| Net proceeds from shares sold: | | |
| Initial Shares | 12,284,196 | 25,341,730 |
| Service Shares | 1,679,368 | 1,819,641 |
| Dividends reinvested: | | |
| Initial Shares | 36,432,921 | 21,298,366 |
| Service Shares | 1,470,831 | 726,867 |
| Cost of shares redeemed: | | |
| Initial Shares | (47,663,749) | (53,057,045) |
| Service Shares | (2,090,656) | (1,143,249) |
| **Increase (Decrease) in Net Assets from Capital Stock Transactions** | **2,112,911** | **(5,013,690)** |
| **Total Increase (Decrease) in Net Assets** | **(43,763,158)** | **7,635,268** |
| **Net Assets ($):** | | |
| Beginning of Period | 281,115,277 | 273,480,009 |
| **End of Period** | **237,352,119** | **281,115,277** |
| Undistributed investment income—net | 2,958,265 | 2,772,856 |
| **Capital Share Transactions (Shares):** | | |
| **Initial Shares** | | |
| Shares sold | 294,421 | 572,802 |
| Shares issued for dividends reinvested | 885,584 | 514,577 |
| Shares redeemed | (1,165,121) | (1,207,470) |
| **Net Increase (Decrease) in Shares Outstanding** | **14,884** | **(120,091)** |
| **Service Shares** | | |
| Shares sold | 41,251 | 41,632 |
| Shares issued for dividends reinvested | 36,032 | 17,672 |
| Shares redeemed | (52,097) | (26,392) |
| **Net Increase (Decrease) in Shares Outstanding** | **25,186** | **32,912** |

*See notes to financial statements.*

## FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Initial Shares** | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 45.97 | 44.09 | 33.24 | 29.91 | 29.90 |
| Investment Operations: | | | | | |
| Investment income—net[a] | .47 | .45 | .46 | .44 | .24 |
| Net realized and unrealized gain (loss) on investments | (1.54) | 5.07 | 10.87 | 3.15 | .04 |
| Total from Investment Operations | (1.07) | 5.52 | 11.33 | 3.59 | .28 |
| Distributions: | | | | | |
| Dividends from investment income—net | (.47) | (.48) | (.48) | (.26) | (.27) |
| Dividends from net realized gain on investments | (5.87) | (3.16) | – | – | – |
| Total Distributions | (6.34) | (3.64) | (.48) | (.26) | (.27) |
| Net asset value, end of period | 38.56 | 45.97 | 44.09 | 33.24 | 29.91 |
| **Total Return (%)** | (3.20) | 13.45 | 34.34 | 11.98 | .90 |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | .86 | .84 | .86 | .85 | .85 |
| Ratio of net expenses to average net assets | .86 | .84 | .86 | .85 | .85 |
| Ratio of net investment income to average net assets | 1.14 | 1.02 | 1.19 | 1.34 | .80 |
| Portfolio Turnover Rate | 59.57 | 45.05 | 38.81 | 48.84 | 67.88 |
| Net Assets, end of period ($ x 1,000) | 227,483 | 270,483 | 264,713 | 207,383 | 208,013 |

[a] *Based on average shares outstanding.*
*See notes to financial statements.*

| Service Shares | Year Ended December 31, 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | |
| Net asset value, beginning of period | 45.58 | 43.76 | 33.01 | 29.70 | 29.71 |
| Investment Operations: | | | | | |
| Investment income—net[a] | .36 | .33 | .36 | .36 | .17 |
| Net realized and unrealized gain (loss) on investments | (1.52) | 5.04 | 10.78 | 3.13 | .02 |
| Total from Investment Operations | (1.16) | 5.37 | 11.14 | 3.49 | .19 |
| Distributions: | | | | | |
| Dividends from investment income—net | (.36) | (.39) | (.39) | (.18) | (.20) |
| Dividends from net realized gain on investments | (5.87) | (3.16) | – | – | – |
| Total Distributions | (6.23) | (3.55) | (.39) | (.18) | (.20) |
| Net asset value, end of period | 38.19 | 45.58 | 43.76 | 33.01 | 29.70 |
| **Total Return (%)** | (3.41) | 13.13 | 33.99 | 11.70 | .65 |
| **Ratios/Supplemental Data (%):** | | | | | |
| Ratio of total expenses to average net assets | 1.11 | 1.09 | 1.11 | 1.10 | 1.10 |
| Ratio of net expenses to average net assets | 1.11 | 1.09 | 1.11 | 1.10 | 1.10 |
| Ratio of net investment income to average net assets | .89 | .76 | .93 | 1.09 | .55 |
| Portfolio Turnover Rate | 59.57 | 45.05 | 38.81 | 48.84 | 67.88 |
| Net Assets, end of period ($ x 1,000) | 9,869 | 10,632 | 8,767 | 6,552 | 6,167 |

[a] *Based on average shares outstanding.*
*See notes to financial statements.*

**NOTE 1—Significant Accounting Policies:**

The Dreyfus Socially Responsible Growth Fund, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified open-end management investment company.The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The fund's investment objective is to seek to provide capital growth. The Dreyfus Corporation (the "Manager" or "Dreyfus"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of Dreyfus, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue 150 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial and Service. Initial shares are subject to a Shareholder Services Plan fee and Service shares are subject to a Distribution Plan fee. Each class of shares has identical rights and privileges, except with respect to the Distribution Plan, Shareholder Services Plan and the expenses borne by each class, the allocation of certain transfer agency costs, and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

**Level 1**—unadjusted quoted prices in active markets for identical investments.

**Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. For open short positions, asked prices are used for valuation purposes. Bid price is used when no asked price is available. Registered investment companies that are not traded on an exchange are valued at their net asset value. All of the preceding securities are generally categorized within Level 1 of the fair value hierarchy.

Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices. These securities are generally categorized within Level 2 of the fair value hierarchy.

Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant American Depository Receipts and financial futures. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the fund's Board of Directors (the "Board"). Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of December 31, 2015 in valuing the fund's investments:

| | Level 1 - Unadjusted Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Assets ($)** | | | | |
| Investments in Securities: | | | | |
| Equity Securities - Domestic Common Stocks† | 229,394,511 | - | - | **229,394,511** |
| Equity Securities - Foreign Common Stocks† | 5,496,198 | - | - | **5,496,198** |
| Mutual Funds | 4,484,167 | - | - | **4,484,167** |

† *See Statement of Investments for additional detailed categorizations.*

At December 31, 2015, there were no transfers between levels of the fair value hierarchy.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by Dreyfus, or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund or credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended December 31, 2015, The Bank of New York Mellon earned $2,005 from lending portfolio securities, pursuant to the securities lending agreement.

**(c) Affiliated issuers:** Investments in other investment companies advised by Dreyfus are defined as "affiliated" under the Act. Investments in affiliated investment companies during the period ended December 31, 2015 were as follows:

| Affiliated Investment Company | Value 12/31/2014 ($) | Purchases ($) | Sales ($) | Value 12/31/2015 ($) | Net Assets (%) |
|---|---|---|---|---|---|
| Dreyfus Institutional Preferred Plus Money Market Fund | 3,814,776 | 30,672,451 | 32,082,781 | 2,404,446 | 1.0 |
| Dreyfus Institutional Cash Advantage Fund | 1,507,543 | 34,177,442 | 33,605,264 | 2,079,721 | .9 |
| **Total** | **5,322,319** | **64,849,893** | **65,688,045** | **4,484,167** | **1.9** |

**(d) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gains, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

As of and during the period ended December 31, 2015, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period ended December 31, 2015, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2015 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2015, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $2,958,265, undistributed capital gains $22,690,686 and unrealized appreciation $35,355,032.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2015 and December 31, 2014 were as follows: ordinary income $4,666,391 and $3,658,185, and long-term capital gains $33,237,361 and $18,367,048, respectively.

During the period ended December 31, 2015, as a result of permanent book to tax differences, primarily due to dividend reclassification, the fund decreased accumulated undistributed investment income-net by $642 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

## NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $480 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. Prior to October 7, 2015, the unsecured credit facility with Citibank, N.A. was $430 million. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended December 31, 2015, the fund did not borrow under the Facilities.

## NOTE 3—Management Fee and Other Transactions with Affiliates:

**(a)** Pursuant to management agreement with Dreyfus, the management fee is computed at the annual rate of .75% of the value of the fund's average daily net assets and is payable monthly.

**(b)** Under the Distribution Plan adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing its shares, for servicing and/or maintaining Service shares' shareholder accounts and for advertising and marketing for Service shares. The Distribution Plan provides for payments to be made at an annual rate of .25% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Distribution Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2015, Service shares were charged $26,453 pursuant to the Distribution Plan.

**(c)** Under the Shareholder Services Plan, Initial shares reimburse the Distributor at an amount not to exceed an annual rate of .25% of the value of its average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares' shareholder accounts. During the period ended December 31, 2015, Initial shares were charged $105 pursuant to the Shareholders Services Plan.

The fund has arrangements with the transfer agent and the custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset transfer agency and custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of Dreyfus, under a transfer agency agreement for providing transfer agency and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended December 31, 2015, the fund was charged $1,466 for transfer agency services and $111 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $5.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended December 31, 2015, the fund was charged $24,787 pursuant to the custody agreement.

During the period ended December 31, 2015, the fund was charged $10,946 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $152,745, Distribution Plan fees $2,113, custodian fees $16,000, Chief Compliance Officer fees $2,647 and transfer agency fees $202.

**(d)** Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

## NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended December 31, 2015, amounted to $154,768,438 and $186,309,492, respectively.

At December 31, 2015, the cost of investments for federal income tax purposes was $204,019,844; accordingly, accumulated net unrealized appreciation on investments was $35,355,032, consisting of $45,620,482 gross unrealized appreciation and $10,265,450 gross unrealized depreciation.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Shareholders and Board of Directors**
**The Dreyfus Socially Responsible Growth Fund, Inc.**

We have audited the accompanying statement of assets and liabilities of The Dreyfus Socially Responsible Growth Fund, Inc., including the statement of investments, as of December 31, 2015, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015 by correspondence with the custodian and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Dreyfus Socially Responsible Growth Fund, Inc. at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2016

## IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby reports 100% of the ordinary dividends paid during the fiscal year ended December 31, 2015 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2016 of the percentage applicable to the preparation of their 2015 income tax returns. Also, the fund hereby reports $.3160 per share as a short-term capital gain distribution and $5.5550 per share as a long-term capital gain distribution paid on March 23, 2015.

## INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on July 22-23, 2015, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). The Board members, a majority of whom are not "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from Dreyfus representatives. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board considered information provided to them at the meeting and in previous presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex. Dreyfus provided the number of open accounts in the fund, the fund's asset size and the allocation of fund assets among distribution channels. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex (such as retail direct or intermediary, in which intermediaries typically are paid by the fund and/or Dreyfus) and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each intermediary or distribution channel, as applicable to the fund.

The Board also considered research support available to, and portfolio management capabilities of, the fund's portfolio management personnel and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board also considered Dreyfus' extensive administrative, accounting and compliance infrastructures. The Board also considered portfolio management's brokerage policies and practices (including policies and practices regarding soft dollars) and the standards applied in seeking best execution.

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds ("Performance Group 1") and with a broader group of funds ("Performance Universe 1"), with each group consisting of funds from the same Lipper category as that of the fund, all for various periods ended May 31, 2015, (2) at the request of Dreyfus, the fund's performance with the performance of a group of social criteria funds from various Lipper categories ("Performance Group 2") and with a broader group of social criteria funds ("Performance Universe 2"), all for various periods ended May 31, 2015, and (3) the fund's actual and contractual management fees and total expenses with those of groups of comparable funds identical to Performance Group 1 ("Expense Group 1") and Performance Group 2 ("Expense Group 2") and with broader groups of funds that included the Performance Group 1 funds ("Expense Universe 1") and the Performance Group 2 funds ("Expense Universe 2"), the information for which was derived in part from fund financial statements available to Lipper as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Groups and Performance Universes and the Expense Groups and Expense Universes.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board discussed the results of the comparisons and noted that the fund's total return performance was: at or below the Performance Group 1 median for all periods except the four-year period, when it was above the Performance Group 1 median; above the Performance Group 2 median for all periods except the three-year period when it was below the Performance Group 2 median; and above the Performance Universe 1 and Performance Universe 2 medians for all periods except the one- and three-year periods when it was below the medians. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index.

The Board also reviewed the range of actual and contractual management fees and total expenses of each Expense Group and Expense Universe and discussed the results of the comparisons. The Board noted that: the fund's contractual management fee was below the Expense Group 1 median but slightly above the Expense Group 2 median; the fund's actual management fee was above the Expense Group 1 and 2 medians and above the Expense Universe 1 and 2 medians; and the fund's total expenses were above the Expense Group 1 and Expense Universe 1 medians but below the Expense Group 2 and Expense Universe 2 medians.

Dreyfus representatives reviewed with the Board the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager(s) for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

<u>Analysis of Profitability and Economies of Scale.</u> Dreyfus representatives reviewed the expenses allocated and profit received by Dreyfus and its affiliates and the resulting profitability percentage for managing the fund and the aggregate profitability percentage

to Dreyfus and its affiliates for managing the funds in the Dreyfus fund complex, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The Board also had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board considered, on the advice of its counsel, the profitability analysis (1) as part of its evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, and (2) in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. Dreyfus representatives noted that a discussion of economies of scale is predicated on a fund having achieved a substantial size with increasing assets and that, if a fund's assets had been stable or decreasing, the possibility that Dreyfus may have realized any economies of scale would be less. Dreyfus representatives also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board also considered potential benefits to Dreyfus from acting as investment adviser and noted the soft dollar arrangements in effect for trading the fund's investments.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board generally was satisfied with the fund's performance.
- The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.
- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement and that, to the extent in the future it were

determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar mutual funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In addition, the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined to renew the Agreement.

## BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

### Joseph S. DiMartino (72)
### Chairman of the Board (1995)

*Principal Occupation During Past 5 Years:*

- Corporate Director and Trustee (1995-present)

*Other Public Company Board Memberships During Past 5 Years:*

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)

*No. of Portfolios for which Board Member Serves:* 139

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### Francine J. Bovich (64)
### Board Member (2015)

*Principal Occupation During Past 5 Years:*

- Trustee, The Bradley Trusts, private trust funds (2011-present)
- Managing Director, Morgan Stanley Investment Management (1993-2010)

*Other Public Company Board Memberships During Past 5 Years:*

- Annaly Capital Management, Inc., Board Member (May 2014-present)

*No. of Portfolios for which Board Member Serves:* 79

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### Gordon J. Davis (74)
### Board Member (2012)

*Principal Occupation During Past 5 Years:*

- Partner in the law firm of Venable LLP (2012-present)
- Partner in the law firm of Dewey & LeBoeuf LLP (1994-2012)

*Other Public Company Board Memberships During Past 5 Years:*

- Consolidated Edison, Inc., a utility company, Director (1997-2014)
- The Phoenix Companies, Inc., a life insurance company, Director (2000-2014)

*No. of Portfolios for which Board Member Serves:* 60

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**Nathan Leventhal (72)**
**Board Member (2009)**

*Principal Occupation During Past 5 Years:*

- President Emeritus of Lincoln Center for the Performing Arts (2001-present)
- Chairman of the Avery Fisher Artist Program (1997-2014)
- Commissioner, NYC Planning Commission (2007-2011)

*Other Public Company Board Memberships During Past 5 Years:*

- Movado Group, Inc., Director (2003-present)

*No. of Portfolios for which Board Member Serves:* 50

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**Robin A. Melvin (52)**
**Board Member (2014)**

*Principal Occupation During Past 5 Years:*

- Co-chairman, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois; (2014-present; a board member since 2013)
- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

*No. of Portfolios for which Board Member Serves:* 110

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**Roslyn M. Watson (66)**
**Board Member (2014)**

*Principal Occupation During Past 5 Years:*

- Principal, Watson Ventures, Inc., a real estate investment company (1993-present)

*No. of Portfolios for which Board Member Serves: 65*

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**Benaree Pratt Wiley (69)**
**Board Member (2009)**

*Principal Occupation During Past 5 Years:*

- Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

*Other Public Company Board Memberships During Past 5 Years:*

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

*No. of Portfolios for which Board Member Serves: 65*

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## J. Charles Cardona (60)
## Board Member (2014)

*Principal Occupation During Past 5 Years:*

- President and a Director of the Manager (2008-present), Chairman of the Distributor (2013-present; previously, Executive Vice President, 1997-2013), President of Dreyfus Institutional Services Division

*No. of Portfolios for which Board Member Serves:* 36

*J. Charles Cardona is deemed to be an "interested person" (as defined under the Act) of the fund as a result of his affiliation with The Dreyfus Corporation.*

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## Isabel P. Dunst (68)
## Board Member (2014)

*Principal Occupation During Past 5 Years:*

- Of Counsel to the law firm of Hogan Lovells LLP (2015-present; previously, Partner, 1990-2014)

*No. of Portfolios for which Board Member Serves:* 36

*Isabel P. Dunst is deemed to be an "interested person" (as defined under the Act) of the fund as a result of her affiliation with Hogan Lovells LLP, which provides legal services to BNY Mellon and certain of its affiliates.*

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*Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. The address of the Board Members and Officers is c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-DREYFUS.*

*Clifford L. Alexander, Jr., Emeritus Board Member*
*Whitney I. Gerard, Emeritus Board Member*
*George L. Perry, Emeritus Board Member*

## OFFICERS OF THE FUND (Unaudited)

**BRADLEY J. SKAPYAK, President since January 2010.**

Chief Operating Officer and a director of the Manager since June 2009, Chairman of Dreyfus Transfer, Inc., an affiliate of the Manager and the transfer agent of the funds, since May 2011 and Executive Vice President of the Distributor since June 2007. From April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 65 investment companies (comprised of 139 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since February 1988.

**BENNETT A. MACDOUGALL, Chief Legal Officer since October 2015**

Chief Legal Officer of the Manager since June 2015; from June 2005 to June 2015, Director and Associate General Counsel of Deutsche Bank – Asset & Wealth Management Division, and Chief Legal Officer of Deutsche Investment Management Americas Inc. He is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since June 2015.

**JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.**

Assistant General Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since February 1984.

**JAMES BITETTO, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since December 1996.

**JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 60 years old and has been an employee of the Manager since October 1988.

**JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.**

Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since June 2000.

**MAUREEN E. KANE, Vice President and Assistant Secretary since April 2015.**

Managing Counsel of BNY Mellon since July 2014; from October 2004 until July 2014, General Counsel, and from May 2009 until July 2014, Chief Compliance Officer of Century Capital Management. She is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since July 2014.

**SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.**

Senior Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 40 years old and has been an employee of the Manager since March 2013.

**JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.**

Senior Managing Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since October 1990.

**JAMES WINDELS, Treasurer since November 2001.**

Director – Mutual Fund Accounting of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since April 1985.

**RICHARD CASSARO, Assistant Treasurer since January 2008.**

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since September 1982.

**GAVIN C. REILLY, Assistant Treasurer since December 2005.**

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since April 1991.

**ROBERT S. ROBOL, Assistant Treasurer since August 2005.**

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since October 1988.

**ROBERT SALVIOLO, Assistant Treasurer since July 2007.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since June 1989.

**ROBERT SVAGNA, Assistant Treasurer since December 2002.**

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since November 1990.

**JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (66 investment companies, comprised of 164 portfolios). He is 58 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

**CARI M. CAROSELLA, Anti-Money Laundering Compliance Officer since January 2016**

Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust since January 2016; from May 2015 to December 2015, Interim Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust and the Distributor; from January 2012 to May 2015, AML Surveillance Officer of the Distributor and from 2007 to December 2011, Financial Processing Manager of the Distributor. She is an officer of 62 investment companies (comprised of 160 portfolios) managed by the Manager. She is 47 years old and has been an employee of the Distributor since 1997.

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# For More Information

**The Dreyfus Socially Responsible Growth Fund, Inc.**

200 Park Avenue
New York, NY 10166

**Manager**

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

**Custodian**

The Bank of New York Mellon
225 Liberty Street
New York, NY 10286

**Transfer Agent & Dividend Disbursing Agent**

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

**Distributor**

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

**Telephone** 1-800-242-8671 or 1-800-346-3621

**Mail** The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144 Attn: Institutional Services Department

**E-mail** Send your request to info@dreyfus.com

**Internet** Information can be viewed online or downloaded at www.dreyfus.com

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (phone 1-800-SEC-0330 for information).

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities and information regarding how the fund voted these proxies for the most recent 12-month period ended June 30 is available at www.dreyfus.com and on the SEC's website at www.sec.gov and without charge, upon request, by calling 1-800-DREYFUS.

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# Fidelity® Variable Insurance Products: Freedom Funds – Income, 2005, 2010, 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050

**Annual Report**
**December 31, 2015**

Fidelity
INVESTMENTS

# Contents

To view a fund's proxy voting guidelines and proxy voting record for the 12-month period ended June 30, visit http://www.fidelity.com/proxyvotingresults or visit the Securities and Exchange Commission's (SEC) web site at http://www.sec.gov.

You may also call 1-877-208-0098 to request a free copy of the proxy voting guidelines.

Fidelity® Variable Insurance Products are separate account options which are purchased through a variable insurance contract.



*This report and the financial statements contained herein are submitted for the general information of the shareholders of the Funds. This report is not authorized for distribution to prospective investors in the Funds unless preceded or accompanied by an effective prospectus.*

*A fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Forms N-Q are available on the SEC's web site at http://www.sec.gov. A fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.*

*For a complete list of a fund's portfolio holdings, view the most recent holdings listing, semiannual report, or annual report on Fidelity's web site at http://www.fidelity.com, http://www.advisor.fidelity.com, or http://www.401k.com, as applicable.*

**NOT FDIC INSURED •MAY LOSE VALUE •NO BANK GUARANTEE**

*Neither the Funds nor Fidelity Distributors Corporation is a bank.*

VIP Freedom Income Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.34% | 3.40% | 4.02% |
| Service Class | -0.42% | 3.30% | 3.92% |
| Service Class 2 | -0.57% | 3.13% | 3.76% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom Income Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the Barclays® U.S. Aggregate Bond Index performed over the same period.


Period Ending Values

—— $14,837 VIP Freedom Income Portfolio℠ – Initial Class

....... $15,552 Barclays® U.S. Aggregate Bond Index

VIP Freedom 2005 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.25% | 4.62% | 4.53% |
| Service Class | -0.35% | 4.51% | 4.42% |
| Service Class 2 | -0.49% | 4.37% | 4.27% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2005 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the Barclays® U.S. Aggregate Bond Index performed over the same period.


Period Ending Values

—— $15,568 VIP Freedom 2005 Portfolio℠ – Initial Class

....... $15,552 Barclays® U.S. Aggregate Bond Index

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

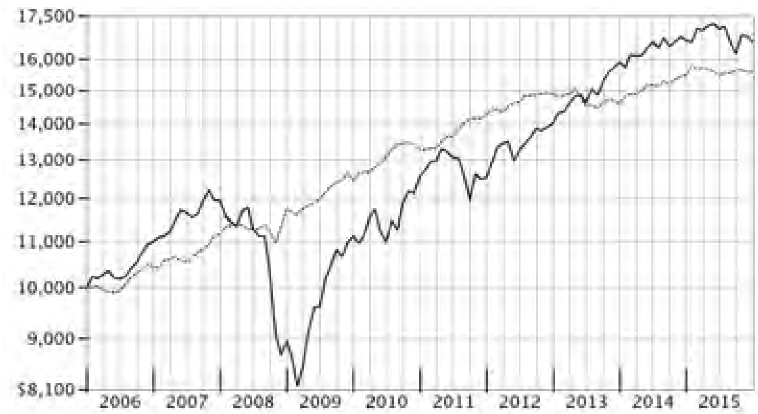
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.29% | 5.70% | 5.18% |
| Service Class | -0.31% | 5.61% | 5.09% |
| Service Class 2 | -0.53% | 5.45% | 4.92% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2010 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the Barclays® U.S. Aggregate Bond Index performed over the same period.




Period Ending Values

—— $16,576 VIP Freedom 2010 Portfolio℠ – Initial Class

....... $15,552 Barclays® U.S. Aggregate Bond Index

## VIP Freedom 2015 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

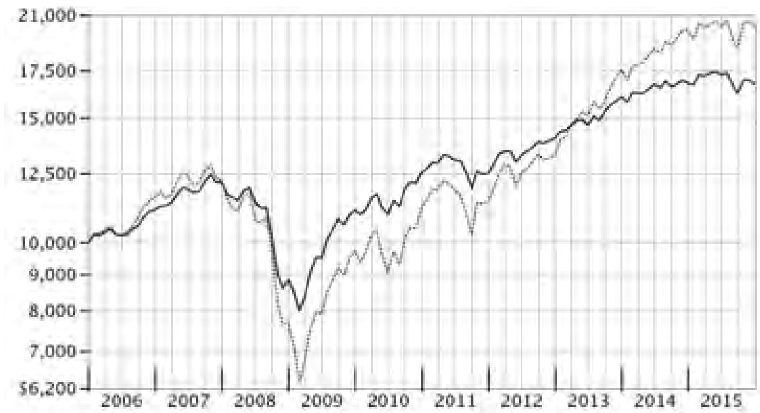
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.33% | 5.95% | 5.30% |
| Service Class | -0.44% | 5.85% | 5.19% |
| Service Class 2 | -0.51% | 5.71% | 5.05% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2015 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

—— $16,757 VIP Freedom 2015 Portfolio℠ – Initial Class

....... $20,242 S&P 500® Index

## VIP Freedom 2020 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

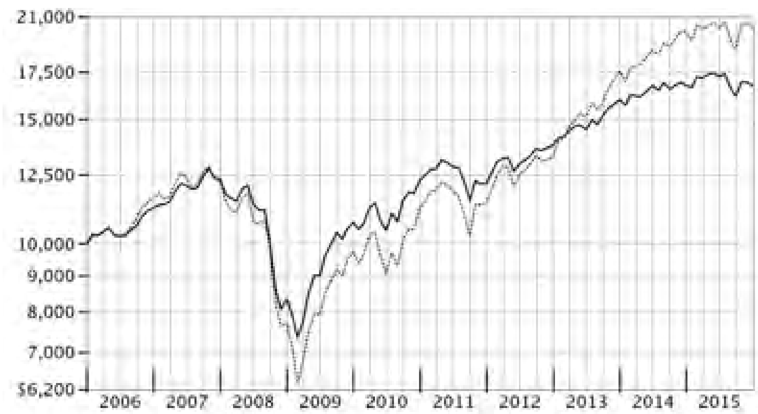
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.27% | 6.36% | 5.27% |
| Service Class | -0.37% | 6.24% | 5.16% |
| Service Class 2 | -0.46% | 6.10% | 5.01% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2020 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

—— $16,714 VIP Freedom 2020 Portfolio℠ – Initial Class

....... $20,242 S&P 500® Index

VIP Freedom 2025 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

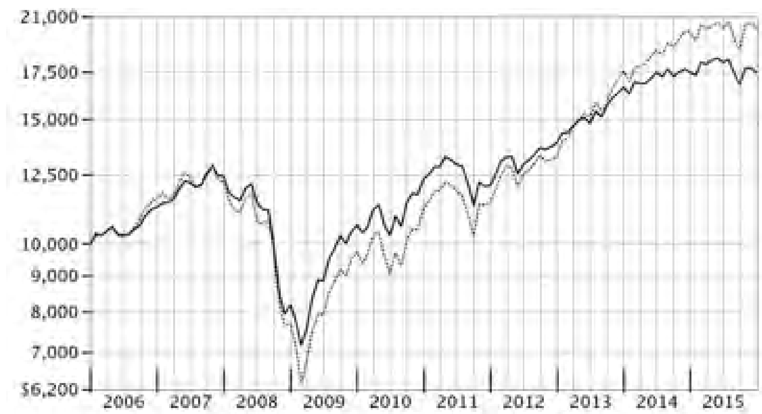
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.18% | 7.23% | 5.74% |
| Service Class | -0.36% | 7.10% | 5.62% |
| Service Class 2 | -0.50% | 6.96% | 5.47% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2025 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$17,468 VIP Freedom 2025 Portfolio℠ – Initial Class

$20,242 S&P 500® Index

VIP Freedom 2030 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

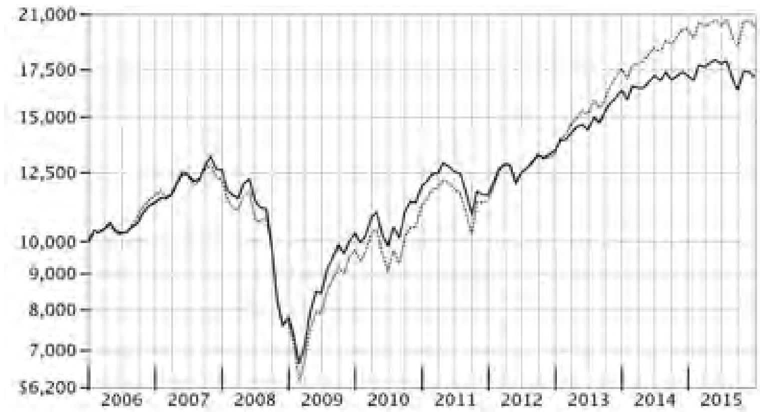
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -0.24% | 7.48% | 5.52% |
| Service Class | -0.34% | 7.37% | 5.42% |
| Service Class 2 | -0.53% | 7.20% | 5.26% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Freedom 2030 Portfolio℠ – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$17,120 VIP Freedom 2030 Portfolio℠ – Initial Class

$20,242 S&P 500® Index

VIP Freedom 2035 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

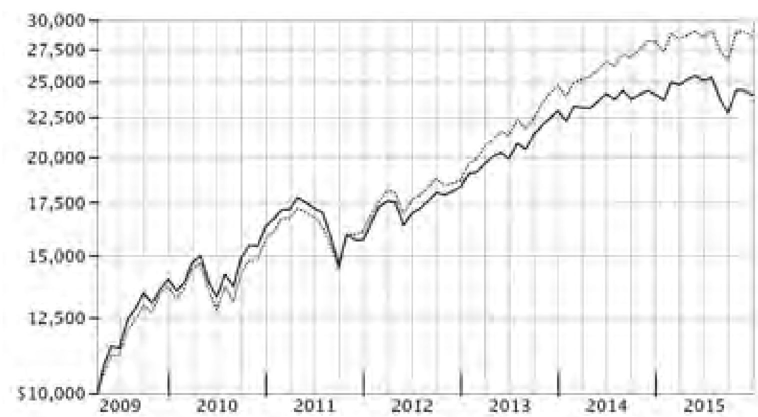
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Initial Class | -0.31% | 7.93% | 13.89% |
| Service Class | -0.40% | 7.83% | 13.78% |
| Service Class 2 | -0.51% | 7.68% | 13.61% |

[A] *From April 8, 2009*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP Freedom 2035 Portfolio℠ – Initial Class on April 8, 2009, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

| | | |
|---|---|---|
| —— | $24,003 | VIP Freedom 2035 Portfolio℠ – Initial Class |
| ....... | $28,551 | S&P 500® Index |

VIP Freedom 2040 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

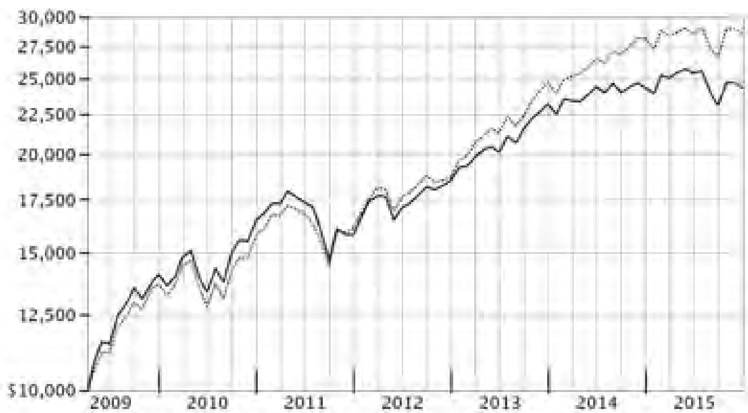
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Initial Class | -0.26% | 8.03% | 14.09% |
| Service Class | -0.35% | 7.93% | 13.98% |
| Service Class 2 | -0.49% | 7.76% | 13.81% |

[A] *From April 8, 2009*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP Freedom 2040 Portfolio℠ – Initial Class on April 8, 2009, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$24,298 VIP Freedom 2040 Portfolio℠ – Initial Class

$28,551 S&P 500® Index

VIP Freedom 2045 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

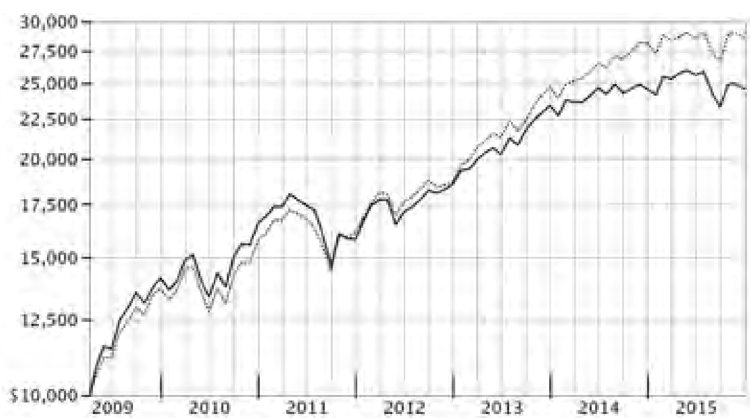
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Initial Class | -0.26% | 8.16% | 14.26% |
| Service Class | -0.37% | 8.05% | 14.15% |
| Service Class 2 | -0.53% | 7.88% | 13.97% |

[A] *From April 8, 2009*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP Freedom 2045 Portfolio℠ – Initial Class on April 8, 2009, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

—— $24,544 VIP Freedom 2045 Portfolio℠ – Initial Class

....... $28,551 S&P 500® Index

VIP Freedom 2050 Portfolio℠

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

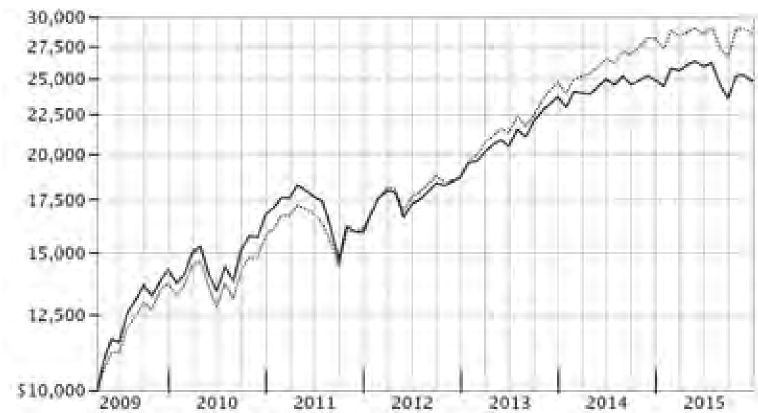
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Initial Class | -0.29% | 8.16% | 14.47% |
| Service Class | -0.38% | 8.05% | 14.35% |
| Service Class 2 | -0.58% | 7.89% | 14.17% |

[A] *From April 8, 2009*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP Freedom 2050 Portfolio℠ – Initial Class on April 8, 2009, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

——— $24,840 VIP Freedom 2050 Portfolio℠ – Initial Class

....... $28,551 S&P 500® Index

# Management's Discussion of Fund Performance

**Market Recap:** Largely buoyed by the U.S., developed-markets equities finished 2015 nearly flat overall, rebounding from a steep decline in August and September over worries about China's slowing economic growth. The MSCI World Index returned -0.44% for the 12 months ending December 31, 2015. Modest gains in the first half of the year were quickly erased amid the late-summer rout, but stocks sharply reversed course in October, lifted by the U.S. Federal Reserve's decision to put off raising near-term interest rates until mid-December. Investors also were encouraged by an interest-rate cut in China and economic stimulus in Europe. Excess supply of oil and natural gas weighed on commodities, the year's worst-performing asset class. Lower energy costs and improving wages drove consumer spending, though, helping retailers. Also, low interest rates and pent-up demand boosted global auto sales: December results sent annual totals past the previous record, set in 2000.

The broad Dow Jones U.S. Total Stock Market Index℠ gained 0.44% for the year. Large-cap stocks outpaced small-caps by a comfortable margin, with the S&P 500® and the Russell 2000® Index returning 1.38% and -4.41%, respectively. Meanwhile, non-U.S. developed-markets returned -3.04%, as measured by the MSCI World ex USA Index, and the MSCI Emerging Markets Index returned -14.60%, beset by numerous challenges, U.S.-dollar strengthening throughout the period not the least of them. Globally, growth- led value-oriented stocks across market-cap segments. Outside the U.S., large-caps lagged small-caps substantially.

Looking within the bellwether S&P 500®, the downtrodden energy (-21%), materials (-8%) and utilities (-5%) sectors weighed on the index. Health care (+7%) helped alleviate the pain, and investors' preference for growth stocks braced technology (+6%), which also benefited from strong fundamentals and attractive relative valuations. This sector performance pattern was generally similar worldwide.

In fixed income, the Barclays® Global Aggregate GDP Weighted Index returned -3.90%, affected in part by the Fed's first interest-rate hike since 2006. The investment-grade Barclays® U.S. Aggregate Bond Index returned 0.55%; The BofA Merrill Lynch℠ US High Yield Constrained Index, -4.61%. Energy- and commodity-related securities performed worst. U.S. Treasury Inflation-Protected Securities (TIPS) suffered amid stubbornly low inflation. Meanwhile, emerging-markets debt rebounded strongly in the fall, overcoming multiple threats including China's economic slowdown and currency headwinds.

**Comments from Co-Portfolio Managers Andrew Dierdorf and Brett Sumsion:** For the year, the share classes of each VIP Freedom Fund posted a slightly negative absolute return. On a relative basis, the longer-dated Funds outperformed their respective Composite index, whereas the shorter-dated Funds and Income Fund lagged slightly. *(For specific Fund results, please refer to the performance section of this report.)* Asset allocation decisions detracted overall, most notably an overweighting in the U.S. equity asset class and our underweighting of investment-grade bonds. Generally speaking, the Funds' non-U.S. equity investments added value overall by meaningfully outperforming the asset-class benchmark. In particular, VIP Overseas Portfolio, which seeks to own high-quality companies purchased at attractive prices that the manager believes can outperform the market over the long term, produced a solid gain. Similarly, VIP Emerging Markets Portfolio, despite its negative result, finished well ahead of its fund-level benchmark. Relative gains here were undermined largely by results from VIP Investment Grade Bond Portfolio, which emphasized corporate bonds and underweighted U.S. Treasuries; the Portfolio underperformed the Barclays® U.S. Aggregate Bond Index. Out-of-benchmark allocations to high-yield debt also hurt. Lastly, the Funds' U.S. equity allocation underperformed overall. Intra-asset allocation decisions – that is, weightings among underlying portfolios – detracted from results. Most notably VIP Growth & Income Portfolio, the Funds' largest U.S. equity holding, underperformed its benchmark the past year.

*The views expressed above reflect those of the portfolio manager(s) only through the end of the period as stated on the cover of this report and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.*

## VIP Freedom Income Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

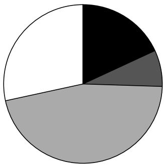
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 3.2 | 3.2 |
| VIP Equity-Income Portfolio Initial Class | 3.3 | 3.3 |
| VIP Growth & Income Portfolio Initial Class | 3.8 | 3.8 |
| VIP Growth Portfolio Initial Class | 3.3 | 3.2 |
| VIP Mid Cap Portfolio Initial Class | 0.9 | 0.9 |
| VIP Value Portfolio Initial Class | 2.4 | 2.4 |
| VIP Value Strategies Portfolio Initial Class | 1.2 | 1.2 |
| | 18.1 | 18.0 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 3.6 | 3.1 |
| VIP Overseas Portfolio Initial Class | 3.8 | 4.5 |
| | 7.4 | 7.6 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 42.4 | 43.4 |
| | 46.1 | 47.4 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 28.4 | 27.0 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

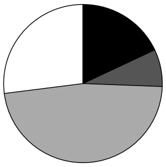
**Period end**

- Domestic Equity Funds 18.1%
- International Equity Funds 7.4%
- Bond Funds 46.1%
- Short-Term Funds 28.4%



**Six months ago**

- Domestic Equity Funds 18.0%
- International Equity Funds 7.6%
- Bond Funds 47.4%
- Short-Term Funds 27.0%



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom Income Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

| Domestic Equity Funds – 18.1% | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 35,327 | $ 1,198,299 |
| VIP Equity-Income Portfolio Initial Class (a) | 61,667 | 1,261,713 |
| VIP Growth & Income Portfolio Initial Class (a) | 75,344 | 1,422,495 |
| VIP Growth Portfolio Initial Class (a) | 18,933 | 1,244,836 |
| VIP Mid Cap Portfolio Initial Class (a) | 10,474 | 341,971 |
| VIP Value Portfolio Initial Class (a) | 68,268 | 912,060 |
| VIP Value Strategies Portfolio Initial Class (a) | 30,267 | 440,077 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $6,056,241) | | **6,821,451** |

| International Equity Funds – 7.4% | | |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 166,207 | 1,352,923 |
| VIP Overseas Portfolio Initial Class (a) | 76,214 | 1,454,171 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $2,634,146) | | **2,807,094** |

| Bond Funds – 46.1% | | |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 283,406 | 1,402,858 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 1,292,354 | 15,986,426 |
| **TOTAL BOND FUNDS** (Cost $17,962,935) | | **17,389,284** |

| Short-Term Funds – 28.4% | | |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $10,734,197) | 10,734,197 | **10,734,197** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $37,387,519) | | **37,752,026** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(3,589)** |
| **NET ASSETS – 100%** | | **$ 37,748,437** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 1,025,009 | $ 767,187 | $ 501,496 | $ 12,844 | $ 1,198,299 |
| VIP Emerging Markets Portfolio Initial Class | 807,469 | 1,045,266 | 360,518 | 8,171 | 1,352,923 |
| VIP Equity-Income Portfolio Initial Class | 1,077,800 | 840,883 | 468,967 | 42,363 | 1,261,713 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 8,303,172 | 5,329,890 | 2,898,865 | 2,717 | 10,734,197 |
| VIP Growth & Income Portfolio Initial Class | 1,227,153 | 929,035 | 615,012 | 31,583 | 1,422,495 |
| VIP Growth Portfolio Initial Class | 1,046,244 | 697,225 | 549,722 | 3,258 | 1,244,836 |
| VIP High Income Portfolio Initial Class | 1,216,775 | 789,365 | 437,003 | 98,471 | 1,402,858 |
| VIP Investment Grade Bond Portfolio Initial | 14,539,867 | 7,160,958 | 5,153,315 | 424,979 | 15,986,426 |
| VIP Mid Cap Portfolio Initial Class | 299,455 | 217,648 | 133,512 | 1,818 | 341,971 |
| VIP Overseas Portfolio Initial Class | 1,720,288 | 1,054,936 | 1,369,955 | 20,531 | 1,454,171 |
| VIP Value Portfolio Initial Class | 791,331 | 647,061 | 376,463 | 12,831 | 912,060 |
| VIP Value Strategies Portfolio Initial Class | 386,476 | 253,384 | 180,038 | 5,492 | 440,077 |
| Total | $ 32,441,039 | $ 19,732,838 | $ 13,044,866 | $ 665,058 | $ 37,752,026 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $37,387,519) — See accompanying schedule | | $ 37,752,026 |
| Receivable for investments sold | | 117,197 |
| Receivable for fund shares sold | | 14,350 |
| **Total assets** | | 37,883,573 |
| **Liabilities** | | |
| Payable for investments purchased | $ 7,382 | |
| Payable for fund shares redeemed | 124,164 | |
| Distribution and service plan fees payable | 3,590 | |
| **Total liabilities** | | 135,136 |
| **Net Assets** | | $ 37,748,437 |
| Net Assets consist of: | | |
| Paid in capital | | $ 37,204,043 |
| Accumulated undistributed net realized gain (loss) on investments | | 179,887 |
| Net unrealized appreciation (depreciation) on investments | | 364,507 |
| **Net Assets** | | $ 37,748,437 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($14,548,067 ÷ 1,349,494 shares) | | $ 10.78 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($9,825,113 ÷ 911,434 shares) | | $ 10.78 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($13,375,257 ÷ 1,245,332 shares) | | $ 10.74 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 665,058 |
| **Expenses** | | |
| Distribution and service plan fees | $ 39,039 | |
| Independent trustees' compensation | 144 | |
| Total expenses before reductions | 39,183 | |
| Expense reductions | (144) | 39,039 |
| **Net investment income (loss)** | | 626,019 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (84,997) | |
| Capital gain distributions from underlying funds | 459,071 | |
| Total net realized gain (loss) | | 374,074 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (1,291,995) |
| **Net gain (loss)** | | (917,921) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (291,902) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 626,019 | $ 474,069 |
| Net realized gain (loss) | 374,074 | 10,499 |
| Change in net unrealized appreciation (depreciation) | (1,291,995) | 612,129 |
| **Net increase (decrease) in net assets resulting from operations** | (291,902) | 1,096,697 |
| Distributions to shareholders from net investment income | (637,437) | (463,895) |
| Distributions to shareholders from net realized gain | (50,115) | (268,988) |
| **Total distributions** | (687,552) | (732,883) |
| Share transactions – net increase (decrease) | 6,289,229 | 3,065,906 |
| **Total increase (decrease) in net assets** | 5,309,775 | 3,429,720 |
| **Net Assets** | | |
| Beginning of period | 32,438,662 | 29,008,942 |
| End of period (including undistributed net investment income of $0 and $10,174, respectively) | $ 37,748,437 | $ 32,438,662 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom Income Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.03 | $ 10.89 | $ 10.57 | $ 10.21 | $ 10.27 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .21 | .18 | .18 | .16 | .19 |
| Net realized and unrealized gain (loss) | (.25) | .23 | .40 | .50 | (.02) |
| Total from investment operations | (.04) | .41 | .58 | .66 | .17 |
| Distributions from net investment income | (.20) | (.17) | (.17) | (.16) | (.19) |
| Distributions from net realized gain | (.02) | (.10) | (.10) | (.14) | (.04) |
| Total distributions | (.21)[B] | (.27) | (.26)[C] | (.30) | (.23) |
| Net asset value, end of period | $ 10.78 | $ 11.03 | $ 10.89 | $ 10.57 | $ 10.21 |
| **Total Return**[D,E] | (.34)% | 3.78% | 5.55% | 6.52% | 1.63% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions[H] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.85% | 1.62% | 1.67% | 1.55% | 1.85% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 14,548 | $ 17,386 | $ 16,980 | $ 14,184 | $ 10,938 |
| Portfolio turnover rate[F] | 36% | 32% | 43% | 43% | 49% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.21 per share is comprised of distributions from net investment income of $.198 and distributions from net realized gain of $.015 per share.*
C *Total distributions of $.26 per share is comprised of distributions from net investment income of $.166 and distributions from net realized gain of $.097 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
H *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom Income Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.03 | $ 10.89 | $ 10.58 | $ 10.22 | $ 10.28 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .19 | .17 | .17 | .15 | .18 |
| Net realized and unrealized gain (loss) | (.24) | .23 | .40 | .50 | (.02) |
| Total from investment operations | (.05) | .40 | .57 | .65 | .16 |
| Distributions from net investment income | (.19) | (.16) | (.16) | (.15) | (.18) |
| Distributions from net realized gain | (.02) | (.10) | (.10) | (.14) | (.04) |
| Total distributions | (.20)[B] | (.26) | (.26) | (.29) | (.22) |
| Net asset value, end of period | $ 10.78 | $ 11.03 | $ 10.89 | $ 10.58 | $ 10.22 |
| **Total Return**[C,D] | (.42)% | 3.69% | 5.38% | 6.42% | 1.56% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.75% | 1.52% | 1.57% | 1.45% | 1.75% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 9,825 | $ 6,193 | $ 4,529 | $ 2,467 | $ 2,505 |
| Portfolio turnover rate[E] | 36% | 32% | 43% | 43% | 49% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.20 per share is comprised of distributions from net investment income of $.189 and distributions from net realized gain of $.015 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom Income Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 10.99 | $ 10.85 | $ 10.54 | $ 10.18 | $ 10.24 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .18 | .15 | .15 | .14 | .17 |
| Net realized and unrealized gain (loss) | (.24) | .23 | .40 | .49 | (.03) |
| Total from investment operations | (.06) | .38 | .55 | .63 | .14 |
| Distributions from net investment income | (.17) | (.14) | (.14) | (.13) | (.16) |
| Distributions from net realized gain | (.02) | (.10) | (.10) | (.14) | (.04) |
| Total distributions | (.19) | (.24) | (.24) | (.27) | (.20) |
| Net asset value, end of period | $ 10.74 | $ 10.99 | $ 10.85 | $ 10.54 | $ 10.18 |
| **Total Return**[B,C] | (.57)% | 3.54% | 5.21% | 6.26% | 1.39% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.60% | 1.37% | 1.42% | 1.30% | 1.60% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 13,375 | $ 8,860 | $ 7,500 | $ 6,495 | $ 7,731 |
| Portfolio turnover rate[D] | 36% | 32% | 43% | 43% | 49% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## VIP Freedom 2005 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

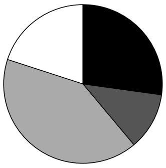
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 4.8 | 4.8 |
| VIP Equity-Income Portfolio Initial Class | 5.0 | 5.1 |
| VIP Growth & Income Portfolio Initial Class | 5.7 | 5.8 |
| VIP Growth Portfolio Initial Class | 5.0 | 5.0 |
| VIP Mid Cap Portfolio Initial Class | 1.4 | 1.4 |
| VIP Value Portfolio Initial Class | 3.6 | 3.7 |
| VIP Value Strategies Portfolio Initial Class | 1.7 | 1.8 |
| | 27.2 | 27.6 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 4.6 | 4.3 |
| VIP Overseas Portfolio Initial Class | 7.1 | 7.7 |
| | 11.7 | 12.0 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 37.4 | 38.3 |
| | 41.1 | 42.3 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 20.0 | 18.1 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

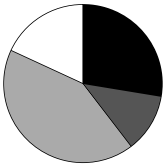
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 27.2% |
| International Equity Funds | 11.7% |
| Bond Funds | 41.1% |
| Short-Term Funds | 20.0% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 27.6% |
| International Equity Funds | 12.0% |
| Bond Funds | 42.3% |
| Short-Term Funds | 18.1% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

## VIP Freedom 2005 Portfolio℠

# Investments December 31, 2015

Showing Percentage of Net Assets

| Domestic Equity Funds – 27.2% | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 10,181 | $ 345,345 |
| VIP Equity-Income Portfolio Initial Class (a) | 17,812 | 364,438 |
| VIP Growth & Income Portfolio Initial Class (a) | 21,759 | 410,815 |
| VIP Growth Portfolio Initial Class (a) | 5,469 | 359,571 |
| VIP Mid Cap Portfolio Initial Class (a) | 3,024 | 98,732 |
| VIP Value Portfolio Initial Class (a) | 19,716 | 263,408 |
| VIP Value Strategies Portfolio Initial Class (a) | 8,739 | 127,061 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $1,659,581) | | **1,969,370** |
| **International Equity Funds – 11.7%** | | |
| VIP Emerging Markets Portfolio Initial Class (a) | 41,038 | 334,048 |
| VIP Overseas Portfolio Initial Class (a) | 26,643 | 508,345 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $856,694) | | **842,393** |
| **Bond Funds – 41.1%** | | |
| VIP High Income Portfolio Initial Class (a) | 54,393 | 269,246 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 218,934 | 2,708,209 |
| **TOTAL BOND FUNDS** (Cost $3,080,150) | | **2,977,455** |
| **Short-Term Funds – 20.0%** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $1,444,116) | 1,444,116 | **1,444,116** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $7,040,541) | | **7,233,334** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(51)** |
| **NET ASSETS – 100%** | | **$ 7,233,283** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 429,166 | $ 104,416 | $ 150,168 | $ 3,797 | $ 345,345 |
| VIP Emerging Markets Portfolio Initial Class | 302,225 | 164,733 | 91,084 | 2,128 | 334,048 |
| VIP Equity-Income Portfolio Initial Class | 451,699 | 115,364 | 131,533 | 12,575 | 364,438 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1,365,111 | 468,769 | 389,764 | 418 | 1,444,116 |
| VIP Growth & Income Portfolio Initial Class | 514,395 | 120,268 | 179,079 | 9,341 | 410,815 |
| VIP Growth Portfolio Initial Class | 435,099 | 79,717 | 171,218 | 957 | 359,571 |
| VIP High Income Portfolio Initial Class | 323,437 | 67,469 | 91,849 | 19,509 | 269,246 |
| VIP Investment Grade Bond Portfolio Initial | 3,352,792 | 477,419 | 1,029,660 | 74,108 | 2,708,209 |
| VIP Mid Cap Portfolio Initial Class | 126,267 | 30,009 | 41,302 | 535 | 98,732 |
| VIP Overseas Portfolio Initial Class | 737,266 | 127,477 | 384,397 | 7,301 | 508,345 |
| VIP Value Portfolio Initial Class | 332,265 | 90,738 | 109,804 | 3,785 | 263,408 |
| VIP Value Strategies Portfolio Initial Class | 163,932 | 20,681 | 52,567 | 1,614 | 127,061 |
| Total | $ 8,533,654 | $ 1,867,060 | $ 2,822,425 | $ 136,068 | $ 7,233,334 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $7,040,541) — See accompanying schedule | | $ 7,233,334 |
| Receivable for investments sold | | 27 |
| Receivable for fund shares sold | | 1,038 |
| **Total assets** | | 7,234,399 |
| **Liabilities** | | |
| Payable for investments purchased | $ 1,029 | |
| Payable for fund shares redeemed | 28 | |
| Distribution and service plan fees payable | 59 | |
| **Total liabilities** | | 1,116 |
| **Net Assets** | | $ 7,233,283 |
| Net Assets consist of: | | |
| Paid in capital | | $ 7,015,798 |
| Accumulated undistributed net realized gain (loss) on investments | | 24,692 |
| Net unrealized appreciation (depreciation) on investments | | 192,793 |
| **Net Assets** | | $ 7,233,283 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($6,656,876 ÷ 589,466 shares) | | $ 11.29 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($483,974 ÷ 42,601 shares) | | $ 11.36 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($92,433 ÷ 8,194 shares) | | $ 11.28 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 136,068 |
| **Expenses** | | |
| Distribution and service plan fees | $ 677 | |
| Independent trustees' compensation | 34 | |
| Total expenses before reductions | 711 | |
| Expense reductions | (34) | 677 |
| **Net investment income (loss)** | | 135,391 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (42,764) | |
| Capital gain distributions from underlying funds | 183,169 | |
| Total net realized gain (loss) | | 140,405 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (302,191) |
| **Net gain (loss)** | | (161,786) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (26,395) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 135,391 | $ 136,009 |
| Net realized gain (loss) | 140,405 | 7,133 |
| Change in net unrealized appreciation (depreciation) | (302,191) | 198,304 |
| **Net increase (decrease) in net assets resulting from operations** | (26,395) | 341,446 |
| Distributions to shareholders from net investment income | (135,627) | (135,563) |
| Distributions to shareholders from net realized gain | (15,795) | (75,085) |
| **Total distributions** | (151,422) | (210,648) |
| Share transactions – net increase (decrease) | (1,122,509) | 1,030,173 |
| **Total increase (decrease) in net assets** | (1,300,326) | 1,160,971 |
| **Net Assets** | | |
| Beginning of period | 8,533,609 | 7,372,638 |
| End of period (including undistributed net investment income of $0 and $445, respectively) | $ 7,233,283 | $ 8,533,609 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2005 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.56 | $ 11.37 | $ 10.56 | $ 9.86 | $ 10.07 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .19 | .20 | .17 | .18 | .22 |
| Net realized and unrealized gain (loss) | (.22) | .29 | .86 | .76 | (.20) |
| Total from investment operations | (.03) | .49 | 1.03 | .94 | .02 |
| Distributions from net investment income | (.22) | (.19) | (.18) | (.17) | (.19) |
| Distributions from net realized gain | (.03) | (.11) | (.04) | (.07) | (.04) |
| Total distributions | (.24)[B] | (.30) | (.22) | (.24) | (.23) |
| Net asset value, end of period | $ 11.29 | $ 11.56 | $ 11.37 | $ 10.56 | $ 9.86 |
| **Total Return**[C,D] | (.25)% | 4.30% | 9.74% | 9.57% | .18% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions[G] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.64% | 1.71% | 1.57% | 1.72% | 2.17% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 6,657 | $ 8,047 | $ 7,145 | $ 5,971 | $ 5,224 |
| Portfolio turnover rate[E] | 23% | 21% | 54% | 30% | 54% |

A *Calculated based on average shares outstanding during the period.*

B *Total distributions of $.24 per share is comprised of distributions from net investment income of $.217 and distributions from net realized gain of $.025 per share.*

C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*

D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*

E *Amounts do not include the activity of the Underlying Funds.*

F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

G *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2005 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.63 | $ 11.44 | $ 10.57 | $ 9.86 | $ 10.08 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .18 | .19 | .16 | .17 | .21 |
| Net realized and unrealized gain (loss) | (.22) | .29 | .85 | .77 | (.21) |
| Total from investment operations | (.04) | .48 | 1.01 | .94 | –[B] |
| Distributions from net investment income | (.21) | (.18) | (.11) | (.16) | (.18) |
| Distributions from net realized gain | (.03) | (.11) | (.04) | (.07) | (.04) |
| Total distributions | (.23)[C] | (.29) | (.14)[D] | (.23) | (.22) |
| Net asset value, end of period | $ 11.36 | $ 11.63 | $ 11.44 | $ 10.57 | $ 9.86 |
| **Total Return**[E,F] | (.35)% | 4.18% | 9.60% | 9.59% | (.04)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.54% | 1.61% | 1.47% | 1.62% | 2.07% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 484 | $ 408 | $ 125 | $ 177 | $ 95 |
| Portfolio turnover rate[G] | 23% | 21% | 54% | 30% | 54% |

A *Calculated based on average shares outstanding during the period.*

B *Amount represents less than $.005 per share.*

C *Total distributions of $.23 per share is comprised of distributions from net investment income of $.206 and distributions from net realized gain of $.025 per share.*

D *Total distributions of $.14 per share is comprised of distributions from net investment income of $.107 and distributions from net realized gain of $.037 per share.*

E *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*

F *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*

G *Amounts do not include the activity of the Underlying Funds.*

H *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2005 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.55 | $ 11.36 | $ 10.55 | $ 9.85 | $ 10.08 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .16 | .17 | .15 | .15 | .19 |
| Net realized and unrealized gain (loss) | (.21) | .29 | .85 | .77 | (.20) |
| Total from investment operations | (.05) | .46 | 1.00 | .92 | (.01) |
| Distributions from net investment income | (.19) | (.16) | (.15) | (.15) | (.18) |
| Distributions from net realized gain | (.03) | (.11) | (.04) | (.07) | (.04) |
| Total distributions | (.22) | (.27) | (.19) | (.22) | (.22) |
| Net asset value, end of period | $ 11.28 | $ 11.55 | $ 11.36 | $ 10.55 | $ 9.85 |
| **Total Return**[B,C] | (.49)% | 4.04% | 9.46% | 9.35% | (.09)% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.39% | 1.46% | 1.31% | 1.48% | 1.92% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 92 | $ 79 | $ 102 | $ 251 | $ 226 |
| Portfolio turnover rate[D] | 23% | 21% | 54% | 30% | 54% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

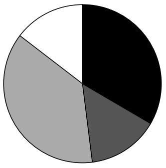
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 5.8 | 5.9 |
| VIP Equity-Income Portfolio Initial Class | 6.2 | 6.2 |
| VIP Growth & Income Portfolio Initial Class | 7.0 | 7.1 |
| VIP Growth Portfolio Initial Class | 6.1 | 6.0 |
| VIP Mid Cap Portfolio Initial Class | 1.7 | 1.7 |
| VIP Value Portfolio Initial Class | 4.5 | 4.6 |
| VIP Value Strategies Portfolio Initial Class | 2.1 | 2.2 |
| | 33.4 | 33.7 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 5.4 | 5.1 |
| VIP Overseas Portfolio Initial Class | 9.2 | 9.7 |
| | 14.6 | 14.8 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 33.7 | 34.7 |
| | 37.4 | 38.7 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 14.6 | 12.8 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

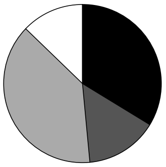
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 33.4% |
| International Equity Funds | 14.6% |
| Bond Funds | 37.4% |
| Short-Term Funds | 14.6% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 33.7% |
| International Equity Funds | 14.8% |
| Bond Funds | 38.7% |
| Short-Term Funds | 12.8% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

VIP Freedom 2010 Portfolio℠

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 33.4%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 506,115 | $ 17,167,420 |
| VIP Equity-Income Portfolio Initial Class (a) | 885,313 | 18,113,503 |
| VIP Growth & Income Portfolio Initial Class (a) | 1,081,830 | 20,424,953 |
| VIP Growth Portfolio Initial Class (a) | 271,768 | 17,868,742 |
| VIP Mid Cap Portfolio Initial Class (a) | 150,398 | 4,910,483 |
| VIP Value Portfolio Initial Class (a) | 980,276 | 13,096,481 |
| VIP Value Strategies Portfolio Initial Class (a) | 434,658 | 6,319,924 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $77,247,210) | | **97,901,506** |

## International Equity Funds – 14.6%

| | Shares | Value |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 1,945,880 | 15,839,466 |
| VIP Overseas Portfolio Initial Class (a) | 1,408,254 | 26,869,493 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $40,477,577) | | **42,708,959** |

## Bond Funds – 37.4%

| | Shares | Value |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 2,206,700 | 10,923,164 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 7,979,378 | 98,704,908 |
| **TOTAL BOND FUNDS** (Cost $113,767,085) | | **109,628,072** |

## Short-Term Funds – 14.6%

| | Shares | Value |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $42,599,519) | 42,599,519 | **42,599,519** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $274,091,391) | | **292,838,056** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(51,643)** |
| **NET ASSETS – 100%** | | **$292,786,413** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 17,993,230 | $ 3,899,270 | $ 3,175,740 | $ 183,135 | $ 17,167,420 |
| VIP Emerging Markets Portfolio Initial Class | 12,818,859 | 6,169,555 | 1,441,039 | 97,174 | 15,839,466 |
| VIP Equity-Income Portfolio Initial Class | 18,925,465 | 4,798,520 | 2,615,305 | 605,367 | 18,113,503 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 31,056,485 | 15,735,769 | 4,192,734 | 10,283 | 42,599,519 |
| VIP Growth & Income Portfolio Initial Class | 21,568,420 | 4,991,840 | 4,288,607 | 450,407 | 20,424,953 |
| VIP Growth Portfolio Initial Class | 18,380,527 | 2,614,395 | 3,866,382 | 46,296 | 17,868,742 |
| VIP High Income Portfolio Initial Class | 11,488,205 | 1,834,809 | 1,222,287 | 765,671 | 10,923,164 |
| VIP Investment Grade Bond Portfolio Initial | 105,330,703 | 16,498,747 | 19,879,524 | 2,614,798 | 98,704,908 |
| VIP Mid Cap Portfolio Initial Class | 5,333,273 | 1,212,784 | 948,769 | 25,842 | 4,910,483 |
| VIP Overseas Portfolio Initial Class | 32,101,367 | 4,875,359 | 11,200,990 | 375,585 | 26,869,493 |
| VIP Value Portfolio Initial Class | 13,926,397 | 3,710,141 | 2,303,530 | 182,752 | 13,096,481 |
| VIP Value Strategies Portfolio Initial Class | 6,856,342 | 893,542 | 1,197,338 | 78,065 | 6,319,924 |
| Total | $ 295,779,273 | $ 67,234,731 | $ 56,332,245 | $ 5,435,375 | $ 292,838,056 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $274,091,391) — See accompanying schedule | | $ 292,838,056 |
| Cash | | 3 |
| Receivable for investments sold | | 16,893 |
| Receivable for fund shares sold | | 6,136 |
| **Total assets** | | 292,861,088 |
| **Liabilities** | | |
| Payable for fund shares redeemed | $ 23,027 | |
| Distribution and service plan fees payable | 51,648 | |
| **Total liabilities** | | 74,675 |
| **Net Assets** | | $ 292,786,413 |
| Net Assets consist of: | | |
| Paid in capital | | $ 268,977,792 |
| Undistributed net investment income | | 1,103 |
| Accumulated undistributed net realized gain (loss) on investments | | 5,060,853 |
| Net unrealized appreciation (depreciation) on investments | | 18,746,665 |
| **Net Assets** | | $ 292,786,413 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($31,047,510 ÷ 2,554,750 shares) | | $ 12.15 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($23,769,506 ÷ 1,958,000 shares) | | $ 12.14 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($237,969,397 ÷ 19,692,026 shares) | | $ 12.08 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 5,435,375 |
| **Expenses** | | |
| Distribution and service plan fees | $ 613,070 | |
| Independent trustees' compensation | 1,198 | |
| Total expenses before reductions | 614,268 | |
| Expense reductions | (1,198) | 613,070 |
| **Net investment income (loss)** | | 4,822,305 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (761,816) | |
| Capital gain distributions from underlying funds | 7,710,260 | |
| Total net realized gain (loss) | | 6,948,444 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (13,081,892) |
| **Net gain (loss)** | | (6,133,448) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (1,311,143) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 4,822,305 | $ 4,276,913 |
| Net realized gain (loss) | 6,948,444 | 1,022,409 |
| Change in net unrealized appreciation (depreciation) | (13,081,892) | 6,948,502 |
| **Net increase (decrease) in net assets resulting from operations** | (1,311,143) | 12,247,824 |
| Distributions to shareholders from net investment income | (4,856,161) | (4,247,245) |
| Distributions to shareholders from net realized gain | (854,192) | (4,532,892) |
| **Total distributions** | (5,710,353) | (8,780,137) |
| Share transactions – net increase (decrease) | 4,077,539 | 11,313,204 |
| **Total increase (decrease) in net assets** | (2,943,957) | 14,780,891 |
| **Net Assets** | | |
| Beginning of period | 295,730,370 | 280,949,479 |
| End of period (including undistributed net investment income of $1,103 and undistributed net investment income of $34,959, respectively) | $ 292,786,413 | $ 295,730,370 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2010 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.45 | $ 12.30 | $ 11.15 | $ 10.31 | $ 10.61 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .23 | .21 | .22 | .23 | .24 |
| Net realized and unrealized gain (loss) | (.26) | .34 | 1.27 | .98 | (.26) |
| Total from investment operations | (.03) | .55 | 1.49 | 1.21 | (.02) |
| Distributions from net investment income | (.23) | (.21) | (.21) | (.21) | (.23) |
| Distributions from net realized gain | (.04) | (.20) | (.14) | (.16) | (.06) |
| Total distributions | (.27) | (.40)[B] | (.34)[C] | (.37) | (.28)[D] |
| Net asset value, end of period | $ 12.15 | $ 12.45 | $ 12.30 | $ 11.15 | $ 10.31 |
| **Total Return**[E,F] | (.29)% | 4.53% | 13.49% | 11.78% | (.19)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions[I] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.84% | 1.67% | 1.83% | 2.07% | 2.27% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 31,048 | $ 43,381 | $ 44,430 | $ 27,416 | $ 22,338 |
| Portfolio turnover rate[G] | 19% | 19% | 19% | 18% | 17% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.40 per share is comprised of distributions from net investment income of $.206 and distributions from net realized gain of $.196 per share.*
C *Total distributions of $.34 per share is comprised of distributions from net investment income of $.205 and distributions from net realized gain of $.139 per share.*
D *Total distributions of $.28 per share is comprised of distributions from net investment income of $.225 and distributions from net realized gain of $.055 per share.*
E *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
F *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
G *Amounts do not include the activity of the Underlying Funds.*
H *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
I *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2010 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.43 | $ 12.29 | $ 11.14 | $ 10.30 | $ 10.60 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .22 | .20 | .20 | .22 | .23 |
| Net realized and unrealized gain (loss) | (.26) | .33 | 1.28 | .98 | (.26) |
| Total from investment operations | (.04) | .53 | 1.48 | 1.20 | (.03) |
| Distributions from net investment income | (.22) | (.19) | (.19) | (.20) | (.22) |
| Distributions from net realized gain | (.04) | (.20) | (.14) | (.16) | (.06) |
| Total distributions | (.25)[B] | (.39) | (.33) | (.36) | (.27)[C] |
| Net asset value, end of period | $ 12.14 | $ 12.43 | $ 12.29 | $ 11.14 | $ 10.30 |
| **Total Return**[D,E] | (.31)% | 4.35% | 13.39% | 11.69% | (.28)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.74% | 1.57% | 1.73% | 1.97% | 2.17% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 23,770 | $ 28,049 | $ 27,143 | $ 23,896 | $ 20,927 |
| Portfolio turnover rate[F] | 19% | 19% | 19% | 18% | 17% |

A Calculated based on average shares outstanding during the period.
B Total distributions of $.25 per share is comprised of distributions from net investment income of $.217and distributions from net realized gain of $.036 per share.
C Total distributions of $.27 per share is comprised of distributions from net investment income of $.215 and distributions from net realized gain of $.055 per share.
D Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
E Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.
F Amounts do not include the activity of the Underlying Funds.
G Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2010 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.38 | $ 12.24 | $ 11.10 | $ 10.26 | $ 10.56 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .20 | .18 | .19 | .20 | .22 |
| Net realized and unrealized gain (loss) | (.26) | .33 | 1.27 | .98 | (.26) |
| Total from investment operations | (.06) | .51 | 1.46 | 1.18 | (.04) |
| Distributions from net investment income | (.20) | (.18) | (.18) | (.19) | (.20) |
| Distributions from net realized gain | (.04) | (.20) | (.14) | (.16) | (.06) |
| Total distributions | (.24) | (.37)[B] | (.32) | (.34)[C] | (.26) |
| Net asset value, end of period | $ 12.08 | $ 12.38 | $ 12.24 | $ 11.10 | $ 10.26 |
| **Total Return**[D,E] | (.53)% | 4.21% | 13.20% | 11.58% | (.43)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.59% | 1.42% | 1.58% | 1.82% | 2.02% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 237,969 | $ 224,300 | $ 209,377 | $ 167,502 | $ 136,353 |
| Portfolio turnover rate[F] | 19% | 19% | 19% | 18% | 17% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.37 per share is comprised of distributions from net investment income of $.175 and distributions from net realized gain of $.196 per share.*
C *Total distributions of $.34 per share is comprised of distributions from net investment income of $.186 and distributions from net realized gain of $.157 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2015 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

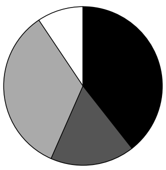
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 6.9 | 6.9 |
| VIP Equity-Income Portfolio Initial Class | 7.3 | 7.2 |
| VIP Growth & Income Portfolio Initial Class | 8.2 | 8.3 |
| VIP Growth Portfolio Initial Class | 7.2 | 7.1 |
| VIP Mid Cap Portfolio Initial Class | 2.0 | 2.0 |
| VIP Value Portfolio Initial Class | 5.3 | 5.3 |
| VIP Value Strategies Portfolio Initial Class | 2.5 | 2.6 |
| | 39.4 | 39.4 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 6.0 | 5.7 |
| VIP Overseas Portfolio Initial Class | 11.2 | 11.6 |
| | 17.2 | 17.3 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 30.3 | 31.4 |
| | 34.0 | 35.4 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 9.4 | 7.9 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

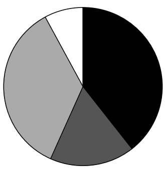
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 39.4% |
| International Equity Funds | 17.2% |
| Bond Funds | 34.0% |
| Short-Term Funds | 9.4% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 39.4% |
| International Equity Funds | 17.3% |
| Bond Funds | 35.4% |
| Short-Term Funds | 7.9% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

## VIP Freedom 2015 Portfolio[SM]

# Investments December 31, 2015

Showing Percentage of Net Assets

### Domestic Equity Funds – 39.4%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 222,794 | $ 7,557,166 |
| VIP Equity-Income Portfolio Initial Class (a) | 389,736 | 7,973,999 |
| VIP Growth & Income Portfolio Initial Class (a) | 476,301 | 8,992,564 |
| VIP Growth Portfolio Initial Class (a) | 119,610 | 7,864,375 |
| VIP Mid Cap Portfolio Initial Class (a) | 66,217 | 2,162,001 |
| VIP Value Portfolio Initial Class (a) | 431,584 | 5,765,964 |
| VIP Value Strategies Portfolio Initial Class (a) | 191,385 | 2,782,739 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $31,478,373) | | **43,098,808** |

### International Equity Funds – 17.2%

| | Shares | Value |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 800,663 | 6,517,393 |
| VIP Overseas Portfolio Initial Class (a) | 643,932 | 12,286,227 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $17,573,573) | | **18,803,620** |

### Bond Funds – 34.0%

| | Shares | Value |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 825,708 | 4,087,254 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 2,677,018 | 33,114,714 |
| **TOTAL BOND FUNDS** (Cost $38,076,507) | | **37,201,968** |

### Short-Term Funds – 9.4%

| | Shares | Value |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $10,316,981) | 10,316,981 | **10,316,981** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $97,445,434) | | **109,421,377** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(13,280)** |
| **NET ASSETS – 100%** | | **$109,408,097** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 8,362,521 | $ 2,061,302 | $ 2,161,902 | $ 80,091 | $ 7,557,166 |
| VIP Emerging Markets Portfolio Initial Class | 5,839,832 | 2,740,940 | 1,340,123 | 40,011 | 6,517,393 |
| VIP Equity-Income Portfolio Initial Class | 8,798,141 | 2,317,047 | 1,790,512 | 264,857 | 7,973,999 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 7,109,197 | 4,995,021 | 1,787,238 | 2,409 | 10,316,981 |
| VIP Growth & Income Portfolio Initial Class | 10,043,820 | 2,334,983 | 2,541,772 | 196,997 | 8,992,564 |
| VIP Growth Portfolio Initial Class | 8,578,430 | 1,558,817 | 2,598,868 | 20,233 | 7,864,375 |
| VIP High Income Portfolio Initial Class | 4,692,962 | 769,071 | 947,295 | 285,031 | 4,087,254 |
| VIP Investment Grade Bond Portfolio Initial | 37,989,174 | 6,703,790 | 10,502,320 | 873,241 | 33,114,714 |
| VIP Mid Cap Portfolio Initial Class | 2,438,071 | 621,230 | 590,157 | 11,295 | 2,162,001 |
| VIP Overseas Portfolio Initial Class | 15,164,327 | 3,547,821 | 6,930,369 | 170,527 | 12,286,227 |
| VIP Value Portfolio Initial Class | 6,458,857 | 1,864,955 | 1,566,504 | 79,909 | 5,765,964 |
| VIP Value Strategies Portfolio Initial Class | 3,156,921 | 504,642 | 777,266 | 34,122 | 2,782,739 |
| Total | $ 118,632,253 | $ 30,019,619 | $ 33,534,326 | $ 2,058,723 | $ 109,421,377 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $97,445,434) — See accompanying schedule | | $ 109,421,377 |
| Cash | | 9 |
| Receivable for investments sold | | 2,634 |
| Receivable for fund shares sold | | 91,586 |
| **Total assets** | | 109,515,606 |
| **Liabilities** | | |
| Payable for investments purchased | $ 6,506 | |
| Payable for fund shares redeemed | 87,711 | |
| Distribution and service plan fees payable | 13,292 | |
| **Total liabilities** | | 107,509 |
| **Net Assets** | | $ 109,408,097 |
| Net Assets consist of: | | |
| Paid in capital | | $ 95,209,026 |
| Accumulated undistributed net realized gain (loss) on investments | | 2,223,128 |
| Net unrealized appreciation (depreciation) on investments | | 11,975,943 |
| **Net Assets** | | $ 109,408,097 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($35,351,506 ÷ 2,887,414 shares) | | $ 12.24 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($16,377,815 ÷ 1,339,813 shares) | | $ 12.22 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($57,678,776 ÷ 4,733,176 shares) | | $ 12.19 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 2,058,723 |
| **Expenses** | | |
| Distribution and service plan fees | $ 165,731 | |
| Independent trustees' compensation | 461 | |
| Total expenses before reductions | 166,192 | |
| Expense reductions | (461) | 165,731 |
| **Net investment income (loss)** | | 1,892,992 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (238,266) | |
| Capital gain distributions from underlying funds | 3,464,273 | |
| Total net realized gain (loss) | | 3,226,007 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (5,457,901) |
| **Net gain (loss)** | | (2,231,894) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (338,902) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 1,892,992 | $ 1,774,198 |
| Net realized gain (loss) | 3,226,007 | 532,975 |
| Change in net unrealized appreciation (depreciation) | (5,457,901) | 2,796,078 |
| **Net increase (decrease) in net assets resulting from operations** | (338,902) | 5,103,251 |
| Distributions to shareholders from net investment income | (1,908,034) | (1,766,365) |
| Distributions to shareholders from net realized gain | (580,275) | (1,976,863) |
| **Total distributions** | (2,488,309) | (3,743,228) |
| Share transactions – net increase (decrease) | (6,382,025) | 2,772,488 |
| **Total increase (decrease) in net assets** | (9,209,236) | 4,132,511 |
| **Net Assets** | | |
| Beginning of period | 118,617,333 | 114,484,822 |
| End of period (including undistributed net investment income of $0 and $13,065, respectively) | $ 109,408,097 | $ 118,617,333 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2015 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.58 | $ 12.43 | $ 11.22 | $ 10.38 | $ 10.70 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .23 | .21 | .21 | .22 | .23 |
| Net realized and unrealized gain (loss) | (.27) | .37 | 1.39 | 1.04 | (.27) |
| Total from investment operations | (.04) | .58 | 1.60 | 1.26 | (.04) |
| Distributions from net investment income | (.24) | (.21) | (.22) | (.23) | (.23) |
| Distributions from net realized gain | (.07) | (.22) | (.18) | (.20) | (.06) |
| Total distributions | (.30)[B] | (.43) | (.39)[C] | (.42)[D] | (.28)[E] |
| Net asset value, end of period | $ 12.24 | $ 12.58 | $ 12.43 | $ 11.22 | $ 10.38 |
| **Total Return**[F,G] | (.33)% | 4.70% | 14.41% | 12.23% | (.36)% |
| **Ratios to Average Net Assets**[H,I] | | | | | |
| Expenses before reductions[J] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.82% | 1.68% | 1.79% | 2.01% | 2.16% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 35,352 | $ 39,455 | $ 41,070 | $ 36,449 | $ 38,879 |
| Portfolio turnover rate[H] | 27% | 29% | 29% | 28% | 26% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.30 per share is comprised of distributions from net investment income of $.236 and distributions from net realized gain of $.065 per share.*
C *Total distributions of $.39 per share is comprised of distributions from net investment income of $.217 and distributions from net realized gain of $.175 per share.*
D *Total distributions of $.42 per share is comprised of distributions from net investment income of $.227 and distributions from net realized gain of $.195 per share.*
E *Total distributions of $.28 per share is comprised of distributions from net investment income of $.227 and distributions from net realized gain of $.055 per share.*
F *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
G *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
H *Amounts do not include the activity of the Underlying Funds.*
I *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
J *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2015 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.56 | $ 12.41 | $ 11.21 | $ 10.37 | $ 10.69 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .22 | .20 | .20 | .21 | .22 |
| Net realized and unrealized gain (loss) | (.27) | .37 | 1.38 | 1.04 | (.26) |
| Total from investment operations | (.05) | .57 | 1.58 | 1.25 | (.04) |
| Distributions from net investment income | (.22) | (.20) | (.21) | (.22) | (.22) |
| Distributions from net realized gain | (.07) | (.22) | (.18) | (.20) | (.06) |
| Total distributions | (.29) | (.42) | (.38)[B] | (.41)[C] | (.28) |
| Net asset value, end of period | $ 12.22 | $ 12.56 | $ 12.41 | $ 11.21 | $ 10.37 |
| **Total Return**[D,E] | (.44)% | 4.63% | 14.24% | 12.13% | (.41)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.72% | 1.58% | 1.69% | 1.91% | 2.06% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 16,378 | $ 15,842 | $ 10,762 | $ 6,600 | $ 7,743 |
| Portfolio turnover rate[F] | 27% | 29% | 29% | 28% | 26% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.38 per share is comprised of distributions from net investment income of $.207 and distributions from net realized gain of $.175 per share.*
C *Total distributions of $.41 per share is comprised of distributions from net investment income of $.216 and distributions from net realized gain of $.195 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2015 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.52 | $ 12.37 | $ 11.17 | $ 10.34 | $ 10.65 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .20 | .18 | .18 | .19 | .21 |
| Net realized and unrealized gain (loss) | (.26) | .37 | 1.38 | 1.03 | (.26) |
| Total from investment operations | (.06) | .55 | 1.56 | 1.22 | (.05) |
| Distributions from net investment income | (.20) | (.18) | (.19) | (.20) | (.20) |
| Distributions from net realized gain | (.07) | (.22) | (.18) | (.20) | (.06) |
| Total distributions | (.27) | (.40) | (.36)[B] | (.39)[C] | (.26) |
| Net asset value, end of period | $ 12.19 | $ 12.52 | $ 12.37 | $ 11.17 | $ 10.34 |
| **Total Return**[D,E] | (.51)% | 4.45% | 14.10% | 11.90% | (.52)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.57% | 1.43% | 1.54% | 1.76% | 1.91% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 57,679 | $ 63,321 | $ 62,652 | $ 60,594 | $ 55,246 |
| Portfolio turnover rate[F] | 27% | 29% | 29% | 28% | 26% |

A Calculated based on average shares outstanding during the period.
B Total distributions of $.36 per share is comprised of distributions from net investment income of $.186 and distributions from net realized gain of $.175 per share.
C Total distributions of $.39 per share is comprised of distributions from net investment income of $.199 and distributions from net realized gain of $.195 per share.
D Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
E Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.
F Amounts do not include the activity of the Underlying Funds.
G Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.

*See accompanying notes which are an integral part of the financial statements.*

## VIP Freedom 2020 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

### Fund Holdings as of December 31, 2015

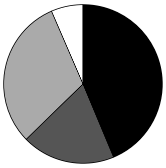
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 7.7 | 7.7 |
| VIP Equity-Income Portfolio Initial Class | 8.1 | 8.0 |
| VIP Growth & Income Portfolio Initial Class | 9.1 | 9.2 |
| VIP Growth Portfolio Initial Class | 8.0 | 7.9 |
| VIP Mid Cap Portfolio Initial Class | 2.2 | 2.2 |
| VIP Value Portfolio Initial Class | 5.8 | 5.9 |
| VIP Value Strategies Portfolio Initial Class | 2.8 | 2.9 |
| | 43.7 | 43.8 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 6.4 | 6.1 |
| VIP Overseas Portfolio Initial Class | 12.6 | 13.1 |
| | 19.0 | 19.2 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 27.1 | 28.1 |
| | 30.8 | 32.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 6.5 | 4.9 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

### Asset Allocation (% of fund's net assets)

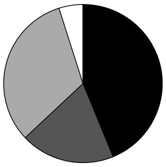
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 43.7% |
| International Equity Funds | 19.0% |
| Bond Funds | 30.8% |
| Short-Term Funds | 6.5% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 43.8% |
| International Equity Funds | 19.2% |
| Bond Funds | 32.1% |
| Short-Term Funds | 4.9% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom 2020 Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 43.7%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 1,650,004 | $ 55,968,120 |
| VIP Equity-Income Portfolio Initial Class (a) | 2,886,290 | 59,053,501 |
| VIP Growth & Income Portfolio Initial Class (a) | 3,526,960 | 66,589,000 |
| VIP Growth Portfolio Initial Class (a) | 886,001 | 58,254,565 |
| VIP Mid Cap Portfolio Initial Class (a) | 490,307 | 16,008,525 |
| VIP Value Portfolio Initial Class (a) | 3,195,779 | 42,695,610 |
| VIP Value Strategies Portfolio Initial Class (a) | 1,417,003 | 20,603,221 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $235,317,387) | | **319,172,542** |

## International Equity Funds – 19.0%

| | | |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 5,715,876 | 46,527,233 |
| VIP Overseas Portfolio Initial Class (a) | 4,841,773 | 92,381,031 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $128,775,103) | | **138,908,264** |

## Bond Funds – 30.8%

| | | |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 5,521,487 | 27,331,359 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 16,047,982 | 198,513,537 |
| **TOTAL BOND FUNDS** (Cost $236,606,272) | | **225,844,896** |

## Short-Term Funds – 6.5%

| | | |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $47,243,314) | 47,243,314 | **47,243,314** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $647,942,076) | | **731,169,016** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(122,848)** |
| **NET ASSETS – 100%** | | **$731,046,168** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 59,565,879 | $ 10,020,218 | $ 8,356,868 | $ 598,448 | $ 55,968,120 |
| VIP Emerging Markets Portfolio Initial Class | 40,294,212 | 15,218,634 | 3,700,597 | 287,840 | 46,527,233 |
| VIP Equity-Income Portfolio Initial Class | 62,616,674 | 12,403,958 | 5,962,868 | 1,978,161 | 59,053,501 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 26,538,252 | 24,475,458 | 3,770,396 | 10,076 | 47,243,314 |
| VIP Growth & Income Portfolio Initial Class | 71,345,864 | 12,128,132 | 10,589,069 | 1,471,865 | 66,589,000 |
| VIP Growth Portfolio Initial Class | 60,753,411 | 6,745,080 | 11,586,458 | 151,235 | 58,254,565 |
| VIP High Income Portfolio Initial Class | 30,526,423 | 3,483,559 | 3,780,998 | 1,924,219 | 27,331,359 |
| VIP Investment Grade Bond Portfolio Initial | 217,034,230 | 25,601,052 | 37,486,615 | 5,273,066 | 198,513,537 |
| VIP Mid Cap Portfolio Initial Class | 17,665,272 | 3,358,309 | 2,707,182 | 84,421 | 16,008,525 |
| VIP Overseas Portfolio Initial Class | 106,967,502 | 13,788,277 | 31,800,456 | 1,293,939 | 92,381,031 |
| VIP Value Portfolio Initial Class | 46,110,861 | 10,370,046 | 6,352,255 | 597,143 | 42,695,610 |
| VIP Value Strategies Portfolio Initial Class | 22,419,977 | 2,200,685 | 3,215,341 | 255,028 | 20,603,221 |
| Total | $ 761,838,557 | $ 139,793,408 | $ 129,309,103 | $ 13,925,441 | $ 731,169,016 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2020 Portfolio℠

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $647,942,076) — See accompanying schedule | | $ 731,169,016 |
| Cash | | 1 |
| Receivable for investments sold | | 239,346 |
| Receivable for fund shares sold | | 343,241 |
| **Total assets** | | 731,751,604 |
| **Liabilities** | | |
| Payable for investments purchased | $ 180,558 | |
| Payable for fund shares redeemed | 402,030 | |
| Distribution and service plan fees payable | 122,848 | |
| **Total liabilities** | | 705,436 |
| **Net Assets** | | $ 731,046,168 |
| Net Assets consist of: | | |
| Paid in capital | | $ 628,731,829 |
| Accumulated undistributed net realized gain (loss) on investments | | 19,087,399 |
| Net unrealized appreciation (depreciation) on investments | | 83,226,940 |
| **Net Assets** | | $ 731,046,168 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($87,495,880 ÷ 7,031,898 shares) | | $ 12.44 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($94,022,104 ÷ 7,573,893 shares) | | $ 12.41 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($549,528,184 ÷ 44,405,975 shares) | | $ 12.38 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 13,925,441 |
| **Expenses** | | |
| Distribution and service plan fees | $ 1,529,552 | |
| Independent trustees' compensation | 3,071 | |
| Total expenses before reductions | 1,532,623 | |
| Expense reductions | (3,071) | 1,529,552 |
| **Net investment income (loss)** | | 12,395,889 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (1,253,363) | |
| Capital gain distributions from underlying funds | 25,440,631 | |
| Total net realized gain (loss) | | 24,187,268 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (39,900,486) |
| **Net gain (loss)** | | (15,713,218) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (3,317,329) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 12,395,889 | $ 11,200,881 |
| Net realized gain (loss) | 24,187,268 | 3,826,894 |
| Change in net unrealized appreciation (depreciation) | (39,900,486) | 18,597,644 |
| **Net increase (decrease) in net assets resulting from operations** | (3,317,329) | 33,625,419 |
| Distributions to shareholders from net investment income | (12,431,723) | (11,161,646) |
| Distributions to shareholders from net realized gain | (3,252,644) | (13,279,401) |
| **Total distributions** | (15,684,367) | (24,441,047) |
| Share transactions – net increase (decrease) | (11,659,744) | 12,605,571 |
| **Total increase (decrease) in net assets** | (30,661,440) | 21,789,943 |
| **Net Assets** | | |
| Beginning of period | 761,707,608 | 739,917,665 |
| End of period (including undistributed net investment income of $0 and $49,928, respectively) | $ 731,046,168 | $ 761,707,608 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2020 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.77 | $ 12.61 | $ 11.21 | $ 10.21 | $ 10.59 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .24 | .22 | .22 | .24 | .26 |
| Net realized and unrealized gain (loss) | (.27) | .38 | 1.56 | 1.12 | (.37) |
| Total from investment operations | (.03) | .60 | 1.78 | 1.36 | (.11) |
| Distributions from net investment income | (.24) | (.22) | (.22) | (.23) | (.23) |
| Distributions from net realized gain | (.06) | (.23) | (.16) | (.13) | (.04) |
| Total distributions | (.30) | (.44)[B] | (.38) | (.36) | (.27) |
| Net asset value, end of period | $ 12.44 | $ 12.77 | $ 12.61 | $ 11.21 | $ 10.21 |
| **Total Return**[C,D] | (.27)% | 4.82% | 16.01% | 13.38% | (1.03)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions[G] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.84% | 1.70% | 1.84% | 2.16% | 2.47% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 87,496 | $ 101,533 | $ 91,328 | $ 58,113 | $ 47,731 |
| Portfolio turnover rate[E] | 17% | 15% | 20% | 15% | 10% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.44 per share is comprised of distributions from net investment income of $.216 and distributions from net realized gain of $.227 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
G *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2020 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.74 | $ 12.59 | $ 11.19 | $ 10.20 | $ 10.58 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .23 | .20 | .21 | .23 | .25 |
| Net realized and unrealized gain (loss) | (.27) | .38 | 1.56 | 1.11 | (.37) |
| Total from investment operations | (.04) | .58 | 1.77 | 1.34 | (.12) |
| Distributions from net investment income | (.23) | (.21) | (.21) | (.22) | (.22) |
| Distributions from net realized gain | (.06) | (.23) | (.16) | (.13) | (.04) |
| Total distributions | (.29) | (.43)[B] | (.37) | (.35) | (.26) |
| Net asset value, end of period | $ 12.41 | $ 12.74 | $ 12.59 | $ 11.19 | $ 10.20 |
| **Total Return**[C,D] | (.37)% | 4.66% | 15.95% | 13.19% | (1.12)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.74% | 1.60% | 1.74% | 2.06% | 2.37% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 94,022 | $ 76,679 | $ 65,867 | $ 45,779 | $ 36,818 |
| Portfolio turnover rate[E] | 17% | 15% | 20% | 15% | 10% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.43 per share is comprised of distributions from net investment income of $.205 and distributions from net realized gain of $.227 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2020 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.70 | $ 12.54 | $ 11.16 | $ 10.17 | $ 10.55 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .21 | .18 | .19 | .21 | .24 |
| Net realized and unrealized gain (loss) | (.27) | .39 | 1.54 | 1.11 | (.37) |
| Total from investment operations | (.06) | .57 | 1.73 | 1.32 | (.13) |
| Distributions from net investment income | (.21) | (.18) | (.19) | (.20) | (.21) |
| Distributions from net realized gain | (.06) | (.23) | (.16) | (.13) | (.04) |
| Total distributions | (.26)[B] | (.41) | (.35) | (.33) | (.25) |
| Net asset value, end of period | $ 12.38 | $ 12.70 | $ 12.54 | $ 11.16 | $ 10.17 |
| **Total Return**[C,D] | (.46)% | 4.60% | 15.63% | 13.07% | (1.24)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.59% | 1.45% | 1.59% | 1.91% | 2.22% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 549,528 | $ 583,496 | $ 582,722 | $ 520,011 | $ 426,477 |
| Portfolio turnover rate[E] | 17% | 15% | 20% | 15% | 10% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.26 per share is comprised of distributions from net investment income of $.208 and distributions from net realized gain of $.056 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2025 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

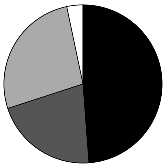
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 8.6 | 8.6 |
| VIP Equity-Income Portfolio Initial Class | 9.0 | 9.1 |
| VIP Growth & Income Portfolio Initial Class | 10.2 | 10.4 |
| VIP Growth Portfolio Initial Class | 8.9 | 8.8 |
| VIP Mid Cap Portfolio Initial Class | 2.4 | 2.5 |
| VIP Value Portfolio Initial Class | 6.5 | 6.6 |
| VIP Value Strategies Portfolio Initial Class | 3.2 | 3.3 |
| | 48.8 | 49.3 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 6.8 | 6.7 |
| VIP Overseas Portfolio Initial Class | 14.4 | 14.9 |
| | 21.2 | 21.6 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.7 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 23.0 | 23.1 |
| | 26.7 | 27.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 3.3 | 2.0 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

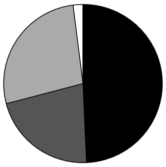
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 48.8% |
| International Equity Funds | 21.2% |
| Bond Funds | 26.7% |
| Short-Term Funds | 3.3% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 49.3% |
| International Equity Funds | 21.6% |
| Bond Funds | 27.1% |
| Short-Term Funds | 2.0% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom 2025 Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 48.8%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 287,665 | $ 9,757,612 |
| VIP Equity-Income Portfolio Initial Class (a) | 503,416 | 10,299,890 |
| VIP Growth & Income Portfolio Initial Class (a) | 615,173 | 11,614,475 |
| VIP Growth Portfolio Initial Class (a) | 154,512 | 10,159,178 |
| VIP Mid Cap Portfolio Initial Class (a) | 85,517 | 2,792,118 |
| VIP Value Portfolio Initial Class (a) | 557,394 | 7,446,789 |
| VIP Value Strategies Portfolio Initial Class (a) | 247,155 | 3,593,628 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $45,610,112) | | **55,663,690** |

## International Equity Funds – 21.2%

| | Shares | Value |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 959,722 | 7,812,141 |
| VIP Overseas Portfolio Initial Class (a) | 862,099 | 16,448,853 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $23,108,253) | | **24,260,994** |

## Bond Funds – 26.7%

| | Shares | Value |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 863,062 | 4,272,157 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 2,118,232 | 26,202,534 |
| **TOTAL BOND FUNDS** (Cost $32,024,434) | | **30,474,691** |

## Short-Term Funds – 3.3%

| | Shares | Value |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $3,765,099) | 3,765,099 | **3,765,099** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $104,507,898) | | **114,164,474** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(13,949)** |
| **NET ASSETS – 100%** | | **$114,150,525** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 9,448,520 | $ 2,929,765 | $ 1,759,246 | $ 103,964 | $ 9,757,612 |
| VIP Emerging Markets Portfolio Initial Class | 6,327,228 | 3,299,302 | 933,051 | 47,966 | 7,812,141 |
| VIP Equity-Income Portfolio Initial Class | 9,935,230 | 3,368,363 | 1,336,454 | 343,482 | 10,299,890 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1,343,742 | 2,747,096 | 325,739 | 640 | 3,765,099 |
| VIP Growth & Income Portfolio Initial Class | 11,331,875 | 3,566,675 | 2,234,140 | 255,719 | 11,614,475 |
| VIP Growth Portfolio Initial Class | 9,660,133 | 2,158,199 | 2,057,151 | 26,302 | 10,159,178 |
| VIP High Income Portfolio Initial Class | 4,285,163 | 1,129,949 | 682,884 | 298,773 | 4,272,157 |
| VIP Investment Grade Bond Portfolio Initial Class | 22,727,235 | 10,027,606 | 5,629,140 | 689,974 | 26,202,534 |
| VIP Mid Cap Portfolio Initial Class | 2,750,969 | 823,983 | 405,625 | 14,683 | 2,792,118 |
| VIP Overseas Portfolio Initial Class | 17,140,652 | 4,400,116 | 5,610,289 | 229,763 | 16,448,853 |
| VIP Value Portfolio Initial Class | 7,290,067 | 2,620,604 | 1,200,411 | 103,787 | 7,446,789 |
| VIP Value Strategies Portfolio Initial Class | 3,565,679 | 712,510 | 538,128 | 44,356 | 3,593,628 |
| Total | $ 105,806,493 | $ 37,784,168 | $ 22,712,258 | $ 2,159,409 | $ 114,164,474 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

**VIP Freedom 2025 Portfolio℠**

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $104,507,898) — See accompanying schedule | | $ 114,164,474 |
| Receivable for investments sold | | 71,331 |
| Receivable for fund shares sold | | 69,504 |
| **Total assets** | | 114,305,309 |
| **Liabilities** | | |
| Payable for investments purchased | $ 5,350 | |
| Payable for fund shares redeemed | 135,485 | |
| Distribution and service plan fees payable | 13,949 | |
| **Total liabilities** | | 154,784 |
| **Net Assets** | | $ 114,150,525 |
| Net Assets consist of: | | |
| Paid in capital | | $ 101,660,600 |
| Accumulated undistributed net realized gain (loss) on investments | | 2,833,349 |
| Net unrealized appreciation (depreciation) on investments | | 9,656,576 |
| **Net Assets** | | $ 114,150,525 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($25,152,327 ÷ 1,962,480 shares) | | $ 12.82 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($36,677,409 ÷ 2,867,308 shares) | | $ 12.79 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($52,320,789 ÷ 4,107,619 shares) | | $ 12.74 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 2,159,409 |
| **Expenses** | | |
| Distribution and service plan fees | $ 163,911 | |
| Independent trustees' compensation | 454 | |
| Total expenses before reductions | 164,365 | |
| Expense reductions | (454) | 163,911 |
| **Net investment income (loss)** | | 1,995,498 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (268,022) | |
| Capital gain distributions from underlying funds | 4,164,269 | |
| Total net realized gain (loss) | | 3,896,247 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (6,445,911) |
| **Net gain (loss)** | | (2,549,664) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (554,166) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 1,995,498 | $ 1,610,466 |
| Net realized gain (loss) | 3,896,247 | 693,939 |
| Change in net unrealized appreciation (depreciation) | (6,445,911) | 2,297,020 |
| **Net increase (decrease) in net assets resulting from operations** | (554,166) | 4,601,425 |
| Distributions to shareholders from net investment income | (1,997,317) | (1,605,249) |
| Distributions to shareholders from net realized gain | (616,161) | (1,979,200) |
| **Total distributions** | (2,613,478) | (3,584,449) |
| Share transactions – net increase (decrease) | 11,524,589 | 12,068,974 |
| **Total increase (decrease) in net assets** | 8,356,945 | 13,085,950 |
| **Net Assets** | | |
| Beginning of period | 105,793,580 | 92,707,630 |
| End of period | $ 114,150,525 | $ 105,793,580 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2025 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 13.16 | $ 12.99 | $ 11.20 | $ 10.02 | $ 10.49 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .26 | .24 | .25 | .24 | .24 |
| Net realized and unrealized gain (loss) | (.28) | .41 | 1.97 | 1.27 | (.46) |
| Total from investment operations | (.02) | .65 | 2.22 | 1.51 | (.22) |
| Distributions from net investment income | (.25) | (.22) | (.23) | (.21) | (.22) |
| Distributions from net realized gain | (.07) | (.26) | (.20) | (.12) | (.03) |
| Total distributions | (.32) | (.48) | (.43) | (.33) | (.25) |
| Net asset value, end of period | $ 12.82 | $ 13.16 | $ 12.99 | $ 11.20 | $ 10.02 |
| **Total Return**[B,C] | (.18)% | 5.06% | 19.95% | 15.11% | (2.11)% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions[F] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.91% | 1.78% | 2.03% | 2.17% | 2.25% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 25,152 | $ 26,137 | $ 24,548 | $ 17,792 | $ 15,537 |
| Portfolio turnover rate[D] | 20% | 29% | 30% | 34% | 21% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
F *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2025 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 13.14 | $ 12.97 | $ 11.18 | $ 10.01 | $ 10.49 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .24 | .22 | .23 | .22 | .23 |
| Net realized and unrealized gain (loss) | (.28) | .42 | 1.98 | 1.27 | (.47) |
| Total from investment operations | (.04) | .64 | 2.21 | 1.49 | (.24) |
| Distributions from net investment income | (.23) | (.21) | (.22) | (.20) | (.21) |
| Distributions from net realized gain | (.07) | (.26) | (.20) | (.12) | (.03) |
| Total distributions | (.31)[B] | (.47) | (.42) | (.32) | (.24) |
| Net asset value, end of period | $ 12.79 | $ 13.14 | $ 12.97 | $ 11.18 | $ 10.01 |
| **Total Return**[C,D] | (.36)% | 4.98% | 19.89% | 14.97% | (2.26)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.81% | 1.68% | 1.93% | 2.07% | 2.16% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 36,677 | $ 30,291 | $ 21,780 | $ 16,558 | $ 7,149 |
| Portfolio turnover rate[E] | 20% | 29% | 30% | 34% | 21% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.31 per share is comprised of distributions from net investment income of $.234 and distributions from net realized gain of $.072 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2025 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 13.09 | $ 12.92 | $ 11.14 | $ 9.97 | $ 10.44 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .22 | .20 | .22 | .21 | .21 |
| Net realized and unrealized gain (loss) | (.28) | .42 | 1.96 | 1.26 | (.45) |
| Total from investment operations | (.06) | .62 | 2.18 | 1.47 | (.24) |
| Distributions from net investment income | (.22) | (.19) | (.20) | (.18) | (.19) |
| Distributions from net realized gain | (.07) | (.26) | (.20) | (.12) | (.03) |
| Total distributions | (.29) | (.45) | (.40) | (.30) | (.23)[B] |
| Net asset value, end of period | $ 12.74 | $ 13.09 | $ 12.92 | $ 11.14 | $ 9.97 |
| **Total Return**[C,D] | (.50)% | 4.85% | 19.71% | 14.80% | (2.35)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.66% | 1.53% | 1.78% | 1.92% | 2.00% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 52,321 | $ 49,366 | $ 46,379 | $ 33,051 | $ 25,869 |
| Portfolio turnover rate[E] | 20% | 29% | 30% | 34% | 21% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.23 per share is comprised of distributions from net investment income of $.192 and distributions from net realized gain of $.033 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2030 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

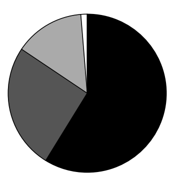
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 10.3 | 10.4 |
| VIP Equity-Income Portfolio Initial Class | 10.9 | 10.9 |
| VIP Growth & Income Portfolio Initial Class | 12.3 | 12.4 |
| VIP Growth Portfolio Initial Class | 10.7 | 10.7 |
| VIP Mid Cap Portfolio Initial Class | 2.9 | 3.0 |
| VIP Value Portfolio Initial Class | 7.9 | 8.0 |
| VIP Value Strategies Portfolio Initial Class | 3.8 | 3.9 |
| | 58.8 | 59.3 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 7.8 | 7.6 |
| VIP Overseas Portfolio Initial Class | 17.8 | 18.2 |
| | 25.6 | 25.8 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.8 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 10.5 | 9.6 |
| | 14.3 | 13.6 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1.3 | 1.3 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

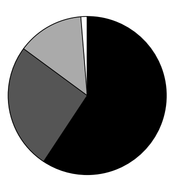
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 58.8% |
| International Equity Funds | 25.6% |
| Bond Funds | 14.3% |
| Short-Term Funds | 1.3% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 59.3% |
| International Equity Funds | 25.8% |
| Bond Funds | 13.6% |
| Short-Term Funds | 1.3% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 58.8%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 795,492 | $ 26,983,105 |
| VIP Equity-Income Portfolio Initial Class (a) | 1,391,306 | 28,466,124 |
| VIP Growth & Income Portfolio Initial Class (a) | 1,699,938 | 32,094,830 |
| VIP Growth Portfolio Initial Class (a) | 427,243 | 28,091,218 |
| VIP Mid Cap Portfolio Initial Class (a) | 236,362 | 7,717,230 |
| VIP Value Portfolio Initial Class (a) | 1,540,484 | 20,580,872 |
| VIP Value Strategies Portfolio Initial Class (a) | 682,931 | 9,929,818 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $127,304,534) | | **153,863,197** |

## International Equity Funds – 25.6%

| | | |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 2,507,179 | 20,408,441 |
| VIP Overseas Portfolio Initial Class (a) | 2,446,817 | 46,685,271 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $64,206,415) | | **67,093,712** |

## Bond Funds – 14.3%

| | | |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 1,982,252 | 9,812,148 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 2,225,678 | 27,531,638 |
| **TOTAL BOND FUNDS** (Cost $39,637,246) | | **37,343,786** |

## Short-Term Funds – 1.3%

| | | |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $3,467,507) | 3,467,507 | **3,467,507** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $234,615,702) | | **261,768,202** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(33,317)** |
| **NET ASSETS – 100%** | | **$261,734,885** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 29,282,420 | $ 6,639,333 | $ 6,299,322 | $ 290,460 | $ 26,983,105 |
| VIP Emerging Markets Portfolio Initial Class | 19,087,595 | 9,011,894 | 5,092,479 | 127,825 | 20,408,441 |
| VIP Equity-Income Portfolio Initial Class | 30,778,400 | 8,521,592 | 5,786,546 | 960,340 | 28,466,124 |
| VIP Government Money Market Portfolio Initial Class 0.05% | — | 4,522,843 | 1,055,336 | 817 | 3,467,507 |
| VIP Growth & Income Portfolio Initial Class | 35,127,823 | 8,345,747 | 8,175,325 | 714,367 | 32,094,830 |
| VIP Growth Portfolio Initial Class | 29,947,300 | 4,787,046 | 7,799,337 | 73,400 | 28,091,218 |
| VIP High Income Portfolio Initial Class | 11,247,552 | 2,814,577 | 3,181,977 | 695,853 | 9,812,148 |
| VIP Investment Grade Bond Portfolio Initial Class | 25,791,800 | 13,004,328 | 10,330,583 | 732,961 | 27,531,638 |
| VIP Mid Cap Portfolio Initial Class | 8,532,626 | 2,085,742 | 1,756,996 | 40,969 | 7,717,230 |
| VIP Overseas Portfolio Initial Class | 53,605,943 | 8,951,125 | 17,285,327 | 658,187 | 46,685,271 |
| VIP Value Portfolio Initial Class | 22,578,214 | 6,104,145 | 4,423,811 | 289,804 | 20,580,872 |
| VIP Value Strategies Portfolio Initial Class | 11,053,629 | 1,597,758 | 2,287,963 | 123,744 | 9,929,818 |
| Total | $ 277,033,302 | $ 76,386,130 | $ 73,475,002 | $ 4,708,727 | $ 261,768,202 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

## VIP Freedom 2030 Portfolio℠

# Financial Statements

### Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $234,615,702) — See accompanying schedule | | $ 261,768,202 |
| Receivable for investments sold | | 76,111 |
| Receivable for fund shares sold | | 81,764 |
| **Total assets** | | 261,926,077 |
| **Liabilities** | | |
| Payable for fund shares redeemed | $ 157,878 | |
| Distribution and service plan fees payable | 33,314 | |
| **Total liabilities** | | 191,192 |
| **Net Assets** | | $ 261,734,885 |
| Net Assets consist of: | | |
| Paid in capital | | $ 226,590,939 |
| Accumulated undistributed net realized gain (loss) on investments | | 7,991,446 |
| Net unrealized appreciation (depreciation) on investments | | 27,152,500 |
| **Net Assets** | | $ 261,734,885 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($68,660,999 ÷ 5,415,596 shares) | | $ 12.68 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($59,096,169 ÷ 4,667,843 shares) | | $ 12.66 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($133,977,717 ÷ 10,615,539 shares) | | $ 12.62 |

### Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 4,708,727 |
| **Expenses** | | |
| Distribution and service plan fees | $ 450,101 | |
| Independent trustees' compensation | 1,158 | |
| Total expenses before reductions | 451,259 | |
| Expense reductions | (1,158) | 450,101 |
| **Net investment income (loss)** | | 4,258,626 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (1,636,349) | |
| Capital gain distributions from underlying funds | 12,404,173 | |
| Total net realized gain (loss) | | 10,767,824 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (16,539,898) |
| **Net gain (loss)** | | (5,772,074) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (1,513,448) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 4,258,626 | $ 3,952,206 |
| Net realized gain (loss) | 10,767,824 | 1,858,371 |
| Change in net unrealized appreciation (depreciation) | (16,539,898) | 6,891,326 |
| **Net increase (decrease) in net assets resulting from operations** | (1,513,448) | 12,701,903 |
| Distributions to shareholders from net investment income | (4,262,242) | (3,942,760) |
| Distributions to shareholders from net realized gain | (1,432,334) | (4,966,245) |
| **Total distributions** | (5,694,576) | (8,909,005) |
| Share transactions – net increase (decrease) | (8,052,132) | 30,231,660 |
| **Total increase (decrease) in net assets** | (15,260,156) | 34,024,558 |
| **Net Assets** | | |
| Beginning of period | 276,995,041 | 242,970,483 |
| End of period (including undistributed net investment income of $0 and $9,446, respectively) | $ 261,734,885 | $ 276,995,041 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2030 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 13.01 | $ 12.84 | $ 10.88 | $ 9.70 | $ 10.21 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .22 | .22 | .22 | .25 | .23 |
| Net realized and unrealized gain (loss) | (.25) | .41 | 2.12 | 1.26 | (.49) |
| Total from investment operations | (.03) | .63 | 2.34 | 1.51 | (.26) |
| Distributions from net investment income | (.23) | (.21) | (.21) | (.23) | (.22) |
| Distributions from net realized gain | (.07) | (.25) | (.17) | (.10) | (.03) |
| Total distributions | (.30) | (.46) | (.38) | (.33) | (.25) |
| Net asset value, end of period | $ 12.68 | $ 13.01 | $ 12.84 | $ 10.88 | $ 9.70 |
| **Total Return**[B,C] | (.24)% | 4.96% | 21.66% | 15.58% | (2.60)% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions[F] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.66% | 1.70% | 1.88% | 2.39% | 2.27% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 68,661 | $ 72,243 | $ 64,173 | $ 39,111 | $ 30,601 |
| Portfolio turnover rate[D] | 26% | 18% | 30% | 17% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
F *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2030 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.99 | $ 12.82 | $ 10.87 | $ 9.69 | $ 10.20 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .21 | .21 | .21 | .24 | .22 |
| Net realized and unrealized gain (loss) | (.25) | .41 | 2.11 | 1.26 | (.49) |
| Total from investment operations | (.04) | .62 | 2.32 | 1.50 | (.27) |
| Distributions from net investment income | (.22) | (.19) | (.20) | (.22) | (.21) |
| Distributions from net realized gain | (.07) | (.25) | (.17) | (.10) | (.03) |
| Total distributions | (.29) | (.45)[B] | (.37) | (.32) | (.24) |
| Net asset value, end of period | $ 12.66 | $ 12.99 | $ 12.82 | $ 10.87 | $ 9.69 |
| **Total Return**[C,D] | (.34)% | 4.86% | 21.50% | 15.48% | (2.70)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.56% | 1.60% | 1.78% | 2.29% | 2.17% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 59,096 | $ 53,484 | $ 46,868 | $ 32,295 | $ 28,666 |
| Portfolio turnover rate[E] | 26% | 18% | 30% | 17% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.45 per share is comprised of distributions from net investment income of $.194 and distributions from net realized gain of $.254 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2030 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.95 | $ 12.78 | $ 10.83 | $ 9.67 | $ 10.18 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .19 | .19 | .19 | .23 | .21 |
| Net realized and unrealized gain (loss) | (.25) | .41 | 2.11 | 1.23 | (.50) |
| Total from investment operations | (.06) | .60 | 2.30 | 1.46 | (.29) |
| Distributions from net investment income | (.20) | (.18) | (.18) | (.21) | (.19) |
| Distributions from net realized gain | (.07) | (.25) | (.17) | (.10) | (.03) |
| Total distributions | (.27) | (.43) | (.35) | (.30)[B] | (.22) |
| Net asset value, end of period | $ 12.62 | $ 12.95 | $ 12.78 | $ 10.83 | $ 9.67 |
| **Total Return**[C,D] | (.53)% | 4.74% | 21.41% | 15.18% | (2.83)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.41% | 1.45% | 1.63% | 2.14% | 2.02% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 133,978 | $ 151,268 | $ 131,930 | $ 94,419 | $ 59,671 |
| Portfolio turnover rate[E] | 26% | 18% | 30% | 17% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.30 per share is comprised of distributions from net investment income of $.207 and distributions from net realized gain of $.096 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## VIP Freedom 2035 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

### Fund Holdings as of December 31, 2015

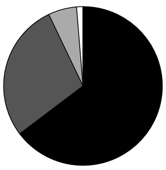
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 11.3 | 11.3 |
| VIP Equity-Income Portfolio Initial Class | 12.0 | 11.9 |
| VIP Growth & Income Portfolio Initial Class | 13.5 | 13.5 |
| VIP Growth Portfolio Initial Class | 11.8 | 11.6 |
| VIP Mid Cap Portfolio Initial Class | 3.2 | 3.3 |
| VIP Value Portfolio Initial Class | 8.7 | 8.7 |
| VIP Value Strategies Portfolio Initial Class | 4.2 | 4.2 |
| | 64.7 | 64.5 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 8.3 | 8.2 |
| VIP Overseas Portfolio Initial Class | 19.9 | 19.9 |
| | 28.2 | 28.1 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.8 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 2.0 | 2.1 |
| | 5.8 | 6.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1.3 | 1.3 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

### Asset Allocation (% of fund's net assets)

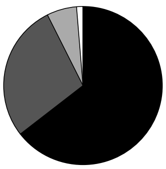
**Period end**

| | |
|---|---|
| ■ Domestic Equity Funds | 64.7% |
| ■ International Equity Funds | 28.2% |
| ■ Bond Funds | 5.8% |
| □ Short-Term Funds | 1.3% |



**Six months ago**

| | |
|---|---|
| ■ Domestic Equity Funds | 64.5% |
| ■ International Equity Funds | 28.1% |
| ■ Bond Funds | 6.1% |
| □ Short-Term Funds | 1.3% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom 2035 Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 64.7%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 78,790 | $ 2,672,572 |
| VIP Equity-Income Portfolio Initial Class (a) | 137,857 | 2,820,554 |
| VIP Growth & Income Portfolio Initial Class (a) | 168,513 | 3,181,522 |
| VIP Growth Portfolio Initial Class (a) | 42,284 | 2,780,156 |
| VIP Mid Cap Portfolio Initial Class (a) | 23,426 | 764,849 |
| VIP Value Portfolio Initial Class (a) | 152,695 | 2,040,008 |
| VIP Value Strategies Portfolio Initial Class (a) | 67,738 | 984,905 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $15,438,049) | | **15,244,566** |

## International Equity Funds – 28.2%

| | | |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 241,017 | 1,961,877 |
| VIP Overseas Portfolio Initial Class (a) | 245,319 | 4,680,687 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $6,876,613) | | **6,642,564** |

## Bond Funds – 5.8%

| | | |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 178,588 | 884,011 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 38,872 | 480,847 |
| **TOTAL BOND FUNDS** (Cost $1,497,365) | | **1,364,858** |

## Short-Term Funds – 1.3%

| | | |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $312,017) | 312,017 | **312,017** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $24,124,044) | | **23,564,005** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(4,248)** |
| **NET ASSETS – 100%** | | **$ 23,559,757** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 1,725,497 | $ 1,535,574 | $ 403,687 | $ 27,536 | $ 2,672,572 |
| VIP Emerging Markets Portfolio Initial Class | 1,116,750 | 1,338,533 | 298,493 | 11,455 | 1,961,877 |
| VIP Equity-Income Portfolio Initial Class | 1,814,775 | 1,765,555 | 390,896 | 90,741 | 2,820,554 |
| VIP Government Money Market Portfolio Initial Class 0.05% | — | 372,012 | 59,995 | 55 | 312,017 |
| VIP Growth & Income Portfolio Initial Class | 2,070,946 | 1,840,506 | 488,426 | 67,737 | 3,181,522 |
| VIP Growth Portfolio Initial Class | 1,768,000 | 1,395,082 | 469,159 | 6,997 | 2,780,156 |
| VIP High Income Portfolio Initial Class | 588,751 | 593,831 | 199,761 | 59,430 | 884,011 |
| VIP Investment Grade Bond Portfolio Initial Class | 473,109 | 350,048 | 327,995 | 12,383 | 480,847 |
| VIP Mid Cap Portfolio Initial Class | 503,509 | 450,171 | 107,168 | 3,906 | 764,849 |
| VIP Overseas Portfolio Initial Class | 3,172,445 | 2,475,678 | 1,008,164 | 63,547 | 4,680,687 |
| VIP Value Portfolio Initial Class | 1,331,887 | 1,320,856 | 297,659 | 27,544 | 2,040,008 |
| VIP Value Strategies Portfolio Initial Class | 650,424 | 528,685 | 147,706 | 11,806 | 984,905 |
| Total | $ 15,216,093 | $ 13,966,531 | $ 4,199,109 | $ 383,137 | $ 23,564,005 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2035 Portfolio℠

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $24,124,044) — See accompanying schedule | | $ 23,564,005 |
| Receivable for investments sold | | 22 |
| Receivable for fund shares sold | | 19,963 |
| **Total assets** | | 23,583,990 |
| **Liabilities** | | |
| Payable to custodian bank | $ 2,617 | |
| Payable for investments purchased | 13,315 | |
| Payable for fund shares redeemed | 4,052 | |
| Distribution and service plan fees payable | 4,249 | |
| **Total liabilities** | | 24,233 |
| **Net Assets** | | $ 23,559,757 |
| Net Assets consist of: | | |
| Paid in capital | | $ 23,534,065 |
| Undistributed net investment income | | 396 |
| Accumulated undistributed net realized gain (loss) on investments | | 585,335 |
| Net unrealized appreciation (depreciation) on investments | | (560,039) |
| **Net Assets** | | $ 23,559,757 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($1,544,810 ÷ 81,073 shares) | | $ 19.05 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($2,010,327 ÷ 105,603 shares) | | $ 19.04 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($20,004,620 ÷ 1,055,235 shares) | | $ 18.96 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 383,137 |
| **Expenses** | | |
| Distribution and service plan fees | $ 43,393 | |
| Independent trustees' compensation | 75 | |
| Total expenses before reductions | 43,468 | |
| Expense reductions | (75) | 43,393 |
| **Net investment income (loss)** | | 339,744 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (117,856) | |
| Capital gain distributions from underlying funds | 846,795 | |
| Total net realized gain (loss) | | 728,939 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (1,301,660) |
| **Net gain (loss)** | | (572,721) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (232,977) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 339,744 | $ 199,121 |
| Net realized gain (loss) | 728,939 | 78,318 |
| Change in net unrealized appreciation (depreciation) | (1,301,660) | 209,879 |
| **Net increase (decrease) in net assets resulting from operations** | (232,977) | 487,318 |
| Distributions to shareholders from net investment income | (339,892) | (199,065) |
| Distributions to shareholders from net realized gain | (114,912) | (156,391) |
| **Total distributions** | (454,804) | (355,456) |
| Share transactions – net increase (decrease) | 9,034,191 | 9,314,575 |
| **Total increase (decrease) in net assets** | 8,346,410 | 9,446,437 |
| **Net Assets** | | |
| Beginning of period | 15,213,347 | 5,766,910 |
| End of period (including undistributed net investment income of $396 and undistributed net investment income of $544, respectively) | $ 23,559,757 | $ 15,213,347 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2035 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 19.52 | $ 19.16 | $ 15.76 | $ 13.82 | $ 14.74 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .39 | .39 | .66 | .49 | .27 |
| Net realized and unrealized gain (loss) | (.44) | .55 | 3.24 | 1.83 | (.85) |
| Total from investment operations | (.05) | .94 | 3.90 | 2.32 | (.58) |
| Distributions from net investment income | (.32) | (.29) | (.29) | (.31) | (.28) |
| Distributions from net realized gain | (.10) | (.29) | (.20) | (.07) | (.06) |
| Total distributions | (.42) | (.58) | (.50)[B] | (.38) | (.34) |
| Net asset value, end of period | $ 19.05 | $ 19.52 | $ 19.16 | $ 15.76 | $ 13.82 |
| **Total Return**[C,D] | (.31)% | 4.93% | 24.84% | 16.82% | (3.99)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions[G] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.98% | 2.02% | 3.72% | 3.20% | 1.82% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 1,545 | $ 539 | $ 1,054 | $ 128 | $ 97 |
| Portfolio turnover rate[E] | 22% | 26% | 31% | 19% | 38% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.50 per share is comprised of distributions from net investment income of $.292 and distributions from net realized gain of $.204 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
G *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2035 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 19.51 | $ 19.15 | $ 15.76 | $ 13.82 | $ 14.74 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .37 | .38 | .64 | .47 | .25 |
| Net realized and unrealized gain (loss) | (.44) | .55 | 3.24 | 1.84 | (.85) |
| Total from investment operations | (.07) | .93 | 3.88 | 2.31 | (.60) |
| Distributions from net investment income | (.30) | (.28) | (.28) | (.30) | (.26) |
| Distributions from net realized gain | (.10) | (.29) | (.20) | (.07) | (.06) |
| Total distributions | (.40) | (.57) | (.49)[B] | (.37) | (.32) |
| Net asset value, end of period | $ 19.04 | $ 19.51 | $ 19.15 | $ 15.76 | $ 13.82 |
| **Total Return**[C,D] | (.40)% | 4.87% | 24.72% | 16.71% | (4.10)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.88% | 1.92% | 3.62% | 3.10% | 1.72% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 2,010 | $ 1,639 | $ 289 | $ 105 | $ 90 |
| Portfolio turnover rate[E] | 22% | 26% | 31% | 19% | 38% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.49 per share is comprised of distributions from net investment income of $.283 and distributions from net realized gain of $.204 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2035 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 19.43 | $ 19.09 | $ 15.73 | $ 13.80 | $ 14.72 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .34 | .34 | .62 | .45 | .23 |
| Net realized and unrealized gain (loss) | (.43) | .54 | 3.22 | 1.84 | (.85) |
| Total from investment operations | (.09) | .88 | 3.84 | 2.29 | (.62) |
| Distributions from net investment income | (.28) | (.26) | (.27) | (.29) | (.24) |
| Distributions from net realized gain | (.10) | (.29) | (.20) | (.07) | (.06) |
| Total distributions | (.38) | (.54)[B] | (.48)[C] | (.36) | (.30) |
| Net asset value, end of period | $ 18.96 | $ 19.43 | $ 19.09 | $ 15.73 | $ 13.80 |
| **Total Return**[D,E] | (.51)% | 4.65% | 24.50% | 16.61% | (4.25)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.73% | 1.77% | 3.48% | 2.95% | 1.57% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 20,005 | $ 13,035 | $ 4,423 | $ 808 | $ 276 |
| Portfolio turnover rate[F] | 22% | 26% | 31% | 19% | 38% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.54 per share is comprised of distributions from net investment income of $.257 and distributions from net realized gain of $.287 per share.*
C *Total distributions of $.48 per share is comprised of distributions from net investment income of $.271 and distributions from net realized gain of $.204 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2040 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

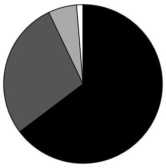
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 11.3 | 11.3 |
| VIP Equity-Income Portfolio Initial Class | 12.0 | 11.9 |
| VIP Growth & Income Portfolio Initial Class | 13.5 | 13.6 |
| VIP Growth Portfolio Initial Class | 11.8 | 11.5 |
| VIP Mid Cap Portfolio Initial Class | 3.2 | 3.3 |
| VIP Value Portfolio Initial Class | 8.7 | 8.7 |
| VIP Value Strategies Portfolio Initial Class | 4.2 | 4.2 |
| | 64.7 | 64.5 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 8.3 | 8.2 |
| VIP Overseas Portfolio Initial Class | 19.9 | 19.9 |
| | 28.2 | 28.1 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.8 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 2.0 | 2.1 |
| | 5.8 | 6.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1.3 | 1.3 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

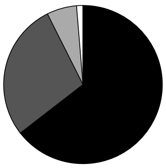
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 64.7% |
| International Equity Funds | 28.2% |
| Bond Funds | 5.8% |
| Short-Term Funds | 1.3% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 64.5% |
| International Equity Funds | 28.1% |
| Bond Funds | 6.1% |
| Short-Term Funds | 1.3% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom 2040 Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

| Domestic Equity Funds – 64.7% | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 154,698 | $ 5,247,350 |
| VIP Equity-Income Portfolio Initial Class (a) | 270,633 | 5,537,158 |
| VIP Growth & Income Portfolio Initial Class (a) | 330,694 | 6,243,507 |
| VIP Growth Portfolio Initial Class (a) | 83,068 | 5,461,754 |
| VIP Mid Cap Portfolio Initial Class (a) | 45,967 | 1,500,827 |
| VIP Value Portfolio Initial Class (a) | 299,631 | 4,003,065 |
| VIP Value Strategies Portfolio Initial Class (a) | 132,859 | 1,931,763 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $28,889,985) | | **29,925,424** |

| International Equity Funds – 28.2% | | |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 472,743 | 3,848,130 |
| VIP Overseas Portfolio Initial Class (a) | 481,902 | 9,194,682 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $13,182,680) | | **13,042,812** |

| Bond Funds – 5.8% | | |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 350,565 | 1,735,296 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 76,370 | 944,695 |
| **TOTAL BOND FUNDS** (Cost $2,958,630) | | **2,679,991** |

| Short-Term Funds – 1.3% | | |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $613,131) | 613,131 | **613,131** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $45,644,426) | | **46,261,358** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(4,178)** |
| **NET ASSETS – 100%** | | **$ 46,257,180** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 4,140,749 | $ 2,472,251 | $ 931,057 | $ 55,960 | $ 5,247,350 |
| VIP Emerging Markets Portfolio Initial Class | 2,674,158 | 2,404,259 | 780,748 | 23,525 | 3,848,130 |
| VIP Equity-Income Portfolio Initial Class | 4,355,995 | 2,908,709 | 887,018 | 184,603 | 5,537,158 |
| VIP Government Money Market Portfolio Initial Class 0.05% | — | 733,894 | 120,763 | 124 | 613,131 |
| VIP Growth & Income Portfolio Initial Class | 4,968,899 | 2,950,131 | 1,126,746 | 137,624 | 6,243,507 |
| VIP Growth Portfolio Initial Class | 4,235,604 | 2,131,400 | 1,085,413 | 14,191 | 5,461,754 |
| VIP High Income Portfolio Initial Class | 1,408,220 | 943,356 | 417,014 | 121,138 | 1,735,296 |
| VIP Investment Grade Bond Portfolio Initial Class | 1,130,954 | 601,780 | 759,484 | 25,282 | 944,695 |
| VIP Mid Cap Portfolio Initial Class | 1,207,567 | 731,462 | 249,863 | 7,921 | 1,500,827 |
| VIP Overseas Portfolio Initial Class | 7,602,926 | 3,992,940 | 2,542,658 | 128,888 | 9,194,682 |
| VIP Value Portfolio Initial Class | 3,195,856 | 2,144,778 | 664,803 | 55,916 | 4,003,065 |
| VIP Value Strategies Portfolio Initial Class | 1,561,446 | 778,093 | 311,636 | 23,932 | 1,931,763 |
| Total | $ 36,482,374 | $ 22,793,053 | $ 9,877,203 | $ 779,104 | $ 46,261,358 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $45,644,426) — See accompanying schedule | | $ 46,261,358 |
| Receivable for investments sold | | 169,894 |
| Receivable for fund shares sold | | 79,196 |
| **Total assets** | | 46,510,448 |
| **Liabilities** | | |
| Payable for investments purchased | $ 319 | |
| Payable for fund shares redeemed | 248,772 | |
| Distribution and service plan fees payable | 4,177 | |
| **Total liabilities** | | 253,268 |
| **Net Assets** | | $ 46,257,180 |
| Net Assets consist of: | | |
| Paid in capital | | $ 44,283,183 |
| Accumulated undistributed net realized gain (loss) on investments | | 1,357,065 |
| Net unrealized appreciation (depreciation) on investments | | 616,932 |
| **Net Assets** | | $ 46,257,180 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($15,387,980 ÷ 845,904 shares) | | $ 18.19 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($18,401,265 ÷ 1,012,731 shares) | | $ 18.17 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($12,467,935 ÷ 688,230 shares) | | $ 18.12 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 779,104 |
| **Expenses** | | |
| Distribution and service plan fees | $ 45,460 | |
| Independent trustees' compensation | 172 | |
| Total expenses before reductions | 45,632 | |
| Expense reductions | (172) | 45,460 |
| **Net investment income (loss)** | | 733,644 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (196,576) | |
| Capital gain distributions from underlying funds | 1,957,762 | |
| Total net realized gain (loss) | | 1,761,186 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (2,940,295) |
| **Net gain (loss)** | | (1,179,109) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (445,465) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 733,644 | $ 518,447 |
| Net realized gain (loss) | 1,761,186 | 224,362 |
| Change in net unrealized appreciation (depreciation) | (2,940,295) | 639,214 |
| **Net increase (decrease) in net assets resulting from operations** | (445,465) | 1,382,023 |
| Distributions to shareholders from net investment income | (734,120) | (517,725) |
| Distributions to shareholders from net realized gain | (287,093) | (465,973) |
| **Total distributions** | (1,021,213) | (983,698) |
| Share transactions – net increase (decrease) | 11,244,253 | 13,928,833 |
| **Total increase (decrease) in net assets** | 9,777,575 | 14,327,158 |
| **Net Assets** | | |
| Beginning of period | 36,479,605 | 22,152,447 |
| End of period (including undistributed net investment income of $0 and $723, respectively) | $ 46,257,180 | $ 36,479,605 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2040 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.66 | $ 18.35 | $ 15.03 | $ 13.16 | $ 14.02 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .34 | .34 | .38 | .42 | .35 |
| Net realized and unrealized gain (loss) | (.38) | .56 | 3.41 | 1.81 | (.91) |
| Total from investment operations | (.04) | .90 | 3.79 | 2.23 | (.56) |
| Distributions from net investment income | (.31) | (.28) | (.27) | (.29) | (.27) |
| Distributions from net realized gain | (.12) | (.31) | (.19) | (.07) | (.02) |
| Total distributions | (.43) | (.59) | (.47)[B] | (.36) | (.30)[C] |
| Net asset value, end of period | $ 18.19 | $ 18.66 | $ 18.35 | $ 15.03 | $ 13.16 |
| **Total Return**[D,E] | (.26)% | 4.91% | 25.29% | 16.95% | (4.02)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions[H] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.80% | 1.82% | 2.26% | 2.91% | 2.50% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 15,388 | $ 15,234 | $ 10,262 | $ 3,369 | $ 1,559 |
| Portfolio turnover rate[F] | 23% | 19% | 36% | 39% | 42% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.47 per share is comprised of distributions from net investment income of $.272 and distributions from net realized gain of $.193 per share.*
C *Total distributions of $.30 per share is comprised of distributions from net investment income of .274 and distributions from net realized gain of $.022 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
H *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2040 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.64 | $ 18.33 | $ 15.02 | $ 13.15 | $ 14.02 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .32 | .32 | .36 | .41 | .33 |
| Net realized and unrealized gain (loss) | (.38) | .56 | 3.40 | 1.81 | (.91) |
| Total from investment operations | (.06) | .88 | 3.76 | 2.22 | (.58) |
| Distributions from net investment income | (.29) | (.27) | (.26) | (.28) | (.26) |
| Distributions from net realized gain | (.12) | (.31) | (.19) | (.07) | (.02) |
| Total distributions | (.41) | (.57)[B] | (.45) | (.35) | (.29)[C] |
| Net asset value, end of period | $ 18.17 | $ 18.64 | $ 18.33 | $ 15.02 | $ 13.15 |
| **Total Return**[D,E] | (.35)% | 4.83% | 25.16% | 16.88% | (4.17)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.70% | 1.72% | 2.16% | 2.81% | 2.41% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 18,401 | $ 12,905 | $ 9,076 | $ 4,600 | $ 1,058 |
| Portfolio turnover rate[F] | 23% | 19% | 36% | 39% | 42% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.57 per share is comprised of distributions from net investment income of $.266 and distributions from net realized gain of $.305 per share.*
C *Total distributions of $.29 per share is comprised of distributions from net investment income of $.264 and distributions from net realized gain of $.022 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2040 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.59 | $ 18.29 | $ 15.00 | $ 13.15 | $ 14.02 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .29 | .29 | .34 | .39 | .32 |
| Net realized and unrealized gain (loss) | (.38) | .56 | 3.39 | 1.79 | (.92) |
| Total from investment operations | (.09) | .85 | 3.73 | 2.18 | (.60) |
| Distributions from net investment income | (.27) | (.25) | (.25) | (.27) | (.24) |
| Distributions from net realized gain | (.12) | (.31) | (.19) | (.07) | (.02) |
| Total distributions | (.38)[B] | (.55)[C] | (.44) | (.33)[D] | (.27)[E] |
| Net asset value, end of period | $ 18.12 | $ 18.59 | $ 18.29 | $ 15.00 | $ 13.15 |
| **Total Return**[F,G] | (.49)% | 4.70% | 24.99% | 16.64% | (4.32)% |
| **Ratios to Average Net Assets**[H,I] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.55% | 1.57% | 2.01% | 2.66% | 2.25% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 12,468 | $ 8,341 | $ 2,815 | $ 581 | $ 137 |
| Portfolio turnover rate[H] | 23% | 19% | 36% | 39% | 42% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.38 per share is comprised of distributions from net investment income of $.268 and distributions from net realized gain of $.116 per share.*
C *Total distributions of $.55 per share is comprised of distributions from net investment income of $.249 and distributions from net realized gain of $.305 per share.*
D *Total distributions of $.33 per share is comprised of distributions from net investment income of $.265 and distributions from net realized gain of $.069 per share.*
E *Total distributions of $.27 per share is comprised of distributions from net investment income of $.243 and distributions from net realized gain of $.022 per share.*
F *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
G *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
H *Amounts do not include the activity of the Underlying Funds.*
I *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

**VIP Freedom 2045 Portfolio℠**

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

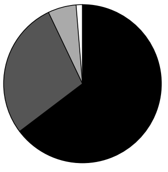
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 11.4 | 11.3 |
| VIP Equity-Income Portfolio Initial Class | 12.0 | 11.9 |
| VIP Growth & Income Portfolio Initial Class | 13.5 | 13.5 |
| VIP Growth Portfolio Initial Class | 11.8 | 11.6 |
| VIP Mid Cap Portfolio Initial Class | 3.2 | 3.3 |
| VIP Value Portfolio Initial Class | 8.6 | 8.7 |
| VIP Value Strategies Portfolio Initial Class | 4.2 | 4.2 |
| | 64.7 | 64.5 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 8.3 | 8.2 |
| VIP Overseas Portfolio Initial Class | 19.9 | 19.9 |
| | 28.2 | 28.1 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.8 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 2.0 | 2.1 |
| | 5.8 | 6.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1.3 | 1.3 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

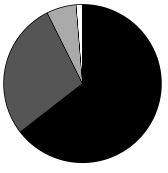
**Period end**

| | |
|---|---|
| ■ Domestic Equity Funds | 64.7% |
| ■ International Equity Funds | 28.2% |
| ■ Bond Funds | 5.8% |
| □ Short-Term Funds | 1.3% |



**Six months ago**

| | |
|---|---|
| ■ Domestic Equity Funds | 64.5% |
| ■ International Equity Funds | 28.1% |
| ■ Bond Funds | 6.1% |
| □ Short-Term Funds | 1.3% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

## VIP Freedom 2045 Portfolio℠

# Investments December 31, 2015

Showing Percentage of Net Assets

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 64.7%** | | |
| VIP Contrafund Portfolio Initial Class (a) | 41,153 | $ 1,395,911 |
| VIP Equity-Income Portfolio Initial Class (a) | 71,724 | 1,467,471 |
| VIP Growth & Income Portfolio Initial Class (a) | 87,903 | 1,659,610 |
| VIP Growth Portfolio Initial Class (a) | 22,075 | 1,451,452 |
| VIP Mid Cap Portfolio Initial Class (a) | 12,200 | 398,334 |
| VIP Value Portfolio Initial Class (a) | 79,496 | 1,062,071 |
| VIP Value Strategies Portfolio Initial Class (a) | 35,165 | 511,292 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $7,966,817) | | **7,946,141** |
| **International Equity Funds – 28.2%** | | |
| VIP Emerging Markets Portfolio Initial Class (a) | 125,547 | 1,021,953 |
| VIP Overseas Portfolio Initial Class (a) | 127,980 | 2,441,862 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $3,550,919) | | **3,463,815** |
| **Bond Funds – 5.8%** | | |
| VIP High Income Portfolio Initial Class (a) | 93,075 | 460,721 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 20,302 | 251,131 |
| **TOTAL BOND FUNDS** (Cost $776,604) | | **711,852** |
| **Short-Term Funds – 1.3%** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $163,036) | 163,036 | **163,036** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $12,457,376) | | **12,284,844** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(2,463)** |
| **NET ASSETS – 100%** | | **$ 12,282,381** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 914,242 | $ 837,993 | $ 256,708 | $ 15,404 | $ 1,395,911 |
| VIP Emerging Markets Portfolio Initial Class | 596,334 | 749,930 | 215,521 | 6,376 | 1,021,953 |
| VIP Equity-Income Portfolio Initial Class | 961,856 | 963,207 | 254,531 | 50,554 | 1,467,471 |
| VIP Government Money Market Portfolio Initial Class 0.05% | 79 | 202,828 | 39,871 | 30 | 163,036 |
| VIP Growth & Income Portfolio Initial Class | 1,097,436 | 1,012,861 | 318,211 | 37,873 | 1,659,610 |
| VIP Growth Portfolio Initial Class | 935,225 | 757,948 | 291,445 | 3,910 | 1,451,452 |
| VIP High Income Portfolio Initial Class | 314,400 | 326,046 | 123,625 | 33,159 | 460,721 |
| VIP Investment Grade Bond Portfolio Initial Class | 253,487 | 188,081 | 182,548 | 6,906 | 251,131 |
| VIP Mid Cap Portfolio Initial Class | 266,910 | 248,545 | 72,857 | 2,183 | 398,334 |
| VIP Overseas Portfolio Initial Class | 1,680,108 | 1,435,700 | 687,771 | 35,508 | 2,441,862 |
| VIP Value Portfolio Initial Class | 705,223 | 725,804 | 194,111 | 15,377 | 1,062,071 |
| VIP Value Strategies Portfolio Initial Class | 344,932 | 283,722 | 91,059 | 6,578 | 511,292 |
| Total | $ 8,070,232 | $ 7,732,665 | $ 2,728,258 | $ 213,858 | $ 12,284,844 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2045 Portfolio℠

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $12,457,376) — See accompanying schedule | | $ 12,284,844 |
| Receivable for investments sold | | 9,011 |
| Receivable for fund shares sold | | 4,570 |
| **Total assets** | | 12,298,425 |
| **Liabilities** | | |
| Payable to custodian bank | $ 4,547 | |
| Payable for fund shares redeemed | 9,037 | |
| Distribution and service plan fees payable | 2,460 | |
| **Total liabilities** | | 16,044 |
| **Net Assets** | | $ 12,282,381 |
| Net Assets consist of: | | |
| Paid in capital | | $ 12,194,490 |
| Accumulated undistributed net realized gain (loss) on investments | | 260,423 |
| Net unrealized appreciation (depreciation) on investments | | (172,532) |
| **Net Assets** | | $ 12,282,381 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($541,819 ÷ 30,054 shares) | | $ 18.03 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($342,608 ÷ 19,013 shares) | | $ 18.02 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($11,397,954 ÷ 634,905 shares) | | $ 17.95 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 213,858 |
| **Expenses** | | |
| Distribution and service plan fees | $ 25,007 | |
| Independent trustees' compensation | 41 | |
| Total expenses before reductions | 25,048 | |
| Expense reductions | (41) | 25,007 |
| **Net investment income (loss)** | | 188,851 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (127,205) | |
| Capital gain distributions from underlying funds | 459,272 | |
| Total net realized gain (loss) | | 332,067 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (662,594) |
| **Net gain (loss)** | | (330,527) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (141,676) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 188,851 | $ 106,238 |
| Net realized gain (loss) | 332,067 | 48,869 |
| Change in net unrealized appreciation (depreciation) | (662,594) | 89,302 |
| **Net increase (decrease) in net assets resulting from operations** | (141,676) | 244,409 |
| Distributions to shareholders from net investment income | (190,223) | (106,045) |
| Distributions to shareholders from net realized gain | (65,189) | (84,124) |
| **Total distributions** | (255,412) | (190,169) |
| Share transactions – net increase (decrease) | 4,610,754 | 5,080,204 |
| **Total increase (decrease) in net assets** | 4,213,666 | 5,134,444 |
| **Net Assets** | | |
| Beginning of period | 8,068,715 | 2,934,271 |
| End of period (including undistributed net investment income of $0 and $193, respectively) | $ 12,282,381 | $ 8,068,715 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2045 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.50 | $ 18.18 | $ 14.83 | $ 13.38 | $ 14.61 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .38 | .40 | .52 | .44 | .27 |
| Net realized and unrealized gain (loss) | (.42) | .50 | 3.33 | 1.84 | (.89) |
| Total from investment operations | (.04) | .90 | 3.85 | 2.28 | (.62) |
| Distributions from net investment income | (.33) | (.28) | (.29) | (.30) | (.28) |
| Distributions from net realized gain | (.10) | (.30) | (.21) | (.53) | (.34) |
| Total distributions | (.43) | (.58) | (.50) | (.83) | (.61)[B] |
| Net asset value, end of period | $ 18.03 | $ 18.50 | $ 18.18 | $ 14.83 | $ 13.38 |
| **Total Return**[C,D] | (.26)% | 4.95% | 26.07% | 17.33% | (4.41)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions[G] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 2.01% | 2.14% | 3.13% | 3.07% | 1.88% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 542 | $ 342 | $ 272 | $ 136 | $ 95 |
| Portfolio turnover rate[E] | 26% | 19% | 42% | 16% | 29% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.61 per share is comprised of distributions from net investment income of $.279 and distributions from net realized gain of $.335 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*
G *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2045 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.49 | $ 18.18 | $ 14.83 | $ 13.38 | $ 14.61 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .36 | .38 | .51 | .43 | .26 |
| Net realized and unrealized gain (loss) | (.42) | .49 | 3.33 | 1.83 | (.89) |
| Total from investment operations | (.06) | .87 | 3.84 | 2.26 | (.63) |
| Distributions from net investment income | (.31) | (.27) | (.27) | (.29) | (.26) |
| Distributions from net realized gain | (.10) | (.30) | (.21) | (.53) | (.34) |
| Total distributions | (.41) | (.56)[B] | (.49)[C] | (.81)[D] | (.60) |
| Net asset value, end of period | $ 18.02 | $ 18.49 | $ 18.18 | $ 14.83 | $ 13.38 |
| **Total Return**[E,F] | (.37)% | 4.83% | 25.96% | 17.24% | (4.52)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.91% | 2.04% | 3.03% | 2.97% | 1.78% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 343 | $ 364 | $ 169 | $ 134 | $ 90 |
| Portfolio turnover rate[G] | 26% | 19% | 42% | 16% | 29% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.56 per share is comprised of distributions from net investment income of $.266 and distributions from net realized gain of $.298 per share.*
C *Total distributions of $.49 per share is comprised of distributions from net investment income of $.271 and distributions from net realized gain of $.214 per share.*
D *Total distributions of $.81 per share is comprised of distributions from net investment income of $.289 and distributions from net realized gain of $.525 per share.*
E *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
F *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
G *Amounts do not include the activity of the Underlying Funds.*
H *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2045 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 18.43 | $ 18.13 | $ 14.81 | $ 13.38 | $ 14.61 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .33 | .35 | .49 | .41 | .23 |
| Net realized and unrealized gain (loss) | (.42) | .49 | 3.31 | 1.83 | (.88) |
| Total from investment operations | (.09) | .84 | 3.80 | 2.24 | (.65) |
| Distributions from net investment income | (.29) | (.25) | (.27) | (.28) | (.25) |
| Distributions from net realized gain | (.10) | (.30) | (.21) | (.53) | (.34) |
| Total distributions | (.39) | (.54)[B] | (.48) | (.81) | (.58)[C] |
| Net asset value, end of period | $ 17.95 | $ 18.43 | $ 18.13 | $ 14.81 | $ 13.38 |
| **Total Return**[D,E] | (.53)% | 4.68% | 25.76% | 17.02% | (4.64)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.76% | 1.89% | 2.88% | 2.82% | 1.63% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 11,398 | $ 7,363 | $ 2,493 | $ 486 | $ 143 |
| Portfolio turnover rate[F] | 26% | 19% | 42% | 16% | 29% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.54 per share is comprised of distributions from net investment income of $.245 and distributions from net realized gain of $.298 per share.*
C *Total distributions of $.58 per share is comprised of distributions from net investment income of $.245 and distributions from net realized gain of $.335 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2050 Portfolio℠

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

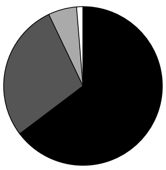
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| VIP Contrafund Portfolio Initial Class | 11.4 | 11.3 |
| VIP Equity-Income Portfolio Initial Class | 12.0 | 11.9 |
| VIP Growth & Income Portfolio Initial Class | 13.5 | 13.5 |
| VIP Growth Portfolio Initial Class | 11.8 | 11.6 |
| VIP Mid Cap Portfolio Initial Class | 3.2 | 3.3 |
| VIP Value Portfolio Initial Class | 8.6 | 8.7 |
| VIP Value Strategies Portfolio Initial Class | 4.2 | 4.3 |
| | 64.7 | 64.6 |
| **International Equity Funds** | | |
| VIP Emerging Markets Portfolio Initial Class | 8.3 | 8.1 |
| VIP Overseas Portfolio Initial Class | 19.9 | 19.9 |
| | 28.2 | 28.0 |
| **Bond Funds** | | |
| VIP High Income Portfolio Initial Class | 3.8 | 4.0 |
| VIP Investment Grade Bond Portfolio Initial Class | 2.0 | 2.1 |
| | 5.8 | 6.1 |
| **Short-Term Funds** | | |
| VIP Government Money Market Portfolio Initial Class 0.05% | 1.3 | 1.3 |
| **Net Other Assets (Liabilities)** | | |
| Net Other Assets | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class*

## Asset Allocation (% of fund's net assets)

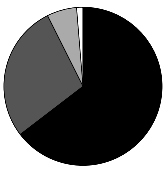
**Period end**

| | |
|---|---|
| Domestic Equity Funds | 64.7% |
| International Equity Funds | 28.2% |
| Bond Funds | 5.8% |
| Short-Term Funds | 1.3% |



**Six months ago**

| | |
|---|---|
| Domestic Equity Funds | 64.6% |
| International Equity Funds | 28.0% |
| Bond Funds | 6.1% |
| Short-Term Funds | 1.3% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

**VIP Freedom 2050 Portfolio℠**

# Investments December 31, 2015

Showing Percentage of Net Assets

## Domestic Equity Funds – 64.7%

| | Shares | Value |
|---|---|---|
| VIP Contrafund Portfolio Initial Class (a) | 43,261 | $ 1,467,418 |
| VIP Equity-Income Portfolio Initial Class (a) | 75,442 | 1,543,548 |
| VIP Growth & Income Portfolio Initial Class (a) | 92,363 | 1,743,810 |
| VIP Growth Portfolio Initial Class (a) | 23,276 | 1,530,404 |
| VIP Mid Cap Portfolio Initial Class (a) | 12,815 | 418,396 |
| VIP Value Portfolio Initial Class (a) | 83,538 | 1,116,066 |
| VIP Value Strategies Portfolio Initial Class (a) | 36,917 | 536,774 |
| **TOTAL DOMESTIC EQUITY FUNDS** (Cost $8,213,301) | | **8,356,416** |

## International Equity Funds – 28.2%

| | Shares | Value |
|---|---|---|
| VIP Emerging Markets Portfolio Initial Class (a) | 132,083 | 1,075,159 |
| VIP Overseas Portfolio Initial Class (a) | 134,662 | 2,569,351 |
| **TOTAL INTERNATIONAL EQUITY FUNDS** (Cost $3,704,888) | | **3,644,510** |

## Bond Funds – 5.8%

| | Shares | Value |
|---|---|---|
| VIP High Income Portfolio Initial Class (a) | 97,779 | 484,004 |
| VIP Investment Grade Bond Portfolio Initial Class (a) | 21,341 | 263,991 |
| **TOTAL BOND FUNDS** (Cost $816,538) | | **747,995** |

## Short-Term Funds – 1.3%

| | Shares | Value |
|---|---|---|
| VIP Government Money Market Portfolio Initial Class 0.05% (a)(b) (Cost $171,714) | 171,714 | **171,714** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $12,906,441) | | **12,920,635** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(2,062)** |
| **NET ASSETS – 100%** | | **$ 12,918,573** |

## Legend

(a) Affiliated Fund

(b) The rate quoted is the annualized seven-day yield of the fund at period end.

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(VIP Government Money Market Portfolio Initial Class was formerly known as VIP Money Market Portfolio Initial Class)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| VIP Contrafund Portfolio Initial Class | $ 1,247,615 | $ 808,363 | $ 461,815 | $ 17,371 | $ 1,467,418 |
| VIP Emerging Markets Portfolio Initial Class | 807,918 | 773,440 | 374,560 | 7,257 | 1,075,159 |
| VIP Equity-Income Portfolio Initial Class | 1,312,510 | 952,844 | 472,907 | 57,098 | 1,543,548 |
| VIP Government Money Market Portfolio Initial Class 0.05% | — | 229,585 | 57,871 | 36 | 171,714 |
| VIP Growth & Income Portfolio Initial Class | 1,497,298 | 978,257 | 567,441 | 42,713 | 1,743,810 |
| VIP Growth Portfolio Initial Class | 1,276,213 | 698,146 | 499,477 | 4,410 | 1,530,404 |
| VIP High Income Portfolio Initial Class | 426,466 | 318,670 | 198,828 | 37,502 | 484,004 |
| VIP Investment Grade Bond Portfolio Initial Class | 343,805 | 184,848 | 256,217 | 7,820 | 263,991 |
| VIP Mid Cap Portfolio Initial Class | 363,275 | 239,626 | 129,356 | 2,458 | 418,396 |
| VIP Overseas Portfolio Initial Class | 2,291,444 | 1,373,359 | 1,126,476 | 40,003 | 2,569,351 |
| VIP Value Portfolio Initial Class | 962,734 | 719,719 | 361,982 | 17,342 | 1,116,066 |
| VIP Value Strategies Portfolio Initial Class | 469,968 | 270,547 | 173,983 | 7,413 | 536,774 |
| Total | $ 10,999,246 | $ 7,547,404 | $ 4,680,913 | $ 241,423 | $ 12,920,635 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

VIP Freedom 2050 Portfolio℠

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $12,906,441) — See accompanying schedule | | $ 12,920,635 |
| Receivable for investments sold | | 11,131 |
| Receivable for fund shares sold | | 8,114 |
| **Total assets** | | 12,939,880 |
| **Liabilities** | | |
| Payable for fund shares redeemed | $ 19,240 | |
| Distribution and service plan fees payable | 2,067 | |
| **Total liabilities** | | 21,307 |
| **Net Assets** | | $ 12,918,573 |
| Net Assets consist of: | | |
| Paid in capital | | $ 12,637,750 |
| Undistributed net investment income | | 20,030 |
| Accumulated undistributed net realized gain (loss) on investments | | 246,599 |
| Net unrealized appreciation (depreciation) on investments | | 14,194 |
| **Net Assets** | | $ 12,918,573 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($2,266,056 ÷ 138,032 shares) | | $ 16.42 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($3,003,757 ÷ 183,230 shares) | | $ 16.39 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($7,648,760 ÷ 467,688 shares) | | $ 16.35 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 241,423 |
| **Expenses** | | |
| Distribution and service plan fees | $ 22,733 | |
| Independent trustees' compensation | 51 | |
| Total expenses before reductions | 22,784 | |
| Expense reductions | (51) | 22,733 |
| **Net investment income (loss)** | | 218,690 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (223,550) | |
| Capital gain distributions from underlying funds | 570,585 | |
| Total net realized gain (loss) | | 347,035 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (721,553) |
| **Net gain (loss)** | | (374,518) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (155,828) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 218,690 | $ 147,159 |
| Net realized gain (loss) | 347,035 | 57,571 |
| Change in net unrealized appreciation (depreciation) | (721,553) | 159,195 |
| **Net increase (decrease) in net assets resulting from operations** | (155,828) | 363,925 |
| Distributions to shareholders from net investment income | (200,903) | (144,914) |
| Distributions to shareholders from net realized gain | (80,362) | (119,127) |
| **Total distributions** | (281,265) | (264,041) |
| Share transactions – net increase (decrease) | 2,357,902 | 6,459,204 |
| **Total increase (decrease) in net assets** | 1,920,809 | 6,559,088 |
| **Net Assets** | | |
| Beginning of period | 10,997,764 | 4,438,676 |
| End of period (including undistributed net investment income of $20,030 and $2,245, respectively) | $ 12,918,573 | $ 10,997,764 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2050 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 16.86 | $ 16.55 | $ 13.41 | $ 13.34 | $ 15.82 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .32 | .35 | .37 | .47 | .26 |
| Net realized and unrealized gain (loss) | (.36) | .47 | 3.16 | 1.72 | (1.03) |
| Total from investment operations | (.04) | .82 | 3.53 | 2.19 | (.77) |
| Distributions from net investment income | (.29) | (.25) | (.22) | (.28) | (.28) |
| Distributions from net realized gain | (.11) | (.27) | (.18) | (1.84) | (1.43) |
| Total distributions | (.40) | (.51)[B] | (.39)[C] | (2.12) | (1.71) |
| Net asset value, end of period | $ 16.42 | $ 16.86 | $ 16.55 | $ 13.41 | $ 13.34 |
| **Total Return**[D,E] | (.29)% | 5.01% | 26.44% | 17.64% | (4.93)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions[H] | —% | —% | —% | —% | —% |
| Expenses net of fee waivers, if any | —% | —% | —% | —% | —% |
| Expenses net of all reductions | —% | —% | —% | —% | —% |
| Net investment income (loss) | 1.89% | 2.06% | 2.42% | 3.57% | 1.67% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 2,266 | $ 1,684 | $ 880 | $ 441 | $ 253 |
| Portfolio turnover rate[F] | 37% | 22% | 59% | 24% | 92% |

A *Calculated based on average shares outstanding during the period.*

B *Total distributions of $.51 per share is comprised of distributions from net investment income of $.248 and distributions from net realized gain of $.266 per share.*

C *Total distributions of $.39 per share is comprised of distributions from net investment income of $.218 and distributions from net realized gain of $.175 per share.*

D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*

E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*

F *Amounts do not include the activity of the Underlying Funds.*

G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

H *Amount represents less than .005%.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2050 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 16.83 | $ 16.54 | $ 13.41 | $ 13.34 | $ 15.82 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .31 | .33 | .35 | .46 | .25 |
| Net realized and unrealized gain (loss) | (.37) | .46 | 3.17 | 1.73 | (1.04) |
| Total from investment operations | (.06) | .79 | 3.52 | 2.19 | (.79) |
| Distributions from net investment income | (.27) | (.24) | (.21) | (.27) | (.26) |
| Distributions from net realized gain | (.11) | (.27) | (.18) | (1.84) | (1.43) |
| Total distributions | (.38) | (.50)[B] | (.39) | (2.12)[C] | (1.69) |
| Net asset value, end of period | $ 16.39 | $ 16.83 | $ 16.54 | $ 13.41 | $ 13.34 |
| **Total Return**[D,E] | (.38)% | 4.81% | 26.32% | 17.59% | (5.06)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.79% | 1.96% | 2.32% | 3.47% | 1.57% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 3,004 | $ 2,878 | $ 1,892 | $ 490 | $ 91 |
| Portfolio turnover rate[F] | 37% | 22% | 59% | 24% | 92% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.50 per share is comprised of distributions from net investment income of $.236 and distributions from net realized gain of $.266 per share.*
C *Total distributions of $2.12 per share is comprised of distributions from net investment income of $.272 and distributions from net realized gain of $1.843 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Freedom 2050 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 16.80 | $ 16.51 | $ 13.39 | $ 13.33 | $ 15.81 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .28 | .30 | .33 | .43 | .22 |
| Net realized and unrealized gain (loss) | (.37) | .47 | 3.16 | 1.73 | (1.02) |
| Total from investment operations | (.09) | .77 | 3.49 | 2.16 | (.80) |
| Distributions from net investment income | (.25) | (.22) | (.19) | (.26) | (.25) |
| Distributions from net realized gain | (.11) | (.27) | (.18) | (1.84) | (1.43) |
| Total distributions | (.36) | (.48)[B] | (.37) | (2.10) | (1.68) |
| Net asset value, end of period | $ 16.35 | $ 16.80 | $ 16.51 | $ 13.39 | $ 13.33 |
| **Total Return**[C,D] | (.58)% | 4.71% | 26.13% | 17.38% | (5.16)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .25% | .25% | .25% | .25% | .25% |
| Expenses net of all reductions | .25% | .25% | .25% | .25% | .25% |
| Net investment income (loss) | 1.64% | 1.81% | 2.17% | 3.32% | 1.42% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 7,649 | $ 6,436 | $ 1,666 | $ 390 | $ 163 |
| Portfolio turnover rate[E] | 37% | 22% | 59% | 24% | 92% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.48 per share is comprised of distributions from net investment income of $.218 and distributions from net realized gain of $.266 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## 1. Organization.

VIP Freedom Income Portfolio, VIP Freedom 2005 Portfolio, VIP Freedom 2010 Portfolio, VIP Freedom 2015 Portfolio, VIP Freedom 2020 Portfolio, VIP Freedom 2025 Portfolio, VIP Freedom 2030 Portfolio, VIP Freedom 2035 Portfolio, VIP Freedom 2040 Portfolio, VIP Freedom 2045 Portfolio and VIP Freedom 2050 Portfolio (the Funds) are funds of Variable Insurance Products Fund V (the Trust). The Trust 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. Each Fund is authorized to issue an unlimited number of shares. The Funds invest primarily in a combination of other VIP equity, bond, and short-term funds (the Underlying Funds) managed by Fidelity Management & Research Company (FMR). Shares of each Fund may only be purchased by insurance companies for the purpose of funding variable annuity or variable life insurance contracts. Each Fund offers three classes of shares: Initial Class shares, Service Class shares and Service Class 2 shares. All classes have equal rights and voting privileges, except for matters affecting a single class.

## 2. Significant Accounting Policies.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date that the financial statements were issued have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Funds:

**Investment Valuation.** Investments are valued as of 4:00 p.m. Eastern time on the last calendar day of the period. Each Fund categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as shown below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, etc.)

Level 3 – unobservable inputs (including the Fund's own assumptions based on the best information available)

Valuation techniques used to value each Fund's investments by major category are as follows. Investments in the Underlying Funds are valued at their closing net asset value (NAV) each business day and are categorized as Level 1 in the hierarchy.

**Investment Transactions and Income.** For financial reporting purposes, the Funds' investment holdings and NAV include trades executed through the end of the last business day of the period. The NAV per share for processing shareholder transactions is calculated as of the close of business of the New York Stock Exchange (NYSE), normally 4:00 p.m. Eastern time and includes trades executed through the end of the prior business day. Gains and losses on securities sold are determined on the basis of identified cost. Income and capital gain distributions from the Underlying Funds, if any, are recorded on the ex-dividend date.

**Class Allocations and Expenses.** Investment income, realized and unrealized capital gains and losses, common expenses of each Fund, and certain fund-level expense reductions, if any, are allocated daily on a pro-rata basis to each class based on the relative net assets of each class to the total net assets of each Fund. Each class differs with respect to distribution and service plan fees incurred. Certain expense reductions may also differ by class. For the reporting period, the allocated portion of income and expenses to each class as a percent of its average net assets may vary due to the timing of recording these transactions in relation to fluctuating net assets of the classes. Expenses directly attributable to a fund are charged to that fund. Expenses attributable to more than one fund are allocated among the respective funds on the basis of relative net assets or other appropriate methods. Expenses included in the accompanying financial statements reflect the expenses of each Fund and do not include any expenses associated with the Underlying Funds. Although not included in each Fund's expenses, each Fund indirectly bears its proportionate share of the Underlying Funds' expenses through the impact of these expenses on each Underlying Fund's NAV. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

**Income Tax Information and Distributions to Shareholders.** Each year, each Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, including distributing substantially all of its taxable income and realized gains. As a result, no provision for U.S. Federal income taxes is required. As of December 31, 2015, each Fund did not have any unrecognized tax benefits in the financial statements; nor is each Fund 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. Each Fund files a U.S. federal tax return, in addition to state and local tax returns as required. Each Fund's federal income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three fiscal years after they are filed. State and local tax returns may be subject to examination for an additional fiscal year depending on the jurisdiction.

Distributions are declared and recorded on the ex-dividend date. Income dividends and capital gain distributions are declared separately for each class. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Capital accounts are not adjusted for temporary book-tax differences which will reverse in a subsequent period.

Book-tax differences are primarily due to the short-term gain distributions from the Underlying Funds, capital loss carryforwards and losses deferred due to wash sales.

The federal tax cost of investment securities and unrealized appreciation (depreciation) as of period end were as follows for each Fund:

| | Tax cost | Gross unrealized appreciation | Gross unrealized depreciation | Net unrealized appreciation (depreciation) on securities |
|---|---|---|---|---|
| **VIP Freedom Income** | $ 37,577,116 | $ 1,281,361 | $ (1,106,451) | $ 174,910 |
| **VIP Freedom 2005** | 7,103,791 | 378,021 | (248,478) | 129,543 |
| **VIP Freedom 2010** | 275,510,109 | 26,261,681 | (8,933,734) | 17,327,947 |
| **VIP Freedom 2015** | 98,025,115 | 68,932,390 | (57,536,128) | 11,396,262 |
| **VIP Freedom 2020** | 650,740,666 | 103,509,318 | (23,080,968) | 80,428,350 |
| **VIP Freedom 2025** | 105,179,923 | 13,285,465 | (4,300,914) | 8,984,551 |
| **VIP Freedom 2030** | 236,592,974 | 34,817,644 | (9,642,416) | 25,175,228 |
| **VIP Freedom 2035** | 24,280,018 | 696,780 | (1,412,793) | (716,013) |
| **VIP Freedom 2040** | 45,976,991 | 2,708,546 | (2,424,179) | 284,367 |
| **VIP Freedom 2045** | 12,596,039 | 468,624 | (779,819) | (311,195) |
| **VIP Freedom 2050** | 13,132,516 | 598,291 | (810,172) | (211,881) |

The tax-based components of distributable earnings as of period end were as follows for each Fund:

| | Undistributed ordinary income | Undistributed long-term capital gain | Net unrealized appreciation (depreciation) on securities and other investments |
|---|---|---|---|
| **VIP Freedom Income** | $1,836 | $367,649 | 174,910 |
| **VIP Freedom 2005** | — | 87,942 | 129,543 |
| **VIP Freedom 2010** | 82,259 | 6,398,415 | 17,327,947 |
| **VIP Freedom 2015** | — | 2,802,807 | 11,396,262 |
| **VIP Freedom 2020** | — | 21,885,989 | 80,428,350 |
| **VIP Freedom 2025** | — | 3,505,374 | 8,984,551 |
| **VIP Freedom 2030** | — | 9,968,718 | 25,175,228 |
| **VIP Freedom 2035** | 826 | 740,878 | (716,013) |
| **VIP Freedom 2040** | — | 1,690,340 | 284,367 |
| **VIP Freedom 2045** | — | 399,086 | (311,195) |
| **VIP Freedom 2050** | 20,031 | 472,674 | (211,881) |

The tax character of distributions paid was as follows:

**December 31, 2015**

| | Ordinary Income | Long-term Capital Gains | Total |
|---|---|---|---|
| **VIP Freedom Income** | $ 687,552 | $ – | $ 687,552 |
| **VIP Freedom 2005** | 151,422 | – | 151,422 |
| **VIP Freedom 2010** | 5,710,353 | – | 5,710,353 |
| **VIP Freedom 2015** | 2,387,422 | 100,887 | 2,488,309 |
| **VIP Freedom 2020** | 15,684,367 | – | 15,684,367 |
| **VIP Freedom 2025** | 2,442,559 | 170,919 | 2,613,478 |
| **VIP Freedom 2030** | 5,694,576 | – | 5,694,576 |
| **VIP Freedom 2035** | 444,931 | 9,873 | 454,804 |
| **VIP Freedom 2040** | 1,004,597 | 16,616 | 1,021,213 |
| **VIP Freedom 2045** | 250,779 | 4,633 | 255,412 |
| **VIP Freedom 2050** | 273,376 | 7,889 | 281,265 |

December 31, 2014

| | Ordinary Income | Long-term Capital Gains | Total |
|---|---|---|---|
| VIP Freedom Income | $ 519,023 | $ 213,860 | $ 732,883 |
| VIP Freedom 2005 | 160,902 | 49,746 | 210,648 |
| VIP Freedom 2010 | 5,739,394 | 3,040,743 | 8,780,137 |
| VIP Freedom 2015 | 2,321,440 | 1,421,788 | 3,743,228 |
| VIP Freedom 2020 | 15,090,674 | 9,350,373 | 24,441,047 |
| VIP Freedom 2025 | 2,493,078 | 1,091,371 | 3,584,449 |
| VIP Freedom 2030 | 5,893,022 | 3,015,983 | 8,909,005 |
| VIP Freedom 2035 | 295,138 | 60,318 | 355,456 |
| VIP Freedom 2040 | 758,484 | 225,214 | 983,698 |
| VIP Freedom 2045 | 157,061 | 33,108 | 190,169 |
| VIP Freedom 2050 | 220,719 | 43,322 | 264,041 |

VIP Freedom 2040 intends to elect to defer to its next fiscal year $709 of capital losses recognized during the period November 1, 2015 to December 31, 2015.

## 3. Purchases and Redemptions of Underlying Fund Shares.

Purchases and redemptions of the Underlying Fund shares, are noted in the table below.

| | Purchases ($) | Redemptions ($) |
|---|---|---|
| VIP Freedom Income | 19,732,838 | 13,044,866 |
| VIP Freedom 2005 | 1,867,060 | 2,822,425 |
| VIP Freedom 2010 | 67,234,731 | 56,332,245 |
| VIP Freedom 2015 | 30,019,619 | 33,534,326 |
| VIP Freedom 2020 | 139,793,408 | 129,309,103 |
| VIP Freedom 2025 | 37,784,168 | 22,712,258 |
| VIP Freedom 2030 | 76,386,130 | 73,475,002 |
| VIP Freedom 2035 | 13,966,531 | 4,199,109 |
| VIP Freedom 2040 | 22,793,053 | 9,877,203 |
| VIP Freedom 2045 | 7,732,665 | 2,728,258 |
| VIP Freedom 2050 | 7,547,404 | 4,680,913 |

## 4. Fees and Other Transactions with Affiliates.

**Management Fee.** Effective October 1, 2015, FMR Co., Inc., an affiliate of Strategic Advisers, Inc. (SAI), replaced SAI as investment adviser to the Funds pursuant to a management contract between the Funds and FMR Co., Inc. The new contract does not impact the Funds' investment process, strategies or management fees. The Funds do not pay any fees for investment management related services.

**Other Transactions.** The investment adviser has entered into an administration agreement with FMR under which FMR provides management and administrative services (other than investment advisory services) necessary for the operation of each Fund. Pursuant to this agreement, FMR pays all expenses of each Fund, excluding distribution and service fees, compensation of the independent Trustees and certain other expenses such as interest expense. FMR also contracts with other Fidelity companies to perform the services necessary for the operation of each Fund. The Funds do not pay any fees for these services.

**Distribution and Service Plan Fees.** In accordance with Rule 12b-1 of the 1940 Act, the Funds have adopted separate 12b-1 Plans for each Service Class of shares. Each Service Class pays Fidelity Distributors Corporation (FDC), an affiliate of the investment adviser, a service fee. For the period, the service fee is based on an annual rate of .10% of Service Class' average net assets and .25% of Service Class 2's average net assets.

For the period, total fees, all of which were reallowed to insurance companies for the distribution of shares and providing shareholder support services were as follows:

| | Service Class | Service Class 2 | Total |
|---|---|---|---|
| **VIP Freedom Income** | $8,847 | $30,192 | $39,039 |
| **VIP Freedom 2005** | 456 | 221 | 677 |
| **VIP Freedom 2010** | 25,581 | 587,489 | 613,070 |
| **VIP Freedom 2015** | 16,437 | 149,294 | 165,731 |
| **VIP Freedom 2020** | 87,314 | 1,442,238 | 1,529,552 |
| **VIP Freedom 2025** | 35,564 | 128,347 | 163,911 |
| **VIP Freedom 2030** | 58,524 | 391,577 | 450,101 |
| **VIP Freedom 2035** | 1,863 | 41,530 | 43,393 |
| **VIP Freedom 2040** | 17,163 | 28,297 | 45,460 |
| **VIP Freedom 2045** | 372 | 24,635 | 25,007 |
| **VIP Freedom 2050** | 2,811 | 19,922 | 22,733 |

## 5. Expense Reductions.

FMR voluntarily agreed to reimburse funds to the extent annual operating expenses exceeded certain levels of average net assets as noted in the table below. Some expenses, for example interest expense, are excluded from this reimbursement.

The following classes of each applicable Fund were in reimbursement during the period:

| | Expense Limitations | Reimbursement |
|---|---|---|
| **VIP Freedom Income** | | |
| Initial Class | —% | $ 60 |
| Service Class | .10% | 35 |
| Service Class 2 | .25% | 49 |
| **VIP Freedom 2005** | | |
| Initial Class | —% | $ 32 |
| Service Class | .10% | 2 |
| Service Class 2 | .25% | – |
| **VIP Freedom 2010** | | |
| Initial Class | —% | $ 140 |
| Service Class | .10% | 104 |
| Service Class 2 | .25% | 954 |
| **VIP Freedom 2015** | | |
| Initial Class | —% | $ 151 |
| Service Class | .10% | 67 |
| Service Class 2 | .25% | 243 |
| **VIP Freedom 2020** | | |
| Initial Class | —% | $ 371 |
| Service Class | .10% | 355 |
| Service Class 2 | .25% | 2,345 |
| **VIP Freedom 2025** | | |
| Initial Class | —% | $ 104 |
| Service Class | .10% | 143 |
| Service Class 2 | .25% | 207 |
| **VIP Freedom 2030** | | |
| Initial Class | —% | $ 281 |
| Service Class | .10% | 239 |
| Service Class 2 | .25% | 638 |
| **VIP Freedom 2035** | | |
| Initial Class | —% | $ 3 |
| Service Class | .10% | 7 |
| Service Class 2 | .25% | 65 |
| **VIP Freedom 2040** | | |
| Initial Class | —% | $ 59 |

| | Expense Limitations | Reimbursement |
|---|---|---|
| Service Class | .10% | 68 |
| Service Class 2 | .25% | 45 |
| **VIP Freedom 2045** | | |
| Initial Class | —% | $ 2 |
| Service Class | .10% | 1 |
| Service Class 2 | .25% | 38 |
| **VIP Freedom 2050** | | |
| Initial Class | —% | $ 8 |
| Service Class | .10% | 12 |
| Service Class 2 | .25% | 31 |

## 6. Distributions to Shareholders.

Distributions to shareholders of each class were as follows:

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| **VIP Freedom Income** | | |
| **From net investment income** | | |
| Initial Class | $ 262,328 | $ 262,491 |
| Service Class | 170,784 | 88,443 |
| Service Class 2 | 204,325 | 112,961 |
| Total | $ 637,437 | $ 463,895 |
| **From net realized gain** | | |
| Initial Class | $ 19,906 | $ 154,449 |
| Service Class | 13,128 | 42,797 |
| Service Class 2 | 17,081 | 71,742 |
| Total | $ 50,115 | $ 268,988 |
| **VIP Freedom 2005** | | |
| **From net investment income** | | |
| Initial Class | $ 125,531 | $ 128,377 |
| Service Class | 8,573 | 6,128 |
| Service Class 2 | 1,523 | 1,058 |
| Total | $ 135,627 | $ 135,563 |
| **From net realized gain** | | |
| Initial Class | $ 14,560 | $ 70,498 |
| Service Class | 1,035 | 3,684 |
| Service Class 2 | 200 | 903 |
| Total | $ 15,795 | $ 75,085 |
| **VIP Freedom 2010** | | |
| **From net investment income** | | |
| Initial Class | $ 577,376 | $ 704,165 |
| Service Class | 414,530 | 429,735 |
| Service Class 2 | 3,864,255 | 3,113,345 |
| Total | $ 4,856,161 | $ 4,247,245 |
| **From net realized gain** | | |
| Initial Class | $ 93,377 | $ 698,347 |
| Service Class | 69,574 | 424,495 |
| Service Class 2 | 691,241 | 3,410,050 |
| Total | $ 854,192 | $ 4,532,892 |
| **VIP Freedom 2015** | | |
| **From net investment income** | | |
| Initial Class | $ 667,184 | $ 655,980 |
| Service Class | 291,636 | 244,819 |
| Service Class 2 | 949,214 | 865,566 |
| Total | $ 1,908,034 | $ 1,766,365 |
| **From net realized gain** | | |

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| Initial Class | $ 189,896 | $ 691,468 |
| Service Class | 83,523 | 202,514 |
| Service Class 2 | 306,856 | 1,082,881 |
| Total | $ 580,275 | $ 1,976,863 |
| **VIP Freedom 2020** | | |
| **From net investment income** | | |
| Initial Class | $ 1,662,333 | $ 1,679,710 |
| Service Class | 1,701,924 | 1,185,964 |
| Service Class 2 | 9,067,466 | 8,295,972 |
| Total | $12,431,723 | $11,161,646 |
| **From net realized gain** | | |
| Initial Class | $ 393,448 | $ 1,649,471 |
| Service Class | 404,517 | 1,226,045 |
| Service Class 2 | 2,454,679 | 10,403,885 |
| Total | $ 3,252,644 | $13,279,401 |
| **VIP Freedom 2025** | | |
| **From net investment income** | | |
| Initial Class | $ 473,802 | $ 425,688 |
| Service Class | 661,964 | 475,300 |
| Service Class 2 | 861,551 | 704,261 |
| Total | $ 1,997,317 | $ 1,605,249 |
| **From net realized gain** | | |
| Initial Class | $ 138,753 | $ 504,076 |
| Service Class | 194,650 | 512,120 |
| Service Class 2 | 282,758 | 963,004 |
| Total | $ 616,161 | $ 1,979,200 |
| **VIP Freedom 2030** | | |
| **From net investment income** | | |
| Initial Class | $ 1,233,440 | $ 1,123,914 |
| Service Class | 1,005,250 | 776,962 |
| Service Class 2 | 2,023,552 | 2,041,884 |
| Total | $ 4,262,242 | $ 3,942,760 |
| **From net realized gain** | | |
| Initial Class | $ 373,156 | $ 1,285,630 |
| Service Class | 313,207 | 960,757 |
| Service Class 2 | 745,971 | 2,719,858 |
| Total | $ 1,432,334 | $ 4,966,245 |
| **VIP Freedom 2035** | | |
| **From net investment income** | | |
| Initial Class | $ 25,177 | $ 9,169 |
| Service Class | 30,980 | 23,173 |
| Service Class 2 | 283,735 | 166,723 |
| Total | $ 339,892 | $ 199,065 |
| **From net realized gain** | | |
| Initial Class | $ 7,250 | $ 11,230 |
| Service Class | 10,046 | 12,893 |
| Service Class 2 | 97,616 | 132,268 |
| Total | $ 114,912 | $ 156,391 |
| **VIP Freedom 2040** | | |
| **From net investment income** | | |
| Initial Class | $ 257,127 | $ 225,564 |
| Service Class | 297,556 | 183,653 |
| Service Class 2 | 179,437 | 108,508 |
| Total | $ 734,120 | $ 517,725 |
| **From net realized gain** | | |
| Initial Class | $ 95,975 | $ 206,415 |
| Service Class | 115,149 | 172,404 |

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| Service Class 2 | 75,969 | 87,154 |
| Total | $ 287,093 | $ 465,973 |
| **VIP Freedom 2045** | | |
| **From net investment income** | | |
| Initial Class | $ 9,613 | $ 5,234 |
| Service Class | 5,729 | 5,167 |
| Service Class 2 | 174,881 | 95,644 |
| Total | $ 190,223 | $ 106,045 |
| **From net realized gain** | | |
| Initial Class | $ 2,892 | $ 4,305 |
| Service Class | 1,923 | 3,986 |
| Service Class 2 | 60,374 | 75,833 |
| Total | $ 65,189 | $ 84,124 |
| **VIP Freedom 2050** | | |
| **From net investment income** | | |
| Initial Class | $ 38,897 | $ 24,335 |
| Service Class | 49,301 | 39,473 |
| Service Class 2 | 112,705 | 81,106 |
| Total | $ 200,903 | $ 144,914 |
| **From net realized gain** | | |
| Initial Class | $ 14,034 | $ 19,643 |
| Service Class | 18,785 | 35,809 |
| Service Class 2 | 47,543 | 63,675 |
| Total | $ 80,362 | $ 119,127 |

## 7. Share Transactions.

Transactions for each class of shares were as follows:

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| **VIP Freedom Income** | | | | |
| **Initial Class** | | | | |
| Shares sold | 339,365 | 375,885 | $ 3,775,187 | $ 4,159,554 |
| Reinvestment of distributions | 26,086 | 37,909 | 282,234 | 416,940 |
| Shares redeemed | (592,382) | (397,094) | (6,571,758) | (4,398,794) |
| Net increase (decrease) | (226,931) | 16,700 | $ (2,514,337) | $ 177,700 |
| **Service Class** | | | | |
| Shares sold | 534,312 | 313,956 | $ 5,937,119 | $ 3,474,181 |
| Reinvestment of distributions | 17,002 | 11,923 | 183,912 | 131,240 |
| Shares redeemed | (201,312) | (180,302) | (2,233,670) | (1,981,326) |
| Net increase (decrease) | 350,002 | 145,577 | $ 3,887,361 | $ 1,624,095 |
| **Service Class 2** | | | | |
| Shares sold | 757,309 | 358,308 | $ 8,438,417 | $ 3,948,810 |
| Reinvestment of distributions | 20,544 | 16,846 | 221,406 | 184,703 |
| Shares redeemed | (338,685) | (260,148) | (3,743,618) | (2,869,402) |
| Net increase (decrease) | 439,168 | 115,006 | $ 4,916,205 | $ 1,264,111 |
| **VIP Freedom 2005** | | | | |
| **Initial Class** | | | | |
| Shares sold | 60,424 | 111,193 | $ 709,728 | $ 1,282,516 |
| Reinvestment of distributions | 12,337 | 17,218 | 140,091 | 198,875 |
| Shares redeemed | (179,193) | (60,760) | (2,077,063) | (703,354) |
| Net increase (decrease) | (106,432) | 67,651 | $ (1,227,244) | $ 778,037 |
| **Service Class** | | | | |
| Shares sold | 19,795 | 49,405 | $ 231,657 | $ 569,553 |
| Reinvestment of distributions | 841 | 845 | 9,608 | 9,812 |
| Shares redeemed | (13,086) | (26,163) | (152,657) | (303,043) |

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| Net increase (decrease) | 7,550 | 24,087 | $ 88,608 | $ 276,322 |
| **Service Class 2** | | | | |
| Shares sold | 1,929 | 1,015 | $ 22,541 | $ 11,729 |
| Reinvestment of distributions | 152 | 170 | 1,723 | 1,961 |
| Shares redeemed | (707) | (3,325) | (8,137) | (37,876) |
| Net increase (decrease) | 1,374 | (2,140) | $ 16,127 | $ (24,186) |
| **VIP Freedom 2010** | | | | |
| **Initial Class** | | | | |
| Shares sold | 344,077 | 817,145 | $ 4,317,350 | $ 10,159,087 |
| Reinvestment of distributions | 54,791 | 113,210 | 670,753 | 1,402,512 |
| Shares redeemed | (1,328,939) | (1,057,832) | (16,779,464) | (13,187,201) |
| Net increase (decrease) | (930,071) | (127,477) | $ (11,791,361) | $ (1,625,602) |
| **Service Class** | | | | |
| Shares sold | 252,289 | 505,198 | $ 3,174,992 | $ 6,309,044 |
| Reinvestment of distributions | 39,582 | 68,995 | 484,104 | 854,230 |
| Shares redeemed | (589,582) | (527,518) | (7,419,736) | (6,548,142) |
| Net increase (decrease) | (297,711) | 46,675 | $ (3,760,640) | $ 615,132 |
| **Service Class 2** | | | | |
| Shares sold | 2,422,231 | 1,910,653 | $ 30,376,391 | $ 23,611,898 |
| Reinvestment of distributions | 374,338 | 529,283 | 4,555,496 | 6,523,395 |
| Shares redeemed | (1,221,007) | (1,435,390) | (15,302,347) | (17,811,619) |
| Net increase (decrease) | 1,575,562 | 1,004,546 | $ 19,629,540 | $ 12,323,674 |
| **VIP Freedom 2015** | | | | |
| **Initial Class** | | | | |
| Shares sold | 420,581 | 385,733 | $ 5,358,376 | $ 4,842,707 |
| Reinvestment of distributions | 69,232 | 107,592 | 857,080 | 1,347,448 |
| Shares redeemed | (739,545) | (660,826) | (9,437,771) | (8,301,187) |
| Net increase (decrease) | (249,732) | (167,501) | $ (3,222,315) | $ (2,111,032) |
| **Service Class** | | | | |
| Shares sold | 498,796 | 866,111 | $ 6,305,741 | $ 11,001,902 |
| Reinvestment of distributions | 30,361 | 35,692 | 375,159 | 447,334 |
| Shares redeemed | (450,970) | (507,284) | (5,724,379) | (6,439,617) |
| Net increase (decrease) | 78,187 | 394,519 | $ 956,521 | $ 5,009,619 |
| **Service Class 2** | | | | |
| Shares sold | 813,492 | 1,120,974 | $ 10,278,936 | $ 14,020,798 |
| Reinvestment of distributions | 101,931 | 156,473 | 1,256,070 | 1,948,446 |
| Shares redeemed | (1,240,391) | (1,283,440) | (15,651,237) | (16,095,343) |
| Net increase (decrease) | (324,968) | (5,993) | $ (4,116,231) | $ (126,099) |
| **VIP Freedom 2020** | | | | |
| **Initial Class** | | | | |
| Shares sold | 1,368,062 | 1,883,216 | $ 17,708,590 | $ 24,061,467 |
| Reinvestment of distributions | 163,581 | 261,587 | 2,055,781 | 3,329,180 |
| Shares redeemed | (2,449,771) | (1,436,782) | (31,880,324) | (18,313,542) |
| Net increase (decrease) | (918,128) | 708,021 | $ (12,115,953) | $ 9,077,105 |
| **Service Class** | | | | |
| Shares sold | 2,570,538 | 1,733,219 | $ 33,320,721 | $ 22,273,989 |
| Reinvestment of distributions | 168,073 | 189,965 | 2,106,441 | 2,412,009 |
| Shares redeemed | (1,181,862) | (1,139,322) | (15,229,965) | (14,503,262) |
| Net increase (decrease) | 1,556,749 | 783,862 | $ 20,197,197 | $ 10,182,736 |
| **Service Class 2** | | | | |
| Shares sold | 2,413,177 | 2,268,817 | $ 31,270,547 | $ 28,790,824 |
| Reinvestment of distributions | 921,983 | 1,479,960 | 11,522,145 | 18,699,856 |
| Shares redeemed | (4,868,275) | (4,260,717) | (62,533,680) | (54,144,950) |
| Net increase (decrease) | (1,533,115) | (511,940) | $ (19,740,988) | $ (6,654,270) |
| **VIP Freedom 2025** | | | | |
| **Initial Class** | | | | |

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| Shares sold | 375,179 | 348,503 | $ 4,976,692 | $ 4,591,726 |
| Reinvestment of distributions | 47,214 | 70,770 | 612,555 | 929,764 |
| Shares redeemed | (445,275) | (323,217) | (5,967,956) | (4,281,455) |
| Net increase (decrease) | (22,882) | 96,056 | $ (378,709) | $ 1,240,035 |
| **Service Class** | | | | |
| Shares sold | 933,734 | 1,081,241 | $ 12,363,927 | $ 14,285,176 |
| Reinvestment of distributions | 66,146 | 75,172 | 856,614 | 987,420 |
| Shares redeemed | (437,815) | (530,281) | (5,813,665) | (7,054,103) |
| Net increase (decrease) | 562,065 | 626,132 | $ 7,406,876 | $ 8,218,493 |
| **Service Class 2** | | | | |
| Shares sold | 1,318,158 | 1,317,051 | $ 17,477,251 | $ 17,273,698 |
| Reinvestment of distributions | 88,740 | 127,758 | 1,144,309 | 1,667,265 |
| Shares redeemed | (1,071,673) | (1,261,769) | (14,125,138) | (16,330,517) |
| Net increase (decrease) | 335,225 | 183,040 | $ 4,496,422 | $ 2,610,446 |
| **VIP Freedom 2030** | | | | |
| **Initial Class** | | | | |
| Shares sold | 952,711 | 1,270,289 | $ 12,631,715 | $ 16,571,361 |
| Reinvestment of distributions | 125,011 | 185,629 | 1,606,596 | 2,409,544 |
| Shares redeemed | (1,214,789) | (900,927) | (16,182,194) | (11,625,782) |
| Net increase (decrease) | (137,067) | 554,991 | $ (1,943,883) | $ 7,355,123 |
| **Service Class** | | | | |
| Shares sold | 1,316,268 | 972,738 | $ 17,520,725 | $ 12,664,120 |
| Reinvestment of distributions | 102,766 | 134,151 | 1,318,457 | 1,737,719 |
| Shares redeemed | (867,757) | (645,163) | (11,431,396) | (8,355,317) |
| Net increase (decrease) | 551,277 | 461,726 | $ 7,407,786 | $ 6,046,522 |
| **Service Class 2** | | | | |
| Shares sold | 2,996,955 | 3,438,648 | $ 39,890,524 | $ 43,867,490 |
| Reinvestment of distributions | 216,259 | 368,844 | 2,769,523 | 4,761,742 |
| Shares redeemed | (4,280,826) | (2,444,609) | (56,176,082) | (31,799,217) |
| Net increase (decrease) | (1,067,612) | 1,362,883 | $ (13,516,035) | $ 16,830,015 |
| **VIP Freedom 2035** | | | | |
| **Initial Class** | | | | |
| Shares sold | 69,244 | 30,345 | $ 1,355,411 | $ 588,990 |
| Reinvestment of distributions | 1,679 | 1,049 | 32,427 | 20,399 |
| Shares redeemed | (17,459) | (58,809) | (349,771) | (1,144,872) |
| Net increase (decrease) | 53,464 | (27,415) | $ 1,038,067 | $ (535,483) |
| **Service Class** | | | | |
| Shares sold | 43,090 | 84,185 | $ 845,029 | $ 1,630,037 |
| Reinvestment of distributions | 2,124 | 1,834 | 41,026 | 36,066 |
| Shares redeemed | (23,646) | (17,080) | (471,066) | (332,033) |
| Net increase (decrease) | 21,568 | 68,939 | $ 414,989 | $ 1,334,070 |
| **Service Class 2** | | | | |
| Shares sold | 575,880 | 514,701 | $ 11,361,119 | $ 9,981,898 |
| Reinvestment of distributions | 19,826 | 15,326 | 381,351 | 298,991 |
| Shares redeemed | (211,248) | (90,965) | (4,161,335) | (1,764,901) |
| Net increase (decrease) | 384,458 | 439,062 | $ 7,581,135 | $ 8,515,988 |
| **VIP Freedom 2040** | | | | |
| **Initial Class** | | | | |
| Shares sold | 210,577 | 347,127 | $ 4,032,196 | $ 6,459,009 |
| Reinvestment of distributions | 19,134 | 23,119 | 353,102 | 431,979 |
| Shares redeemed | (200,035) | (113,362) | (3,816,485) | (2,101,018) |
| Net increase (decrease) | 29,676 | 256,884 | $ 568,813 | $ 4,789,970 |
| **Service Class** | | | | |
| Shares sold | 535,036 | 332,214 | $ 10,162,149 | $ 6,217,955 |
| Reinvestment of distributions | 22,392 | 19,073 | 412,705 | 356,057 |
| Shares redeemed | (236,839) | (154,261) | (4,513,032) | (2,882,686) |

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| Net increase (decrease) | 320,589 | 197,026 | $ 6,061,822 | $ 3,691,326 |
| **Service Class 2** | | | | |
| Shares sold | 365,794 | 322,076 | $ 6,983,427 | $ 5,944,430 |
| Reinvestment of distributions | 13,903 | 10,481 | 255,406 | 195,662 |
| Shares redeemed | (140,107) | (37,791) | (2,625,215) | (692,555) |
| Net increase (decrease) | 239,590 | 294,766 | $ 4,613,618 | $ 5,447,537 |
| **VIP Freedom 2045** | | | | |
| **Initial Class** | | | | |
| Shares sold | 17,269 | 17,923 | $ 324,086 | $ 331,772 |
| Reinvestment of distributions | 684 | 515 | 12,505 | 9,538 |
| Shares redeemed | (6,373) | (14,896) | (120,815) | (269,781) |
| Net increase (decrease) | 11,580 | 3,542 | $ 215,776 | $ 71,529 |
| **Service Class** | | | | |
| Shares sold | 9,629 | 11,016 | $ 179,791 | $ 207,804 |
| Reinvestment of distributions | 419 | 493 | 7,652 | 9,153 |
| Shares redeemed | (10,722) | (1,138) | (200,928) | (20,656) |
| Net increase (decrease) | (674) | 10,371 | $ (13,485) | $ 196,301 |
| **Service Class 2** | | | | |
| Shares sold | 384,866 | 300,588 | $ 7,194,399 | $ 5,516,130 |
| Reinvestment of distributions | 12,916 | 9,267 | 235,255 | 171,477 |
| Shares redeemed | (162,324) | (47,917) | (3,021,191) | (875,233) |
| Net increase (decrease) | 235,458 | 261,938 | $ 4,408,463 | $ 4,812,374 |
| **VIP Freedom 2050** | | | | |
| **Initial Class** | | | | |
| Shares sold | 58,084 | 63,355 | $ 994,708 | $ 1,075,716 |
| Reinvestment of distributions | 3,177 | 2,604 | 52,931 | 43,978 |
| Shares redeemed | (23,146) | (19,200) | (396,298) | (324,621) |
| Net increase (decrease) | 38,115 | 46,759 | $ 651,341 | $ 795,073 |
| **Service Class** | | | | |
| Shares sold | 66,182 | 78,954 | $ 1,125,460 | $ 1,344,245 |
| Reinvestment of distributions | 4,091 | 4,467 | 68,086 | 75,282 |
| Shares redeemed | (58,008) | (26,875) | (980,918) | (448,019) |
| Net increase (decrease) | 12,265 | 56,546 | $ 212,628 | $ 971,508 |
| **Service Class 2** | | | | |
| Shares sold | 283,095 | 336,972 | $ 4,830,393 | $ 5,620,131 |
| Reinvestment of distributions | 9,649 | 8,582 | 160,248 | 144,781 |
| Shares redeemed | (208,192) | (63,356) | (3,496,708) | (1,072,289) |
| Net increase (decrease) | 84,552 | 282,198 | $ 1,493,933 | $ 4,692,623 |

## 8. Other.

The Funds' organizational documents provide former and current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Funds. In the normal course of business, the Funds may also enter into contracts that provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Funds. The risk of material loss from such claims is considered remote.

The Funds do not invest in the Underlying Funds for the purpose of exercising management or control; however, investments by the Funds within their principal investment strategies may represent a significant portion of the Underlying Fund's net assets. At the end of the period, the following Funds were the owners of record of 10% or more of the total outstanding shares of the Underlying Funds.

| Fund | VIP Freedom 2020 Portfolio Fund | VIP Freedom 2030 Portfolio Fund |
|---|---|---|
| VIP Value Portfolio | 14% | —% |
| VIP Emerging Markets Portfolio | 24% | 10% |

The Funds, in aggregate, were the owners of record of more than 20% of the total outstanding shares of the following Underlying Funds.

| Fund | % of shares held |
|---|---|
| VIP Value Portfolio | 32% |
| VIP Emerging Markets Portfolio | 54% |

In addition, at the end of the period the investment adviser or its affiliates were owners of record of more than 10%, respectively, of the outstanding shares of the following Funds:

| | Affiliated % | Number of Unaffiliated Shareholders | Unaffiliated Shareholders % |
|---|---|---|---|
| **VIP Freedom Income** | 32% | 2 | 29% |
| **VIP Freedom 2005** | 91% | – | –% |
| **VIP Freedom 2010** | –% | 1 | 83% |
| **VIP Freedom 2015** | 27% | 3 | 45% |
| **VIP Freedom 2020** | –% | 1 | 73% |
| **VIP Freedom 2025** | 13% | 3 | 60% |
| **VIP Freedom 2030** | –% | 2 | 54% |
| **VIP Freedom 2035** | –% | 4 | 86% |
| **VIP Freedom 2040** | –% | 3 | 76% |
| **VIP Freedom 2045** | –% | 3 | 89% |
| **VIP Freedom 2050** | –% | 4 | 94% |

# Report of Independent Registered Public Accounting Firm

To the Trustees of Variable Insurance Products Fund V and the Shareholders of VIP Freedom Income Portfolio, VIP Freedom 2005 Portfolio, VIP Freedom 2010 Portfolio, VIP Freedom 2015 Portfolio, VIP Freedom 2020 Portfolio, VIP Freedom 2025 Portfolio, VIP Freedom 2030 Portfolio, VIP Freedom 2035 Portfolio, VIP Freedom 2040 Portfolio, VIP Freedom 2045 Portfolio and VIP Freedom 2050 Portfolio:

We have audited the accompanying statements of assets and liabilities of VIP Freedom Income Portfolio, VIP Freedom 2005 Portfolio, VIP Freedom 2010 Portfolio, VIP Freedom 2015 Portfolio, VIP Freedom 2020 Portfolio, VIP Freedom 2025 Portfolio, VIP Freedom 2030 Portfolio, VIP Freedom 2035 Portfolio, VIP Freedom 2040 Portfolio, VIP Freedom 2045 Portfolio and VIP Freedom 2050 Portfolio (the Funds), each a fund of the Variable Insurance Products Fund V, including the schedules of investments, as of December 31, 2015, 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, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Funds are not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodians. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of VIP Freedom Income Portfolio, VIP Freedom 2005 Portfolio, VIP Freedom 2010 Portfolio, VIP Freedom 2015 Portfolio, VIP Freedom 2020 Portfolio, VIP Freedom 2025 Portfolio, VIP Freedom 2030 Portfolio, VIP Freedom 2035 Portfolio, VIP Freedom 2040 Portfolio, VIP Freedom 2045 Portfolio and VIP Freedom 2050 Portfolio as of December 31, 2015, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
February 23, 2016

# Trustees and Officers

The Trustees, Members of the Advisory Board (if any), and officers of the trust and funds, as applicable, are listed below. The Board of Trustees governs each fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who meet periodically throughout the year to oversee each fund's activities, review contractual arrangements with companies that provide services to each fund, oversee management of the risks associated with such activities and contractual arrangements, and review each fund's performance. If the interests of a fund and an underlying Fidelity®fund were to diverge, a conflict of interest could arise and affect how the Trustees and Members of the Advisory Board fulfill their fiduciary duties to the affected funds. FMRC has structured the funds to avoid these potential conflicts, although there may be situations where a conflict of interest is unavoidable. In such instances, FMRC, the Trustees, and Members of the Advisory Board would take reasonable steps to minimize and, if possible, eliminate the conflict. Except for Elizabeth S. Acton, John Engler, and Geoffrey A. von Kuhn, each of the Trustees oversees 236 funds. Ms. Acton and Mr. Engler each oversees 228 funds. Mr. von Kuhn oversees 148 funds.

The Trustees hold office without limit in time except that (a) any Trustee may resign; (b) any Trustee may be removed by written instrument, signed by at least two-thirds of the number of Trustees prior to such removal; (c) any Trustee who requests to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees; and (d) any Trustee may be removed at any special meeting of shareholders by a two-thirds vote of the outstanding voting securities of the trust. Each Trustee who is not an interested person (as defined in the 1940 Act) of the trust and the funds is referred to herein as an Independent Trustee. Each Independent Trustee shall retire not later than the last day of the calendar year in which his or her 75th birthday occurs. The Independent Trustees may waive this mandatory retirement age policy with respect to individual Trustees. Officers and Advisory Board Members hold office without limit in time, except that any officer or Advisory Board Member may resign or may be removed by a vote of a majority of the Trustees at any regular meeting or any special meeting of the Trustees. Except as indicated, each individual has held the office shown or other offices in the same company for the past five years.

Each fund's Statement of Additional Information (SAI) includes more information about the Trustees. To request a free copy, call Fidelity at 1-877-208-0098.

**Experience, Skills, Attributes, and Qualifications of the Trustees.** The Governance and Nominating Committee has adopted a statement of policy that describes the experience, qualifications, attributes, and skills that are necessary and desirable for potential Independent Trustee candidates (Statement of Policy). The Board believes that each Trustee satisfied at the time he or she was initially elected or appointed a Trustee, and continues to satisfy, the standards contemplated by the Statement of Policy. The Governance and Nominating Committee also engages professional search firms to help identify potential Independent Trustee candidates who have the experience, qualifications, attributes, and skills consistent with the Statement of Policy. From time to time, additional criteria based on the composition and skills of the current Independent Trustees, as well as experience or skills that may be appropriate in light of future changes to board composition, business conditions, and regulatory or other developments, have also been considered by the professional search firms and the Governance and Nominating Committee. In addition, the Board takes into account the Trustees' commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout their tenure.

In determining that a particular Trustee was and continues to be qualified to serve as a Trustee, the Board has considered a variety of criteria, none of which, in isolation, was controlling. The Board believes that, collectively, the Trustees have balanced and diverse experience, qualifications, attributes, and skills, which allow the Board to operate effectively in governing each fund and protecting the interests of shareholders. Information about the specific experience, skills, attributes, and qualifications of each Trustee, which in each case led to the Board's conclusion that the Trustee should serve (or continue to serve) as a trustee of the funds, is provided below.

**Board Structure and Oversight Function.** Abigail P. Johnson is an interested person and currently serves as Chairman. The Trustees have determined that an interested Chairman is appropriate and benefits shareholders because an interested Chairman has a personal and professional stake in the quality and continuity of services provided to the funds. Independent Trustees exercise their informed business judgment to appoint an individual of their choosing to serve as Chairman, regardless of whether the Trustee happens to be independent or a member of management. The Independent Trustees have determined that they can act independently and effectively without having an Independent Trustee serve as Chairman and that a key structural component for assuring that they are in a position to do so is for the Independent Trustees to constitute a substantial majority for the Board. The Independent Trustees also regularly meet in executive session. Marie L. Knowles serves as Chairman of the Independent Trustees and as such (i) acts as a liaison between the Independent Trustees and management with respect to matters important to the Independent Trustees and (ii) with management prepares agendas for Board meetings.

Fidelity® funds are overseen by different Boards of Trustees. The funds' Board oversees Fidelity's investment-grade bond, money market, asset allocation and certain equity funds, and other Boards oversee Fidelity's high income, sector and other equity funds. The asset allocation funds may invest in Fidelity® funds that are overseen by such other Boards. The use of separate Boards, each with its own committee structure, allows the Trustees of each group of Fidelity® funds to focus on the unique issues of the funds they oversee, including common research, investment, and operational issues. On occasion, the separate Boards establish joint committees to address issues of overlapping consequences for the Fidelity® funds overseen by each Board.

The Trustees operate using a system of committees to facilitate the timely and efficient consideration of all matters of importance to the Trustees, each fund, and fund shareholders and to facilitate compliance with legal and regulatory requirements and oversight of the funds' activities and associated risks. The Board, acting through its committees, has charged FMR and its affiliates with (i) identifying events or circumstances the occurrence of which could have demonstrably adverse effects on the funds' business and/or reputation; (ii) implementing processes and controls to lessen the possibility that such events or circumstances occur or to mitigate the effects of such events or circumstances if they do occur; and (iii) creating and maintaining a system designed to evaluate continuously business and market conditions in order to facilitate the identification and implementation processes described in (i) and (ii) above. Because the day-to-day operations and activities of the funds are carried out by or through FMR, its affiliates, and other service providers, the funds' exposure to risks is mitigated but not eliminated by the processes overseen by the Trustees. While each of the Board's committees has responsibility for overseeing different aspects of the funds' activities, oversight is exercised primarily through the Operations and Audit Committees. In addition, an ad hoc Board committee of Independent Trustees has worked with FMR to enhance the Board's oversight of investment and financial risks, legal and regulatory risks, technology risks, and operational risks, including the development of additional risk reporting to the Board. Appropriate personnel, including but not limited to the funds' Chief Compliance Officer (CCO), FMR's internal auditor, the independent accountants, the funds' Treasurer and portfolio management personnel, make periodic reports to the Board's committees, as appropriate, including an annual review of Fidelity's risk management program for the Fidelity®funds. The responsibilities of each standing committee, including their oversight responsibilities, are described further under "Standing Committees of the Trustees."

Interested Trustees*:

Correspondence intended for a Trustee who is an interested person may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Abigail P. Johnson (1961)

Year of Election or Appointment: 2009
Trustee
Chairman of the Board of Trustees

Ms. Johnson also serves as Trustee of other Fidelity® funds. Ms. Johnson serves as President (2013-present) and Chief Executive Officer (2014-present) of FMR LLC (diversified financial services company), President of Fidelity Financial Services (2012-present) and President of Personal, Workplace and Institutional Services (2005-present). Ms. Johnson is Chairman and Director of FMR Co., Inc. (investment adviser firm, 2011-present), Chairman and Director of FMR (investment adviser firm, 2011-present), and the Vice Chairman and Director (2007-present) of FMR LLC. Previously, Ms. Johnson served as President and a Director of FMR (2001-2005), a Trustee of other investment companies advised by FMR, Fidelity Investments Money Management, Inc. (investment adviser firm), and FMR Co., Inc. (2001-2005), Senior Vice President of the Fidelity® funds (2001-2005), and managed a number of Fidelity® funds. Ms. Abigail P. Johnson and Mr. Arthur E. Johnson are not related.

Geoffrey A. von Kuhn (1951)

Year of Election or Appointment: 2015
Trustee

Mr. von Kuhn also serves as Trustee or Member of the Advisory Board of other Fidelity funds. Mr. von Kuhn is Chief Administrative Officer for FMR LLC (diversified financial services company, 2013-present), a Director of Pembroke Real Estate, Inc. (2009-present), and a Director of Discovery Natural Resources LLC (2012-present). Previously, Mr. von Kuhn was a managing director of Crosby Group (private wealth management company, 2007-2013), a member of the management committee and senior executive in the Wealth Management Group of AmSouth Bank (2001-2006), and head of the U.S. private bank at Citigroup (2000-2001).

* Determined to be an "Interested Trustee" by virtue of, among other things, his or her affiliation with the trust or various entities under common control with FMR.

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for each fund.

Independent Trustees:

Correspondence intended for an Independent Trustee may be sent to Fidelity Investments, P.O. Box 55235, Boston, Massachusetts 02205-5235.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Elizabeth S. Acton (1951)

Year of Election or Appointment: 2013
Trustee

Ms. Acton also serves as Trustee or Member of the Advisory Board of other Fidelity® funds. Prior to her retirement in April 2012, Ms. Acton was Executive Vice President, Finance (2011-2012), Executive Vice President, Chief Financial Officer (2002-2011), and Treasurer (2004-2005) of Comerica Incorporated (financial services). Prior to joining Comerica, Ms. Acton held a variety of positions at Ford Motor Company (1983-2002), including Vice President and Treasurer (2000-2002) and Executive Vice President and Chief Financial Officer of Ford Motor Credit Company (1998-2000). Ms. Acton currently serves as a member of the Board of Directors and Audit and Finance Committees of Beazer Homes USA, Inc. (homebuilding, 2012-present).

John Engler (1948)

Year of Election or Appointment: 2014
Trustee

Mr. Engler also serves as Trustee or Member of the Advisory Board of other Fidelity® funds. He serves as president of the Business Roundtable (2011-present), and on the board of directors/trustees for Universal Forest Products (manufacturer and distributor of wood and wood-alternative products, 2003-present) and K12 Inc. (technology-based education company, 2012-present). Previously, Mr. Engler served as a trustee of The Munder Funds (2003-2014), president and CEO of the National Association of Manufacturers (2004-2011), member of the Board of Trustees of the Annie E. Casey Foundation (2004-2015), and as governor of Michigan (1991-2003). He is a past chairman of the National Governors Association.

Albert R. Gamper, Jr. (1942)

Year of Election or Appointment: 2007
Trustee

Mr. Gamper also serves as Trustee of other Fidelity® funds. Prior to his retirement in December 2004, Mr. Gamper served as Chairman of the Board of CIT Group Inc. (commercial finance). During his tenure with CIT Group Inc. Mr. Gamper served in numerous senior management positions, including Chairman (1987-1989; 1999-2001; 2002-2004), Chief Executive Officer (1987-2004), and President (2002-2003). Mr. Gamper currently serves as a member of the Board of Directors of Public Service Enterprise Group (utilities, 2000-present), and Member of the Board of Trustees of Barnabas Health Care System (1997-present). Previously, Mr. Gamper served as Chairman (2012-2015) and Vice Chairman (2011-2012) of the Independent Trustees of certain Fidelity® funds and as Chairman of the Board of Governors, Rutgers University (2004-2007).

Robert F. Gartland (1951)

Year of Election or Appointment: 2010
Trustee

Mr. Gartland also serves as Trustee of other Fidelity® funds. Mr. Gartland is Chairman and an investor in Gartland and Mellina Group Corp. (consulting, 2009-present). Previously, Mr. Gartland served as a partner and investor of Vietnam Partners LLC (investments and consulting, 2008-2011). Prior to his retirement, Mr. Gartland held a variety of positions at Morgan Stanley (financial services, 1979-2007) including Managing Director (1987-2007).

Arthur E. Johnson (1947)

Year of Election or Appointment: 2008
Trustee
Vice Chairman of the Independent Trustees

Mr. Johnson also serves as Trustee of other Fidelity® funds. Mr. Johnson serves as a member of the Board of Directors of Eaton Corporation plc (diversified power management, 2009-present), AGL Resources, Inc. (holding company, 2002-present) and Booz Allen Hamilton (management consulting, 2011-present). Prior to his retirement, Mr. Johnson served as Senior Vice President of Corporate Strategic Development of Lockheed Martin Corporation (defense contractor, 1999-2009). He previously served on the Board of Directors of IKON Office Solutions, Inc. (1999-2008) and Delta Airlines (2005-2007). Mr. Arthur E. Johnson is not related to Ms. Abigail P. Johnson.

Michael E. Kenneally (1954)

Year of Election or Appointment: 2009
Trustee

Mr. Kenneally also serves as Trustee of other Fidelity® funds. Prior to his retirement, Mr. Kenneally served as Chairman and Global Chief Executive Officer of Credit Suisse Asset Management. Before joining Credit Suisse, he was an Executive Vice President and Chief Investment Officer for Bank of America Corporation. Earlier roles at Bank of America included Director of Research, Senior Portfolio Manager and Research Analyst, and Mr. Kenneally was awarded the Chartered Financial Analyst (CFA) designation in 1991.

James H. Keyes (1940)

Year of Election or Appointment: 2007
Trustee

Mr. Keyes also serves as Trustee of other Fidelity® funds. Mr. Keyes serves as a member of the Board and Non-Executive Chairman of Navistar International Corporation (manufacture and sale of trucks, buses, and diesel engines, since 2002). Previously, Mr. Keyes served as a member of the Board of Pitney Bowes, Inc. (integrated mail, messaging, and document management solutions, 1998-2013). Prior to his retirement, Mr. Keyes served as Chairman (1993-2002) and Chief Executive Officer (1988-2002) of Johnson Controls (automotive, building, and energy) and as a member of the Board of LSI Logic Corporation (semiconductor technologies, 1984-2008).

Marie L. Knowles (1946)

Year of Election or Appointment: 2001
Trustee
Chairman of the Independent Trustees

Ms. Knowles also serves as Trustee of other Fidelity® funds. Prior to Ms. Knowles' retirement in June 2000, she served as Executive Vice President and Chief Financial Officer of Atlantic Richfield Company (ARCO) (diversified energy, 1996-2000). From 1993 to 1996, she was a Senior Vice President of ARCO and President of ARCO Transportation Company (pipeline and tanker operations). Ms. Knowles currently serves as a Director and Chairman of the Audit Committee of McKesson Corporation (healthcare service, since 2002). Ms. Knowles is a member of the Board of the Santa Catalina Island Company (real estate, 2009-present). Ms. Knowles is a Member of the Investment Company Institute Board of Governors and a Member of the Governing Council of the Independent Directors Council (2014-present). She also serves as a member of the Advisory Board for the School of Engineering of the University of Southern California. Previously, Ms. Knowles served as a Director of Phelps Dodge Corporation (copper mining and manufacturing, 1994-2007), URS Corporation (engineering and construction, 2000-2003) and America West (airline, 1999-2002). Ms. Knowles previously served as Vice Chairman of the Independent Trustees of certain Fidelity® funds (2012-2015).

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for each fund.

Advisory Board Members and Officers:

Correspondence intended for an officer may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210. Officers appear below in alphabetical order.

Name, Year of Birth; Principal Occupation

Marc R. Bryant (1966)

Year of Election or Appointment: 2015
Secretary and Chief Legal Officer (CLO)

Mr. Bryant also serves as Secretary and CLO of other funds. Mr. Bryant serves as CLO, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2015-present) and FMR Co., Inc. (investment adviser firm, 2015-present); Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2015-present) and Fidelity Investments Money Management, Inc. (investment adviser firm, 2015-present); and CLO of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2015-present). He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company). Previously, Mr. Bryant served as Secretary and CLO of Fidelity Rutland Square Trust II (2010-2014) and Assistant Secretary of Fidelity's Fixed Income and Asset Allocation Funds (2013-2015). Prior to joining Fidelity Investments, Mr. Bryant served as a Senior Vice President and the Head of Global Retail Legal for AllianceBernstein L.P. (2006-2010), and as the General Counsel for ProFund Advisors LLC (2001-2006).

Jonathan Davis (1968)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Davis also serves as Assistant Treasurer of other funds, and is an employee of Fidelity Investments. Previously, Mr. Davis served as Vice President and Associate General Counsel of FMR LLC (diversified financial services company, 2003-2010).

Adrien E. Deberghes (1967)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Deberghes also serves as an officer of other funds. He is an employee of Fidelity Investments (2008-present). Prior to joining Fidelity Investments, Mr. Deberghes was Senior Vice President of Mutual Fund Administration at State Street Corporation (2007-2008), Senior Director of Mutual Fund Administration at Investors Bank & Trust (2005-2007), and Director of Finance for Dunkin' Brands (2000-2005).

Stephanie J. Dorsey (1969)

Year of Election or Appointment: 2013
President and Treasurer

Ms. Dorsey also serves as an officer of other funds. She is an employee of Fidelity Investments (2008-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Dorsey served as Treasurer (2004-2008) of the JPMorgan Mutual Funds and Vice President (2004-2008) of JPMorgan Chase Bank.

Howard J. Galligan III (1966)

Year of Election or Appointment: 2014
Chief Financial Officer

Mr. Galligan also serves as Chief Financial Officer of other funds. Mr. Galligan serves as President of Fidelity Pricing and Cash Management Services (FPCMS) (2014-present) and as a Director of Strategic Advisers, Inc. (investment adviser firm, 2008-present). Previously, Mr. Galligan served as Chief Administrative Officer of Asset Management (2011-2014) and Chief Operating Officer and Senior Vice President of Investment Support for Strategic Advisers, Inc. (2003-2011).

Scott C. Goebel (1968)

Year of Election or Appointment: 2015
Vice President

Mr. Goebel serves as Vice President of other funds and is an employee of Fidelity Investments (2001-present). Previously, Mr. Goebel served as Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2013-2015), Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2010-2015), and Fidelity Research and Analysis Company (FRAC) (investment adviser firm, 2010-2015); General Counsel, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2008-2015) and FMR Co., Inc. (investment adviser firm, 2008-2015); Assistant Secretary of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2008-2015) and FMR Investment Management (U.K.) Limited (investment adviser firm, 2008-2015); Chief Legal Officer (CLO) of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2008-2015); Secretary and CLO of certain Fidelity® funds (2008-2015); Assistant Secretary of FIMM (2008-2010), FRAC (2008-2010), and certain funds (2007-2008); and as Vice President and Secretary of Fidelity Distributors Corporation (FDC) (2005-2007).

Chris Maher (1972)

Year of Election or Appointment: 2013
Assistant Treasurer

Mr. Maher serves as Assistant Treasurer of other funds. Mr. Maher is Vice President of Valuation Oversight and is an employee of Fidelity Investments. Previously, Mr. Maher served as Vice President of Asset Management Compliance (2013), Vice President of the Program Management Group of FMR (investment adviser firm, 2010-2013), and Vice President of Valuation Oversight (2008-2010).

Jason P. Pogorelec (1975)

Year of Election or Appointment: 2015
Assistant Secretary

Mr. Pogorelec also serves as Assistant Secretary of other funds. Mr. Pogorelec serves as Vice President, Associate General Counsel (2010-present) and is an employee of Fidelity Investments (2006-present).

John F. Papandrea (1972)

Year of Election or Appointment: 2016
Anti-Money Laundering (AML) Officer

Mr. Papandrea also serves as AML Officer of other funds. Mr. Papandrea is Vice President of FMR LLC (diversified financial services company, 2008-present) and is an employee of Fidelity Investments (2005-present).

Nancy D. Prior (1967)

Year of Election or Appointment: 2014
Vice President

Ms. Prior also serves as Vice President of other funds. Ms. Prior serves as a Director of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2014-present), President, Fixed Income (2014-present), Vice Chairman of FIAM LLC (investment adviser firm, 2014-present), and is an employee of Fidelity Investments (2002-present). Previously, Ms. Prior served as Vice President of Fidelity's Money Market Funds (2012-2014), President, Money Market and Short Duration Bond Group of Fidelity Management & Research (FMR) (investment adviser firm, 2013-2014), President, Money Market Group of FMR (2011-2013), Managing Director of Research (2009-2011), Senior Vice President and Deputy General Counsel (2007-2009), and Assistant Secretary of other Fidelity® funds (2008-2009).

Kenneth B. Robins (1969)

Year of Election or Appointment: 2009
Assistant Treasurer

Mr. Robins also serves as an officer of other funds. Mr. Robins serves as Executive Vice President of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2013-present) and is an employee of Fidelity Investments (2004-present). Previously, Mr. Robins served in other fund officer roles.

Stacie M. Smith (1974)

Year of Election or Appointment: 2013
Assistant Treasurer

Ms. Smith also serves as an officer of other funds. She is an employee of Fidelity Investments (2009-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Smith served as Senior Audit Manager of Ernst & Young LLP (1996-2009).

Renee Stagnone (1975)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Stagnone also serves as Deputy Treasurer of other funds. Ms. Stagnone is an employee of Fidelity Investments (1997-present).

Michael H. Whitaker (1967)

Year of Election or Appointment: 2008
Chief Compliance Officer

Mr. Whitaker also serves as Chief Compliance Officer of other funds. Mr. Whitaker also serves as Compliance Officer of FMR Co., Inc. (investment adviser firm, 2014-present), FMR (investment adviser firm, 2014-present), and Fidelity Investments Money Management, Inc. (investment adviser firm, 2014-present) and is an employee of Fidelity Investments (2007-present). Prior to joining Fidelity Investments, Mr. Whitaker worked at MFS Investment Management where he served as Senior Vice President and Chief Compliance Officer (2004-2006), and Assistant General Counsel.

Derek L. Young (1964)

Year of Election or Appointment: 2009
Vice President of Fidelity's Asset Allocation Funds

Mr. Young also serves as an officer of other funds. He is a Director of Strategic Advisers, Inc. (investment adviser firm, 2011-present), President of Fidelity Global Asset Allocation (GAA) (2011-present), and Vice Chairman of FIAM LLC (investment adviser firm, 2011-present). Previously, Mr. Young served as Trustee of certain funds (2012-2015), President of Strategic Advisers, Inc. (2011-2015), Chief Investment Officer of GAA (2009-2011), and as a portfolio manager.

Joseph F. Zambello (1957)

Year of Election or Appointment: 2011
Deputy Treasurer

Mr. Zambello also serves as Deputy Treasurer of other funds. Mr. Zambello is an employee of Fidelity Investments (1991-present). Previously, Mr. Zambello served as Vice President of the Program Management Group of FMR (investment adviser firm, 2009-2011) and Vice President of the Transfer Agent Oversight Group (2005-2009).

# Shareholder Expense Example

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including distribution and/or service (12b-1) fees 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 the ongoing costs of investing in other mutual funds.

The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

### *Actual Expenses*

The first line of the accompanying table for each class of each fund 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 paid over the period. Simply divide your account value by $1,000.00 (for example, an $8,600 account value divided by $1,000.00 = 8.6), then multiply the result by the number in the first line for a class of the fund under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, each Fund, as a shareholder in underlying Fidelity Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Funds. These fees and expenses are not included in each Fund's annualized expense ratio used to calculate the expense estimates in the table below.

### *Hypothetical Example for Comparison Purposes*

The second line of the accompanying table for each class of each fund provides information about hypothetical account values and hypothetical expenses based on a Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' 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. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, each Fund, as a shareholder in underlying Fidelity Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Funds. These fees and expenses are not included in each Fund's annualized expense ratio used to calculate the expense estimates in the table below.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

| | Annualized Expense Ratio[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **VIP Freedom Income** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $983.60 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $983.60 | $.50 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $983.00 | $1.25 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2005** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $977.80 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $977.80 | $.50 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $977.10 | $1.25 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2010** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $974.00 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $973.70 | $.50 |

| | Annualized Expense Ratio[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $973.00 | $1.24 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2015** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $970.70 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $969.70 | $.50 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $969.70 | $1.24 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2020** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $968.50 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $967.50 | $.50 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $968.00 | $1.24 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2025** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $965.60 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $964.60 | $.50 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $964.50 | $1.24 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2030** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $959.70 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $958.70 | $.49 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $958.10 | $1.23 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2035** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $956.20 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $956.20 | $.49 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $955.40 | $1.23 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2040** | | | | |
| **Initial Class** | - % | | | |

| | Annualized Expense Ratio[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Actual** | | $1,000.00 | $956.40 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $956.00 | $.49 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $955.60 | $1.23 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2045** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $956.50 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $955.90 | $.49 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $955.20 | $1.23 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |
| **VIP Freedom 2050** | | | | |
| **Initial Class** | - % | | | |
| **Actual** | | $1,000.00 | $956.30 | $- |
| **Hypothetical-[C]** | | $1,000.00 | $1,025.21 | $- |
| **Service Class** | .10% | | | |
| **Actual** | | $1,000.00 | $955.90 | $.49 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class 2** | .25% | | | |
| **Actual** | | $1,000.00 | $955.10 | $1.23 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.95 | $1.28 |

[A] *Annualized expense ratio reflects expenses net of applicable fee waivers.*

[B] *Expenses are equal to each Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). The fees and expenses of the underlying Fidelity Funds in which each Fund invests are not included in each Class' annualized expense ratio.*

[C] *5% return per year before expenses*

# Distributions (Unaudited)

The Board of Trustees of each portfolio voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities and dividends derived from net investment income:

| | Pay Date | Record Date | Dividends | Capital Gains |
|---|---|---|---|---|
| **VIP Freedom Income Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.107 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.107 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.107 |
| **VIP Freedom 2005 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.144 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.144 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.144 |
| **VIP Freedom 2010 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.272 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.272 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.272 |
| **VIP Freedom 2015 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.323 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.323 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.323 |
| **VIP Freedom 2020 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.378 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.378 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.378 |
| **VIP Freedom 2025 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.392 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.392 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.392 |
| **VIP Freedom 2030 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.482 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.482 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.482 |
| **VIP Freedom 2035 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.001 | $ 0.573 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.001 | $ 0.573 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.001 | $ 0.573 |
| **VIP Freedom 2040 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.653 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.653 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.653 |
| **VIP Freedom 2045 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.566 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.566 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.000 | $ 0.566 |
| **VIP Freedom 2050 Portfolio** | | | | |
| Initial Class | 02/12/2016 | 02/12/2016 | $ 0.026 | $ 0.597 |
| Service Class | 02/12/2016 | 02/12/2016 | $ 0.026 | $ 0.597 |
| Service Class 2 | 02/12/2016 | 02/12/2016 | $ 0.026 | $ 0.597 |

The funds hereby designate as capital gain dividend the amounts noted below for the taxable year ended December 31, 2015, or, if subsequently determined to be different, the net capital gain of such year.

| | |
|---|---|
| **VIP Freedom Income Portfolio** | $ 367,649 |
| **VIP Freedom 2005 Portfolio** | $ 89,023 |
| **VIP Freedom 2010 Portfolio** | $ 6,398,415 |
| **VIP Freedom 2015 Portfolio** | $ 2,845,175 |
| **VIP Freedom 2020 Portfolio** | $22,079,540 |
| **VIP Freedom 2025 Portfolio** | $ 3,533,252 |
| **VIP Freedom 2030 Portfolio** | $10,121,111 |
| **VIP Freedom 2035 Portfolio** | $ 742,695 |

| | |
|---|---|
| **VIP Freedom 2040 Portfolio** | $ 1,702,045 |
| **VIP Freedom 2045 Portfolio** | $ 400,022 |
| **VIP Freedom 2050 Portfolio** | $ 484,939 |

A percentage of the dividends distributed during the fiscal year for the following funds were derived from interest on U.S. Government securities which is generally exempt from state income tax:

| | |
|---|---|
| **VIP Freedom Income Portfolio** | |
| Initial Class | 2.64% |
| Service Class | 2.64% |
| Service Class 2 | 2.64% |
| **VIP Freedom 2005 Portfolio** | |
| Initial Class | 1.63% |
| Service Class | 1.63% |
| Service Class 2 | 1.63% |
| **VIP Freedom 2010 Portfolio** | |
| Initial Class | 1.36% |
| Service Class | 1.36% |
| Service Class 2 | 1.36% |
| **VIP Freedom 2015 Portfolio** | |
| Initial Class | 1.06% |
| Service Class | 1.06% |
| Service Class 2 | 1.06% |

A percentage of the dividends distributed during the fiscal year for the following funds qualify for the dividends–received deduction for corporate shareholders:

| | **February 2015** | **December 2015** |
|---|---|---|
| **VIP Freedom Income Portfolio** | | |
| Initial Class | 3% | 15% |
| Service Class | 3% | 15% |
| Service Class 2 | 3% | 17% |
| **VIP Freedom 2005 Portfolio** | | |
| Initial Class | 13% | 20% |
| Service Class | 13% | 21% |
| Service Class 2 | 13% | 23% |
| **VIP Freedom 2010 Portfolio** | | |
| Initial Class | 6% | 24% |
| Service Class | 6% | 25% |
| Service Class 2 | 6% | 27% |
| **VIP Freedom 2015 Portfolio** | | |
| Initial Class | 2% | 27% |
| Service Class | 2% | 28% |
| Service Class 2 | 2% | 30% |
| **VIP Freedom 2020 Portfolio** | | |
| Initial Class | 6% | 29% |
| Service Class | 6% | 30% |
| Service Class 2 | 6% | 33% |
| **VIP Freedom 2025 Portfolio** | | |
| Initial Class | 0% | 32% |
| Service Class | 0% | 34% |
| Service Class 2 | 0% | 36% |
| **VIP Freedom 2030 Portfolio** | | |
| Initial Class | 6% | 40% |
| Service Class | 6% | 42% |
| Service Class 2 | 6% | 46% |
| **VIP Freedom 2035 Portfolio** | | |
| Initial Class | 0% | 45% |

## Distributions (Unaudited) – continued

| | February 2015 | December 2015 |
|---|---|---|
| Service Class | 0% | 47% |
| Service Class 2 | 0% | 50% |
| **VIP Freedom 2040 Portfolio** | | |
| Initial Class | 11% | 43% |
| Service Class | 11% | 44% |
| Service Class 2 | 11% | 48% |
| **VIP Freedom 2045 Portfolio** | | |
| Initial Class | 15% | 44% |
| Service Class | 15% | 46% |
| Service Class 2 | 15% | 49% |
| **VIP Freedom 2050 Portfolio** | | |
| Initial Class | 11% | 46% |
| Service Class | 11% | 48% |
| Service Class 2 | 11% | 51% |

The amounts per share which represent income derived from sources within, and taxes paid to, foreign countries or possessions of the United States are as follows:

| | Pay Date | Income | Taxes |
|---|---|---|---|
| **VIP Freedom Income Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.01 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.01 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.01 | $ 0.00 |
| **VIP Freedom 2005 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.02 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.02 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.02 | $ 0.00 |
| **VIP Freedom 2010 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.02 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.02 | $ 0.00 |
| **VIP Freedom 2015 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| **VIP Freedom 2020 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.04 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.03 | $ 0.00 |
| **VIP Freedom 2025 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.04 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |

| | Pay Date | Income | Taxes |
|---|---|---|---|
| | 12/29/2015 | $ 0.04 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.04 | $ 0.00 |
| **VIP Freedom 2030 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.05 | $ 0.00 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.05 | $ 0.00 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.04 | $ 0.00 |
| **VIP Freedom 2035 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.08 | $ 0.01 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.08 | $ 0.01 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| **VIP Freedom 2040 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| **VIP Freedom 2045 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.08 | $ 0.01 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.08 | $ 0.01 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| **VIP Freedom 2050 Portfolio** | | | |
| Initial Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.08 | $ 0.01 |
| Service Class | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |
| Service Class 2 | 02/13/2015 | $ 0.00 | $ 0.00 |
| | 12/29/2015 | $ 0.07 | $ 0.01 |

# Board Approval of Investment Advisory Contracts and Management Fees

## VIP Freedom Funds

Each year, the Board of Trustees, including the Independent Trustees (together, the Board), votes on the management and administration arrangements for each fund. The Board, assisted by the advice of fund counsel and Independent Trustees' counsel, requests and considers a broad range of information relevant to the contract arrangements throughout the year.

The Board meets regularly and, at each of its meetings, covers an extensive agenda of topics and materials and considers factors that are relevant to its annual consideration of each fund's management and administration arrangements, including the services and support provided to each fund and its shareholders. The Board has established four standing committees (Committees) — Operations, Audit, Fair Valuation, and Governance and Nominating — each composed of and chaired by Independent Trustees with varying backgrounds, to which the Board has assigned specific subject matter responsibilities in order to enhance effective decision-making by the Board. The Operations Committee, of which all of the Independent Trustees are members, meets regularly throughout the year and considers, among other matters, information specifically related to the annual consideration of each fund's management and administration arrangements. The Board, acting directly and through its Committees, requests and receives information concerning the annual consideration of each fund's management and administration arrangements. The Board also meets as needed to consider matters specifically related to the Board's annual consideration of the management and administration arrangements. Members of the Board may also meet with trustees of other Fidelity funds through ad hoc joint committees to discuss certain matters relevant to all of the Fidelity funds.

At its September 2015 meeting, the Board unanimously determined to approve an amended and restated management contract (Advisory Contract) and administration agreement for each fund to reflect the fact that, effective October 1, 2015, FMR Co., Inc. (FMRC), an affiliate of Strategic Advisers, Inc. (Strategic Advisers) and Fidelity Management & Research Company (FMR), would assume the duties and rights of Strategic Advisers under the fund's then current management contract. The Board noted that, with the exception of the date, term, and entity name, the terms of each fund's management contract, including the lack of fees payable thereunder, would not change as a result of the approval of the Advisory Contract. The Board considered that FMRC would render the same services to the funds under the Advisory Contracts that Strategic Advisers rendered to the funds under the then current management contracts. The Board also considered that approval of the Advisory Contracts would not result in any changes to (i) the investment process or strategies employed in the management of the funds' assets; or (ii) the day-to-day management of the funds or the persons primarily responsible for such management. As a result, the Board considered that its prior experience with Strategic Advisers as investment adviser for the funds was relevant to its consideration of the Advisory Contracts.

In reaching its determination, the Board considered all factors it believed relevant and reached a determination, with the assistance of fund counsel and Independent Trustees' counsel and through the exercise of its business judgment, that the approval of the Advisory Contract was in the best interests of each fund and its shareholders and that the fact that no fees are payable under the Advisory Contracts was fair and reasonable. The Board's decision to approve the Advisory Contracts was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. In reaching its determination, the Board was aware that shareholders of each fund have a broad range of investment choices available to them, including a wide choice among funds offered by Fidelity's competitors, and that each fund's shareholders, who have the opportunity to review and weigh the disclosure provided by the fund in its prospectus and other public disclosures, have chosen to invest in that fund, which is part of the Fidelity family of funds.

**Nature, Extent, and Quality of Services Provided.** The Board considered Fidelity's staffing as it relates to the funds, including the backgrounds of investment personnel that provide services to the funds, and also considered the funds' investment objectives, strategies, and related investment philosophies. The Independent Trustees also had discussions with senior management of Fidelity's investment operations and investment groups with responsibility for the underlying Fidelity funds in which each fund invests. The Board considered the structure of the portfolio manager compensation program and whether this structure provides appropriate incentives to act in the best interests of each fund. Additionally, the Board considered the portfolio managers' investments, if any, in the funds that they manage.

Resources Dedicated to Investment Management and Support Services. The Board reviewed the general qualifications and capabilities of Fidelity's investment staff, including its size, education, experience, and resources, as well as Fidelity's approach to recruiting, training, managing, and compensating investment personnel. The Board noted that Fidelity has continued to increase the resources devoted to non-U.S. offices, including expansion of Fidelity's global investment organization. The Board also noted that Fidelity's analysts have extensive resources, tools and capabilities that allow them to conduct sophisticated quantitative and fundamental analysis, as well as credit analysis of issuers, counterparties and guarantors. Further, the Board considered that Fidelity's investment professionals have sufficient access to global information and data so as to provide competitive investment results over time, and that those professionals also have access to sophisticated tools that permit them to assess portfolio construction and risk and performance attribution characteristics continuously, as well as to transmit new information and research conclusions rapidly around the world. Additionally, in its deliberations, the Board considered Fidelity's risk management, compliance, and technology and operations capabilities and resources, which are integral parts of the investment management process.

Shareholder and Administrative Services. The Board considered (i) the nature, extent, quality, and cost of advisory, administrative, and shareholder services performed by Fidelity under the then current management contract (and to be performed under the Advisory Contract) and under separate agreements covering administration, transfer agency, and pricing and bookkeeping services for each fund; (ii) the nature and extent of the supervision of third party service providers, principally custodians, subcustodians, and pricing vendors; and (iii) the resources devoted to, and the record of compliance with, each fund's compliance policies and procedures.

The Board noted that the growth of fund assets over time across the complex allows Fidelity to reinvest in the development of services designed to enhance the value or convenience of the Fidelity funds as investment vehicles. These services include 24-hour access to account information and market information through telephone representatives and over the Internet, investor education materials and asset allocation tools, and the expanded availability of Fidelity Investor Centers.

Investment in a Large Fund Family. The Board considered the benefits to shareholders of investing in a Fidelity fund, including the benefits of investing in a fund that is part of a large family of funds offering a variety of investment disciplines and providing a large variety of mutual fund investor services. The Board noted that Fidelity had taken, or had made recommendations that resulted in the Fidelity funds taking, a number of actions over the previous year that benefited particular funds, including (i) continuing to dedicate additional resources to investment research and to the support of the senior management team that oversees asset management; (ii) continuing efforts to enhance Fidelity's global research capabilities; (iii) launching new funds and making other enhancements to meet client needs; (iv) reducing management fees and total expenses for certain index funds and diversified international funds; (v) continuing to launch dedicated lower cost underlying funds to meet portfolio construction needs related to expanding underlying fund options for Fidelity funds of funds, specifically for the Freedom Fund product lines; (vi) rationalizing product lines and gaining increased efficiencies through fund mergers; (vii) launching active fixed-income exchange-traded funds; (viii) continuing to develop, acquire and implement systems and technology to improve services to the funds and shareholders, strengthen information security, and increase efficiency; (ix) implementing investment enhancements to further strengthen Fidelity's target date product line to increase investors' probability of success in achieving their goals; (x) modifying the eligibility criteria for certain share classes to accommodate roll-over assets from employer-sponsored retirement plans; (xi) launching a new Class W of the Freedom Index Funds to attract and retain Fidelity record-kept retirement plan assets; and (xii) implementing changes to Fidelity's money market product line in response to recent money market regulatory reforms.

Investment Performance. The Board considered whether each fund has operated in accordance with its investment objective, as well as its record of compliance with its investment restrictions and its performance history, and noted that the approval of the Advisory Contract for each fund would not result in any changes to the fund's investment strategy or the personnel responsible for providing advisory services to the fund.

The Board took into account discussions with representatives of the investment adviser about fund investment performance that occur at Board meetings throughout the year. In this regard the Board noted that as part of regularly scheduled fund reviews and other reports to the Board on fund performance, the Board considers annualized return information for each fund for different time periods, measured against one or more securities market indices, including a customized blended index representative of the fund's asset classes (each a "benchmark index") and a peer group of funds with similar objectives ("peer group"), if any. In its evaluation of fund investment performance at meetings throughout the year, the Board gave particular attention to information indicating underperformance of certain Fidelity funds for specific time periods and discussed with the investment adviser the reasons for such underperformance.

In addition to reviewing absolute and relative fund performance, the Independent Trustees periodically consider the appropriateness of fund performance metrics in evaluating the results achieved. In general, the Independent Trustees believe that fund performance should be evaluated based on gross performance (before fees and expenses, including acquired fund fees and expenses, but after transaction costs, if any) compared to appropriate benchmark indices, over appropriate time periods that may include full market cycles, and on net performance (after fees and expenses) compared to peer groups, as applicable, over the same periods, taking into account relevant factors including the following: general market conditions; the extent to which particular underlying funds affected performance; and fund cash flows and other factors. Depending on the circumstances, the Independent Trustees may be satisfied with a fund's performance notwithstanding that it lags its benchmark index or peer group for certain periods.

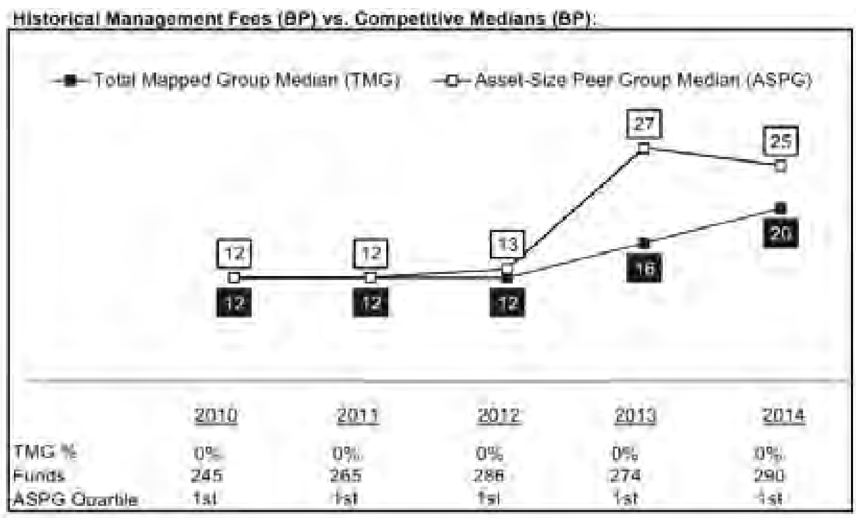
The Independent Trustees recognize that shareholders evaluate performance on a net basis over their own holding periods, for which one-, three-, and five-year periods are often used as a proxy. For this reason, the performance information reviewed by the Board also included net cumulative calendar year total return information for each fund and an appropriate benchmark index for the most recent one-, three-, and five-year periods.

Based on its review, the Board concluded that the nature, extent, and quality of services provided to each fund under the Advisory Contracts should benefit the shareholders of each fund.

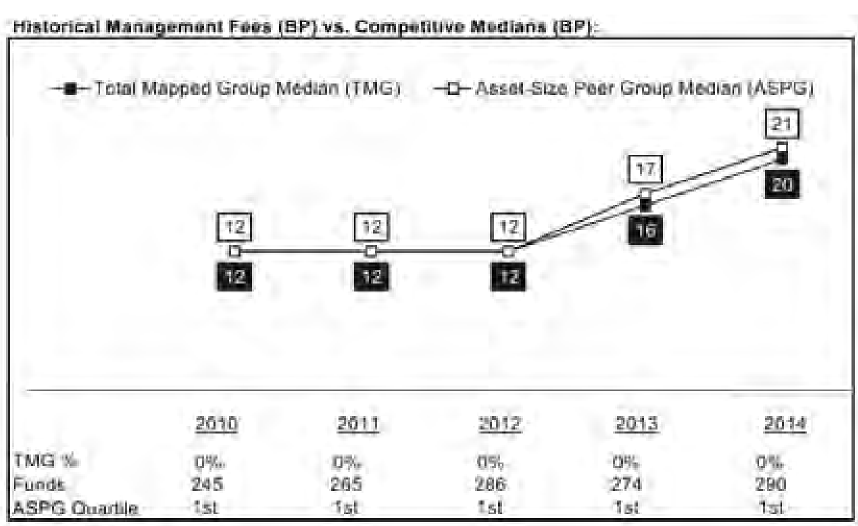
**Competitiveness of Management Fee and Total Expense Ratio.** The Board noted that the funds did not pay Strategic Advisers, and would not pay FMRC, a management fee for investment advisory services, and that each fund bears indirectly the fees and expenses, including the management fees, paid by the underlying Fidelity funds in which it invests. The Board considered each fund's management fee and total expense ratio compared to "mapped groups" of competitive funds and classes created for the purpose of facilitating the Trustees' competitive analysis of management fees and total expenses. Fidelity creates "mapped groups" by combining similar Lipper investment objective categories that have comparable investment mandates. Combining Lipper investment objective categories aids the Board's management fee and total expense ratio comparisons by broadening the competitive group used for comparison.

Management Fee. The Board considered two proprietary management fee comparisons for the 12-month periods shown in basis points (BP) in the charts below. The group of Lipper funds used by the Board for management fee comparisons is referred to below as the "Total Mapped Group." The Total Mapped Group comparison focuses on a fund's standing in terms of gross management fees before expense reimbursements or caps relative to the total universe of funds with comparable investment mandates, regardless of whether their management fee structures also are comparable. Funds with comparable investment mandates offer exposure to similar types of securities. Funds with comparable management fee structures have similar management fee contractual arrangements (*e.g.*, flat rate charged for advisory services, all-inclusive fee rate, *etc.*). "TMG %" represents the percentage of funds in the Total Mapped Group that had management fees that were lower than a fund's. For example, a hypothetical TMG % of 20% would mean that 80% of the funds in the Total Mapped Group had higher, and 20% had lower, management fees than a fund. The funds' actual TMG %s and the number of funds in the Total Mapped Group are in the charts below. The "Asset-Size Peer Group" (ASPG) comparison focuses on a fund's standing relative to a subset of non-Fidelity funds within the Total Mapped Group that are similar in size and management fee structure. For example, if a fund is in the first quartile of the ASPG, the fund's management fee ranks in the least expensive or lowest 25% of funds in the ASPG. The ASPG represents at least 15% of the funds in the Total Mapped Group with comparable asset size and management fee structures, subject to a minimum of 50 funds (or all funds in the Total Mapped Group if fewer than 50). Additional information, such as the ASPG quartile in which a fund's management fee rate ranked, is also included in the charts and considered by the Board.

**VIP Freedom 2005 Portfolio**

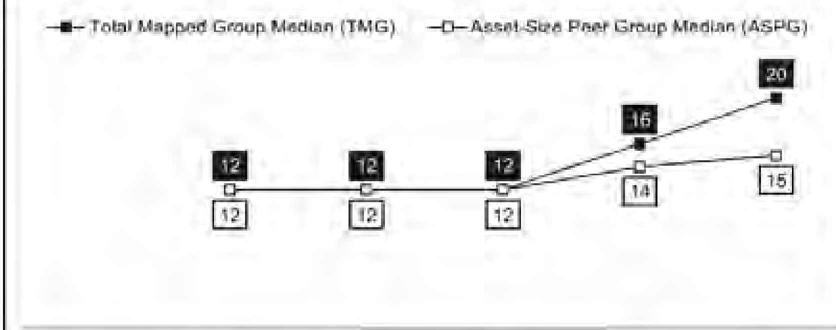



**VIP Freedom 2010 Portfolio**



## VIP Freedom 2015 Portfolio

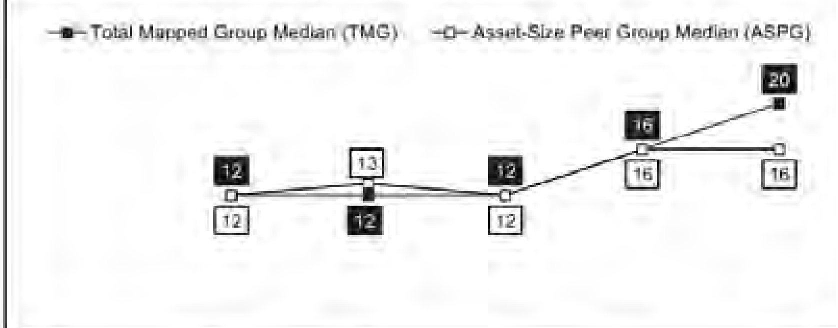
**Historical Management Fees (BP) vs. Competitive Medians (BP):**




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

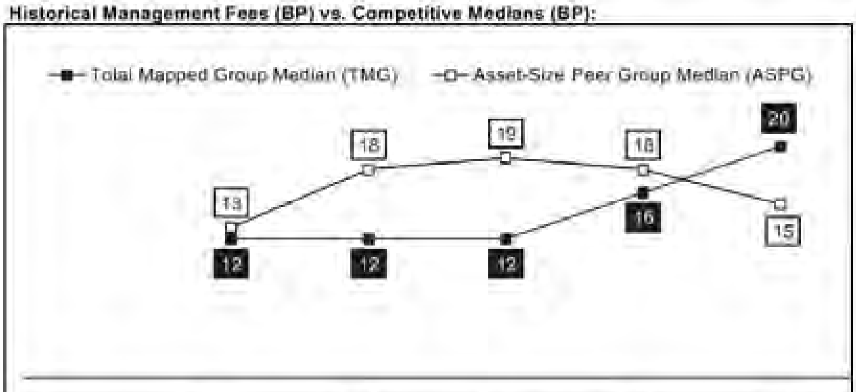
## VIP Freedom 2020 Portfolio

**Historical Management Fees (BP) vs. Competitive Medians (BP):**



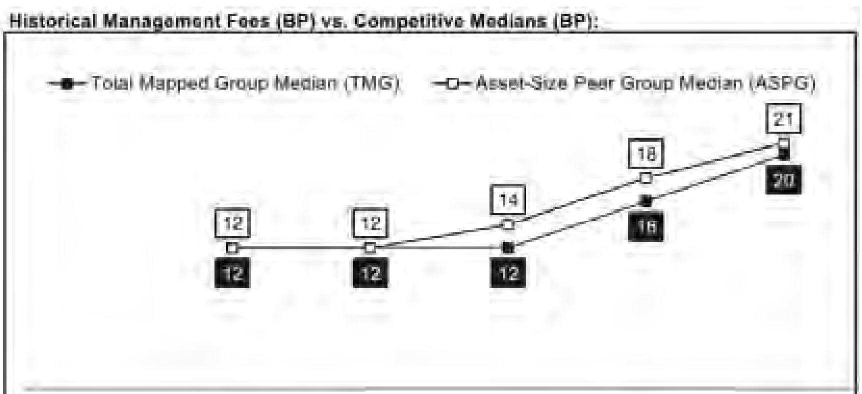

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

## VIP Freedom 2025 Portfolio




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

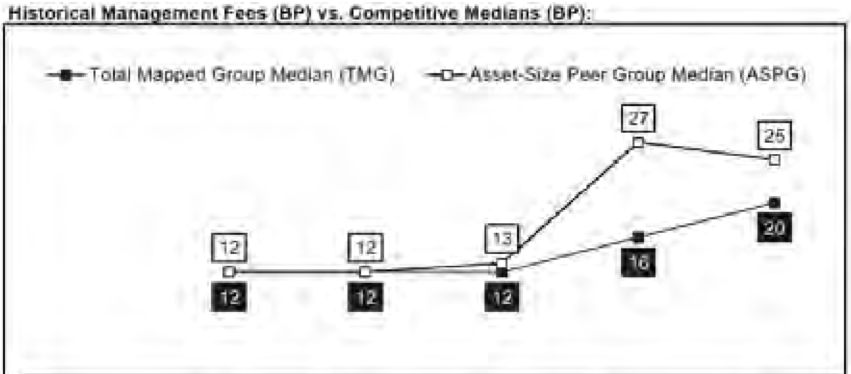
## VIP Freedom 2030 Portfolio




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

## VIP Freedom 2035 Portfolio

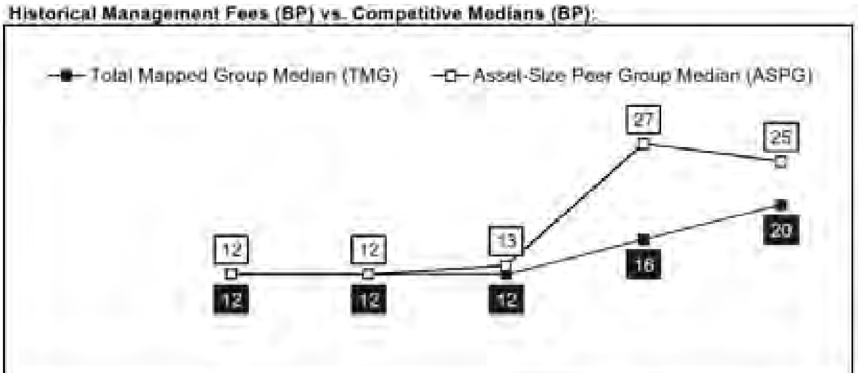
**Historical Management Fees (BP) vs. Competitive Medians (BP):**




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

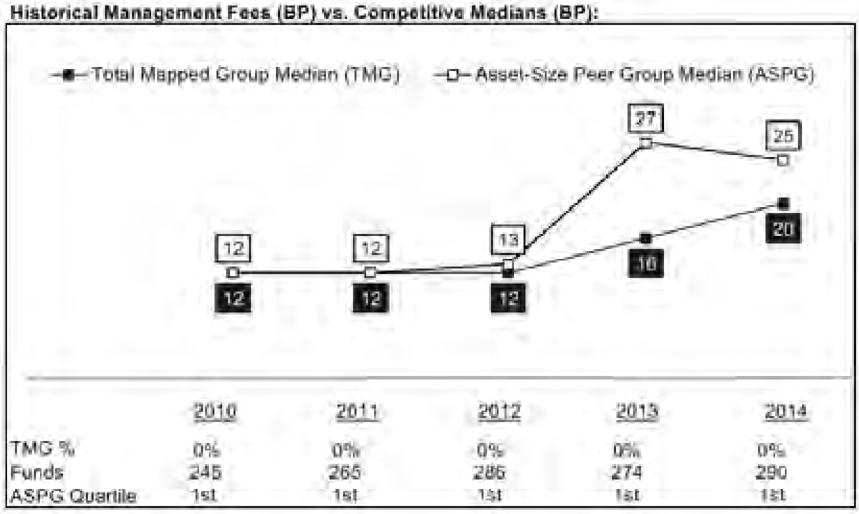
## VIP Freedom 2040 Portfolio

**Historical Management Fees (BP) vs. Competitive Medians (BP):**

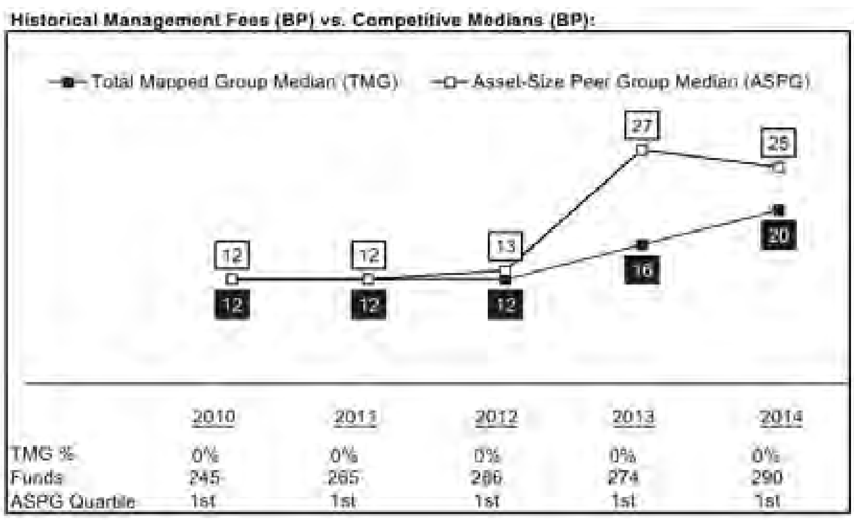



| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 0% | 0% | 0% | 0% | 0% |
| Funds | 245 | 265 | 286 | 274 | 290 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

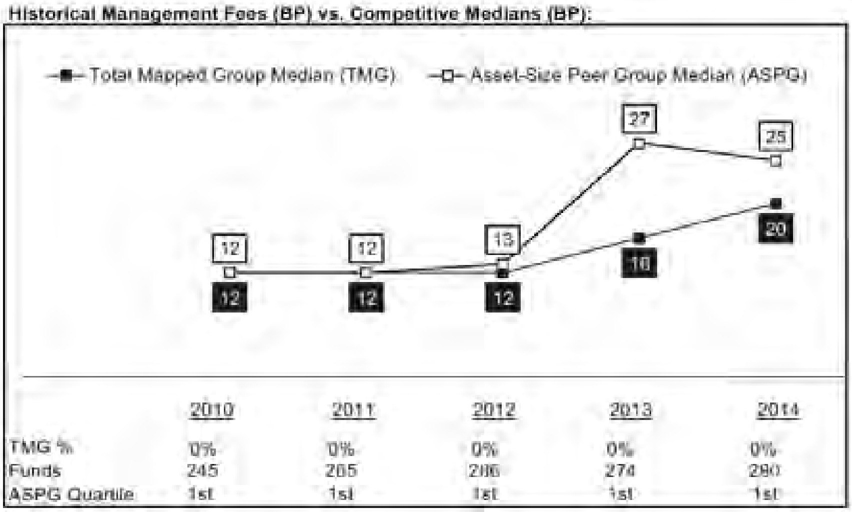
## VIP Freedom 2045 Portfolio




## VIP Freedom 2050 Portfolio



## VIP Freedom Income Portfolio




The Board noted that each fund's management fee rate of 0.00% ranked below the median of its Total Mapped Group and below the median of its ASPG for 2014. The Board further noted that many peer funds pay fund-level expenses, including management fees, to which the funds are not subject.

The Board noted that, in 2014, the ad hoc Committee on Group Fee was formed by it and other Fidelity fund boards to conduct an in-depth review of the "group fee" component of the management fee of funds with such management fee structures, and that while the funds do not pay a management fee, they indirectly bear a portion of the management fees paid by the Fidelity funds in which they invest, some of which are subject to the group fee. Committee focus included the mechanics of the group fee, the competitive landscape of group fee structures, Fidelity funds with no group fee component and investment products not included in group fee assets. The Board also considered that, for funds subject to the group fee, FMR agreed to voluntarily waive fees over a specified period of time in amounts designed to account for assets converted from certain funds to certain collective investment trusts.

Based on its review, the Board concluded that each fund's management fee is fair and reasonable in light of the services that the fund receives and the other factors considered.

Total Expense Ratio. In its review of the total expense ratio of each class of each fund, the Board considered fund-paid 12b-1 fees and noted that each fund invests in a class of shares of the underlying Fidelity fund that does not charge a 12b-1 fee to avoid charging fund-paid 12b-1 fees at both fund levels. The Board considered that the funds do not pay transfer agent fees. Instead, the applicable class of each underlying Fidelity fund bears its pro rata portion of each fund's transfer agent fee according to the percentage of each fund's assets invested in that underlying fund. The Board further noted that FMR pays all other expenses of each fund, with limited exceptions.

The Board noted that the total expense ratio of each class of each fund ranked below its competitive median for 2014.

In considering the total expense ratio for each class of each fund, the Board also considered an alternative competitive analysis that included both top level (*i.e.*, direct) fund fees and acquired fund fees and expenses for the class and the other funds and classes in the mapped group. The Board noted that, under this alternative competitive analysis, the total expense ratio of each of Initial Class and Service Class of each fund ranked below its competitive median for 2014. The Board noted that the total expense ratio of Service Class 2 of VIP Freedom 2005 Portfolio, VIP Freedom 2010 Portfolio, VIP Freedom 2015 Portfolio, VIP Freedom 2020 Portfolio, VIP Freedom 2025 Portfolio, VIP Freedom 2030 Portfolio, and VIP Freedom Income Portfolio ranked below its competitive median for 2014 and the total expense ratio of Service Class 2 of each other fund ranked equal to its competitive median for 2014.

Fees Charged to Other Fidelity Clients. The Board also considered Fidelity fee structures and other information with respect to clients of Fidelity, such as other funds advised or subadvised by Fidelity, pension plan clients, and other institutional clients with similar mandates. The Board noted the findings of the 2013 ad hoc joint committee (created with the board of other Fidelity funds), which reviewed and compared Fidelity's institutional investment advisory business with its business of providing services to the Fidelity funds, including the differences in services provided, fees charged, and costs incurred, as well as competition in their respective marketplaces.

Based on its review of total expense ratios and fees charged to other Fidelity clients, the Board concluded that the total expense ratio of each class of each fund was reasonable in light of the services that the fund and its shareholders receive and the other factors considered.

**Costs of the Services and Profitability.** The Board considered the level of Fidelity's profits in respect of all the Fidelity funds, including the Fidelity funds in which the funds invest.

PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm and auditor to Fidelity and certain Fidelity funds, has been engaged annually by the Board as part of the Board's assessment of Fidelity's profitability analysis. PwC's engagement includes the review and assessment of the methodologies used by Fidelity in determining the revenues and expenses attributable to Fidelity's mutual fund business, and completion of agreed-upon procedures in respect of the mathematical accuracy of fund profitability and its conformity to established allocation methodologies. After considering PwC's reports issued under the engagement and information provided by Fidelity, the Board concluded that while other allocation methods may also be reasonable, Fidelity's profitability methodologies are reasonable in all material respects.

The Board also reviewed Fidelity's non-fund businesses and fall-out benefits related to the mutual fund business as well as cases where Fidelity's affiliates may benefit from or be related to the funds' business.

The Board concluded that the costs of the services provided by and the profits realized by Fidelity in connection with the operation of each fund were not relevant to the approval of each fund's Advisory Contract because the funds do not pay management fees and FMR pays all other expenses of each fund, with limited exceptions.

**Economies of Scale.** The Board concluded that because the funds do not pay management fees and FMR pays all other expenses of each fund, with limited exceptions, economies of scale cannot be realized by the funds, but may be realized by the other Fidelity funds in which each fund invests, many of which may benefit from breakpoints under the group fee arrangement.

**Additional Information Requested by the Board.** In order to develop fully the factual basis for consideration of the Fidelity funds' Advisory Contracts, the Board requested and received additional information on certain topics, including: (i) Fidelity's fund profitability methodology, profitability trends for certain funds, and the impact of certain factors on fund profitability results; (ii) portfolio manager changes that have occurred during the past year and the amount of the investment that each portfolio manager has made in the Fidelity fund(s) that he or she manages; (iii) Fidelity's compensation structure for portfolio managers, research analysts, and other key personnel, including its effects on fund profitability, the rationale for the compensation structure, and the extent to which current market conditions have affected retention and recruitment; (iv) the arrangements with and compensation paid to certain fund sub-advisers on behalf of the Fidelity funds; (v) Fidelity's voluntary waiver of its fees to maintain minimum yields for certain money market funds and classes as well as contractual waivers in place for certain funds; (vi) the methodology with respect to competitive fund data and peer group classifications; (vii) Fidelity's transfer agent fee, expense, and service structures for different funds and classes relative to competitive trends, and the impact of the increased use of omnibus accounts; (viii) Fidelity's long-term expectations for its offerings in the workplace investing channel; (ix) new developments in the retail and institutional marketplaces; and (x) the impact of money market reform on Fidelity's money market funds. In addition, the Board considered its discussions with Fidelity throughout the year regarding enhanced information security initiatives and the funds' fair valuation policies.

Based on its evaluation of all of the conclusions noted above, and after considering all factors it believed relevant, the Board concluded that the advisory fee structures are fair and reasonable, and that each fund's Advisory Contract should be approved.

# Proxy Voting Results

A special meeting of shareholders was held on May 12, 2015. The results of votes taken among shareholders on the proposal before them are reported below. Each vote reported represents one dollar of net asset value held on the record date for the meeting.

**PROPOSAL 1**

To elect a Board of Trustees.

| | # of Votes | % of Votes |
|---|---|---|
| **Elizabeth S. Acton** | | |
| **Affirmative** | 24,469,831,790.28 | 97.003 |
| **Withheld** | 756,086,184.43 | 2.997 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **John Engler** | | |
| **Affirmative** | 24,404,438,415.74 | 96.744 |
| **Withheld** | 821,479,558.97 | 3.256 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Albert R. Gamper, Jr.** | | |
| **Affirmative** | 24,431,670,090.08 | 96.852 |
| **Withheld** | 794,247,884.63 | 3.148 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Robert F. Gartland** | | |
| **Affirmative** | 24,472,637,370.54 | 97.014 |
| **Withheld** | 753,280,604.17 | 2.986 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Abigail P. Johnson** | | |
| **Affirmative** | 24,442,024,432.82 | 96.893 |
| **Withheld** | 783,893,541.89 | 3.107 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Arthur E. Johnson** | | |
| **Affirmative** | 24,444,583,833.78 | 96.903 |
| **Withheld** | 781,334,140.93 | 3.097 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Michael E. Kenneally** | | |
| **Affirmative** | 24,475,874,452.78 | 97.027 |
| **Withheld** | 750,043,521.93 | 2.973 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **James H. Keyes** | | |
| **Affirmative** | 24,434,496,321.71 | 96.863 |
| **Withheld** | 791,421,653.00 | 3.137 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Marie L. Knowles** | | |
| **Affirmative** | 24,446,177,909.79 | 96.909 |
| **Withheld** | 779,740,064.92 | 3.091 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Geoffrey A. von Kuhn** | | |
| **Affirmative** | 24,444,403,935.60 | 96.902 |
| **Withheld** | 781,514,039.11 | 3.098 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |

**Proposal 1 reflects trust wide proposal and voting results.**

# Fidelity® Variable Insurance Products: FundsManager – 20%, 50%, 60%, 70%, 85% Portfolio

## Annual Report
**December 31, 2015**

Fidelity INVESTMENTS®

# Contents



To view a fund's proxy voting guidelines and proxy voting record for the 12-month period ended June 30, visit http://www.fidelity.com/proxyvotingresults or visit the Securities and Exchange Commission's (SEC) web site at http://www.sec.gov.

You may also call 1-877-208-0098 to request a free copy of the proxy voting guidelines.



*This report and the financial statements contained herein are submitted for the general information of the shareholders of the Funds. This report is not authorized for distribution to prospective investors in the Funds unless preceded or accompanied by an effective prospectus.*

*A fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Forms N-Q are available on the SEC's web site at http://www.sec.gov. A fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.*

*For a complete list of a fund's portfolio holdings, view the most recent holdings listing, semiannual report, or annual report on Fidelity's web site at http://www.fidelity.com, http://www.advisor.fidelity.com, or http://www.401k.com, as applicable.*

**VIP FundsManager® 20% Portfolio**

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Service Class | -0.03% | 3.52% | 3.85% |
| Service Class 2 | -0.17% | 3.36% | 3.69% |
| Investor Class | -0.03% | 3.50% | 3.84% |

[A] *From April 13, 2006*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP FundsManager® 20% Portfolio - Investor Class on April 13, 2006, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the Barclays® U.S. Aggregate Bond Index performed over the same period.


Period Ending Values

——— $14,428 VIP FundsManager® 20% Portfolio - Investor Class

....... $15,746 Barclays® U.S. Aggregate Bond Index

VIP FundsManager® 50% Portfolio

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

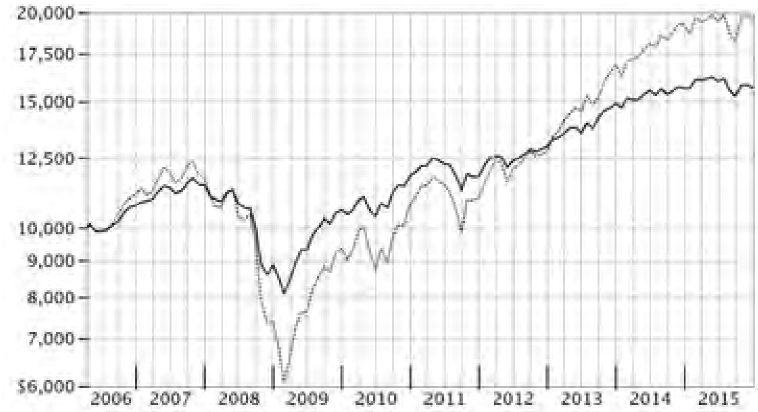
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Service Class | 0.06% | 5.81% | 4.74% |
| Service Class 2 | -0.02% | 5.65% | 4.59% |
| Investor Class | 0.14% | 5.81% | 4.74% |

[A] *From April 13, 2006*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP FundsManager® 50% Portfolio - Investor Class on April 13, 2006, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$15,693 VIP FundsManager® 50% Portfolio - Investor Class

$19,498 S&P 500® Index

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

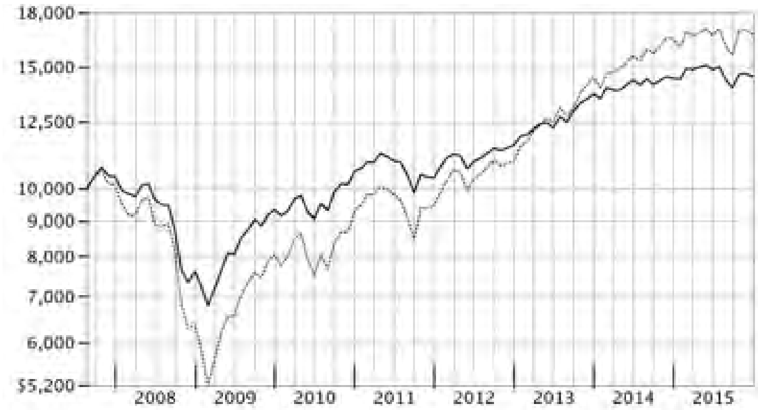
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Service Class | 0.41% | 6.54% | 4.56% |
| Service Class 2 | 0.27% | 6.38% | 4.41% |
| Investor Class | 0.41% | 6.54% | 4.56% |

[A] *From August 22, 2007*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP FundsManager® 60% Portfolio - Investor Class on August 22, 2007, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$14,525 VIP FundsManager® 60% Portfolio - Investor Class

$16,739 S&P 500® Index

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

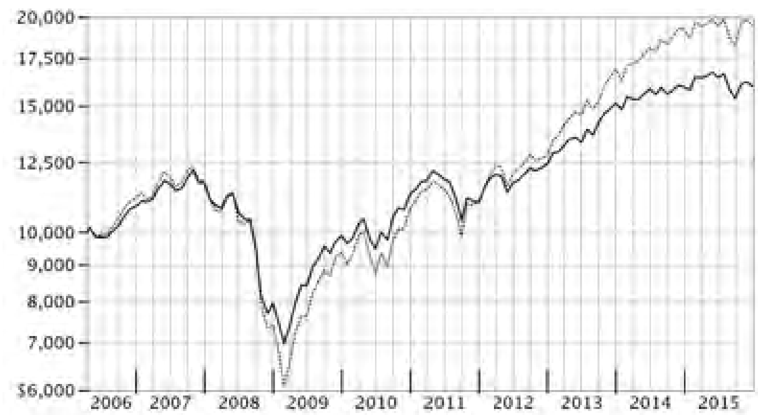
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Service Class | 0.41% | 7.18% | 4.96% |
| Service Class 2 | 0.29% | 7.03% | 4.80% |
| Investor Class | 0.49% | 7.18% | 4.96% |

[A] *From April 13, 2006*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP FundsManager® 70% Portfolio - Investor Class on April 13, 2006, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$16,005 VIP FundsManager® 70% Portfolio - Investor Class

$19,498 S&P 500® Index

### VIP FundsManager® 85% Portfolio
# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

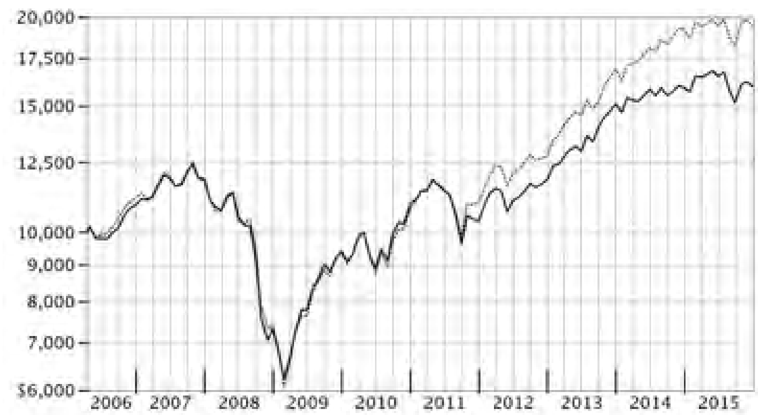
| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Life of Fund[A] |
|---|---|---|---|
| Service Class | 0.39% | 7.87% | 4.93% |
| Service Class 2 | 0.35% | 7.71% | 4.77% |
| Investor Class | 0.39% | 7.85% | 4.93% |

[A] *From April 13, 2006*

## $10,000 Over Life of Fund

Let's say hypothetically that $10,000 was invested in VIP FundsManager® 85% Portfolio - Investor Class on April 13, 2006, when the fund started.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

$15,964 VIP FundsManager® 85% Portfolio - Investor Class

$19,498 S&P 500® Index

# Management's Discussion of Fund Performance

**Market Recap:** U.S. stocks gained modestly in 2015, rebounding from a steep decline in August and September over worries about China's slowing economic growth. The S&P 500® index rose 1.38% for the period, its lowest calendar-year return since 2008. After the late-summer rout, stocks sharply reversed course in October, lifted by the Federal Reserve's decision to put off raising near-term interest rates until mid-December. Investors also were encouraged by an interest-rate cut in China and economic stimulus in Europe. Overall, growth stocks fared much better than their value counterparts, as investors sought growth in a subpar economic environment. This helped lift the technology-heavy Nasdaq Composite Index® 6.96% for the year. Sector performance in the broader market was split, with five of 10 sectors in the S&P 500® gaining ground and five retreating. Consumer discretionary (+10%) led the way, benefiting from rising personal income and low inflation. Health care (+7%), consumer staples (+7%) and information technology (+6%) also outpaced the broad market amid strong fundamentals. Conversely, the energy sector (-21%) was by far the worst performer, stung by deflated commodity prices that also hit materials (-8%). The defensive, but rate-sensitive utilities sector (-5%) lost ground on the cusp of Fed tightening, while industrials (-3%) were dragged down with energy prices and a slower-growing China.

**Comments from Portfolio Manager Xuehai En:** For the year, most of the Portfolios trailed their respective Composite benchmarks, except for the 85% Portfolio, which slightly outperformed. Asset allocation detracted from the Portfolios' relative results, primarily due to out-of-benchmark exposure to emerging-markets (EM) equities, which were hampered by weakening global growth and falling commodities prices. Favorable EM stock picks partially offset this negative impact. An underweighting in investment-grade bonds, along with security selection in the asset class, also worked against the Portfolios' relative returns. I increased the Portfolios' allocations to foreign developed-markets equities to an overweighting during the year. For the period as a whole, this positioning detracted, but was more than offset by strong security selection. In fact, stock selection in foreign developed-markets equities was the single-biggest contributor to the Portfolios' relative returns, fueled by strong picks across a number of sectors. The leading underlying fund in this regard was Fidelity® Overseas Fund, which benefited from broadly positive stock selection, particularly in financials, information technology, consumer discretionary and materials. On a country basis, Fidelity® Overseas Fund had the most success in the United Kingdom and Japan, complemented by out-of-benchmark picks in the United States. Conversely, selection in U.S. equities hampered the Portfolios' relative returns. Several sharp market reversals during the period made it challenging for our underlying fund managers to maintain consistent active risk exposure. Additional underlying funds that had a significant positive influence on relative performance included several Fidelity® Select Portfolios®: Consumer Discretionary, Health Care and Technology. On the downside, reflecting the poor performance of energy over the past year, Select Energy Portfolio was the biggest relative detractor. Concerning notable changes, in October, I added exposure to Treasury Inflation-Protected Securities through Spartan® Inflation-Protected Bond Index Fund.

*The views expressed above reflect those of the portfolio manager(s) only through the end of the period as stated on the cover of this report and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.*

**VIP FundsManager® 20% Portfolio**

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

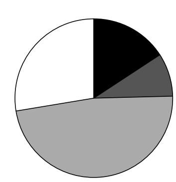
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| Fidelity Air Transportation Portfolio | 0.0 | 0.0 |
| Fidelity Banking Portfolio | 0.7 | 0.4 |
| Fidelity Blue Chip Growth Fund | 0.1 | 0.1 |
| Fidelity Blue Chip Value Fund | 0.3 | 0.2 |
| Fidelity Brokerage and Investment Management Portfolio | 0.0 | 0.2 |
| Fidelity Chemicals Portfolio | 0.3 | 0.4 |
| Fidelity Computers Portfolio | 0.3 | 0.5 |
| Fidelity Construction and Housing Portfolio | 0.6 | 0.5 |
| Fidelity Consumer Discretionary Portfolio | 1.1 | 1.7 |
| Fidelity Consumer Staples Portfolio | 1.2 | 1.1 |
| Fidelity Contrafund | 0.7 | 0.0 |
| Fidelity Defense and Aerospace Portfolio | 0.3 | 0.1 |
| Fidelity Dividend Growth Fund | 0.0 | 0.0 |
| Fidelity Electronics Portfolio | 0.3 | 0.5 |
| Fidelity Energy Portfolio | 0.7 | 0.7 |
| Fidelity Energy Service Portfolio | 0.1 | 0.2 |
| Fidelity Financial Services Portfolio | 1.1 | 1.9 |
| Fidelity Global Commodity Stock Fund | 0.0 | 0.0 |
| Fidelity Gold Portfolio | 0.0 | 0.0 |
| Fidelity Health Care Portfolio | 0.7 | 2.3 |
| Fidelity Health Care Services Portfolio | 0.3 | 0.1 |
| Fidelity Industrial Equipment Portfolio | 0.1 | 0.0 |
| Fidelity Industrials Portfolio | 0.9 | 1.1 |
| Fidelity Insurance Portfolio | 0.7 | 0.5 |
| Fidelity IT Services Portfolio | 0.3 | 0.3 |
| Fidelity Large Cap Stock Fund | 0.0 | 0.1 |
| Fidelity Low-Priced Stock Fund | 0.5 | 0.0 |
| Fidelity Materials Portfolio | 0.1 | 0.0 |
| Fidelity Medical Equipment and Systems Portfolio | 0.7 | 0.1 |
| Fidelity Mid Cap Value Fund | 0.0 | 0.2 |
| Fidelity Natural Gas Portfolio | 0.0 | 0.0 |
| Fidelity OTC Portfolio | 0.0 | 0.1 |
| Fidelity Pharmaceuticals Portfolio | 0.3 | 0.0 |
| Fidelity Real Estate Investment Portfolio | 0.4 | 0.4 |
| Fidelity Retailing Portfolio | 0.3 | 0.3 |
| Fidelity Series Commodity Strategy Fund | 0.0 | 0.0 |
| Fidelity Small Cap Stock Fund | 0.0 | 0.0 |
| Fidelity Software and IT Services Portfolio | 0.3 | 0.1 |
| Fidelity Stock Selector Large Cap Value Fund | 0.1 | 0.1 |
| Fidelity Technology Portfolio | 1.8 | 1.3 |
| Fidelity Telecommunications Portfolio | 0.4 | 0.1 |
| Fidelity Utilities Portfolio | 0.1 | 0.1 |
| Spartan Extended Market Index Fund Investor Class | 0.0 | 0.0 |
| Fidelity Communications Equipment Portfolio | 0.0 | 0.2 |
| Fidelity Leisure Portfolio | 0.0 | 0.0 |
| Fidelity Transportation Portfolio | 0.0 | 0.0 |
| | 15.8 | 15.9 |
| **International Equity Funds** | | |
| Fidelity China Region Fund | 0.2 | 0.3 |
| Fidelity Diversified International Fund | 1.6 | 3.4 |
| Fidelity Emerging Asia Fund | 0.6 | 0.8 |
| Fidelity Emerging Markets Fund | 0.1 | 0.9 |
| Fidelity Europe Fund | 0.6 | 0.6 |
| Fidelity International Capital Appreciation Fund | 0.0 | 0.1 |
| Fidelity International Discovery Fund | 0.4 | 0.5 |
| Fidelity International Real Estate Fund | 0.0 | 0.0 |
| Fidelity International Small Cap Fund | 0.3 | 0.3 |
| Fidelity International Small Cap Opportunities Fund | 0.5 | 0.1 |
| Fidelity Japan Fund | 0.3 | 0.3 |
| Fidelity Japan Smaller Companies Fund | 0.5 | 0.5 |
| Fidelity Overseas Fund | 2.5 | 2.2 |
| Fidelity Pacific Basin Fund | 0.2 | 0.2 |
| Spartan International Index Fund Investor Class | 1.0 | 1.2 |
| | 8.8 | 11.4 |
| **Fixed-Income Funds** | | |
| Fidelity Floating Rate High Income Fund | 0.5 | 0.6 |
| Fidelity Focused High Income Fund | 0.0 | 0.0 |
| Fidelity High Income Fund | 0.1 | 0.0 |
| Fidelity New Markets Income Fund | 0.5 | 0.4 |
| Fidelity Real Estate Income Fund | 0.4 | 0.3 |
| Spartan Inflation-Protected Bond Index Fund Investor Class | 1.5 | 0.0 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class | 1.9 | 2.2 |
| Spartan U.S. Bond Index Fund Investor Class | 42.9 | 41.0 |
| | 47.8 | 44.5 |
| **Money Market Funds** | | |
| Fidelity Institutional Money Market Portfolio Class I 0.28% | 15.8 | 10.8 |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% | 11.8 | 13.1 |
| Fidelity Select Money Market Portfolio 0.01% | 0.0 | 4.3 |
| | 27.6 | 28.2 |
| Net Other Assets (Liabilities) | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio*

## Asset Allocation (% of fund's net assets)

**As of December 31, 2015**

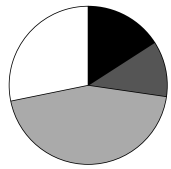
| | |
|---|---|
| Domestic Equity Funds | 15.8% |
| International Equity Funds | 8.8% |
| Fixed-Income Funds | 47.8% |
| Money Market Funds | 27.6% |



## Investment Summary (Unaudited) – continued

**As of June 30, 2015**

| | |
|---|---|
| Domestic Equity Funds | 15.9% |
| International Equity Funds | 11.4% |
| Fixed-Income Funds | 44.5% |
| Money Market Funds | 28.2% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Equity Funds – 24.6%

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 15.8%** | | |
| Fidelity Air Transportation Portfolio (a) | 4,414 | $ 274,921 |
| Fidelity Banking Portfolio (a) | 203,116 | 5,195,707 |
| Fidelity Blue Chip Growth Fund (a) | 11,775 | 812,111 |
| Fidelity Blue Chip Value Fund (a) | 129,524 | 2,032,236 |
| Fidelity Brokerage and Investment Management Portfolio (a) | 2,809 | 180,085 |
| Fidelity Chemicals Portfolio (a) | 14,837 | 1,940,637 |
| Fidelity Computers Portfolio (a) | 26,589 | 1,814,151 |
| Fidelity Construction and Housing Portfolio (a) | 69,855 | 4,054,379 |
| Fidelity Consumer Discretionary Portfolio (a) | 241,645 | 8,257,010 |
| Fidelity Consumer Staples Portfolio (a) | 97,460 | 8,896,189 |
| Fidelity Contrafund (a) | 49,573 | 4,905,226 |
| Fidelity Defense and Aerospace Portfolio (a) | 18,416 | 2,117,669 |
| Fidelity Dividend Growth Fund (a) | 707 | 21,407 |
| Fidelity Electronics Portfolio (a) | 29,975 | 2,265,797 |
| Fidelity Energy Portfolio (a) | 136,292 | 4,793,372 |
| Fidelity Energy Service Portfolio (a) | 20,368 | 835,917 |
| Fidelity Financial Services Portfolio (a) | 95,551 | 8,028,171 |
| Fidelity Global Commodity Stock Fund (a) | 3,967 | 34,871 |
| Fidelity Gold Portfolio (a)(b) | 6,965 | 94,034 |
| Fidelity Health Care Portfolio (a) | 26,267 | 5,467,799 |
| Fidelity Health Care Services Portfolio (a) | 22,329 | 1,885,014 |
| Fidelity Industrial Equipment Portfolio (a) | 18,718 | 682,849 |
| Fidelity Industrials Portfolio (a) | 231,094 | 6,750,268 |
| Fidelity Insurance Portfolio (a) | 71,992 | 4,871,679 |
| Fidelity IT Services Portfolio (a) | 57,862 | 2,312,759 |
| Fidelity Large Cap Stock Fund (a) | 3,757 | 98,163 |
| Fidelity Low-Priced Stock Fund (a) | 83,156 | 3,970,688 |
| Fidelity Materials Portfolio (a) | 6,277 | 430,944 |
| Fidelity Medical Equipment and Systems Portfolio (a) | 145,993 | 5,236,775 |
| Fidelity Mid Cap Value Fund (a) | 10,377 | 231,827 |
| Fidelity Natural Gas Portfolio (a) | 155 | 3,104 |
| Fidelity OTC Portfolio (a) | 657 | 54,805 |
| Fidelity Pharmaceuticals Portfolio (a) | 91,985 | 1,892,123 |
| Fidelity Real Estate Investment Portfolio (a) | 78,938 | 3,203,294 |
| Fidelity Retailing Portfolio (a) | 22,711 | 2,389,430 |
| Fidelity Series Commodity Strategy Fund (a)(b) | 1,089 | 5,316 |
| Fidelity Small Cap Stock Fund (a) | 6,268 | 108,883 |
| Fidelity Software and IT Services Portfolio (a) | 15,686 | 1,904,420 |
| Fidelity Stock Selector Large Cap Value Fund (a) | 40,754 | 663,483 |
| Fidelity Technology Portfolio (a) | 112,895 | 13,331,780 |
| Fidelity Telecommunications Portfolio (a) | 51,291 | 3,105,150 |
| Fidelity Utilities Portfolio (a) | 15,177 | $ 973,785 |
| Spartan Extended Market Index Fund Investor Class (a) | 325 | 16,301 |
| TOTAL DOMESTIC EQUITY FUNDS | | 116,144,529 |
| **International Equity Funds – 8.8%** | | |
| Fidelity China Region Fund (a) | 65,154 | 1,656,220 |
| Fidelity Diversified International Fund (a) | 329,829 | 11,563,792 |
| Fidelity Emerging Asia Fund (a) | 139,073 | 4,173,569 |
| Fidelity Emerging Markets Fund (a) | 49,412 | 1,074,715 |
| Fidelity Europe Fund (a) | 123,384 | 4,462,814 |
| Fidelity International Capital Appreciation Fund (a) | 21,429 | 355,942 |
| Fidelity International Discovery Fund (a) | 65,821 | 2,593,993 |
| Fidelity International Real Estate Fund (a) | 1,181 | 11,838 |
| Fidelity International Small Cap Fund (a) | 90,945 | 2,011,705 |
| Fidelity International Small Cap Opportunities Fund (a) | 261,959 | 3,908,429 |
| Fidelity Japan Fund (a) | 192,316 | 2,271,246 |
| Fidelity Japan Smaller Companies Fund (a) | 255,660 | 3,538,339 |
| Fidelity Overseas Fund (a) | 456,258 | 18,642,686 |
| Fidelity Pacific Basin Fund (a) | 61,754 | 1,625,358 |
| Spartan International Index Fund Investor Class (a) | 195,245 | 7,015,151 |
| TOTAL INTERNATIONAL EQUITY FUNDS | | 64,905,797 |
| **TOTAL EQUITY FUNDS** (Cost $166,722,538) | | **181,050,326** |

## Fixed-Income Funds – 47.8%

| | Shares | Value |
|---|---|---|
| Fidelity Floating Rate High Income Fund (a) | 429,449 | 3,920,869 |
| Fidelity Focused High Income Fund (a) | 38,222 | 306,157 |
| Fidelity High Income Fund (a) | 41,436 | 329,415 |
| Fidelity New Markets Income Fund (a) | 253,344 | 3,678,555 |
| Fidelity Real Estate Income Fund (a) | 228,253 | 2,565,568 |
| Spartan Inflation-Protected Bond Index Fund Investor Class (a) | 1,185,015 | 11,115,443 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class (a) | 1,087,816 | 13,880,534 |
| Spartan U.S. Bond Index Fund Investor Class (a) | 27,430,706 | 315,178,807 |
| **TOTAL FIXED-INCOME FUNDS** (Cost $345,827,763) | | **350,975,348** |

*See accompanying notes which are an integral part of the financial statements.*

## Money Market Funds – 27.6%

| | Shares | Value |
|---|---|---|
| Fidelity Institutional Money Market Portfolio Class I 0.28% (a)(c) | 116,279,132 | $116,279,132 |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% (a)(c) | 86,244,202 | 86,244,202 |
| **TOTAL MONEY MARKET FUNDS** (Cost $202,523,334) | | **202,523,334** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $715,073,635) | | **734,549,008** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(122,304)** |
| **NET ASSETS – 100%** | | **$734,426,704** |

## Legend

(a) Affiliated Fund

(b) Non-income producing

(c) The rate quoted is the annualized seven-day yield of the fund at period end.

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Air Transportation Portfolio | $ 722,218 | $ 25,498 | $ 403,792 | $ 864 | $ 274,921 |
| Fidelity Banking Portfolio | 4,617,977 | 3,046,862 | 2,075,871 | 50,961 | 5,195,707 |
| Fidelity Biotechnology Portfolio | 30,278 | — | 36,525 | — | — |
| Fidelity Blue Chip Growth Fund | 4,643,143 | 964,337 | 4,883,677 | 461 | 812,111 |
| Fidelity Blue Chip Value Fund | 1,002,736 | 1,336,392 | 245,008 | 33,413 | 2,032,236 |
| Fidelity Brokerage and Investment | 2,551,526 | 25,187 | 2,391,453 | 3,982 | 180,085 |
| Fidelity Canada Fund | 26,393 | — | 25,515 | — | — |
| Fidelity Chemicals Portfolio | 3,553,417 | 240,647 | 1,590,187 | 28,287 | 1,940,637 |
| Fidelity China Region Fund | 535,940 | 1,894,374 | 368,561 | 19,508 | 1,656,220 |
| Fidelity Communications Equipment Portfolio | 1,240,631 | 4,715 | 1,176,527 | 429 | — |
| Fidelity Computers Portfolio | 4,400,604 | 1,083,829 | 3,070,242 | 25,110 | 1,814,151 |
| Fidelity Construction and Housing Portfolio | 3,176,717 | 938,396 | 200,000 | 15,648 | 4,054,379 |
| Fidelity Consumer Discretionary Portfolio | 11,793,649 | 701,614 | 4,449,488 | 45,255 | 8,257,010 |
| Fidelity Consumer Finance Portfolio | 726,495 | — | 721,124 | — | — |
| Fidelity Consumer Staples Portfolio | 12,347,828 | 2,432,743 | 5,314,542 | 138,930 | 8,896,189 |
| Fidelity Contrafund | 27,397 | 5,456,641 | 571,566 | 14,547 | 4,905,226 |
| Fidelity Defense and Aerospace Portfolio | — | 2,236,312 | — | 14,385 | 2,117,669 |
| Fidelity Diversified International Fund | 6,524,341 | 24,756,508 | 19,727,506 | 111,372 | 11,563,792 |
| Fidelity Dividend Growth Fund | 21,542 | 1,839 | — | 310 | 21,407 |
| Fidelity Electronics Portfolio | 3,568,545 | 554,356 | 1,500,000 | 23,629 | 2,265,797 |
| Fidelity Emerging Asia Fund | 3,252,827 | 2,382,127 | 828,833 | 18,517 | 4,173,569 |
| Fidelity Emerging Markets Fund | 7,506,396 | 5,408 | 5,802,021 | 5,408 | 1,074,715 |
| Fidelity Energy Portfolio | 5,224,198 | 1,947,219 | 977,999 | 51,771 | 4,793,372 |
| Fidelity Energy Service Portfolio | 1,558,936 | 416,868 | 723,237 | 8,058 | 835,917 |
| Fidelity Equity Dividend Income Fund | 19,926 | 63 | 20,288 | — | — |
| Fidelity Europe Fund | 3,220,679 | 1,346,258 | 143,972 | 51,622 | 4,462,814 |
| Fidelity Financial Services Portfolio | 11,591,469 | 3,344,305 | 6,202,933 | 73,189 | 8,028,171 |
| Fidelity Floating Rate High Income Fund | 4,655,051 | 167,344 | 693,509 | 167,336 | 3,920,869 |

*See accompanying notes which are an integral part of the financial statements.*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Focused High Income Fund | $ 312,169 | $ 14,492 | $ — | $ 14,492 | $ 306,157 |
| Fidelity Fund | 34,121 | — | 35,689 | — | — |
| Fidelity Global Commodity Stock Fund | 48,092 | 970 | — | 931 | 34,871 |
| Fidelity Gold Portfolio | 114,512 | — | — | — | 94,034 |
| Fidelity Growth & Income Portfolio | 3,436 | — | 3,517 | — | — |
| Fidelity Health Care Portfolio | 18,500,783 | 1,541,455 | 15,164,197 | — | 5,467,799 |
| Fidelity Health Care Services Portfolio | 432,954 | 1,548,689 | — | 395 | 1,885,014 |
| Fidelity High Income Fund | 348,223 | 19,957 | — | 19,957 | 329,415 |
| Fidelity Industrial Equipment Portfolio | — | 690,826 | — | 2,170 | 682,849 |
| Fidelity Industrials Portfolio | 8,110,539 | 1,499,760 | 2,197,408 | 45,759 | 6,750,268 |
| Fidelity Institutional Money Market | 13,209,159 | 103,069,974 | — | 87,319 | 116,279,132 |
| Fidelity Institutional Prime Money Market | 143,215,804 | 53,671,830 | 110,643,432 | 79,943 | 86,244,202 |
| Fidelity Insurance Portfolio | 4,585,934 | 803,906 | 500,000 | 50,602 | 4,871,679 |
| Fidelity International Capital Appreciation | 4,624,124 | 5,487 | 4,530,480 | 1,456 | 355,942 |
| Fidelity International Discovery Fund | 4,610,578 | 93,947 | 2,361,650 | 26,644 | 2,593,993 |
| Fidelity International Real Estate Fund | 11,630 | 332 | — | 193 | 11,838 |
| Fidelity International Small Cap Fund | — | 3,052,477 | 800,000 | 35,926 | 2,011,705 |
| Fidelity International Small Cap | — | 4,002,980 | — | 15,085 | 3,908,429 |
| Fidelity International Value Fund | 1,090,843 | — | 1,126,355 | — | — |
| Fidelity IT Services Portfolio | 266,995 | 1,950,138 | 100,000 | — | 2,312,759 |
| Fidelity Japan Fund | 36,962 | 2,337,431 | — | 13,187 | 2,271,246 |
| Fidelity Japan Smaller Companies Fund | 701,962 | 2,757,733 | — | 22,821 | 3,538,339 |
| Fidelity Large Cap Stock Fund | 1,001,217 | 132,051 | 1,009,338 | 2,132 | 98,163 |
| Fidelity Leisure Portfolio | 653,398 | 4,071 | 694,673 | 291 | — |
| Fidelity Leveraged Company Stock Fund | 8,995 | — | 9,373 | — | — |
| Fidelity Low-Priced Stock Fund | — | 4,735,750 | 710,000 | 35,763 | 3,970,688 |
| Fidelity Magellan Fund | 43,256 | — | 44,939 | — | — |
| Fidelity Materials Portfolio | — | 450,989 | — | 4,633 | 430,944 |
| Fidelity Medical Equipment and Systems | 858,076 | 4,655,347 | — | 833 | 5,236,775 |
| Fidelity Mega Cap Stock Fund | 2,778,809 | — | 2,757,088 | — | — |
| Fidelity Mid Cap Value Fund | 1,266,383 | 1,737,909 | 2,675,115 | 11,430 | 231,827 |
| Fidelity Natural Gas Portfolio | 4,913 | 60 | — | 60 | 3,104 |
| Fidelity New Markets Income Fund | 4,163,222 | 1,436,055 | 1,745,790 | 176,043 | 3,678,555 |
| Fidelity OTC Portfolio | 1,879,159 | 52,811 | 1,976,528 | — | 54,805 |
| Fidelity Overseas Fund | 10,381,988 | 8,409,923 | 900,000 | 191,425 | 18,642,686 |
| Fidelity Pacific Basin Fund | 1,323,157 | 1,077,209 | 735,094 | 21,287 | 1,625,358 |
| Fidelity Pharmaceuticals Portfolio | 251,916 | 2,240,028 | 267,352 | 11,585 | 1,892,123 |
| Fidelity Real Estate Income Fund | 2,521,641 | 137,264 | — | 106,027 | 2,565,568 |
| Fidelity Real Estate Investment Portfolio | 2,958,944 | 3,016,278 | 2,495,724 | 53,489 | 3,203,294 |
| Fidelity Retailing Portfolio | 2,015,796 | 169,100 | 150,000 | 4,233 | 2,389,430 |
| Fidelity Select Money Market Portfolio 0.02% | 32,976,771 | 5,884 | 32,982,655 | 3,945 | — |
| Fidelity Series Commodity Strategy Fund | 7,114 | — | — | — | 5,316 |
| Fidelity Small Cap Discovery Fund | 206,688 | — | 210,328 | — | — |
| Fidelity Small Cap Growth Fund | — | — | — | — | — |
| Fidelity Small Cap Stock Fund | 12,820 | 123,675 | 13,230 | 496 | 108,883 |
| Fidelity Small Cap Value Fund | 180,036 | — | 183,174 | — | — |
| Fidelity Software and IT Services Portfolio | 1,091,688 | 1,290,214 | 500,000 | 769 | 1,904,420 |
| Fidelity Stock Selector Large Cap Value Fund | 5,919,753 | 755,460 | 6,080,476 | 8,711 | 663,483 |
| Fidelity Technology Portfolio | 14,324,700 | 4,214,582 | 5,404,839 | 10,749 | 13,331,780 |
| Fidelity Telecommunications Portfolio | 667,602 | 3,154,040 | 768,916 | 33,460 | 3,105,150 |
| Fidelity Transportation Portfolio | 1,885,324 | 10,217 | 1,720,393 | 1,441 | — |
| Fidelity Utilities Portfolio | 2,178,020 | 941,694 | 1,904,751 | 29,144 | 973,785 |
| Spartan Extended Market Index Fund Investor | 16,866 | 975 | — | 220 | 16,301 |
| Spartan Inflation-Protected Bond Index Fund | — | 11,393,971 | 66,369 | — | 11,115,443 |
| Spartan International Index Fund Investor | 8,774,771 | 351,823 | 1,920,000 | 180,281 | 7,015,151 |
| Spartan Long-Term Treasury Bond Index Fund | 4,248,533 | 17,308,511 | 6,583,736 | 395,810 | 13,880,534 |
| Spartan U.S. Bond Index Fund Investor Class | 358,803,414 | 29,341,282 | 66,214,289 | 7,704,568 | 315,178,807 |
| | $ 762,204,649 | $ 329,519,399 | $ 342,331,274 | $ 10,308,697 | $ 734,549,008 |

*See accompanying notes which are an integral part of the financial statements.*

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $715,073,635) — See accompanying schedule | | $ 734,549,008 |
| Receivable for investments sold | | 60,975 |
| Receivable for fund shares sold | | 1,447,771 |
| **Total assets** | | 736,057,754 |
| **Liabilities** | | |
| Payable to custodian bank | $ 797 | |
| Payable for investments purchased | 1,504,794 | |
| Payable for fund shares redeemed | 2,752 | |
| Accrued management fee | 122,529 | |
| Distribution and service plan fees payable | 178 | |
| **Total liabilities** | | 1,631,050 |
| **Net Assets** | | $ 734,426,704 |
| Net Assets consist of: | | |
| Paid in capital | | $ 706,628,604 |
| Undistributed net investment income | | 14,504 |
| Accumulated undistributed net realized gain (loss) on investments | | 8,308,223 |
| Net unrealized appreciation (depreciation) on investments | | 19,475,373 |
| **Net Assets** | | $ 734,426,704 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($62,201 ÷ 5,645 shares) | | $ 11.02 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($1,453,941 ÷ 132,163 shares) | | $ 11.00 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($732,910,562 ÷ 66,542,868 shares) | | $ 11.01 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 10,308,697 |
| **Expenses** | | |
| Management fee | $ 1,891,392 | |
| Distribution and service plan fees | 3,416 | |
| Independent trustees' compensation | 3,078 | |
| Total expenses before reductions | 1,897,886 | |
| Expense reductions | (380,242) | 1,517,644 |
| **Net investment income (loss)** | | 8,791,053 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | 4,173,900 | |
| Capital gain distributions from underlying funds | 6,211,874 | |
| Total net realized gain (loss) | | 10,385,774 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (19,017,635) |
| **Net gain (loss)** | | (8,631,861) |
| **Net increase (decrease) in net assets resulting from operations** | | $ 159,192 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 8,791,053 | $ 9,581,522 |
| Net realized gain (loss) | 10,385,774 | 25,705,734 |
| Change in net unrealized appreciation (depreciation) | (19,017,635) | (5,720,903) |
| **Net increase (decrease) in net assets resulting from operations** | 159,192 | 29,566,353 |
| Distributions to shareholders from net investment income | (8,798,379) | (9,574,383) |
| Distributions to shareholders from net realized gain | (23,627,789) | (9,285,360) |
| **Total distributions** | (32,426,168) | (18,859,743) |
| Share transactions – net increase (decrease) | 4,615,665 | 55,557,229 |
| **Total increase (decrease) in net assets** | (27,651,311) | 66,263,839 |
| **Net Assets** | | |
| Beginning of period | 762,078,015 | 695,814,176 |
| End of period (including undistributed net investment income of $14,504 and undistributed net investment income of $21,830, respectively) | $ 734,426,704 | $ 762,078,015 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 20% Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.51 | $ 11.33 | $ 11.10 | $ 10.68 | $ 10.63 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .14 | .17 | .20 |
| Net realized and unrealized gain (loss) | (.13) | .32 | .47 | .44 | .05 |
| Total from investment operations | –[B] | .47 | .61 | .61 | .25 |
| Distributions from net investment income | (.13) | (.15) | (.14) | (.16) | (.18) |
| Distributions from net realized gain | (.36) | (.15) | (.24) | (.03) | (.02) |
| Total distributions | (.49) | (.29)[C] | (.38) | (.19) | (.20) |
| Net asset value, end of period | $ 11.02 | $ 11.51 | $ 11.33 | $ 11.10 | $ 10.68 |
| **Total Return**[D,E] | (.03)% | 4.21% | 5.53% | 5.68% | 2.30% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.16% | 1.31% | 1.23% | 1.51% | 1.84% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 62 | $ 68 | $ 72 | $ 71 | $ 64 |
| Portfolio turnover rate [F] | 44% | 28% | 25% | 17% | 12% |

A *Calculated based on average shares outstanding during the period.*
B *Amount represents less than $.005 per share.*
C *Total distributions of $.29 per share is comprised of distributions from net investment income of $.147 and distributions from net realized gain of $.147 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 20% Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.49 | $ 11.32 | $ 11.08 | $ 10.67 | $ 10.62 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .11 | .13 | .12 | .15 | .18 |
| Net realized and unrealized gain (loss) | (.12) | .32 | .48 | .43 | .05 |
| Total from investment operations | (.01) | .45 | .60 | .58 | .23 |
| Distributions from net investment income | (.12) | (.13) | (.12) | (.14) | (.16) |
| Distributions from net realized gain | (.36) | (.15) | (.24) | (.03) | (.02) |
| Total distributions | (.48) | (.28) | (.36) | (.17) | (.18) |
| Net asset value, end of period | $ 11.00 | $ 11.49 | $ 11.32 | $ 11.08 | $ 10.67 |
| **Total Return**[B,C] | (.17)% | 3.98% | 5.46% | 5.43% | 2.20% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions | .50% | .50% | .50% | .50% | .50% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | 1.01% | 1.16% | 1.08% | 1.36% | 1.69% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 1,454 | $ 1,426 | $ 1,197 | $ 1,274 | $ 1,373 |
| Portfolio turnover rate[D] | 44% | 28% | 25% | 17% | 12% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 20% Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.50 | $ 11.33 | $ 11.09 | $ 10.68 | $ 10.63 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .14 | .17 | .20 |
| Net realized and unrealized gain (loss) | (.13) | .31 | .48 | .43 | .05 |
| Total from investment operations | –[B] | .46 | .62 | .60 | .25 |
| Distributions from net investment income | (.13) | (.15) | (.14) | (.16) | (.18) |
| Distributions from net realized gain | (.36) | (.15) | (.24) | (.03) | (.02) |
| Total distributions | (.49) | (.29)[C] | (.38) | (.19) | (.20) |
| Net asset value, end of period | $ 11.01 | $ 11.50 | $ 11.33 | $ 11.09 | $ 10.68 |
| **Total Return**[D,E] | (.03)% | 4.12% | 5.62% | 5.58% | 2.31% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.16% | 1.31% | 1.23% | 1.51% | 1.84% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 732,911 | $ 760,583 | $ 694,546 | $ 650,963 | $ 533,568 |
| Portfolio turnover rate[F] | 44% | 28% | 25% | 17% | 12% |

A *Calculated based on average shares outstanding during the period.*
B *Amount represents less than $.005 per share.*
C *Total distributions of $.29 per share is comprised of distributions from net investment income of $.147 and distributions from net realized gain of $.147 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## VIP FundsManager® 50% Portfolio

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

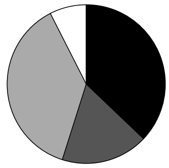
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| Fidelity Air Transportation Portfolio | 0.2 | 0.2 |
| Fidelity Automotive Portfolio | 0.1 | 0.2 |
| Fidelity Banking Portfolio | 1.4 | 1.3 |
| Fidelity Blue Chip Growth Fund | 1.8 | 1.4 |
| Fidelity Blue Chip Value Fund | 0.8 | 0.4 |
| Fidelity Brokerage and Investment Management Portfolio | 0.2 | 1.1 |
| Fidelity Chemicals Portfolio | 0.6 | 0.8 |
| Fidelity Computers Portfolio | 0.4 | 1.2 |
| Fidelity Construction and Housing Portfolio | 0.6 | 0.6 |
| Fidelity Consumer Discretionary Portfolio | 2.8 | 2.9 |
| Fidelity Consumer Finance Portfolio | 0.1 | 0.1 |
| Fidelity Consumer Staples Portfolio | 2.6 | 2.4 |
| Fidelity Contrafund | 1.1 | 0.0 |
| Fidelity Defense and Aerospace Portfolio | 0.6 | 0.2 |
| Fidelity Dividend Growth Fund | 0.0 | 0.0 |
| Fidelity Electronics Portfolio | 0.5 | 0.9 |
| Fidelity Energy Portfolio | 1.4 | 1.4 |
| Fidelity Energy Service Portfolio | 0.2 | 0.7 |
| Fidelity Financial Services Portfolio | 2.4 | 3.0 |
| Fidelity Global Commodity Stock Fund | 0.0 | 0.0 |
| Fidelity Gold Portfolio | 0.0 | 0.0 |
| Fidelity Growth Company Fund | 0.0 | 0.0 |
| Fidelity Health Care Portfolio | 2.6 | 3.9 |
| Fidelity Health Care Services Portfolio | 0.4 | 0.4 |
| Fidelity Industrial Equipment Portfolio | 0.6 | 0.4 |
| Fidelity Industrials Portfolio | 1.6 | 1.7 |
| Fidelity Insurance Portfolio | 1.1 | 0.6 |
| Fidelity IT Services Portfolio | 0.6 | 0.3 |
| Fidelity Large Cap Stock Fund | 0.6 | 0.9 |
| Fidelity Leisure Portfolio | 0.0 | 0.1 |
| Fidelity Low-Priced Stock Fund | 0.5 | 0.0 |
| Fidelity Magellan Fund | 0.0 | 0.0 |
| Fidelity Materials Portfolio | 0.1 | 0.0 |
| Fidelity Medical Equipment and Systems Portfolio | 0.7 | 0.2 |
| Fidelity Mega Cap Stock Fund | 0.6 | 0.8 |
| Fidelity Mid Cap Value Fund | 0.6 | 0.8 |
| Fidelity Nasdaq Composite Index Fund | 0.0 | 0.0 |
| Fidelity OTC Portfolio | 0.1 | 0.4 |
| Fidelity Pharmaceuticals Portfolio | 0.6 | 0.6 |
| Fidelity Real Estate Investment Portfolio | 0.5 | 0.4 |
| Fidelity Retailing Portfolio | 0.5 | 0.4 |
| Fidelity Series Commodity Strategy Fund | 0.0 | 0.0 |
| Fidelity Small Cap Growth Fund | 0.0 | 0.0 |
| Fidelity Small Cap Stock Fund | 0.2 | 0.2 |
| Fidelity Small Cap Value Fund | 0.0 | 0.0 |
| Fidelity Software and IT Services Portfolio | 0.9 | 0.3 |
| Fidelity Stock Selector Large Cap Value Fund | 1.1 | 1.2 |
| Fidelity Technology Portfolio | 3.6 | 2.8 |
| Fidelity Telecommunications Portfolio | 1.0 | 0.0 |
| Fidelity Utilities Portfolio | 0.2 | 0.2 |
| Fidelity Value Discovery Fund | 0.6 | 0.6 |
| Spartan 500 Index Fund Investor Class | 0.0 | 0.0 |
| Fidelity Communications Equipment Portfolio | 0.0 | 0.2 |
| Fidelity Multimedia Portfolio | 0.0 | 0.4 |
| Fidelity Natural Gas Portfolio | 0.0 | 0.0 |
| Fidelity Transportation Portfolio | 0.0 | 0.2 |
| | 37.1 | 36.8 |
| **International Equity Funds** | | |
| Fidelity China Region Fund | 0.2 | 0.2 |
| Fidelity Diversified International Fund | 5.5 | 7.3 |
| Fidelity Emerging Asia Fund | 0.8 | 1.0 |
| Fidelity Emerging Markets Fund | 0.1 | 0.9 |
| Fidelity Europe Fund | 1.8 | 1.8 |
| Fidelity International Capital Appreciation Fund | 0.0 | 0.1 |
| Fidelity International Discovery Fund | 1.6 | 1.9 |
| Fidelity International Real Estate Fund | 0.0 | 0.0 |
| Fidelity International Small Cap Fund | 0.3 | 0.2 |
| Fidelity International Small Cap Opportunities Fund | 0.8 | 0.5 |
| Fidelity International Value Fund | 0.1 | 0.2 |
| Fidelity Japan Fund | 0.8 | 0.8 |
| Fidelity Japan Smaller Companies Fund | 0.6 | 0.5 |
| Fidelity Nordic Fund | 0.3 | 0.3 |
| Fidelity Overseas Fund | 3.5 | 2.5 |
| Fidelity Pacific Basin Fund | 0.1 | 0.2 |
| Spartan International Index Fund Investor Class | 1.3 | 2.2 |
| Fidelity International Growth Fund | 0.0 | 0.0 |
| | 17.8 | 20.6 |
| **Fixed-Income Funds** | | |
| Fidelity Floating Rate High Income Fund | 0.5 | 0.6 |
| Fidelity Focused High Income Fund | 0.0 | 0.0 |
| Fidelity High Income Fund | 0.1 | 0.1 |
| Fidelity New Markets Income Fund | 0.3 | 0.4 |
| Fidelity Real Estate Income Fund | 0.3 | 0.3 |
| Spartan Inflation-Protected Bond Index Fund Investor Class | 1.7 | 0.0 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class | 1.5 | 1.8 |
| Spartan U.S. Bond Index Fund Investor Class | 33.2 | 31.3 |
| | 37.6 | 34.5 |
| **Money Market Funds** | | |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% | 7.5 | 7.9 |
| Fidelity Select Money Market Portfolio 0.01% | 0.0 | 0.2 |
| | 7.5 | 8.1 |
| Net Other Assets (Liabilities) | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and*
*Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio*

## Asset Allocation (% of fund's net assets)

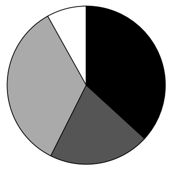
**As of December 31, 2015**

| | | |
|---|---|---|
| ■ | Domestic Equity Funds | 37.1% |
| ■ | International Equity Funds | 17.8% |
| ■ | Fixed-Income Funds | 37.6% |
| □ | Money Market Funds | 7.5% |



**As of June 30, 2015**

| | | |
|---|---|---|
| ■ | Domestic Equity Funds | 36.8% |
| ■ | International Equity Funds | 20.6% |
| ■ | Fixed-Income Funds | 34.5% |
| □ | Money Market Funds | 8.1% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Equity Funds – 54.9%

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 37.1%** | | |
| Fidelity Air Transportation Portfolio (a) | 148,700 | $ 9,262,502 |
| Fidelity Automotive Portfolio (a) | 162,832 | 6,469,331 |
| Fidelity Banking Portfolio (a) | 3,346,131 | 85,594,035 |
| Fidelity Blue Chip Growth Fund (a) | 1,575,739 | 108,678,685 |
| Fidelity Blue Chip Value Fund (a) | 3,250,467 | 50,999,832 |
| Fidelity Brokerage and Investment Management Portfolio (a) | 224,828 | 14,411,464 |
| Fidelity Chemicals Portfolio (a) | 290,396 | 37,983,812 |
| Fidelity Computers Portfolio (a) | 334,413 | 22,816,977 |
| Fidelity Construction and Housing Portfolio (a) | 665,493 | 38,625,226 |
| Fidelity Consumer Discretionary Portfolio (a) | 4,958,796 | 169,442,046 |
| Fidelity Consumer Finance Portfolio (a) | 255,025 | 3,103,656 |
| Fidelity Consumer Staples Portfolio (a) | 1,754,346 | 160,136,675 |
| Fidelity Contrafund (a) | 691,127 | 68,386,975 |
| Fidelity Defense and Aerospace Portfolio (a) | 323,294 | 37,175,626 |
| Fidelity Dividend Growth Fund (a) | 5,687 | 172,271 |
| Fidelity Electronics Portfolio (a) | 365,188 | 27,604,565 |
| Fidelity Energy Portfolio (a) | 2,366,222 | 83,220,015 |
| Fidelity Energy Service Portfolio (a) | 290,035 | 11,903,027 |
| Fidelity Financial Services Portfolio (a) | 1,768,006 | 148,547,857 |
| Fidelity Global Commodity Stock Fund (a) | 4,820 | 42,364 |
| Fidelity Gold Portfolio (a)(b) | 5,877 | 79,341 |
| Fidelity Growth Company Fund (a) | 1,510 | 206,713 |
| Fidelity Health Care Portfolio (a) | 758,079 | 157,801,720 |
| Fidelity Health Care Services Portfolio (a) | 265,033 | 22,374,105 |
| Fidelity Industrial Equipment Portfolio (a) | 927,705 | 33,842,662 |
| Fidelity Industrials Portfolio (a) | 3,448,704 | 100,736,644 |
| Fidelity Insurance Portfolio (a) | 974,679 | 65,956,537 |
| Fidelity IT Services Portfolio (a) | 923,763 | 36,922,810 |
| Fidelity Large Cap Stock Fund (a) | 1,397,136 | 36,507,164 |
| Fidelity Leisure Portfolio (a) | 6,077 | 789,702 |
| Fidelity Low-Priced Stock Fund (a) | 650,108 | 31,042,654 |
| Fidelity Magellan Fund (a) | 149 | 13,343 |
| Fidelity Materials Portfolio (a) | 83,281 | 5,717,244 |
| Fidelity Medical Equipment and Systems Portfolio (a) | 1,125,878 | 40,385,234 |
| Fidelity Mega Cap Stock Fund (a) | 2,442,965 | 38,159,112 |
| Fidelity Mid Cap Value Fund (a) | 1,616,588 | 36,114,586 |
| Fidelity Nasdaq Composite Index Fund (a) | 10,854 | 711,818 |
| Fidelity OTC Portfolio (a) | 102,699 | 8,568,139 |
| Fidelity Pharmaceuticals Portfolio (a) | 1,730,297 | 35,592,219 |
| Fidelity Real Estate Investment Portfolio (a) | 774,657 | 31,435,595 |
| Fidelity Retailing Portfolio (a) | 291,648 | 30,684,296 |
| Fidelity Series Commodity Strategy Fund (a)(b) | 1,089 | 5,316 |
| Fidelity Small Cap Growth Fund (a) | 5,648 | $ 105,618 |
| Fidelity Small Cap Stock Fund (a) | 827,898 | 14,380,585 |
| Fidelity Small Cap Value Fund (a) | 12,260 | 205,240 |
| Fidelity Software and IT Services Portfolio (a) | 467,153 | 56,717,029 |
| Fidelity Stock Selector Large Cap Value Fund (a) | 4,329,013 | 70,476,339 |
| Fidelity Technology Portfolio (a) | 1,843,861 | 217,741,598 |
| Fidelity Telecommunications Portfolio (a) | 979,534 | 59,301,007 |
| Fidelity Utilities Portfolio (a) | 225,399 | 14,461,606 |
| Fidelity Value Discovery Fund (a) | 1,672,871 | 38,643,322 |
| Spartan 500 Index Fund Investor Class (a) | 3,107 | 223,048 |
| TOTAL DOMESTIC EQUITY FUNDS | | 2,270,479,287 |
| **International Equity Funds – 17.8%** | | |
| Fidelity China Region Fund (a) | 470,141 | 11,950,996 |
| Fidelity Diversified International Fund (a) | 9,647,047 | 338,225,463 |
| Fidelity Emerging Asia Fund (a) | 1,545,379 | 46,376,813 |
| Fidelity Emerging Markets Fund (a) | 196,960 | 4,283,885 |
| Fidelity Europe Fund (a) | 2,975,749 | 107,632,829 |
| Fidelity International Capital Appreciation Fund (a) | 79,281 | 1,316,862 |
| Fidelity International Discovery Fund (a) | 2,553,967 | 100,651,836 |
| Fidelity International Real Estate Fund (a) | 15,815 | 158,466 |
| Fidelity International Small Cap Fund (a) | 697,934 | 15,438,298 |
| Fidelity International Small Cap Opportunities Fund (a) | 3,333,248 | 49,732,063 |
| Fidelity International Value Fund (a) | 534,840 | 4,294,764 |
| Fidelity Japan Fund (a) | 4,254,527 | 50,245,967 |
| Fidelity Japan Smaller Companies Fund (a) | 2,856,183 | 39,529,567 |
| Fidelity Nordic Fund (a) | 376,666 | 17,654,336 |
| Fidelity Overseas Fund (a) | 5,239,916 | 214,102,961 |
| Fidelity Pacific Basin Fund (a) | 350,614 | 9,228,168 |
| Spartan International Index Fund Investor Class (a) | 2,299,868 | 82,634,239 |
| TOTAL INTERNATIONAL EQUITY FUNDS | | 1,093,457,513 |
| **TOTAL EQUITY FUNDS** (Cost $3,218,934,264) | | **3,363,936,800** |

*See accompanying notes which are an integral part of the financial statements.*

## Fixed-Income Funds – 37.6%

| | Shares | Value |
|---|---|---|
| Fidelity Floating Rate High Income Fund (a) | 3,518,371 | $ 32,122,729 |
| Fidelity Focused High Income Fund (a) | 58,252 | 466,598 |
| Fidelity High Income Fund (a) | 597,172 | 4,747,519 |
| Fidelity New Markets Income Fund (a) | 1,390,548 | 20,190,757 |
| Fidelity Real Estate Income Fund (a) | 1,457,209 | 16,379,032 |
| Spartan Inflation-Protected Bond Index Fund Investor Class (a) | 11,070,084 | 103,837,384 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class (a) | 7,244,231 | 92,436,385 |
| Spartan U.S. Bond Index Fund Investor Class (a) | 176,930,868 | 2,032,935,669 |
| **TOTAL FIXED-INCOME FUNDS** (Cost $2,323,940,974) | | **2,303,116,073** |

## Money Market Funds – 7.5%

| | | |
|---|---|---|
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% (a)(c) (Cost $463,644,497) | 463,644,497 | **463,644,497** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $6,006,519,735) | | **6,130,697,370** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(1,040,074)** |
| **NET ASSETS – 100%** | | **$6,129,657,296** |

## Legend

(a) Affiliated Fund

(b) Non-income producing

(c) The rate quoted is the annualized seven-day yield of the fund at period end.

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Air Transportation Portfolio | $ 14,033,803 | $ 799,419 | $ 3,800,000 | $ 23,482 | $ 9,262,502 |
| Fidelity Automotive Portfolio | 13,663,848 | 1,246,159 | 7,154,754 | 74,837 | 6,469,331 |
| Fidelity Banking Portfolio | 58,443,279 | 34,667,049 | 2,809,342 | 843,115 | 85,594,035 |
| Fidelity Biotechnology Portfolio | 82,496 | — | 99,515 | — | — |
| Fidelity Blue Chip Growth Fund | 78,911,099 | 51,100,472 | 20,056,197 | 37,347 | 108,678,685 |
| Fidelity Blue Chip Value Fund | 14,525,539 | 38,431,974 | 430,092 | 747,096 | 50,999,832 |
| Fidelity Brokerage and Investment | 64,640,744 | 1,357,811 | 45,340,000 | 229,376 | 14,411,464 |
| Fidelity Canada Fund | 159,869 | — | 154,550 | — | — |
| Fidelity Chemicals Portfolio | 46,192,682 | 15,653,013 | 19,358,631 | 494,045 | 37,983,812 |
| Fidelity China Region Fund | 1,563,244 | 13,001,183 | — | 140,765 | 11,950,996 |
| Fidelity Communications Equipment Portfolio | 12,253,053 | 41,980 | 11,545,152 | 3,816 | — |

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Computers Portfolio | $ 89,364,757 | $ 6,345,948 | $ 62,938,045 | $ 363,005 | $ 22,816,977 |
| Fidelity Construction and Housing Portfolio | 30,118,536 | 7,993,605 | 500,000 | 147,136 | 38,625,226 |
| Fidelity Consumer Discretionary Portfolio | 147,770,012 | 34,746,457 | 14,758,390 | 847,195 | 169,442,046 |
| Fidelity Consumer Finance Portfolio | 6,618,628 | 397,821 | 3,350,000 | 54,645 | 3,103,656 |
| Fidelity Consumer Staples Portfolio | 170,760,736 | 49,386,639 | 50,577,238 | 2,443,182 | 160,136,675 |
| Fidelity Contrafund | — | 71,927,337 | 3,191,044 | 203,133 | 68,386,975 |
| Fidelity Defense and Aerospace Portfolio | — | 38,902,215 | — | 200,687 | 37,175,626 |
| Fidelity Diversified International Fund | 243,174,845 | 183,690,636 | 89,836,156 | 3,345,356 | 338,225,463 |
| Fidelity Dividend Growth Fund | 173,358 | 14,803 | — | 2,497 | 172,271 |
| Fidelity Electronics Portfolio | 43,560,401 | 11,927,836 | 22,604,629 | 290,331 | 27,604,565 |
| Fidelity Emerging Asia Fund | 34,128,365 | 21,013,963 | 2,445,061 | 203,158 | 46,376,813 |
| Fidelity Emerging Markets Fund | 49,977,814 | 21,558 | 39,494,118 | 21,558 | 4,283,885 |
| Fidelity Energy Portfolio | 56,470,073 | 48,141,896 | 683,989 | 873,575 | 83,220,015 |
| Fidelity Energy Service Portfolio | 25,298,308 | 16,515,562 | 22,475,391 | 114,740 | 11,903,027 |
| Fidelity Equity Dividend Income Fund | 14,973 | 47 | 15,245 | — | — |
| Fidelity Europe Fund | 86,588,307 | 20,144,089 | 72,806 | 1,244,992 | 107,632,829 |
| Fidelity Financial Services Portfolio | 164,157,468 | 13,205,838 | 19,137,539 | 1,351,341 | 148,547,857 |
| Fidelity Floating Rate High Income Fund | 32,985,781 | 1,331,220 | 483,451 | 1,331,220 | 32,122,729 |
| Fidelity Focused High Income Fund | 475,761 | 22,086 | — | 22,086 | 466,598 |
| Fidelity Global Commodity Stock Fund | 58,425 | 1,178 | — | 1,131 | 42,364 |
| Fidelity Gold Portfolio | 96,620 | — | — | — | 79,341 |
| Fidelity Growth & Income Portfolio | 410,936 | — | 420,594 | — | — |
| Fidelity Growth Company Fund | 191,703 | 7,809 | — | — | 206,713 |
| Fidelity Health Care Portfolio | 212,656,686 | 38,221,504 | 88,304,768 | — | 157,801,720 |
| Fidelity Health Care Services Portfolio | 13,871,130 | 9,037,373 | 500,000 | 4,625 | 22,374,105 |
| Fidelity High Income Fund | 5,018,573 | 287,625 | — | 287,625 | 4,747,519 |
| Fidelity Industrial Equipment Portfolio | 20,318,885 | 14,851,574 | 577,955 | 142,162 | 33,842,662 |
| Fidelity Industrials Portfolio | 86,134,465 | 44,204,267 | 20,876,361 | 698,798 | 100,736,644 |
| Fidelity Institutional Prime Money Market | 283,685,008 | 356,934,677 | 176,975,187 | 366,969 | 463,644,497 |
| Fidelity Insurance Portfolio | 34,576,188 | 32,992,181 | 480,000 | 645,372 | 65,956,537 |
| Fidelity International Capital Appreciation | 24,188,068 | 20,299 | 24,396,015 | 5,387 | 1,316,862 |
| Fidelity International Discovery Fund | 121,990,274 | 8,091,797 | 35,582,043 | 1,033,832 | 100,651,836 |
| Fidelity International Growth Fund | 5,310,374 | — | 5,770,392 | — | — |
| Fidelity International Real Estate Fund | 155,686 | 4,441 | — | 2,581 | 158,466 |
| Fidelity International Small Cap Fund | — | 23,589,521 | 6,700,000 | 282,388 | 15,438,298 |
| Fidelity International Small Cap | 19,885,917 | 33,237,075 | 4,627,276 | 180,460 | 49,732,063 |
| Fidelity International Value Fund | 9,647,238 | 61,171 | 5,800,000 | 61,171 | 4,294,764 |
| Fidelity IT Services Portfolio | 329,674 | 44,722,989 | 9,200,000 | — | 36,922,810 |
| Fidelity Japan Fund | 1,995,876 | 50,250,206 | — | 291,730 | 50,245,967 |
| Fidelity Japan Smaller Companies Fund | 11,620,635 | 26,675,218 | — | 251,881 | 39,529,567 |
| Fidelity Large Cap Stock Fund | 74,766,544 | 14,280,399 | 47,993,184 | 494,451 | 36,507,164 |
| Fidelity Latin America Fund | 16,892 | — | 16,523 | — | — |
| Fidelity Leisure Portfolio | 2,691,760 | 76,673 | 2,000,000 | 10,135 | 789,702 |
| Fidelity Leveraged Company Stock Fund | 35,357 | — | 36,839 | — | — |
| Fidelity Low-Priced Stock Fund | 56,651 | 44,393,923 | 12,748,240 | 376,698 | 31,042,654 |
| Fidelity Magellan Fund | 12,823 | 984 | — | 76 | 13,343 |
| Fidelity Materials Portfolio | — | 7,924,920 | 2,000,000 | 61,461 | 5,717,244 |
| Fidelity Medical Equipment and Systems | 7,281,737 | 35,318,388 | — | 6,372 | 40,385,234 |
| Fidelity Mega Cap Stock Fund | 69,191,067 | 1,741,482 | 30,300,000 | 649,118 | 38,159,112 |
| Fidelity Mid Cap Value Fund | 38,929,241 | 48,454,203 | 46,751,851 | 740,041 | 36,114,586 |
| Fidelity Multimedia Portfolio | 28,241,741 | 468,463 | 28,301,894 | 5,341 | — |
| Fidelity Nasdaq Composite Index Fund | 666,382 | 10,534 | — | 5,926 | 711,818 |
| Fidelity Natural Gas Portfolio | 7,534,067 | 4,207 | 6,960,206 | 4,207 | — |
| Fidelity New Markets Income Fund | 30,832,217 | 1,305,885 | 10,883,285 | 1,307,897 | 20,190,757 |
| Fidelity Nordic Fund | 15,834,294 | 229,391 | — | 210,058 | 17,654,336 |
| Fidelity OTC Portfolio | 30,615,644 | 2,422,915 | 26,033,712 | — | 8,568,139 |
| Fidelity Overseas Fund | 55,283,244 | 155,627,224 | — | 1,993,562 | 214,102,961 |
| Fidelity Pacific Basin Fund | 9,473,038 | 3,638,363 | 3,600,000 | 120,859 | 9,228,168 |

*See accompanying notes which are an integral part of the financial statements.*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Pharmaceuticals Portfolio | $ 35,366,779 | $ 7,666,294 | $ 6,000,000 | $ 268,206 | $ 35,592,219 |
| Fidelity Real Estate Income Fund | 16,098,595 | 876,316 | — | 676,898 | 16,379,032 |
| Fidelity Real Estate Investment Portfolio | 23,039,479 | 22,164,172 | 12,181,598 | 487,307 | 31,435,595 |
| Fidelity Retailing Portfolio | 18,653,269 | 9,934,224 | 1,800,000 | 49,580 | 30,684,296 |
| Fidelity Select Money Market Portfolio 0.02% | 10,216,688 | 1,823 | 10,218,511 | 1,222 | — |
| Fidelity Series Commodity Strategy Fund | 7,114 | — | — | — | 5,316 |
| Fidelity Small Cap Discovery Fund | 1,045,800 | — | 1,061,440 | — | — |
| Fidelity Small Cap Growth Fund | 99,836 | 4,387 | — | — | 105,618 |
| Fidelity Small Cap Stock Fund | 198,606 | 15,684,493 | — | 49,876 | 14,380,585 |
| Fidelity Small Cap Value Fund | 208,583 | 21,253 | — | 1,742 | 205,240 |
| Fidelity Software and IT Services Portfolio | 39,346,810 | 40,273,102 | 23,000,000 | 22,874 | 56,717,029 |
| Fidelity Stock Selector Large Cap Value Fund | 76,688,321 | 20,584,516 | 23,682,658 | 887,927 | 70,476,339 |
| Fidelity Technology Portfolio | 150,983,688 | 77,484,512 | 12,949,125 | 172,739 | 217,741,598 |
| Fidelity Telecom and Utilities Fund | 245,314 | — | 242,671 | — | — |
| Fidelity Telecommunications Portfolio | 6,830,467 | 58,577,100 | 7,166,872 | 637,200 | 59,301,007 |
| Fidelity Transportation Portfolio | 26,227,422 | 163,030 | 23,548,764 | 21,121 | — |
| Fidelity Utilities Portfolio | 30,036,219 | 9,953,739 | 22,408,623 | 410,339 | 14,461,606 |
| Fidelity Value Discovery Fund | 37,825,016 | 10,064,390 | 7,000,000 | 720,432 | 38,643,322 |
| Spartan 500 Index Fund Investor Class | 220,166 | 6,039 | — | 4,634 | 223,048 |
| Spartan Inflation-Protected Bond Index Fund | — | 105,903,396 | 112,128 | — | 103,837,384 |
| Spartan International Index Fund Investor | 118,139,257 | 6,776,043 | 40,350,000 | 2,113,102 | 82,634,239 |
| Spartan Long-Term Treasury Bond Index Fund | 35,124,499 | 107,092,419 | 41,822,346 | 2,666,967 | 92,436,385 |
| Spartan U.S. Bond Index Fund Investor Class | 1,839,149,413 | 337,768,688 | 102,856,559 | 44,532,906 | 2,032,935,669 |
| | $ 5,175,464,180 | $ 2,512,117,411 | $ 1,377,548,955 | $ 79,621,102 | $ 6,130,697,370 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

### VIP FundsManager® 50% Portfolio

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $6,006,519,735) — See accompanying schedule | | $ 6,130,697,370 |
| Receivable for investments sold | | 3,375,052 |
| Receivable for fund shares sold | | 1,727,553 |
| **Total assets** | | 6,135,799,975 |
| **Liabilities** | | |
| Payable to custodian bank | $ 849 | |
| Payable for investments purchased | 4,819,605 | |
| Payable for fund shares redeemed | 294,780 | |
| Accrued management fee | 1,016,968 | |
| Distribution and service plan fees payable | 10,477 | |
| **Total liabilities** | | 6,142,679 |
| **Net Assets** | | $ 6,129,657,296 |
| Net Assets consist of: | | |
| Paid in capital | | $ 5,938,263,415 |
| Accumulated undistributed net realized gain (loss) on investments | | 67,216,246 |
| Net unrealized appreciation (depreciation) on investments | | 124,177,635 |
| **Net Assets** | | $ 6,129,657,296 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($64,201 ÷ 5,416 shares) | | $ 11.85 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($83,447,268 ÷ 7,060,893 shares) | | $ 11.82 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($6,046,145,827 ÷ 510,160,119 shares) | | $ 11.85 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 79,621,102 |
| **Expenses** | | |
| Management fee | $ 14,300,336 | |
| Distribution and service plan fees | 220,103 | |
| Independent trustees' compensation | 22,874 | |
| Total expenses before reductions | 14,543,313 | |
| Expense reductions | (2,955,052) | 11,588,261 |
| **Net investment income (loss)** | | 68,032,841 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | (12,516,740) | |
| Capital gain distributions from underlying funds | 102,639,432 | |
| Total net realized gain (loss) | | 90,122,692 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (166,818,526) |
| **Net gain (loss)** | | (76,695,834) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (8,662,993) |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 68,032,841 | $ 58,874,202 |
| Net realized gain (loss) | 90,122,692 | 197,626,716 |
| Change in net unrealized appreciation (depreciation) | (166,818,526) | (43,354,982) |
| **Net increase (decrease) in net assets resulting from operations** | (8,662,993) | 213,145,936 |
| Distributions to shareholders from net investment income | (69,982,049) | (58,382,359) |
| Distributions to shareholders from net realized gain | (180,001,166) | (39,928,984) |
| **Total distributions** | (249,983,215) | (98,311,343) |
| Share transactions – net increase (decrease) | 1,213,704,685 | 1,651,229,085 |
| **Total increase (decrease) in net assets** | 955,058,477 | 1,766,063,678 |
| **Net Assets** | | |
| Beginning of period | 5,174,598,819 | 3,408,535,141 |
| End of period (including undistributed net investment income of $0 and $491,843, respectively) | $ 6,129,657,296 | $ 5,174,598,819 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 50% Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.39 | $ 12.01 | $ 10.62 | $ 9.78 | $ 10.02 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .15 | .17 | .15 | .18 | .19 |
| Net realized and unrealized gain (loss) | (.13) | .45 | 1.42 | .82 | (.23) |
| Total from investment operations | .02 | .62 | 1.57 | 1.00 | (.04) |
| Distributions from net investment income | (.14) | (.14) | (.12) | (.13) | (.18) |
| Distributions from net realized gain | (.42) | (.10) | (.07) | (.03) | (.02) |
| Total distributions | (.56) | (.24) | (.18)[B] | (.16) | (.20) |
| Net asset value, end of period | $ 11.85 | $ 12.39 | $ 12.01 | $ 10.62 | $ 9.78 |
| **Total Return**[C,D] | .06% | 5.18% | 14.79% | 10.24% | (.42)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.19% | 1.38% | 1.33% | 1.77% | 1.84% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 64 | $ 73 | $ 80 | $ 72 | $ 59 |
| Portfolio turnover rate[E] | 24% | 25% | 15% | 15% | 14% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.18 per share is comprised of distributions from net investment income of $.115 and distributions from net realized gain of $.065 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 50% Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.35 | $ 11.98 | $ 10.59 | $ 9.75 | $ 10.01 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .13 | .17 | .17 |
| Net realized and unrealized gain (loss) | (.12) | .44 | 1.42 | .82 | (.24) |
| Total from investment operations | .01 | .59 | 1.55 | .99 | (.07) |
| Distributions from net investment income | (.12) | (.12) | (.10) | (.12) | (.17) |
| Distributions from net realized gain | (.42) | (.10) | (.07) | (.03) | (.02) |
| Total distributions | (.54) | (.22) | (.16)[B] | (.15) | (.19) |
| Net asset value, end of period | $ 11.82 | $ 12.35 | $ 11.98 | $ 10.59 | $ 9.75 |
| **Total Return**[C,D] | (.02)% | 4.95% | 14.66% | 10.12% | (.68)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .50% | .50% | .50% | .50% | .50% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | 1.04% | 1.23% | 1.18% | 1.62% | 1.69% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 83,447 | $ 88,771 | $ 89,164 | $ 81,647 | $ 17,800 |
| Portfolio turnover rate[E] | 24% | 25% | 15% | 15% | 14% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.16 per share is comprised of distributions from net investment income of $.097 and distributions from net realized gain of $.065 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 50% Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.38 | $ 12.01 | $ 10.61 | $ 9.78 | $ 10.02 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .15 | .17 | .15 | .18 | .19 |
| Net realized and unrealized gain (loss) | (.12) | .44 | 1.43 | .81 | (.23) |
| Total from investment operations | .03 | .61 | 1.58 | .99 | (.04) |
| Distributions from net investment income | (.14) | (.14) | (.12) | (.13) | (.18) |
| Distributions from net realized gain | (.42) | (.10) | (.07) | (.03) | (.02) |
| Total distributions | (.56) | (.24) | (.18)[B] | (.16) | (.20) |
| Net asset value, end of period | $ 11.85 | $ 12.38 | $ 12.01 | $ 10.61 | $ 9.78 |
| **Total Return**[C,D] | .14% | 5.10% | 14.90% | 10.13% | (.42)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.19% | 1.38% | 1.33% | 1.77% | 1.84% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 6,046,146 | $ 5,085,755 | $ 3,319,291 | $ 1,347,437 | $ 747,577 |
| Portfolio turnover rate[E] | 24% | 25% | 15% | 15% | 14% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.18 per share is comprised of distributions from net investment income of $.115 and distributions from net realized gain of $.065 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

VIP FundsManager® 60% Portfolio

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| Fidelity Air Transportation Portfolio | 0.2 | 0.2 |
| Fidelity Automotive Portfolio | 0.1 | 0.2 |
| Fidelity Banking Portfolio | 2.2 | 2.3 |
| Fidelity Blue Chip Growth Fund | 0.9 | 0.5 |
| Fidelity Blue Chip Value Fund | 0.5 | 0.2 |
| Fidelity Brokerage and Investment Management Portfolio | 0.1 | 0.7 |
| Fidelity Chemicals Portfolio | 0.8 | 1.1 |
| Fidelity Computers Portfolio | 0.4 | 1.3 |
| Fidelity Construction and Housing Portfolio | 0.9 | 0.9 |
| Fidelity Consumer Discretionary Portfolio | 3.7 | 4.0 |
| Fidelity Consumer Finance Portfolio | 0.0 | 0.1 |
| Fidelity Consumer Staples Portfolio | 3.4 | 3.2 |
| Fidelity Contrafund | 1.1 | 0.0 |
| Fidelity Defense and Aerospace Portfolio | 0.6 | 0.2 |
| Fidelity Dividend Growth Fund | 0.0 | 0.0 |
| Fidelity Electronics Portfolio | 0.5 | 1.2 |
| Fidelity Energy Portfolio | 1.9 | 1.8 |
| Fidelity Energy Service Portfolio | 0.2 | 0.7 |
| Fidelity Financial Services Portfolio | 3.6 | 4.3 |
| Fidelity Global Commodity Stock Fund | 0.0 | 0.0 |
| Fidelity Gold Portfolio | 0.0 | 0.0 |
| Fidelity Health Care Portfolio | 3.5 | 5.2 |
| Fidelity Health Care Services Portfolio | 0.4 | 0.1 |
| Fidelity Industrial Equipment Portfolio | 0.7 | 0.5 |
| Fidelity Industrials Portfolio | 2.3 | 2.3 |
| Fidelity Insurance Portfolio | 1.1 | 0.9 |
| Fidelity IT Services Portfolio | 0.7 | 0.5 |
| Fidelity Large Cap Stock Fund | 0.7 | 0.8 |
| Fidelity Leisure Portfolio | 0.1 | 0.2 |
| Fidelity Low-Priced Stock Fund | 0.4 | 0.0 |
| Fidelity Magellan Fund | 0.0 | 0.0 |
| Fidelity Materials Portfolio | 0.1 | 0.0 |
| Fidelity Medical Equipment and Systems Portfolio | 0.7 | 0.3 |
| Fidelity Mega Cap Stock Fund | 0.3 | 0.3 |
| Fidelity Mid Cap Value Fund | 0.2 | 0.1 |
| Fidelity OTC Portfolio | 0.2 | 0.4 |
| Fidelity Pharmaceuticals Portfolio | 0.9 | 1.1 |
| Fidelity Real Estate Investment Portfolio | 0.4 | 0.4 |
| Fidelity Retailing Portfolio | 0.7 | 0.7 |
| Fidelity Series Commodity Strategy Fund | 0.0 | 0.0 |
| Fidelity Small Cap Growth Fund | 0.0 | 0.0 |
| Fidelity Small Cap Stock Fund | 0.2 | 0.2 |
| Fidelity Small Cap Value Fund | 0.0 | 0.0 |
| Fidelity Software and IT Services Portfolio | 1.3 | 0.3 |
| Fidelity Stock Selector All Cap Fund | 0.0 | 0.0 |
| Fidelity Stock Selector Large Cap Value Fund | 0.7 | 0.6 |
| Fidelity Technology Portfolio | 5.2 | 4.4 |
| Fidelity Telecommunications Portfolio | 1.2 | 0.0 |
| Fidelity Utilities Portfolio | 0.4 | 0.4 |
| Fidelity Value Discovery Fund | 0.3 | 0.2 |
| Spartan 500 Index Fund Investor Class | 0.0 | 0.0 |
| Fidelity Communications Equipment Portfolio | 0.0 | 0.2 |
| Fidelity Multimedia Portfolio | 0.0 | 0.4 |
| Fidelity Natural Gas Portfolio | 0.0 | 0.1 |
| Fidelity Transportation Portfolio | 0.0 | 0.2 |
| | 43.8 | 43.7 |
| **International Equity Funds** | | |
| Fidelity China Region Fund | 0.1 | 0.3 |
| Fidelity Diversified International Fund | 7.3 | 9.7 |
| Fidelity Emerging Asia Fund | 0.7 | 1.0 |
| Fidelity Emerging Markets Fund | 0.0 | 0.4 |
| Fidelity Europe Fund | 1.1 | 1.0 |
| Fidelity International Discovery Fund | 1.9 | 1.8 |
| Fidelity International Real Estate Fund | 0.0 | 0.0 |
| Fidelity International Small Cap Fund | 0.3 | 0.2 |
| Fidelity International Small Cap Opportunities Fund | 0.9 | 0.6 |
| Fidelity International Value Fund | 0.1 | 0.2 |
| Fidelity Japan Fund | 0.7 | 0.6 |
| Fidelity Japan Smaller Companies Fund | 0.6 | 0.5 |
| Fidelity Nordic Fund | 0.4 | 0.4 |
| Fidelity Overseas Fund | 4.9 | 3.4 |
| Fidelity Pacific Basin Fund | 0.4 | 0.7 |
| Spartan International Index Fund Investor Class | 1.4 | 2.3 |
| Fidelity International Capital Appreciation Fund | 0.0 | 0.5 |
| Fidelity International Growth Fund | 0.0 | 0.2 |
| | 20.8 | 23.8 |
| **Fixed-Income Funds** | | |
| Fidelity Floating Rate High Income Fund | 0.6 | 0.6 |
| Fidelity Focused High Income Fund | 0.0 | 0.0 |
| Fidelity High Income Fund | 0.1 | 0.1 |
| Fidelity New Markets Income Fund | 0.4 | 0.4 |
| Fidelity Real Estate Income Fund | 0.3 | 0.3 |
| Spartan Inflation-Protected Bond Index Fund Investor Class | 1.5 | 0.0 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class | 1.4 | 1.8 |
| Spartan U.S. Bond Index Fund Investor Class | 28.7 | 27.1 |
| | 33.0 | 30.3 |
| **Money Market Funds** | | |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% | 2.4 | 2.2 |
| Net Other Assets (Liabilities) | 0.0 | 0.0 |
| | 100.0 | 100.0 |

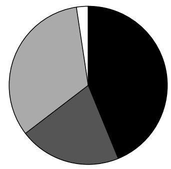
*Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and*
*Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio*

## Investment Summary (Unaudited) – continued

### Asset Allocation (% of fund's net assets)

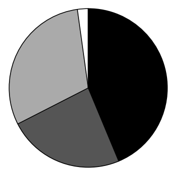
**As of December 31, 2015**

| | |
|---|---|
| ■ Domestic Equity Funds | 43.8% |
| International Equity Funds | 20.8% |
| ▒ Fixed-Income Funds | 33.0% |
| ☐ Money Market Funds | 2.4% |



**As of June 30, 2015**

| | |
|---|---|
| ■ Domestic Equity Funds | 43.7% |
| ■ International Equity Funds | 23.8% |
| ▒ Fixed-Income Funds | 30.3% |
| ☐ Money Market Funds | 2.2% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Equity Funds – 64.6%

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 43.8%** | | |
| Fidelity Air Transportation Portfolio (a) | 220,346 | $ 13,725,321 |
| Fidelity Automotive Portfolio (a) | 196,464 | 7,805,525 |
| Fidelity Banking Portfolio (a) | 5,827,026 | 149,055,336 |
| Fidelity Blue Chip Growth Fund (a) | 935,966 | 64,553,577 |
| Fidelity Blue Chip Value Fund (a) | 2,374,397 | 37,254,283 |
| Fidelity Brokerage and Investment Management Portfolio (a) | 121,047 | 7,759,106 |
| Fidelity Chemicals Portfolio (a) | 446,253 | 58,369,909 |
| Fidelity Computers Portfolio (a) | 385,503 | 26,302,858 |
| Fidelity Construction and Housing Portfolio (a) | 1,052,952 | 61,113,323 |
| Fidelity Consumer Discretionary Portfolio (a) | 7,377,952 | 252,104,622 |
| Fidelity Consumer Finance Portfolio (a) | 256,486 | 3,121,435 |
| Fidelity Consumer Staples Portfolio (a) | 2,539,028 | 231,762,488 |
| Fidelity Contrafund (a) | 799,842 | 79,144,355 |
| Fidelity Defense and Aerospace Portfolio (a) | 368,856 | 42,414,711 |
| Fidelity Dividend Growth Fund (a) | 2,670 | 80,881 |
| Fidelity Electronics Portfolio (a) | 454,322 | 34,342,184 |
| Fidelity Energy Portfolio (a) | 3,665,597 | 128,919,047 |
| Fidelity Energy Service Portfolio (a) | 325,355 | 13,352,567 |
| Fidelity Financial Services Portfolio (a) | 2,954,219 | 248,213,518 |
| Fidelity Global Commodity Stock Fund (a) | 14,376 | 126,363 |
| Fidelity Gold Portfolio (a)(b) | 28,629 | 386,492 |
| Fidelity Health Care Portfolio (a) | 1,151,352 | 239,665,518 |
| Fidelity Health Care Services Portfolio (a) | 310,698 | 26,229,149 |
| Fidelity Industrial Equipment Portfolio (a) | 1,283,146 | 46,809,163 |
| Fidelity Industrials Portfolio (a) | 5,333,569 | 155,793,541 |
| Fidelity Insurance Portfolio (a) | 1,110,101 | 75,120,539 |
| Fidelity IT Services Portfolio (a) | 1,162,917 | 46,481,797 |
| Fidelity Large Cap Stock Fund (a) | 1,714,348 | 44,795,923 |
| Fidelity Leisure Portfolio (a) | 48,979 | 6,364,294 |
| Fidelity Low-Priced Stock Fund (a) | 565,848 | 27,019,263 |
| Fidelity Magellan Fund (a) | 745 | 66,668 |
| Fidelity Materials Portfolio (a) | 105,148 | 7,218,422 |
| Fidelity Medical Equipment and Systems Portfolio (a) | 1,386,013 | 49,716,300 |
| Fidelity Mega Cap Stock Fund (a) | 1,297,826 | 20,272,043 |
| Fidelity Mid Cap Value Fund (a) | 540,150 | 12,066,946 |
| Fidelity OTC Portfolio (a) | 151,896 | 12,672,706 |
| Fidelity Pharmaceuticals Portfolio (a) | 3,168,217 | 65,170,232 |
| Fidelity Real Estate Investment Portfolio (a) | 754,617 | 30,622,375 |
| Fidelity Retailing Portfolio (a) | 482,106 | 50,722,386 |
| Fidelity Series Commodity Strategy Fund (a)(b) | 1,149 | 5,609 |
| Fidelity Small Cap Growth Fund (a) | 13,215 | 247,118 |
| Fidelity Small Cap Stock Fund (a) | 962,146 | 16,712,482 |
| Fidelity Small Cap Value Fund (a) | 17,333 | 290,157 |
| Fidelity Software and IT Services Portfolio (a) | 723,246 | $ 87,809,252 |
| Fidelity Stock Selector All Cap Fund (a) | 5,612 | 188,234 |
| Fidelity Stock Selector Large Cap Value Fund (a) | 2,782,055 | 45,291,854 |
| Fidelity Technology Portfolio (a) | 3,043,225 | 359,374,491 |
| Fidelity Telecommunications Portfolio (a) | 1,326,229 | 80,289,885 |
| Fidelity Utilities Portfolio (a) | 458,994 | 29,449,054 |
| Fidelity Value Discovery Fund (a) | 801,723 | 18,519,807 |
| Spartan 500 Index Fund Investor Class (a) | 2,453 | 176,093 |
| TOTAL DOMESTIC EQUITY FUNDS | | 3,015,069,202 |
| **International Equity Funds – 20.8%** | | |
| Fidelity China Region Fund (a) | 197,896 | 5,030,513 |
| Fidelity Diversified International Fund (a) | 14,268,571 | 500,256,086 |
| Fidelity Emerging Asia Fund (a) | 1,524,537 | 45,751,359 |
| Fidelity Emerging Markets Fund (a) | 35,786 | 778,337 |
| Fidelity Europe Fund (a) | 2,028,649 | 73,376,220 |
| Fidelity International Discovery Fund (a) | 3,322,034 | 130,921,373 |
| Fidelity International Real Estate Fund (a) | 20,219 | 202,590 |
| Fidelity International Small Cap Fund (a) | 951,946 | 21,057,050 |
| Fidelity International Small Cap Opportunities Fund (a) | 4,214,264 | 62,876,817 |
| Fidelity International Value Fund (a) | 514,299 | 4,129,818 |
| Fidelity Japan Fund (a) | 3,874,524 | 45,758,125 |
| Fidelity Japan Smaller Companies Fund (a) | 3,149,974 | 43,595,638 |
| Fidelity Nordic Fund (a) | 588,240 | 27,570,823 |
| Fidelity Overseas Fund (a) | 8,322,170 | 340,043,852 |
| Fidelity Pacific Basin Fund (a) | 1,181,591 | 31,099,487 |
| Spartan International Index Fund Investor Class (a) | 2,642,054 | 94,928,995 |
| TOTAL INTERNATIONAL EQUITY FUNDS | | 1,427,377,083 |
| **TOTAL EQUITY FUNDS** (Cost $3,802,262,002) | | **4,442,446,285** |

*See accompanying notes which are an integral part of the financial statements.*

## Fixed-Income Funds – 33.0%

| | Shares | Value |
|---|---|---|
| Fidelity Floating Rate High Income Fund (a) | 4,486,646 | $ 40,963,078 |
| Fidelity Focused High Income Fund (a) | 93,094 | 745,686 |
| Fidelity High Income Fund (a) | 906,763 | 7,208,765 |
| Fidelity New Markets Income Fund (a) | 1,615,249 | 23,453,410 |
| Fidelity Real Estate Income Fund (a) | 1,985,275 | 22,314,496 |
| Spartan Inflation-Protected Bond Index Fund Investor Class (a) | 11,153,338 | 104,618,313 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class (a) | 7,271,861 | 92,788,952 |
| Spartan U.S. Bond Index Fund Investor Class (a) | 171,997,960 | 1,976,256,563 |
| **TOTAL FIXED-INCOME FUNDS** (Cost $2,266,051,946) | | **2,268,349,263** |

## Money Market Funds – 2.4%

| | | |
|---|---|---|
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% (a)(c) (Cost $166,740,668) | 166,740,668 | **166,740,668** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $6,235,054,616) | | **6,877,536,216** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(1,211,829)** |
| **NET ASSETS – 100%** | | **$6,876,324,387** |

## Legend

(a) Affiliated Fund

(b) Non-income producing

(c) The rate quoted is the annualized seven-day yield of the fund at period end.

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Air Transportation Portfolio | $ 19,342,093 | $ 1,196,576 | $ 4,200,000 | $ 35,925 | $ 13,725,321 |
| Fidelity Automotive Portfolio | 15,571,453 | 1,339,434 | 7,987,706 | 85,895 | 7,805,525 |
| Fidelity Banking Portfolio | 151,614,028 | 13,795,779 | 8,713,500 | 1,589,570 | 149,055,336 |
| Fidelity Biotechnology Portfolio | 489,424 | — | 590,396 | — | — |
| Fidelity Blue Chip Growth Fund | 46,320,409 | 42,399,398 | 23,750,503 | 20,235 | 64,553,577 |
| Fidelity Blue Chip Value Fund | 7,283,246 | 33,173,448 | 2,181,622 | 577,572 | 37,254,283 |
| Fidelity Brokerage and Investment | 52,970,970 | 840,459 | 39,405,038 | 137,135 | 7,759,106 |
| Fidelity Canada Fund | 141,644 | — | 136,932 | — | — |
| Fidelity Chemicals Portfolio | 81,563,050 | 15,118,458 | 30,589,533 | 798,447 | 58,369,909 |
| Fidelity China Region Fund | 13,952,676 | 4,558,113 | 10,548,301 | 59,252 | 5,030,513 |
| Fidelity Communications Equipment Portfolio | 17,337,152 | 65,886 | 16,307,968 | 5,990 | — |

*See accompanying notes which are an integral part of the financial statements.*

| Affiliate | | Value, beginning of period | | Purchases | | Sales Proceeds | | Dividend Income | | Value, end of period |
|---|---|---|---|---|---|---|---|---|---|---|
| Fidelity Computers Portfolio | $ | 143,066,671 | $ | 5,642,194 | $ | 110,279,458 | $ | 467,110 | $ | 26,302,858 |
| Fidelity Construction and Housing Portfolio | | 55,017,119 | | 8,945,916 | | 4,800,000 | | 235,492 | | 61,113,323 |
| Fidelity Consumer Discretionary Portfolio | | 243,937,218 | | 38,863,476 | | 34,429,294 | | 1,287,197 | | 252,104,622 |
| Fidelity Consumer Finance Portfolio | | 10,722,560 | | 505,615 | | 7,440,000 | | 50,965 | | 3,121,435 |
| Fidelity Consumer Staples Portfolio | | 278,534,436 | | 52,608,853 | | 84,774,539 | | 3,595,051 | | 231,762,488 |
| Fidelity Contrafund | | 169,259 | | 80,858,265 | | 1,550,224 | | 238,042 | | 79,144,355 |
| Fidelity Defense and Aerospace Portfolio | | — | | 44,413,650 | | — | | 236,092 | | 42,414,711 |
| Fidelity Diversified International Fund | | 365,344,082 | | 355,215,718 | | 217,984,851 | | 5,081,286 | | 500,256,086 |
| Fidelity Dividend Growth Fund | | 81,392 | | 6,950 | | — | | 1,172 | | 80,881 |
| Fidelity Electronics Portfolio | | 77,196,627 | | 10,532,038 | | 45,500,000 | | 372,020 | | 34,342,184 |
| Fidelity Emerging Asia Fund | | 54,499,269 | | 11,884,449 | | 13,817,727 | | 201,055 | | 45,751,359 |
| Fidelity Emerging Europe, Middle East, | | 601,148 | | — | | 636,510 | | — | | — |
| Fidelity Emerging Markets Discovery Fund | | 85,477 | | — | | 86,505 | | — | | — |
| Fidelity Emerging Markets Fund | | 37,428,113 | | 3,917 | | 33,796,887 | | 3,917 | | 778,337 |
| Fidelity Energy Portfolio | | 98,588,012 | | 65,618,929 | | 2,246,217 | | 1,372,252 | | 128,919,047 |
| Fidelity Energy Service Portfolio | | 44,946,363 | | 11,442,454 | | 33,296,735 | | 128,712 | | 13,352,567 |
| Fidelity Equity Dividend Income Fund | | 142,536 | | 447 | | 145,128 | | — | | — |
| Fidelity Europe Fund | | 37,608,202 | | 37,112,180 | | 38,571 | | 848,745 | | 73,376,220 |
| Fidelity Financial Services Portfolio | | 291,238,067 | | 12,911,848 | | 39,592,582 | | 2,259,408 | | 248,213,518 |
| Fidelity Floating Rate High Income Fund | | 42,923,786 | | 1,698,966 | | 1,477,833 | | 1,698,966 | | 40,963,078 |
| Fidelity Focused High Income Fund | | 760,330 | | 35,296 | | — | | 35,296 | | 745,686 |
| Fidelity Fund | | 97,564 | | — | | 102,049 | | — | | — |
| Fidelity Global Commodity Stock Fund | | 174,270 | | 3,513 | | — | | 3,373 | | 126,363 |
| Fidelity Gold Portfolio | | 470,661 | | — | | — | | — | | 386,492 |
| Fidelity Growth & Income Portfolio | | 1,038,933 | | — | | 1,063,350 | | — | | — |
| Fidelity Growth Company Fund | | 4,329,177 | | 6,860 | | 4,532,742 | | — | | — |
| Fidelity Growth Discovery Fund | | 11,404,528 | | — | | 11,379,544 | | — | | — |
| Fidelity Health Care Portfolio | | 356,158,155 | | 43,731,875 | | 154,278,963 | | — | | 239,665,518 |
| Fidelity Health Care Services Portfolio | | 3,796,276 | | 24,796,214 | | 500,000 | | 5,491 | | 26,229,149 |
| Fidelity High Income Fund | | 7,620,339 | | 436,740 | | — | | 436,740 | | 7,208,765 |
| Fidelity Industrial Equipment Portfolio | | 39,988,029 | | 12,233,468 | | 4,129,564 | | 221,200 | | 46,809,163 |
| Fidelity Industrials Portfolio | | 147,959,049 | | 55,965,520 | | 33,993,188 | | 1,063,920 | | 155,793,541 |
| Fidelity Institutional Prime Money Market | | 30,780,345 | | 287,524,532 | | 151,564,209 | | 135,306 | | 166,740,668 |
| Fidelity Insurance Portfolio | | 64,564,278 | | 11,590,691 | | 900,000 | | 785,142 | | 75,120,539 |
| Fidelity International Capital Appreciation | | 80,905,801 | | — | | 85,453,754 | | — | | — |
| Fidelity International Discovery Fund | | 132,436,203 | | 14,843,871 | | 22,506,790 | | 1,344,742 | | 130,921,373 |
| Fidelity International Growth Fund | | 19,401,332 | | — | | 21,209,018 | | — | | — |
| Fidelity International Real Estate Fund | | 199,036 | | 5,677 | | — | | 3,300 | | 202,590 |
| Fidelity International Small Cap Fund | | — | | 30,636,690 | | 7,700,000 | | 366,589 | | 21,057,050 |
| Fidelity International Small Cap | | 28,373,457 | | 38,640,258 | | 5,832,336 | | 247,840 | | 62,876,817 |
| Fidelity International Value Fund | | 21,779,575 | | 58,821 | | 19,040,000 | | 58,821 | | 4,129,818 |
| Fidelity IT Services Portfolio | | 192,761 | | 59,270,879 | | 13,564,634 | | — | | 46,481,797 |
| Fidelity Japan Fund | | 354,586 | | 47,526,334 | | — | | 265,673 | | 45,758,125 |
| Fidelity Japan Smaller Companies Fund | | 20,085,340 | | 21,228,590 | | — | | 281,897 | | 43,595,638 |
| Fidelity Large Cap Stock Fund | | 68,266,698 | | 16,409,356 | | 35,386,776 | | 583,699 | | 44,795,923 |
| Fidelity Latin America Fund | | 93,973 | | — | | 91,919 | | — | | — |
| Fidelity Leisure Portfolio | | 13,490,235 | | 490,568 | | 7,700,000 | | 76,742 | | 6,364,294 |
| Fidelity Leveraged Company Stock Fund | | — | | — | | — | | — | | — |
| Fidelity Low-Priced Stock Fund | | — | | 43,607,784 | | 16,320,000 | | 324,437 | | 27,019,263 |
| Fidelity Magellan Fund | | 64,070 | | 4,918 | | — | | 380 | | 66,668 |
| Fidelity Materials Portfolio | | — | | 7,610,717 | | — | | 77,599 | | 7,218,422 |
| Fidelity Medical Equipment and Systems | | 11,593,811 | | 40,787,048 | | — | | 7,932 | | 49,716,300 |
| Fidelity Mega Cap Stock Fund | | 20,567,174 | | 817,962 | | — | | 310,210 | | 20,272,043 |
| Fidelity Mid Cap Value Fund | | 10,192,924 | | 43,294,126 | | 39,958,001 | | 407,527 | | 12,066,946 |
| Fidelity Multimedia Portfolio | | 39,989,916 | | 504,873 | | 39,780,965 | | 5,762 | | — |
| Fidelity Natural Gas Portfolio | | 12,002,025 | | 24,471 | | 10,721,279 | | 24,471 | | — |
| Fidelity New Markets Income Fund | | 35,437,824 | | 1,500,958 | | 12,239,126 | | 1,500,945 | | 23,453,410 |
| Fidelity Nordic Fund | | 32,523,084 | | 358,240 | | 8,000,000 | | 328,048 | | 27,570,823 |

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity OTC Portfolio | $ 26,269,717 | $ 2,048,299 | $ 16,797,876 | $ — | $ 12,672,706 |
| Fidelity Overseas Fund | 185,415,776 | 142,656,840 | — | 3,152,819 | 340,043,852 |
| Fidelity Pacific Basin Fund | 42,210,965 | 1,477,310 | 12,450,000 | 407,301 | 31,099,487 |
| Fidelity Pharmaceuticals Portfolio | 79,689,802 | 8,662,375 | 22,500,000 | 520,024 | 65,170,232 |
| Fidelity Real Estate Income Fund | 21,932,434 | 1,193,876 | — | 922,193 | 22,314,496 |
| Fidelity Real Estate Investment Portfolio | 29,301,622 | 17,752,321 | 14,879,259 | 503,889 | 30,622,375 |
| Fidelity Retailing Portfolio | 38,923,561 | 6,455,650 | 1,900,000 | 87,074 | 50,722,386 |
| Fidelity Series Commodity Strategy Fund | 7,506 | — | — | — | 5,609 |
| Fidelity Small Cap Discovery Fund | 1,202,794 | — | 1,220,782 | — | — |
| Fidelity Small Cap Growth Fund | 233,588 | 10,264 | — | — | 247,118 |
| Fidelity Small Cap Stock Fund | — | 18,867,726 | — | 64,507 | 16,712,482 |
| Fidelity Small Cap Value Fund | 294,883 | 30,047 | — | 2,463 | 290,157 |
| Fidelity Software and IT Services Portfolio | 51,782,816 | 67,624,439 | 32,697,144 | 35,793 | 87,809,252 |
| Fidelity Stock Selector All Cap Fund | 188,333 | 9,230 | — | 1,221 | 188,234 |
| Fidelity Stock Selector Large Cap Value Fund | 42,415,433 | 24,341,289 | 19,791,866 | 568,507 | 45,291,854 |
| Fidelity Technology Portfolio | 292,437,067 | 82,757,958 | 22,030,245 | 293,835 | 359,374,491 |
| Fidelity Telecom and Utilities Fund | 810,232 | — | 822,991 | — | — |
| Fidelity Telecommunications Portfolio | 16,331,387 | 79,670,280 | 17,197,291 | 862,793 | 80,289,885 |
| Fidelity Transportation Portfolio | 40,097,707 | 230,525 | 36,191,433 | 32,510 | — |
| Fidelity Utilities Portfolio | 56,276,953 | 12,077,245 | 32,884,726 | 776,640 | 29,449,054 |
| Fidelity Value Discovery Fund | 9,177,687 | 10,417,805 | — | 308,714 | 18,519,807 |
| Spartan 500 Index Fund Investor Class | 173,817 | 4,767 | — | 3,659 | 176,093 |
| Spartan Inflation-Protected Bond Index Fund | — | 107,198,927 | 593,111 | — | 104,618,313 |
| Spartan International Index Fund Investor | 179,433,070 | 3,905,524 | 89,010,000 | 2,445,467 | 94,928,995 |
| Spartan Long-Term Treasury Bond Index Fund | 31,242,641 | 122,706,572 | 50,993,936 | 2,994,811 | 92,788,952 |
| Spartan U.S. Bond Index Fund Investor Class | 2,047,710,379 | 174,408,093 | 204,788,737 | 46,453,258 | 1,976,256,563 |
| | $ 6,599,368,411 | $ 2,539,207,628 | $ 2,061,002,164 | $ 90,728,063 | $ 6,877,536,216 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $6,235,054,616) — See accompanying schedule | | $ 6,877,536,216 |
| Receivable for investments sold | | 5,443,594 |
| Receivable for fund shares sold | | 255,329 |
| **Total assets** | | 6,883,235,139 |
| **Liabilities** | | |
| Payable to custodian bank | $ 833 | |
| Payable for investments purchased | 4,664,972 | |
| Payable for fund shares redeemed | 1,033,157 | |
| Accrued management fee | 1,149,260 | |
| Distribution and service plan fees payable | 62,530 | |
| **Total liabilities** | | 6,910,752 |
| **Net Assets** | | $ 6,876,324,387 |
| Net Assets consist of: | | |
| Paid in capital | | $ 6,023,220,428 |
| Undistributed net investment income | | 321,117 |
| Accumulated undistributed net realized gain (loss) on investments | | 210,301,242 |
| Net unrealized appreciation (depreciation) on investments | | 642,481,600 |
| **Net Assets** | | $ 6,876,324,387 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($59,949 ÷ 5,419 shares) | | $ 11.06 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($497,767,784 ÷ 45,085,738 shares) | | $ 11.04 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($6,378,496,654 ÷ 576,684,008 shares) | | $ 11.06 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 90,728,063 |
| **Expenses** | | |
| Management fee | $ 17,253,883 | |
| Distribution and service plan fees | 1,181,256 | |
| Independent trustees' compensation | 27,888 | |
| Total expenses before reductions | 18,463,027 | |
| Expense reductions | (3,930,631) | 14,532,396 |
| **Net investment income (loss)** | | 76,195,667 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | 95,806,181 | |
| Capital gain distributions from underlying funds | 146,216,637 | |
| Total net realized gain (loss) | | 242,022,818 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (295,843,842) |
| **Net gain (loss)** | | (53,821,024) |
| **Net increase (decrease) in net assets resulting from operations** | | $ 22,374,643 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 76,195,667 | $ 81,340,804 |
| Net realized gain (loss) | 242,022,818 | 500,769,331 |
| Change in net unrealized appreciation (depreciation) | (295,843,842) | (241,588,513) |
| **Net increase (decrease) in net assets resulting from operations** | 22,374,643 | 340,521,622 |
| Distributions to shareholders from net investment income | (75,874,550) | (81,347,441) |
| Distributions to shareholders from net realized gain | (467,815,616) | (171,896,460) |
| **Total distributions** | (543,690,166) | (253,243,901) |
| Share transactions – net increase (decrease) | 799,417,199 | 101,007,004 |
| **Total increase (decrease) in net assets** | 278,101,676 | 188,284,725 |
| **Net Assets** | | |
| Beginning of period | 6,598,222,711 | 6,409,937,986 |
| End of period (including undistributed net investment income of $321,117 and $0, respectively) | $ 6,876,324,387 | $ 6,598,222,711 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 60% Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.97 | $ 11.81 | $ 10.44 | $ 9.53 | $ 9.88 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .13 | .15 | .18 |
| Net realized and unrealized gain (loss) | (.07) | .48 | 1.80 | .94 | (.37) |
| Total from investment operations | .06 | .63 | 1.93 | 1.09 | (.19) |
| Distributions from net investment income | (.13) | (.15) | (.13) | (.15) | (.14) |
| Distributions from net realized gain | (.84) | (.32) | (.43) | (.03) | (.02) |
| Total distributions | (.97) | (.47) | (.56) | (.18) | (.16) |
| Net asset value, end of period | $ 11.06 | $ 11.97 | $ 11.81 | $ 10.44 | $ 9.53 |
| **Total Return**[B,C] | .41% | 5.40% | 18.62% | 11.48% | (1.92)% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.11% | 1.26% | 1.18% | 1.51% | 1.77% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 60 | $ 69 | $ 75 | $ 66 | $ 58 |
| Portfolio turnover rate[D] | 30% | 36% | 21% | 19% | 9% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expense ratios before reductions for start-up periods may not be representative of longer-term operating periods. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 60% Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.95 | $ 11.79 | $ 10.43 | $ 9.52 | $ 9.88 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .11 | .13 | .12 | .14 | .16 |
| Net realized and unrealized gain (loss) | (.07) | .48 | 1.78 | .94 | (.37) |
| Total from investment operations | .04 | .61 | 1.90 | 1.08 | (.21) |
| Distributions from net investment income | (.11) | (.13) | (.12) | (.14) | (.13) |
| Distributions from net realized gain | (.84) | (.32) | (.43) | (.03) | (.02) |
| Total distributions | (.95) | (.45) | (.54)[B] | (.17) | (.15) |
| Net asset value, end of period | $ 11.04 | $ 11.95 | $ 11.79 | $ 10.43 | $ 9.52 |
| **Total Return**[C,D] | .27% | 5.26% | 18.39% | 11.35% | (2.08)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .50% | .50% | .50% | .50% | .50% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | .96% | 1.11% | 1.03% | 1.36% | 1.62% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 497,768 | $ 425,719 | $ 372,191 | $ 254,505 | $ 45,494 |
| Portfolio turnover rate[E] | 30% | 36% | 21% | 19% | 9% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.54 per share is comprised of distributions from net investment income of $.119 and distributions from net realized gain of $.425 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expense ratios before reductions for start-up periods may not be representative of longer-term operating periods. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 60% Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 11.97 | $ 11.81 | $ 10.44 | $ 9.52 | $ 9.88 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .13 | .15 | .17 |
| Net realized and unrealized gain (loss) | (.07) | .48 | 1.80 | .95 | (.37) |
| Total from investment operations | .06 | .63 | 1.93 | 1.10 | (.20) |
| Distributions from net investment income | (.13) | (.15) | (.13) | (.15) | (.14) |
| Distributions from net realized gain | (.84) | (.32) | (.43) | (.03) | (.02) |
| Total distributions | (.97) | (.47) | (.56) | (.18) | (.16) |
| Net asset value, end of period | $ 11.06 | $ 11.97 | $ 11.81 | $ 10.44 | $ 9.52 |
| **Total Return**[B,C] | .41% | 5.40% | 18.62% | 11.60% | (2.02)% |
| **Ratios to Average Net Assets**[D,E] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.11% | 1.26% | 1.18% | 1.51% | 1.77% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 6,378,497 | $ 6,172,435 | $ 6,037,672 | $ 5,275,474 | $ 4,094,228 |
| Portfolio turnover rate[D] | 30% | 36% | 21% | 19% | 9% |

A *Calculated based on average shares outstanding during the period.*
B *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
C *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
D *Amounts do not include the activity of the Underlying Funds.*
E *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expense ratios before reductions for start-up periods may not be representative of longer-term operating periods. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

**VIP FundsManager® 70% Portfolio**

# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

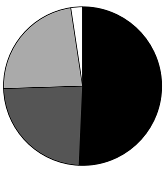
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| Fidelity Air Transportation Portfolio | 0.2 | 0.2 |
| Fidelity Banking Portfolio | 2.7 | 2.7 |
| Fidelity Blue Chip Growth Fund | 2.0 | 1.6 |
| Fidelity Blue Chip Value Fund | 1.3 | 0.4 |
| Fidelity Brokerage and Investment Management Portfolio | 0.1 | 1.0 |
| Fidelity Chemicals Portfolio | 0.7 | 1.0 |
| Fidelity Computers Portfolio | 0.4 | 1.2 |
| Fidelity Construction and Housing Portfolio | 1.2 | 1.1 |
| Fidelity Consumer Discretionary Portfolio | 3.7 | 4.7 |
| Fidelity Consumer Staples Portfolio | 3.7 | 3.3 |
| Fidelity Contrafund | 1.6 | 0.0 |
| Fidelity Defense and Aerospace Portfolio | 0.7 | 0.6 |
| Fidelity Dividend Growth Fund | 0.0 | 0.0 |
| Fidelity Electronics Portfolio | 0.5 | 1.6 |
| Fidelity Energy Portfolio | 2.0 | 2.2 |
| Fidelity Energy Service Portfolio | 0.2 | 0.5 |
| Fidelity Financial Services Portfolio | 3.3 | 3.9 |
| Fidelity Gold Portfolio | 0.0 | 0.0 |
| Fidelity Health Care Portfolio | 3.5 | 5.5 |
| Fidelity Health Care Services Portfolio | 0.7 | 0.8 |
| Fidelity Industrial Equipment Portfolio | 0.7 | 0.0 |
| Fidelity Industrials Portfolio | 2.6 | 2.9 |
| Fidelity Insurance Portfolio | 1.2 | 0.8 |
| Fidelity IT Services Portfolio | 0.7 | 0.5 |
| Fidelity Large Cap Stock Fund | 0.6 | 1.5 |
| Fidelity Low-Priced Stock Fund | 0.9 | 0.0 |
| Fidelity Magellan Fund | 0.0 | 0.0 |
| Fidelity Materials Portfolio | 0.2 | 0.0 |
| Fidelity Medical Equipment and Systems Portfolio | 1.1 | 0.9 |
| Fidelity Mega Cap Stock Fund | 0.3 | 0.3 |
| Fidelity Mid Cap Value Fund | 0.9 | 2.0 |
| Fidelity Nasdaq Composite Index Fund | 0.2 | 0.2 |
| Fidelity OTC Portfolio | 0.0 | 0.4 |
| Fidelity Pharmaceuticals Portfolio | 0.6 | 0.1 |
| Fidelity Real Estate Investment Portfolio | 0.4 | 0.4 |
| Fidelity Retailing Portfolio | 0.9 | 0.8 |
| Fidelity Series Commodity Strategy Fund | 0.0 | 0.0 |
| Fidelity Small Cap Stock Fund | 0.4 | 0.4 |
| Fidelity Software and IT Services Portfolio | 1.4 | 0.3 |
| Fidelity Stock Selector Large Cap Value Fund | 1.1 | 1.4 |
| Fidelity Technology Portfolio | 5.6 | 4.7 |
| Fidelity Telecommunications Portfolio | 1.4 | 0.0 |
| Fidelity Utilities Portfolio | 0.3 | 0.2 |
| Fidelity Value Discovery Fund | 0.7 | 0.2 |
| Spartan 500 Index Fund Investor Class | 0.0 | 0.0 |
| Fidelity Leisure Portfolio | 0.0 | 0.0 |
| Fidelity Natural Gas Portfolio | 0.0 | 0.1 |
| Fidelity Transportation Portfolio | 0.0 | 0.1 |
| | 50.7 | 50.5 |
| **International Equity Funds** | | |
| Fidelity China Region Fund | 0.1 | 0.2 |
| Fidelity Diversified International Fund | 6.7 | 10.4 |
| Fidelity Emerging Asia Fund | 0.6 | 0.9 |
| Fidelity Emerging Markets Fund | 0.1 | 0.8 |
| Fidelity Europe Fund | 2.2 | 2.2 |
| Fidelity International Capital Appreciation Fund | 0.0 | 0.2 |
| Fidelity International Discovery Fund | 2.2 | 2.3 |
| Fidelity International Real Estate Fund | 0.0 | 0.0 |
| Fidelity International Small Cap Fund | 0.5 | 0.5 |
| Fidelity International Small Cap Opportunities Fund | 1.0 | 0.7 |
| Fidelity Japan Fund | 0.8 | 0.9 |
| Fidelity Japan Smaller Companies Fund | 0.8 | 0.6 |
| Fidelity Overseas Fund | 7.2 | 4.6 |
| Fidelity Pacific Basin Fund | 0.4 | 0.6 |
| Spartan International Index Fund Investor Class | 1.2 | 2.1 |
| Fidelity International Growth Fund | 0.0 | 0.0 |
| | 23.8 | 27.0 |
| **Fixed-Income Funds** | | |
| Fidelity Floating Rate High Income Fund | 0.6 | 0.6 |
| Fidelity Focused High Income Fund | 0.1 | 0.1 |
| Fidelity High Income Fund | 0.0 | 0.0 |
| Fidelity New Markets Income Fund | 0.4 | 0.4 |
| Fidelity Real Estate Income Fund | 0.3 | 0.3 |
| Spartan Inflation-Protected Bond Index Fund Investor Class | 1.5 | 0.0 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class | 1.4 | 1.8 |
| Spartan U.S. Bond Index Fund Investor Class | 18.8 | 17.2 |
| | 23.1 | 20.4 |
| **Money Market Funds** | | |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% | 2.4 | 2.1 |
| Net Other Assets (Liabilities) | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio*

## Asset Allocation (% of fund's net assets)

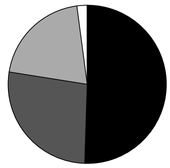
**As of December 31, 2015**

| | |
|---|---|
| Domestic Equity Funds | 50.7% |
| International Equity Funds | 23.8% |
| Fixed-Income Funds | 23.1% |
| Money Market Funds | 2.4% |



**As of June 30, 2015**

| | | |
|---|---|---|
| | Domestic Equity Funds | 50.5% |
| ■ | International Equity Funds | 27.0% |
| ■ | Fixed-Income Funds | 20.4% |
| □ | Money Market Funds | 2.1% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Equity Funds – 74.5%

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 50.7%** | | |
| Fidelity Air Transportation Portfolio (a) | 28,127 | $ 1,752,055 |
| Fidelity Banking Portfolio (a) | 1,190,123 | 30,443,354 |
| Fidelity Blue Chip Growth Fund (a) | 326,746 | 22,535,638 |
| Fidelity Blue Chip Value Fund (a) | 944,103 | 14,812,968 |
| Fidelity Brokerage and Investment Management Portfolio (a) | 16,678 | 1,069,066 |
| Fidelity Chemicals Portfolio (a) | 57,463 | 7,516,222 |
| Fidelity Computers Portfolio (a) | 61,726 | 4,211,545 |
| Fidelity Construction and Housing Portfolio (a) | 222,342 | 12,904,758 |
| Fidelity Consumer Discretionary Portfolio (a) | 1,214,244 | 41,490,727 |
| Fidelity Consumer Staples Portfolio (a) | 451,092 | 41,175,715 |
| Fidelity Contrafund (a) | 183,408 | 18,148,209 |
| Fidelity Defense and Aerospace Portfolio (a) | 62,976 | 7,241,652 |
| Fidelity Dividend Growth Fund (a) | 551 | 16,682 |
| Fidelity Electronics Portfolio (a) | 66,878 | 5,055,291 |
| Fidelity Energy Portfolio (a) | 624,182 | 21,952,494 |
| Fidelity Energy Service Portfolio (a) | 59,536 | 2,443,375 |
| Fidelity Financial Services Portfolio (a) | 430,510 | 36,171,417 |
| Fidelity Gold Portfolio (a)(b) | 4,361 | 58,879 |
| Fidelity Health Care Portfolio (a) | 188,047 | 39,143,901 |
| Fidelity Health Care Services Portfolio (a) | 88,695 | 7,487,609 |
| Fidelity Industrial Equipment Portfolio (a) | 200,351 | 7,308,805 |
| Fidelity Industrials Portfolio (a) | 990,268 | 28,925,716 |
| Fidelity Insurance Portfolio (a) | 197,585 | 13,370,609 |
| Fidelity IT Services Portfolio (a) | 194,704 | 7,782,314 |
| Fidelity Large Cap Stock Fund (a) | 238,943 | 6,243,589 |
| Fidelity Low-Priced Stock Fund (a) | 219,888 | 10,499,657 |
| Fidelity Magellan Fund (a) | 234 | 20,911 |
| Fidelity Materials Portfolio (a) | 39,521 | 2,713,126 |
| Fidelity Medical Equipment and Systems Portfolio (a) | 325,273 | 11,667,533 |
| Fidelity Mega Cap Stock Fund (a) | 190,556 | 2,976,491 |
| Fidelity Mid Cap Value Fund (a) | 462,986 | 10,343,099 |
| Fidelity Nasdaq Composite Index Fund (a) | 28,499 | 1,868,971 |
| Fidelity OTC Portfolio (a) | 5,173 | 431,553 |
| Fidelity Pharmaceuticals Portfolio (a) | 351,050 | 7,221,097 |
| Fidelity Real Estate Investment Portfolio (a) | 122,755 | 4,981,409 |
| Fidelity Retailing Portfolio (a) | 93,134 | 9,798,609 |
| Fidelity Series Commodity Strategy Fund (a)(b) | 1,089 | 5,316 |
| Fidelity Small Cap Stock Fund (a) | 249,711 | 4,337,477 |
| Fidelity Software and IT Services Portfolio (a) | 127,719 | 15,506,370 |
| Fidelity Stock Selector Large Cap Value Fund (a) | 718,259 | 11,693,249 |
| Fidelity Technology Portfolio (a) | 529,063 | 62,477,056 |
| Fidelity Telecommunications Portfolio (a) | 248,151 | 15,023,040 |
| Fidelity Utilities Portfolio (a) | 57,980 | 3,719,984 |
| Fidelity Value Discovery Fund (a) | 316,388 | $ 7,308,562 |
| Spartan 500 Index Fund Investor Class (a) | 348 | 25,015 |
| TOTAL DOMESTIC EQUITY FUNDS | | 561,881,115 |
| **International Equity Funds – 23.8%** | | |
| Fidelity China Region Fund (a) | 24,589 | 625,046 |
| Fidelity Diversified International Fund (a) | 2,124,624 | 74,489,316 |
| Fidelity Emerging Asia Fund (a) | 212,025 | 6,362,876 |
| Fidelity Emerging Markets Fund (a) | 69,107 | 1,503,073 |
| Fidelity Europe Fund (a) | 662,968 | 23,979,545 |
| Fidelity International Capital Appreciation Fund (a) | 29,695 | 493,228 |
| Fidelity International Discovery Fund (a) | 603,839 | 23,797,296 |
| Fidelity International Real Estate Fund (a) | 1,644 | 16,472 |
| Fidelity International Small Cap Fund (a) | 240,318 | 5,315,824 |
| Fidelity International Small Cap Opportunities Fund (a) | 721,306 | 10,761,880 |
| Fidelity Japan Fund (a) | 788,775 | 9,315,436 |
| Fidelity Japan Smaller Companies Fund (a) | 644,589 | 8,921,108 |
| Fidelity Overseas Fund (a) | 1,949,357 | 79,650,717 |
| Fidelity Pacific Basin Fund (a) | 176,311 | 4,640,495 |
| Spartan International Index Fund Investor Class (a) | 384,465 | 13,813,833 |
| TOTAL INTERNATIONAL EQUITY FUNDS | | 263,686,145 |
| **TOTAL EQUITY FUNDS** (Cost $754,471,748) | | **825,567,260** |

## Fixed-Income Funds – 23.1%

| | Shares | Value |
|---|---|---|
| Fidelity Floating Rate High Income Fund (a) | 673,804 | 6,151,835 |
| Fidelity Focused High Income Fund (a) | 85,818 | 687,400 |
| Fidelity High Income Fund (a) | 63,035 | 501,125 |
| Fidelity New Markets Income Fund (a) | 269,226 | 3,909,162 |
| Fidelity Real Estate Income Fund (a) | 321,062 | 3,608,742 |
| Spartan Inflation-Protected Bond Index Fund Investor Class (a) | 1,801,797 | 16,900,858 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class (a) | 1,248,825 | 15,935,008 |
| Spartan U.S. Bond Index Fund Investor Class (a) | 18,192,009 | 209,026,186 |
| **TOTAL FIXED-INCOME FUNDS** (Cost $253,052,450) | | **256,720,316** |

*See accompanying notes which are an integral part of the financial statements.*

## Money Market Funds – 2.4%

| | Shares | Value |
|---|---|---|
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% (a)(c) (Cost $26,701,665) | 26,701,665 | **$ 26,701,665** |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $1,034,225,863) | | **1,108,989,241** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(187,470)** |
| **NET ASSETS – 100%** | | **$1,108,801,771** |

## Legend

(a) Affiliated Fund

(b) Non-income producing

(c) The rate quoted is the annualized seven-day yield of the fund at period end.

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Air Transportation Portfolio | $ 2,939,818 | $ 151,215 | $ 1,000,000 | $ 4,442 | $ 1,752,055 |
| Fidelity Automotive Portfolio | 2,692,911 | — | 2,581,537 | — | — |
| Fidelity Banking Portfolio | 26,377,616 | 6,882,140 | 1,194,594 | 316,564 | 30,443,354 |
| Fidelity Biotechnology Portfolio | 26,247 | — | 31,662 | — | — |
| Fidelity Blue Chip Growth Fund | 19,675,213 | 8,379,980 | 5,548,845 | 7,597 | 22,535,638 |
| Fidelity Blue Chip Value Fund | 2,776,361 | 12,703,996 | 205,694 | 181,876 | 14,812,968 |
| Fidelity Brokerage and Investment | 12,417,360 | 159,833 | 10,273,305 | 25,089 | 1,069,066 |
| Fidelity Canada Fund | 105,307 | — | 101,803 | — | — |
| Fidelity Chemicals Portfolio | 12,978,565 | 2,805,684 | 7,114,149 | 105,161 | 7,516,222 |
| Fidelity China Region Fund | 222,405 | 2,227,291 | 1,400,000 | 7,362 | 625,046 |
| Fidelity Communications Equipment Portfolio | 582,603 | — | 596,509 | — | — |
| Fidelity Computers Portfolio | 20,564,166 | 1,174,286 | 15,570,474 | 69,125 | 4,211,545 |
| Fidelity Construction and Housing Portfolio | 11,314,411 | 1,350,858 | 147,508 | 49,786 | 12,904,758 |
| Fidelity Consumer Discretionary Portfolio | 45,729,066 | 7,206,938 | 12,246,824 | 217,172 | 41,490,727 |
| Fidelity Consumer Finance Portfolio | 1,120,890 | — | 1,100,224 | — | — |
| Fidelity Consumer Staples Portfolio | 45,115,479 | 14,696,518 | 16,123,985 | 639,378 | 41,175,715 |
| Fidelity Contrafund | 35,204 | 18,389,662 | 86,516 | 54,459 | 18,148,209 |
| Fidelity Defense and Aerospace Portfolio | — | 8,239,493 | 290,000 | 53,559 | 7,241,652 |
| Fidelity Diversified International Fund | 47,754,428 | 89,266,448 | 63,447,421 | 737,089 | 74,489,316 |
| Fidelity Dividend Growth Fund | 16,787 | 1,433 | — | 242 | 16,682 |
| Fidelity Electronics Portfolio | 16,610,832 | 1,999,689 | 12,047,508 | 57,889 | 5,055,291 |
| Fidelity Emerging Asia Fund | 5,612,242 | 4,312,658 | 2,352,596 | 28,023 | 6,362,876 |
| Fidelity Emerging Markets Fund | 11,650,330 | 7,564 | 9,061,339 | 7,564 | 1,503,073 |
| Fidelity Energy Portfolio | 15,122,782 | 13,718,043 | 801,831 | 232,221 | 21,952,494 |
| Fidelity Energy Service Portfolio | 6,651,143 | 2,154,789 | 5,058,991 | 20,775 | 2,443,375 |
| Fidelity Equity Dividend Income Fund | 14,767 | 46 | 15,036 | — | — |
| Fidelity Europe Fund | 18,158,908 | 5,704,692 | — | 277,372 | 23,979,545 |
| Fidelity Financial Services Portfolio | 40,339,534 | 4,468,721 | 6,284,604 | 329,309 | 36,171,417 |
| Fidelity Floating Rate High Income Fund | 6,583,097 | 255,146 | 358,652 | 255,146 | 6,151,835 |
| Fidelity Focused High Income Fund | 700,899 | 32,538 | — | 32,538 | 687,400 |
| Fidelity Fund | 25,945 | — | 27,138 | — | — |

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Gold Portfolio | $ 71,702 | $ — | $ — | $ — | $ 58,879 |
| Fidelity Growth & Income Portfolio | 397,927 | — | 407,279 | — | — |
| Fidelity Growth Company Fund | 622,018 | 986 | 654,147 | — | — |
| Fidelity Growth Discovery Fund | 801,724 | — | 816,489 | — | — |
| Fidelity Health Care Portfolio | 58,224,611 | 8,842,376 | 27,161,466 | — | 39,143,901 |
| Fidelity Health Care Services Portfolio | 1,131,412 | 7,226,023 | 999,928 | 1,560 | 7,487,609 |
| Fidelity High Income Fund | 529,736 | 30,361 | — | 30,361 | 501,125 |
| Fidelity Industrial Equipment Portfolio | — | 7,418,685 | — | 20,883 | 7,308,805 |
| Fidelity Industrials Portfolio | 26,238,381 | 12,468,230 | 7,117,556 | 197,878 | 28,925,716 |
| Fidelity Institutional Prime Money Market | 4,986,661 | 50,535,821 | 28,820,817 | 21,303 | 26,701,665 |
| Fidelity Insurance Portfolio | 9,070,907 | 4,975,351 | 499,621 | 135,196 | 13,370,609 |
| Fidelity International Capital Appreciation | 8,363,956 | 7,603 | 8,409,312 | 2,018 | 493,228 |
| Fidelity International Discovery Fund | 43,303,275 | 3,564,912 | 25,483,875 | 244,431 | 23,797,296 |
| Fidelity International Growth Fund | 372,757 | — | 407,499 | — | — |
| Fidelity International Real Estate Fund | 16,183 | 462 | — | 268 | 16,472 |
| Fidelity International Small Cap Fund | — | 7,200,013 | 1,300,000 | 84,461 | 5,315,824 |
| Fidelity International Small Cap | — | 10,957,903 | — | 43,862 | 10,761,880 |
| Fidelity International Value Fund | 120,120 | — | 127,133 | — | — |
| Fidelity IT Services Portfolio | 291,922 | 11,396,647 | 4,158,981 | — | 7,782,314 |
| Fidelity Japan Fund | 131,061 | 9,562,740 | — | 54,086 | 9,315,436 |
| Fidelity Japan Smaller Companies Fund | 2,639,812 | 6,018,441 | — | 57,543 | 8,921,108 |
| Fidelity Large Cap Stock Fund | 16,263,471 | 8,305,594 | 16,791,811 | 118,977 | 6,243,589 |
| Fidelity Leisure Portfolio | 314,416 | 10,137 | 325,649 | 1,472 | — |
| Fidelity Leveraged Company Stock Fund | 44,484 | — | 46,349 | — | — |
| Fidelity Low-Priced Stock Fund | — | 15,285,823 | 4,550,000 | 128,269 | 10,499,657 |
| Fidelity Magellan Fund | 20,096 | 1,543 | — | 119 | 20,911 |
| Fidelity Materials Portfolio | — | 2,843,979 | — | 29,167 | 2,713,126 |
| Fidelity Medical Equipment and Systems | 2,450,947 | 9,980,354 | — | 1,856 | 11,667,533 |
| Fidelity Mega Cap Stock Fund | 14,474,860 | 120,099 | 11,800,000 | 45,547 | 2,976,491 |
| Fidelity Mid Cap Value Fund | 14,384,854 | 14,830,837 | 17,249,972 | 215,168 | 10,343,099 |
| Fidelity Nasdaq Composite Index Fund | 1,749,674 | 27,659 | — | 15,561 | 1,868,971 |
| Fidelity Natural Gas Portfolio | 4,057,781 | 8,274 | 3,731,949 | 8,274 | — |
| Fidelity New Markets Income Fund | 5,562,127 | 295,246 | 1,742,375 | 237,646 | 3,909,162 |
| Fidelity OTC Portfolio | 4,173,412 | 983,230 | 4,776,799 | — | 431,553 |
| Fidelity Overseas Fund | 26,793,766 | 51,980,804 | — | 787,622 | 79,650,717 |
| Fidelity Pacific Basin Fund | 5,730,114 | 720,436 | 1,800,000 | 60,775 | 4,640,495 |
| Fidelity Pharmaceuticals Portfolio | 12,289,609 | 7,297,648 | 11,060,570 | 46,067 | 7,221,097 |
| Fidelity Real Estate Income Fund | 3,546,954 | 193,076 | — | 149,139 | 3,608,742 |
| Fidelity Real Estate Investment Portfolio | 5,047,496 | 2,590,644 | 2,414,997 | 80,563 | 4,981,409 |
| Fidelity Retailing Portfolio | 7,122,070 | 1,781,065 | 500,000 | 17,182 | 9,798,609 |
| Fidelity Series Commodity Strategy Fund | 7,114 | — | — | — | 5,316 |
| Fidelity Small Cap Discovery Fund | 276,003 | — | 280,864 | — | — |
| Fidelity Small Cap Growth Fund | 140,471 | — | 145,354 | — | — |
| Fidelity Small Cap Stock Fund | 12,293 | 4,984,436 | 12,686 | 22,722 | 4,337,477 |
| Fidelity Small Cap Value Fund | 143,234 | — | 145,731 | — | — |
| Fidelity Software and IT Services Portfolio | 7,735,891 | 12,328,751 | 4,991,909 | 6,297 | 15,506,370 |
| Fidelity Stock Selector Large Cap Value Fund | 15,196,126 | 5,670,170 | 8,769,089 | 146,009 | 11,693,249 |
| Fidelity Technology Portfolio | 47,457,771 | 20,302,986 | 6,215,622 | 50,567 | 62,477,056 |
| Fidelity Telecommunications Portfolio | 2,706,553 | 14,835,815 | 2,843,278 | 161,552 | 15,023,040 |
| Fidelity Transportation Portfolio | 10,191,032 | 43,118 | 9,437,840 | 6,081 | — |
| Fidelity Utilities Portfolio | 8,211,678 | 3,366,099 | 7,197,412 | 98,679 | 3,719,984 |
| Fidelity Value Discovery Fund | 3,348,744 | 5,586,616 | 1,108,078 | 136,016 | 7,308,562 |
| Spartan 500 Index Fund Investor Class | 24,691 | 677 | — | 520 | 25,015 |
| Spartan Extended Market Index Fund Investor | 194,471 | — | 201,766 | — | — |
| Spartan Inflation-Protected Bond Index Fund | — | 17,287,479 | 63,815 | — | 16,900,858 |
| Spartan International Index Fund Investor | 57,791,295 | 903,563 | 45,679,999 | 354,194 | 13,813,833 |
| Spartan Long-Term Treasury Bond Index Fund | 5,124,126 | 20,514,630 | 8,090,835 | 487,614 | 15,935,008 |
| Spartan Total Market Index Fund Investor | — | — | — | — | — |

*See accompanying notes which are an integral part of the financial statements.*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Spartan U.S. Bond Index Fund Investor Class | $ 213,332,450 | $ 28,407,306 | $ 28,545,527 | $ 4,734,014 | $ 209,026,186 |
| | $ 1,027,149,555 | $ 597,984,309 | $ 481,953,124 | $ 12,751,257 | $ 1,108,989,241 |

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $1,034,225,863) — See accompanying schedule | | $ 1,108,989,241 |
| Receivable for investments sold | | 452,194 |
| Receivable for fund shares sold | | 611,618 |
| **Total assets** | | 1,110,053,053 |
| **Liabilities** | | |
| Payable to custodian bank | $ 942 | |
| Payable for investments purchased | 1,010,277 | |
| Payable for fund shares redeemed | 53,602 | |
| Accrued management fee | 184,971 | |
| Distribution and service plan fees payable | 1,490 | |
| **Total liabilities** | | 1,251,282 |
| **Net Assets** | | $ 1,108,801,771 |
| Net Assets consist of: | | |
| Paid in capital | | $ 992,872,602 |
| Undistributed net investment income | | 93,131 |
| Accumulated undistributed net realized gain (loss) on investments | | 41,072,660 |
| Net unrealized appreciation (depreciation) on investments | | 74,763,378 |
| **Net Assets** | | $ 1,108,801,771 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($71,810 ÷ 5,958 shares) | | $ 12.05 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($12,028,191 ÷ 1,000,741 shares) | | $ 12.02 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($1,096,701,770 ÷ 91,003,003 shares) | | $ 12.05 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 12,751,257 |
| **Expenses** | | |
| Management fee | $ 2,721,471 | |
| Distribution and service plan fees | 24,490 | |
| Independent trustees' compensation | 4,387 | |
| Total expenses before reductions | 2,750,348 | |
| Expense reductions | (555,301) | 2,195,047 |
| **Net investment income (loss)** | | 10,556,210 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | 20,917,922 | |
| Capital gain distributions from underlying funds | 26,143,839 | |
| Total net realized gain (loss) | | 47,061,761 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (55,109,385) |
| **Net gain (loss)** | | (8,047,624) |
| **Net increase (decrease) in net assets resulting from operations** | | $ 2,508,586 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 10,556,210 | $ 11,756,273 |
| Net realized gain (loss) | 47,061,761 | 85,084,570 |
| Change in net unrealized appreciation (depreciation) | (55,109,385) | (48,267,458) |
| **Net increase (decrease) in net assets resulting from operations** | 2,508,586 | 48,573,385 |
| Distributions to shareholders from net investment income | (10,502,574) | (11,683,920) |
| Distributions to shareholders from net realized gain | (24,652,156) | (7,877,744) |
| **Total distributions** | (35,154,730) | (19,561,664) |
| Share transactions – net increase (decrease) | 114,469,310 | 121,343,274 |
| **Total increase (decrease) in net assets** | 81,823,166 | 150,354,995 |
| **Net Assets** | | |
| Beginning of period | 1,026,978,605 | 876,623,610 |
| End of period (including undistributed net investment income of $93,131 and undistributed net investment income of $72,353, respectively) | $ 1,108,801,771 | $ 1,026,978,605 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 70% Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.40 | $ 12.01 | $ 10.04 | $ 9.04 | $ 9.48 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .12 | .15 | .13 | .15 | .15 |
| Net realized and unrealized gain (loss) | (.06) | .48 | 2.05 | 1.03 | (.41) |
| Total from investment operations | .06 | .63 | 2.18 | 1.18 | (.26) |
| Distributions from net investment income | (.12) | (.14) | (.12) | (.15) | (.15) |
| Distributions from net realized gain | (.29) | (.10) | (.09) | (.03) | (.02) |
| Total distributions | (.41) | (.24) | (.21) | (.18) | (.18)[B] |
| Net asset value, end of period | $ 12.05 | $ 12.40 | $ 12.01 | $ 10.04 | $ 9.04 |
| **Total Return**[C,D] | .41% | 5.24% | 21.75% | 13.10% | (2.79)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | .97% | 1.23% | 1.19% | 1.57% | 1.60% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 72 | $ 78 | $ 91 | $ 77 | $ 63 |
| Portfolio turnover rate[E] | 44% | 49% | 31% | 24% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.18 per share is comprised of distributions from net investment income of $.151 and distributions from net realized gain of $.024 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 70% Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.37 | $ 11.98 | $ 10.02 | $ 9.02 | $ 9.46 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .10 | .13 | .12 | .14 | .14 |
| Net realized and unrealized gain (loss) | (.06) | .48 | 2.04 | 1.03 | (.42) |
| Total from investment operations | .04 | .61 | 2.16 | 1.17 | (.28) |
| Distributions from net investment income | (.10) | (.13) | (.11) | (.14) | (.14) |
| Distributions from net realized gain | (.29) | (.10) | (.09) | (.03) | (.02) |
| Total distributions | (.39) | (.22)[B] | (.20) | (.17) | (.16) |
| Net asset value, end of period | $ 12.02 | $ 12.37 | $ 11.98 | $ 10.02 | $ 9.02 |
| **Total Return**[C,D] | .29% | 5.10% | 21.54% | 12.98% | (2.94)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .50% | .50% | .50% | .50% | .50% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | .82% | 1.08% | 1.04% | 1.42% | 1.45% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 12,028 | $ 7,610 | $ 6,752 | $ 5,035 | $ 3,675 |
| Portfolio turnover rate[E] | 44% | 49% | 31% | 24% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.22 per share is comprised of distributions from net investment income of $.126 and distributions from net realized gain of $.097 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 70% Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.39 | $ 12.01 | $ 10.04 | $ 9.03 | $ 9.48 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .12 | .15 | .13 | .15 | .15 |
| Net realized and unrealized gain (loss) | (.05) | .47 | 2.05 | 1.04 | (.42) |
| Total from investment operations | .07 | .62 | 2.18 | 1.19 | (.27) |
| Distributions from net investment income | (.12) | (.14) | (.12) | (.15) | (.15) |
| Distributions from net realized gain | (.29) | (.10) | (.09) | (.03) | (.02) |
| Total distributions | (.41) | (.24) | (.21) | (.18) | (.18)[B] |
| Net asset value, end of period | $ 12.05 | $ 12.39 | $ 12.01 | $ 10.04 | $ 9.03 |
| **Total Return**[C,D] | .49% | 5.15% | 21.75% | 13.22% | (2.90)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | .97% | 1.23% | 1.19% | 1.57% | 1.60% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 1,096,702 | $ 1,019,291 | $ 869,781 | $ 622,842 | $ 554,088 |
| Portfolio turnover rate[E] | 44% | 49% | 31% | 24% | 16% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $.18 per share is comprised of distributions from net investment income of $.151 and distributions from net realized gain of $.024 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Amounts do not include the activity of the Underlying Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## VIP FundsManager® 85% Portfolio
# Investment Summary (Unaudited)

The information in the following tables is based on the direct investments of the Fund.

## Fund Holdings as of December 31, 2015

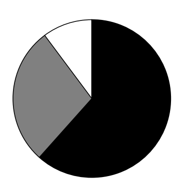
| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| **Domestic Equity Funds** | | |
| Fidelity Air Transportation Portfolio | 0.1 | 0.1 |
| Fidelity Banking Portfolio | 3.1 | 2.9 |
| Fidelity Blue Chip Growth Fund | 1.0 | 1.1 |
| Fidelity Blue Chip Value Fund | 1.3 | 0.4 |
| Fidelity Brokerage and Investment Management Portfolio | 0.1 | 1.1 |
| Fidelity Chemicals Portfolio | 0.9 | 1.5 |
| Fidelity Computers Portfolio | 0.4 | 1.1 |
| Fidelity Construction and Housing Portfolio | 1.2 | 1.2 |
| Fidelity Consumer Discretionary Portfolio | 5.4 | 6.6 |
| Fidelity Consumer Staples Portfolio | 4.7 | 4.3 |
| Fidelity Contrafund | 1.9 | 0.0 |
| Fidelity Defense and Aerospace Portfolio | 1.0 | 0.6 |
| Fidelity Dividend Growth Fund | 0.0 | 0.0 |
| Fidelity Electronics Portfolio | 0.5 | 1.1 |
| Fidelity Energy Portfolio | 2.6 | 3.1 |
| Fidelity Energy Service Portfolio | 0.2 | 0.5 |
| Fidelity Financial Services Portfolio | 4.8 | 6.3 |
| Fidelity Global Commodity Stock Fund | 0.0 | 0.0 |
| Fidelity Gold Portfolio | 0.0 | 0.0 |
| Fidelity Growth Company Fund | 0.0 | 0.0 |
| Fidelity Health Care Portfolio | 4.3 | 7.8 |
| Fidelity Health Care Services Portfolio | 0.9 | 0.8 |
| Fidelity Industrial Equipment Portfolio | 0.7 | 0.0 |
| Fidelity Industrials Portfolio | 3.4 | 4.0 |
| Fidelity Insurance Portfolio | 1.6 | 0.7 |
| Fidelity IT Services Portfolio | 0.7 | 1.7 |
| Fidelity Large Cap Stock Fund | 0.4 | 0.8 |
| Fidelity Leisure Portfolio | 0.0 | 0.0 |
| Fidelity Low-Priced Stock Fund | 0.7 | 0.0 |
| Fidelity Magellan Fund | 0.0 | 0.0 |
| Fidelity Materials Portfolio | 0.4 | 0.0 |
| Fidelity Medical Equipment and Systems Portfolio | 1.2 | 0.6 |
| Fidelity Mega Cap Stock Fund | 0.1 | 0.1 |
| Fidelity Mid Cap Value Fund | 0.9 | 2.2 |
| Fidelity Nasdaq Composite Index Fund | 0.0 | 0.0 |
| Fidelity OTC Portfolio | 0.2 | 0.3 |
| Fidelity Pharmaceuticals Portfolio | 1.2 | 0.0 |
| Fidelity Real Estate Investment Portfolio | 0.4 | 0.4 |
| Fidelity Retailing Portfolio | 0.8 | 0.7 |
| Fidelity Series Commodity Strategy Fund | 0.0 | 0.0 |
| Fidelity Small Cap Stock Fund | 0.5 | 0.4 |
| Fidelity Software and IT Services Portfolio | 2.0 | 0.0 |
| Fidelity Stock Selector Large Cap Value Fund | 1.7 | 1.2 |
| Fidelity Technology Portfolio | 7.8 | 6.9 |
| Fidelity Telecommunications Portfolio | 1.7 | 0.1 |
| Fidelity Utilities Portfolio | 0.5 | 0.2 |
| Fidelity Value Discovery Fund | 0.3 | 0.3 |
| Fidelity Natural Gas Portfolio | 0.0 | 0.0 |
| Fidelity Transportation Portfolio | 0.0 | 0.0 |
| | 61.6 | 61.1 |
| **International Equity Funds** | | |
| Fidelity China Region Fund | 0.2 | 0.4 |
| Fidelity Diversified International Fund | 8.0 | 12.6 |
| Fidelity Emerging Asia Fund | 0.7 | 1.4 |
| Fidelity Emerging Markets Fund | 0.0 | 0.7 |
| Fidelity Europe Fund | 2.5 | 2.3 |
| Fidelity International Discovery Fund | 2.4 | 2.2 |
| Fidelity International Real Estate Fund | 0.0 | 0.0 |
| Fidelity International Small Cap Fund | 0.5 | 0.8 |
| Fidelity International Small Cap Opportunities Fund | 1.2 | 0.6 |
| Fidelity Japan Fund | 1.1 | 1.1 |
| Fidelity Japan Smaller Companies Fund | 1.0 | 0.7 |
| Fidelity Overseas Fund | 9.9 | 6.7 |
| Fidelity Pacific Basin Fund | 0.2 | 0.3 |
| Spartan International Index Fund Investor Class | 0.5 | 1.3 |
| Fidelity International Capital Appreciation Fund | 0.0 | 0.1 |
| | 28.2 | 31.2 |
| **Fixed-Income Funds** | | |
| Fidelity Floating Rate High Income Fund | 0.0 | 0.0 |
| Fidelity Focused High Income Fund | 0.0 | 0.0 |
| Fidelity High Income Fund | 0.0 | 0.0 |
| Fidelity New Markets Income Fund | 0.5 | 0.4 |
| Fidelity Real Estate Income Fund | 0.4 | 0.4 |
| Spartan Inflation-Protected Bond Index Fund Investor Class | 2.1 | 0.0 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class | 2.2 | 3.0 |
| Spartan U.S. Bond Index Fund Investor Class | 5.0 | 3.3 |
| | 10.2 | 7.1 |
| **Money Market Funds** | | |
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% | 0.0 | 0.6 |
| Net Other Assets (Liabilities) | 0.0 | 0.0 |
| | 100.0 | 100.0 |

*Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and*
*Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio*

## Asset Allocation (% of fund's net assets)

**As of December 31, 2015**

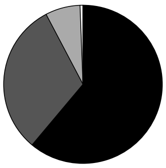
| | |
|---|---|
| Domestic Equity Funds | 61.6% |
| International Equity Funds | 28.2% |
| Fixed-Income Funds | 10.2% |



## Investment Summary (Unaudited) – continued

**As of June 30, 2015**

| | |
|---|---|
| Domestic Equity Funds | 61.1% |
| International Equity Funds | 31.2% |
| Fixed-Income Funds | 7.1% |
| Money Market Funds | 0.6% |



*Percentages shown as 0.0% may reflect amounts less than 0.05%.*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Equity Funds – 89.8%

| | Shares | Value |
|---|---|---|
| **Domestic Equity Funds – 61.6%** | | |
| Fidelity Air Transportation Portfolio (a) | 7,221 | $ 449,765 |
| Fidelity Banking Portfolio (a) | 499,484 | 12,776,813 |
| Fidelity Blue Chip Growth Fund (a) | 60,025 | 4,139,959 |
| Fidelity Blue Chip Value Fund (a) | 343,778 | 5,393,876 |
| Fidelity Brokerage and Investment Management Portfolio (a) | 3,578 | 229,318 |
| Fidelity Chemicals Portfolio (a) | 27,104 | 3,545,242 |
| Fidelity Computers Portfolio (a) | 22,485 | 1,534,138 |
| Fidelity Construction and Housing Portfolio (a) | 82,660 | 4,797,593 |
| Fidelity Consumer Discretionary Portfolio (a) | 645,082 | 22,042,447 |
| Fidelity Consumer Staples Portfolio (a) | 212,738 | 19,418,724 |
| Fidelity Contrafund (a) | 80,325 | 7,948,208 |
| Fidelity Defense and Aerospace Portfolio (a) | 35,938 | 4,132,524 |
| Fidelity Dividend Growth Fund (a) | 289 | 8,755 |
| Fidelity Electronics Portfolio (a) | 24,741 | 1,870,180 |
| Fidelity Energy Portfolio (a) | 307,520 | 10,815,474 |
| Fidelity Energy Service Portfolio (a) | 21,096 | 865,797 |
| Fidelity Financial Services Portfolio (a) | 231,439 | 19,445,527 |
| Fidelity Global Commodity Stock Fund (a) | 1,909 | 16,779 |
| Fidelity Gold Portfolio (a)(b) | 3,652 | 49,305 |
| Fidelity Growth Company Fund (a) | 261 | 35,734 |
| Fidelity Health Care Portfolio (a) | 84,317 | 17,551,447 |
| Fidelity Health Care Services Portfolio (a) | 45,016 | 3,800,272 |
| Fidelity Industrial Equipment Portfolio (a) | 82,221 | 2,999,410 |
| Fidelity Industrials Portfolio (a) | 479,484 | 14,005,735 |
| Fidelity Insurance Portfolio (a) | 97,366 | 6,588,736 |
| Fidelity IT Services Portfolio (a) | 74,265 | 2,968,370 |
| Fidelity Large Cap Stock Fund (a) | 69,575 | 1,817,995 |
| Fidelity Leisure Portfolio (a) | 1,058 | 137,510 |
| Fidelity Low-Priced Stock Fund (a) | 56,267 | 2,686,768 |
| Fidelity Magellan Fund (a) | 161 | 14,424 |
| Fidelity Materials Portfolio (a) | 25,416 | 1,744,807 |
| Fidelity Medical Equipment and Systems Portfolio (a) | 139,715 | 5,011,560 |
| Fidelity Mega Cap Stock Fund (a) | 26,978 | 421,394 |
| Fidelity Mid Cap Value Fund (a) | 167,696 | 3,746,332 |
| Fidelity Nasdaq Composite Index Fund (a) | 945 | 61,944 |
| Fidelity OTC Portfolio (a) | 7,688 | 641,427 |
| Fidelity Pharmaceuticals Portfolio (a) | 246,018 | 5,060,594 |
| Fidelity Real Estate Investment Portfolio (a) | 40,243 | 1,633,071 |
| Fidelity Retailing Portfolio (a) | 30,687 | 3,228,576 |
| Fidelity Series Commodity Strategy Fund (a)(b) | 1,089 | 5,316 |
| Fidelity Small Cap Stock Fund (a) | 109,812 | 1,907,435 |
| Fidelity Software and IT Services Portfolio (a) | 65,811 | 7,990,086 |
| Fidelity Stock Selector Large Cap Value Fund (a) | 418,077 | 6,806,289 |
| Fidelity Technology Portfolio (a) | 271,420 | 32,051,942 |
| Fidelity Telecommunications Portfolio (a) | 111,248 | $ 6,734,945 |
| Fidelity Utilities Portfolio (a) | 31,852 | 2,043,648 |
| Fidelity Value Discovery Fund (a) | 53,315 | 1,231,582 |
| TOTAL DOMESTIC EQUITY FUNDS | | 252,407,773 |
| **International Equity Funds – 28.2%** | | |
| Fidelity China Region Fund (a) | 29,926 | 760,714 |
| Fidelity Diversified International Fund (a) | 935,479 | 32,797,891 |
| Fidelity Emerging Asia Fund (a) | 94,429 | 2,833,826 |
| Fidelity Emerging Markets Fund (a) | 11,817 | 257,020 |
| Fidelity Europe Fund (a) | 279,006 | 10,091,642 |
| Fidelity International Discovery Fund (a) | 248,744 | 9,802,990 |
| Fidelity International Real Estate Fund (a) | 1,498 | 15,012 |
| Fidelity International Small Cap Fund (a) | 92,674 | 2,049,941 |
| Fidelity International Small Cap Opportunities Fund (a) | 325,239 | 4,852,571 |
| Fidelity Japan Fund (a) | 380,016 | 4,487,992 |
| Fidelity Japan Smaller Companies Fund (a) | 295,487 | 4,089,540 |
| Fidelity Overseas Fund (a) | 994,115 | 40,619,533 |
| Fidelity Pacific Basin Fund (a) | 29,698 | 781,661 |
| Spartan International Index Fund Investor Class (a) | 53,108 | 1,908,175 |
| TOTAL INTERNATIONAL EQUITY FUNDS | | 115,348,508 |
| **TOTAL EQUITY FUNDS** (Cost $342,848,902) | | **367,756,281** |

## Fixed-Income Funds – 10.2%

| | Shares | Value |
|---|---|---|
| Fidelity Floating Rate High Income Fund (a) | 856 | 7,814 |
| Fidelity Focused High Income Fund (a) | 10,783 | 86,370 |
| Fidelity High Income Fund (a) | 21,045 | 167,309 |
| Fidelity New Markets Income Fund (a) | 139,032 | 2,018,742 |
| Fidelity Real Estate Income Fund (a) | 134,555 | 1,512,394 |
| Spartan Inflation-Protected Bond Index Fund Investor Class (a) | 921,385 | 8,642,595 |
| Spartan Long-Term Treasury Bond Index Fund Investor Class (a) | 708,679 | 9,042,749 |
| Spartan U.S. Bond Index Fund Investor Class (a) | 1,760,915 | 20,232,915 |
| **TOTAL FIXED-INCOME FUNDS** (Cost $41,632,881) | | **41,710,888** |

*See accompanying notes which are an integral part of the financial statements.*

## Money Market Funds – 0.0%

| | Shares | Value |
|---|---|---|
| Fidelity Institutional Prime Money Market Portfolio Class I 0.28% (a)(c) (Cost $24,355) | 24,355 | $ 24,355 |
| **TOTAL INVESTMENT PORTFOLIO – 100.0%** (Cost $384,506,138) | | **409,491,524** |
| **NET OTHER ASSETS (LIABILITIES) – 0.0%** | | **(69,455)** |
| **NET ASSETS – 100%** | | **$409,422,069** |

## Legend

(a) Affiliated Fund

(b) Non-income producing

(c) The rate quoted is the annualized seven-day yield of the fund at period end.

## Affiliated Underlying Funds

Information regarding the Fund's fiscal year to date purchases and sales of the affiliated Underlying Funds and income earned by the Fund from investments in affiliated Underlying Funds is as follows:

*(Fidelity Health Care Services Portfolio was formerly known as Fidelity Medical Delivery Portfolio and Fidelity Software and IT Services Portfolio was formerly known as Fidelity Software and Computer Services Portfolio)*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Air Transportation Portfolio | $ 1,105,777 | $ 38,818 | $ 600,000 | $ 1,140 | $ 449,765 |
| Fidelity Automotive Portfolio | 1,401,688 | — | 1,343,717 | — | — |
| Fidelity Banking Portfolio | 9,102,324 | 6,068,221 | 1,556,466 | 128,230 | 12,776,813 |
| Fidelity Biotechnology Portfolio | 113,249 | — | 136,613 | — | — |
| Fidelity Blue Chip Growth Fund | 6,447,990 | 4,324,929 | 6,530,858 | 2,123 | 4,139,959 |
| Fidelity Blue Chip Value Fund | 531,973 | 5,371,127 | 352,923 | 69,057 | 5,393,876 |
| Fidelity Brokerage and Investment | 4,646,094 | 49,325 | 3,990,422 | 7,497 | 229,318 |
| Fidelity Canada Fund | 35,267 | — | 34,094 | — | — |
| Fidelity Chemicals Portfolio | 4,206,766 | 2,658,507 | 2,729,226 | 47,554 | 3,545,242 |
| Fidelity China Region Fund | 173,776 | 1,361,498 | 480,000 | 8,960 | 760,714 |
| Fidelity Communications Equipment Portfolio | 84,103 | — | 86,005 | — | — |
| Fidelity Computers Portfolio | 10,246,542 | 441,981 | 8,496,907 | 26,482 | 1,534,138 |
| Fidelity Construction and Housing Portfolio | 3,549,216 | 1,520,143 | 400,000 | 18,519 | 4,797,593 |
| Fidelity Consumer Discretionary Portfolio | 23,198,879 | 4,632,366 | 6,172,694 | 114,651 | 22,042,447 |
| Fidelity Consumer Finance Portfolio | 324,419 | — | 325,570 | — | — |
| Fidelity Consumer Staples Portfolio | 20,972,236 | 6,847,013 | 7,231,232 | 299,401 | 19,418,724 |
| Fidelity Contrafund | — | 8,247,441 | 215,557 | 23,830 | 7,948,208 |
| Fidelity Defense and Aerospace Portfolio | — | 4,456,133 | — | 28,917 | 4,132,524 |
| Fidelity Diversified International Fund | 34,359,788 | 35,484,154 | 38,887,916 | 310,268 | 32,797,891 |
| Fidelity Dividend Growth Fund | 8,811 | 752 | — | 127 | 8,755 |
| Fidelity Electronics Portfolio | 8,977,039 | 1,133,838 | 7,579,249 | 23,101 | 1,870,180 |
| Fidelity Emerging Asia Fund | 3,065,534 | 2,731,974 | 2,203,246 | 12,470 | 2,833,826 |
| Fidelity Emerging Europe, Middle East, | 317,871 | — | 336,570 | — | — |
| Fidelity Emerging Markets Fund | 5,596,916 | 1,293 | 5,079,161 | 1,293 | 257,020 |
| Fidelity Energy Portfolio | 6,443,445 | 7,836,202 | 382,101 | 114,246 | 10,815,474 |
| Fidelity Energy Service Portfolio | 2,291,629 | 1,112,240 | 2,024,309 | 8,346 | 865,797 |
| Fidelity Europe Fund | 6,422,278 | 3,729,773 | — | 116,730 | 10,091,642 |
| Fidelity Financial Services Portfolio | 25,529,575 | 2,773,595 | 7,660,570 | 176,896 | 19,445,527 |
| Fidelity Floating Rate High Income Fund | 7,907 | 324 | — | 324 | 7,814 |
| Fidelity Focused High Income Fund | 88,066 | 4,088 | — | 4,088 | 86,370 |
| Fidelity Global Commodity Stock Fund | 23,141 | 467 | — | 448 | 16,779 |

*See accompanying notes which are an integral part of the financial statements.*

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Value, end of period |
|---|---|---|---|---|---|
| Fidelity Gold Portfolio | $ 60,042 | $ — | $ — | $ — | $ 49,305 |
| Fidelity Growth & Income Portfolio | 30,345 | — | 31,169 | — | — |
| Fidelity Growth Company Fund | 33,139 | 1,350 | — | — | 35,734 |
| Fidelity Health Care Portfolio | 29,367,467 | 5,217,817 | 17,173,881 | — | 17,551,447 |
| Fidelity Health Care Services Portfolio | 231,823 | 4,123,117 | 399,982 | 791 | 3,800,272 |
| Fidelity High Income Fund | 176,861 | 10,136 | — | 10,136 | 167,309 |
| Fidelity Industrial Equipment Portfolio | — | 3,033,691 | — | 7,790 | 2,999,410 |
| Fidelity Industrials Portfolio | 13,859,596 | 4,966,698 | 3,545,623 | 97,039 | 14,005,735 |
| Fidelity Institutional Prime Money Market | — | 16,840,630 | 16,816,274 | 1,556 | 24,355 |
| Fidelity Insurance Portfolio | 2,922,053 | 4,735,875 | 900,000 | 63,966 | 6,588,736 |
| Fidelity International Capital Appreciation | 4,243,006 | — | 4,443,601 | — | — |
| Fidelity International Discovery Fund | 11,074,754 | 2,010,623 | 3,854,077 | 100,690 | 9,802,990 |
| Fidelity International Real Estate Fund | 14,748 | 421 | — | 245 | 15,012 |
| Fidelity International Small Cap Fund | — | 3,691,202 | 1,300,000 | 42,971 | 2,049,941 |
| Fidelity International Small Cap | — | 4,921,693 | — | 17,056 | 4,852,571 |
| Fidelity International Value Fund | 130,917 | — | 138,560 | — | — |
| Fidelity IT Services Portfolio | 632,270 | 7,008,378 | 5,182,870 | — | 2,968,370 |
| Fidelity Japan Fund | 98,029 | 4,562,360 | — | 26,057 | 4,487,992 |
| Fidelity Japan Smaller Companies Fund | 1,020,167 | 2,973,745 | — | 26,054 | 4,089,540 |
| Fidelity Large Cap Stock Fund | 6,519,340 | 1,908,698 | 6,274,632 | 32,246 | 1,817,995 |
| Fidelity Leisure Portfolio | 133,096 | 7,154 | — | 1,322 | 137,510 |
| Fidelity Low-Priced Stock Fund | — | 7,026,290 | 4,200,000 | 64,907 | 2,686,768 |
| Fidelity Magellan Fund | 13,862 | 1,064 | — | 82 | 14,424 |
| Fidelity Materials Portfolio | — | 1,834,550 | — | 18,757 | 1,744,807 |
| Fidelity Medical Equipment and Systems | 405,235 | 4,914,781 | — | 796 | 5,011,560 |
| Fidelity Mega Cap Stock Fund | 2,402,360 | 17,003 | 2,008,143 | 6,448 | 421,394 |
| Fidelity Mid Cap Value Fund | 2,795,151 | 8,928,989 | 7,056,900 | 82,881 | 3,746,332 |
| Fidelity Mid-Cap Stock Fund | — | — | — | — | — |
| Fidelity Nasdaq Composite Index Fund | 57,990 | 917 | — | 516 | 61,944 |
| Fidelity Natural Gas Portfolio | 2,531,472 | 5,161 | 2,431,148 | 5,161 | — |
| Fidelity New Markets Income Fund | 2,259,093 | 702,814 | 847,766 | 95,967 | 2,018,742 |
| Fidelity OTC Portfolio | 2,350,535 | 203,346 | 2,029,283 | — | 641,427 |
| Fidelity Overseas Fund | 7,973,723 | 33,353,726 | 776,672 | 414,044 | 40,619,533 |
| Fidelity Pacific Basin Fund | 331,588 | 1,037,131 | 500,000 | 10,237 | 781,661 |
| Fidelity Pharmaceuticals Portfolio | 3,854,851 | 5,864,470 | 3,730,984 | 31,239 | 5,060,594 |
| Fidelity Real Estate Income Fund | 1,486,499 | 80,917 | — | 62,503 | 1,512,394 |
| Fidelity Real Estate Investment Portfolio | 1,719,394 | 1,186,245 | 1,162,601 | 27,004 | 1,633,071 |
| Fidelity Retailing Portfolio | 2,545,062 | 415,906 | 200,000 | 5,511 | 3,228,576 |
| Fidelity Series Commodity Strategy Fund | 7,114 | — | — | — | 5,316 |
| Fidelity Small Cap Discovery Fund | 100,567 | — | 102,338 | — | — |
| Fidelity Small Cap Growth Fund | 55,271 | — | 57,193 | — | — |
| Fidelity Small Cap Stock Fund | 87,697 | 2,154,238 | 90,497 | 8,144 | 1,907,435 |
| Fidelity Small Cap Value Fund | 32,394 | — | 32,959 | — | — |
| Fidelity Software and IT Services Portfolio | 391,271 | 7,864,641 | 380,386 | 3,242 | 7,990,086 |
| Fidelity Stock Selector Large Cap Value Fund | 11,626,830 | 5,498,722 | 10,364,771 | 52,668 | 6,806,289 |
| Fidelity Technology Portfolio | 24,329,695 | 17,756,762 | 10,183,985 | 25,924 | 32,051,942 |
| Fidelity Telecommunications Portfolio | 395,514 | 6,712,583 | 461,977 | 73,562 | 6,734,945 |
| Fidelity Transportation Portfolio | 3,749,677 | 14,731 | 3,469,602 | 2,077 | — |
| Fidelity Utilities Portfolio | 3,340,552 | 1,889,361 | 2,855,763 | 54,249 | 2,043,648 |
| Fidelity Value Discovery Fund | 1,078,688 | 235,745 | 13,073 | 21,830 | 1,231,582 |
| Spartan 500 Index Fund Investor Class | 3,280,949 | 13,139 | 3,375,941 | 7,028 | — |
| Spartan Inflation-Protected Bond Index Fund | — | 8,835,110 | 26,194 | — | 8,642,595 |
| Spartan International Index Fund Investor | 26,149,813 | 923,198 | 25,617,427 | 48,432 | 1,908,175 |
| Spartan Long-Term Treasury Bond Index Fund | 4,223,091 | 12,691,985 | 7,001,696 | 311,475 | 9,042,749 |
| Spartan Total Market Index Fund Investor | — | — | — | — | — |
| Spartan U.S. Bond Index Fund Investor Class | 25,811,767 | 10,089,005 | 15,408,760 | 396,347 | 20,232,915 |
| | $ 385,207,657 | $ 307,092,320 | $ 269,282,134 | $ 3,803,648 | $ 409,491,524 |

*See accompanying notes which are an integral part of the financial statements.*

## Investment Valuation

All investments are categorized as Level 1 under the Fair Value Hierarchy. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (cost $384,506,138) — See accompanying schedule | | $ 409,491,524 |
| Cash | | 5 |
| Receivable for investments sold | | 600,333 |
| Receivable for fund shares sold | | 3,725 |
| **Total assets** | | 410,095,587 |
| **Liabilities** | | |
| Payable for investments purchased | $ 441,957 | |
| Payable for fund shares redeemed | 162,102 | |
| Accrued management fee | 68,177 | |
| Distribution and service plan fees payable | 1,282 | |
| **Total liabilities** | | 673,518 |
| **Net Assets** | | $ 409,422,069 |
| Net Assets consist of: | | |
| Paid in capital | | $ 367,784,645 |
| Accumulated undistributed net realized gain (loss) on investments | | 16,652,038 |
| Net unrealized appreciation (depreciation) on investments | | 24,985,386 |
| **Net Assets** | | $ 409,422,069 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($8,030 ÷ 676.4 shares) | | $ 11.87 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($10,345,863 ÷ 874,819.0 shares) | | $ 11.83 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($399,068,176 ÷ 33,605,928.0 shares) | | $ 11.87 |

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Income distributions from underlying funds | | $ 3,803,648 |
| **Expenses** | | |
| Management fee | $ 1,008,088 | |
| Distribution and service plan fees | 22,163 | |
| Independent trustees' compensation | 1,629 | |
| Total expenses before reductions | 1,031,880 | |
| Expense reductions | (210,907) | 820,973 |
| **Net investment income (loss)** | | 2,982,675 |
| **Realized and Unrealized Gain (Loss)** | | |
| Realized gain (loss) on sale of underlying fund shares | 8,903,941 | |
| Capital gain distributions from underlying funds | 11,587,676 | |
| Total net realized gain (loss) | | 20,491,617 |
| Change in net unrealized appreciation (depreciation) on underlying funds | | (22,430,265) |
| **Net gain (loss)** | | (1,938,648) |
| **Net increase (decrease) in net assets resulting from operations** | | $ 1,044,027 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 2,982,675 | $ 3,814,618 |
| Net realized gain (loss) | 20,491,617 | 37,623,582 |
| Change in net unrealized appreciation (depreciation) | (22,430,265) | (22,621,153) |
| **Net increase (decrease) in net assets resulting from operations** | 1,044,027 | 18,817,047 |
| Distributions to shareholders from net investment income | (5,527,890) | (3,791,312) |
| Distributions to shareholders from net realized gain | (15,161,464) | (3,833,595) |
| **Total distributions** | (20,689,354) | (7,624,907) |
| Share transactions – net increase (decrease) | 43,925,167 | 41,590,568 |
| **Total increase (decrease) in net assets** | 24,279,840 | 52,782,708 |
| **Net Assets** | | |
| Beginning of period | 385,142,229 | 332,359,521 |
| End of period (including $0 and undistributed net investment income of $23,306, respectively) | $ 409,422,069 | $ 385,142,229 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 85% Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.46 | $ 12.07 | $ 9.62 | $ 8.57 | $ 9.19 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .09 | .13 | .11 | .12 | .11 |
| Net realized and unrealized gain (loss) | (.03) | .51 | 2.57 | 1.09 | (.60) |
| Total from investment operations | .06 | .64 | 2.68 | 1.21 | (.49) |
| Distributions from net investment income | (.16)[B] | (.13) | (.10) | (.13) | (.11) |
| Distributions from net realized gain | (.49)[B] | (.13) | (.13) | (.03) | (.02) |
| Total distributions | (.65) | (.25)[C] | (.23) | (.16) | (.13) |
| Net asset value, end of period | $ 11.87 | $ 12.46 | $ 12.07 | $ 9.62 | $ 8.57 |
| **Total Return**[D,E] | .39% | 5.29% | 27.86% | 14.13% | (5.30)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | .74% | 1.04% | 1.00% | 1.25% | 1.23% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 8 | $ 8 | $ 242 | $ 149 | $ 183 |
| Portfolio turnover rate[F] | 67% | 72% | 51% | 50% | 26% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $.25 per share is comprised of distributions from net investment income of $.125 and distributions from net realized gain of $.126 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 85% Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.41 | $ 12.03 | $ 9.60 | $ 8.55 | $ 9.17 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .07 | .11 | .09 | .10 | .10 |
| Net realized and unrealized gain (loss) | (.01) | .50 | 2.55 | 1.10 | (.60) |
| Total from investment operations | .06 | .61 | 2.64 | 1.20 | (.50) |
| Distributions from net investment income | (.15)[B] | (.11) | (.09) | (.11) | (.10) |
| Distributions from net realized gain | (.49)[B] | (.13) | (.13) | (.03) | (.02) |
| Total distributions | (.64) | (.23)[C] | (.21)[D] | (.15)[E] | (.12) |
| Net asset value, end of period | $ 11.83 | $ 12.41 | $ 12.03 | $ 9.60 | $ 8.55 |
| **Total Return**[F,G] | .35% | 5.08% | 27.54% | 14.01% | (5.44)% |
| **Ratios to Average Net Assets**[H,I] | | | | | |
| Expenses before reductions | .50% | .50% | .50% | .50% | .50% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | .59% | .89% | .85% | 1.10% | 1.08% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 10,346 | $ 8,207 | $ 6,862 | $ 4,812 | $ 3,574 |
| Portfolio turnover rate[H] | 67% | 72% | 51% | 50% | 26% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $.23 per share is comprised of distributions from net investment income of $.107 and distributions from net realized gain of $.126 per share.*
D *Total distributions of $.21 per share is comprised of distributions from net investment income of $.085 and distributions from net realized gain of $.128 per share.*
E *Total distributions of $.15 per share is comprised of distributions from net investment income of $.113 and distributions from net realized gain of $.033 per share.*
F *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
G *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
H *Amounts do not include the activity of the Underlying Funds.*
I *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP FundsManager 85% Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 12.46 | $ 12.07 | $ 9.63 | $ 8.58 | $ 9.20 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .09 | .13 | .11 | .12 | .11 |
| Net realized and unrealized gain (loss) | (.03) | .51 | 2.56 | 1.09 | (.60) |
| Total from investment operations | .06 | .64 | 2.67 | 1.21 | (.49) |
| Distributions from net investment income | (.16)[B] | (.13) | (.10) | (.13) | (.11) |
| Distributions from net realized gain | (.49)[B] | (.13) | (.13) | (.03) | (.02) |
| Total distributions | (.65) | (.25)[C] | (.23) | (.16) | (.13) |
| Net asset value, end of period | $ 11.87 | $ 12.46 | $ 12.07 | $ 9.63 | $ 8.58 |
| **Total Return**[D,E] | .39% | 5.29% | 27.73% | 14.11% | (5.29)% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .25% | .25% | .25% | .25% | .25% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | .74% | 1.04% | 1.00% | 1.25% | 1.23% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 399,068 | $ 376,927 | $ 325,256 | $ 226,548 | $ 231,895 |
| Portfolio turnover rate[F] | 67% | 72% | 51% | 50% | 26% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $.25 per share is comprised of distributions from net investment income of $.125 and distributions from net realized gain of $.126 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Amounts do not include the activity of the Underlying Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class but do not include expenses of the underlying funds in which the Fund invests.*

*See accompanying notes which are an integral part of the financial statements.*

## 1. Organization.

VIP FundsManager 20% Portfolio, VIP FundsManager 50% Portfolio, VIP FundsManager 60% Portfolio, VIP FundsManager 70% Portfolio, and VIP FundsManager 85% Portfolio (the Funds) are funds of Variable Insurance Products Fund V (the Trust). The Trust 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. Each Fund is authorized to issue an unlimited number of shares. The Funds invest primarily in a combination of other Fidelity equity, fixed income, and short-term funds (the Underlying Funds) managed by Fidelity Management & Research Company (FMR). Shares of each Fund may only be purchased by insurance companies for the purpose of funding variable annuity or variable life insurance contracts. Each Fund offers three classes of shares: Service Class shares, Service Class 2 shares and Investor Class shares. All classes have equal rights and voting privileges, except for matters affecting a single class.

## 2. Significant Accounting Policies.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date that the financial statements were issued have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Funds:

**Investment Valuation.** Investments are valued as of 4:00 p.m. Eastern time on the last calendar day of the period. Each Fund categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as shown below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, etc.)

Level 3 – unobservable inputs (including the Fund's own assumptions based on the best information available)

Valuation techniques used to value each Fund's investments by major category are as follows. Investments in the Underlying Funds are valued at their closing net asset value (NAV) each business day and are categorized as Level 1 in the hierarchy.

**Investment Transactions and Income.** For financial reporting purposes, the Funds' investment holdings and NAV include trades executed through the end of the last business day of the period. The NAV per share for processing shareholder transactions is calculated as of the close of business of the New York Stock Exchange (NYSE), normally 4:00 p.m. Eastern time and includes trades executed through the end of the prior business day. Gains and losses on securities sold are determined on the basis of identified cost. Income and capital gain distributions from the Underlying Funds, if any, are recorded on the ex-dividend date. Distributions from the Underlying Funds that are deemed to be return of capital are recorded as a reduction of cost of investments.

**Class Allocations and Expenses.** Investment income, realized and unrealized capital gains and losses, common expenses of each Fund, and certain fund-level expense reductions, if any, are allocated daily on a pro-rata basis to each class based on the relative net assets of each class to the total net assets of each Fund. Each class differs with respect to distribution and service plan fees incurred. Certain expense reductions may also differ by class. For the reporting period, the allocated portion of income and expenses to each class as a percent of its average net assets may vary due to the timing of recording these transactions in relation to fluctuating net assets of the classes. Expenses directly attributable to a fund are charged to that fund. Expenses attributable to more than one fund are allocated among the respective funds on the basis of relative net assets or other appropriate methods. Expenses included in the accompanying financial statements reflect the expenses of each Fund and do not include any expenses associated with the Underlying Funds. Although not included in each Fund's expenses, each Fund indirectly bears its proportionate share of the Underlying Funds' expenses through the impact of these expenses on each Underlying Fund's NAV. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

**Income Tax Information and Distributions to Shareholders.** Each year, each Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, including distributing substantially all of its taxable income and realized gains. As a result, no provision for U.S. Federal income taxes is required. As of December 31, 2015, each Fund did not have any unrecognized tax benefits in the financial statements; nor is each Fund 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. Each Fund files a U.S. federal tax return, in addition to state and local tax returns as required. Each Fund's federal income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three fiscal years after they are filed. State and local tax returns may be subject to examination for an additional fiscal year depending on the jurisdiction.

Distributions are declared and recorded on the ex-dividend date. Income dividends and capital gain distributions are declared separately for each class. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. These differences resulted in distribution reclassifications for the period ended December 31, 2015.

Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Capital accounts are not adjusted for temporary book-tax differences which will reverse in a subsequent period.

Book-tax differences are primarily due to the short-term gain distributions from the Underlying Funds, capital loss carryforwards and losses deferred due to wash sales.

The federal tax cost of investment securities and unrealized appreciation (depreciation) as of period end were as follows for each Fund:

| | Tax cost | Gross unrealized appreciation | Gross unrealized depreciation | Net unrealized appreciation (depreciation) on securities |
|---|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | $ 715,616,149 | $ 28,039,045 | $ (9,106,186) | $ 18,932,859 |
| **VIP FundsManager 50% Portfolio** | 6,010,499,100 | 258,822,535 | (138,624,265) | 120,198,270 |
| **VIP FundsManager 60% Portfolio** | 6,239,442,584 | 771,343,153 | (133,249,521) | 638,093,632 |
| **VIP FundsManager 70% Portfolio** | 1,035,249,778 | 99,456,101 | (25,716,638) | 73,739,463 |
| **VIP FundsManager 85% Portfolio** | 384,974,319 | 35,923,741 | (11,406,536) | 24,517,205 |

The tax-based components of distributable earnings as of period end were as follows for each Fund:

| | Undistributed ordinary income | Undistributed long-term capital gain | Net unrealized appreciation (depreciation) on securities and other investments |
|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | $ 61,931 | $ 8,803,310 | $ 18,932,859 |
| **VIP FundsManager 50% Portfolio** | – | 71,195,611 | 120,198,270 |
| **VIP FundsManager 60% Portfolio** | 2,154,598 | 212,855,728 | 638,093,632 |
| **VIP FundsManager 70% Portfolio** | 93,130 | 42,096,577 | 73,739,463 |
| **VIP FundsManager 85% Portfolio** | – | 17,120,219 | 24,517,205 |

The tax character of distributions paid was as follows:

**December 31, 2015**

| | Ordinary Income | Long-term Capital Gains | Total |
|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | $ 10,244,310 | $ 22,181,858 | $ 32,426,168 |
| **VIP FundsManager 50% Portfolio** | 92,303,132 | 157,680,083 | 249,983,215 |
| **VIP FundsManager 60% Portfolio** | 104,058,377 | 439,631,789 | 543,690,166 |
| **VIP FundsManager 70% Portfolio** | 15,927,676 | 19,227,054 | 35,154,730 |
| **VIP FundsManager 85% Portfolio** | 5,546,044 | 15,143,310 | 20,689,354 |

**December 31, 2014**

| | Ordinary Income | Long-term Capital Gains | Total |
|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | $ 13,405,296 | $ 5,454,447 | $ 18,859,743 |
| **VIP FundsManager 50% Portfolio** | 95,620,770 | 2,690,573 | 98,311,343 |
| **VIP FundsManager 60% Portfolio** | 143,912,020 | 109,331,881 | 253,243,901 |
| **VIP FundsManager 70% Portfolio** | 19,561,664 | – | 19,561,664 |
| **VIP FundsManager 85% Portfolio** | 7,624,907 | – | 7,624,907 |

## 3. Purchases and Redemptions of Underlying Fund Shares.

Purchases and redemptions of the Underlying Fund shares, are noted in the table below.

| | Purchases ($) | Redemptions ($) |
|---|---|---|
| VIP FundsManager 20% Portfolio | 329,519,399 | 342,331,274 |
| VIP FundsManager 50% Portfolio | 2,512,117,411 | 1,377,548,955 |
| VIP FundsManager 60% Portfolio | 2,539,207,628 | 2,061,002,164 |
| VIP FundsManager 70% Portfolio | 597,984,309 | 481,953,124 |
| VIP FundsManager 85% Portfolio | 307,092,320 | 269,282,134 |

## 4. Fees and Other Transactions with Affiliates.

**Management Fee.** Effective October 1, 2015, FMR Co., Inc., an affiliate of Strategic Advisers, Inc. (SAI), replaced SAI as investment adviser to the Funds pursuant to a management contract between the Funds and FMR Co., Inc. The new contract does not impact the Funds' investment process, strategies or management fees. For investment management related services each Fund pays a monthly management fee to the investment adviser. The management fee is based on an annual rate of .25% of each Fund's average net assets. The management fee is reduced by an amount equal to the fees and expenses paid by the Funds to the independent Trustees.

The investment adviser has contractually agreed to waive 0.05% of its management fee, thereby limiting each Fund's management fee to an annual rate of 0.20% of average net assets, until April 30, 2017.

**Other Transactions.** The investment adviser has entered into an administration agreement with FMR under which FMR provides management and administrative services (other than investment advisory services) necessary for the operation of each Fund. Pursuant to this agreement, FMR pays all expenses of each Fund, excluding distribution and service fees, compensation of the independent Trustees and certain other expenses such as interest expense. FMR also contracts with other Fidelity companies to perform the services necessary for the operation of each Fund.

**Distribution and Service Plan Fees.** In accordance with Rule 12b-1 of the 1940 Act, the Funds have adopted separate 12b-1 Plans for each Service Class of shares. Each Service Class pays Fidelity Distributors Corporation (FDC), an affiliate of the investment adviser, a service fee. For the period, the service fee is based on an annual rate of .10% of Service Class' average net assets and .25% of Service Class 2's average net assets.

For the period, total fees, all of which were reallowed to insurance companies for the distribution of shares and providing shareholder support services were as follows:

| | Service Class | Service Class 2 | Total |
|---|---|---|---|
| VIP FundsManager 20% Portfolio | $67 | $3,349 | $3,416 |
| VIP FundsManager 50% Portfolio | 71 | 220,032 | 220,103 |
| VIP FundsManager 60% Portfolio | 66 | 1,181,190 | 1,181,256 |
| VIP FundsManager 70% Portfolio | 78 | 24,412 | 24,490 |
| VIP FundsManager 85% Portfolio | 8 | 22,155 | 22,163 |

## 5. Expense Reductions.

The investment adviser contractually agreed to limit each Funds' management fee to an annual rate of 0.20% of each Funds' average net assets until April 30, 2017. For the period, each Fund's management fees were reduced by the following amounts:

| | Management Fee Waiver |
|---|---|
| VIP FundsManager 20% Portfolio | $ 378,836 |
| VIP FundsManager 50% Portfolio | 2,866,995 |
| VIP FundsManager 60% Portfolio | 3,457,355 |
| VIP FundsManager 70% Portfolio | 545,416 |
| VIP FundsManager 85% Portfolio | 202,025 |

In addition, FMR has contractually agreed to reimburse 0.10% of class-level expenses for each Fund's Service Class and Service Class 2. During the period, this reimbursement reduced each Fund's Service Class and Service Class 2's expenses by the following amounts:

| | Reimbursement |
|---|---|
| **VIP FundsManager 20% Portfolio** | |
| Service Class | $ 67 |

| | Reimbursement |
|---|---|
| Service Class 2 | 1,339 |
| **VIP FundsManager 50% Portfolio** | |
| Service Class | 71 |
| Service Class 2 | 87,986 |
| **VIP FundsManager 60% Portfolio** | |
| Service Class | 66 |
| Service Class 2 | 473,210 |
| **VIP FundsManager 70% Portfolio** | |
| Service Class | 78 |
| Service Class 2 | 9,807 |
| **VIP FundsManager 85% Portfolio** | |
| Service Class | 8 |
| Service Class 2 | 8,874 |

## 6. Distributions to Shareholders.

Distributions to shareholders of each class were as follows:

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| **VIP FundsManager 20% Portfolio** | | |
| **From net investment income** | | |
| Service Class | 756 | 979 |
| Service Class 2 | 15,426 | 16,002 |
| Investor Class | 8,782,197 | 9,557,402 |
| Total | $ 8,798,379 | $ 9,574,383 |
| **From net realized gain** | | |
| Service Class | 2,113 | 957 |
| Service Class 2 | 44,977 | 16,563 |
| Investor Class | 23,580,699 | 9,267,840 |
| Total | $ 23,627,789 | $ 9,285,360 |
| **VIP FundsManager 50% Portfolio** | | |
| **From net investment income** | | |
| Service Class | 747 | 1,098 |
| Service Class 2 | 830,790 | 881,998 |
| Investor Class | 69,150,512 | 57,499,263 |
| Total | $ 69,982,049 | $ 58,382,359 |
| **From net realized gain** | | |
| Service Class | 2,426 | 761 |
| Service Class 2 | 2,981,556 | 715,523 |
| Investor Class | 177,017,184 | 39,212,700 |
| Total | $180,001,166 | $ 39,928,984 |
| **VIP FundsManager 60% Portfolio** | | |
| **From net investment income** | | |
| Service Class | 677 | 985 |
| Service Class 2 | 4,850,081 | 4,680,118 |
| Investor Class | 71,023,792 | 76,666,338 |
| Total | $ 75,874,550 | $ 81,347,441 |
| **From net realized gain** | | |
| Service Class | 4,828 | 2,039 |
| Service Class 2 | 30,448,221 | 10,566,334 |
| Investor Class | 437,362,567 | 161,328,087 |
| Total | $467,815,616 | $171,896,460 |
| **VIP FundsManager 70% Portfolio** | | |
| **From net investment income** | | |
| Service Class | 690 | 1,032 |
| Service Class 2 | 99,217 | 76,126 |

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| Investor Class | 10,402,667 | 11,606,762 |
| Total | $ 10,502,574 | $ 11,683,920 |
| **From net realized gain** | | |
| Service Class | 1,802 | 695 |
| Service Class 2 | 203,572 | 58,605 |
| Investor Class | 24,446,782 | 7,818,444 |
| Total | $ 24,652,156 | $ 7,877,744 |
| **VIP FundsManager 85% Portfolio** | | |
| **From net investment income** | | |
| Service Class | 108 | 654 |
| Service Class 2 | 126,841 | 70,488 |
| Investor Class | 5,400,941 | 3,720,170 |
| Total | $ 5,527,890 | $ 3,791,312 |
| **From net realized gain** | | |
| Service Class | 314 | 659 |
| Service Class 2 | 329,863 | 83,004 |
| Investor Class | 14,831,287 | 3,749,932 |
| Total | $ 15,161,464 | $ 3,833,595 |

## 7. Share Transactions.

Transactions for each class of shares were as follows:

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | | | | |
| **Service Class** | | | | |
| Shares sold | 282 | 605 | $ 3,201 | $ 6,960 |
| Reinvestment of distributions | 256 | 169 | 2,869 | 1,936 |
| Shares redeemed | (820) | (1,182) | (9,217) | (13,611) |
| Net increase (decrease) | (282) | (408) | $ (3,147) | $ (4,715) |
| **Service Class 2** | | | | |
| Shares sold | 55,089 | 80,085 | $ 619,120 | $ 921,014 |
| Reinvestment of distributions | 5,394 | 2,844 | 60,403 | 32,565 |
| Shares redeemed | (52,490) | (64,497) | (595,169) | (746,239) |
| Net increase (decrease) | 7,993 | 18,432 | $ 84,354 | $ 207,340 |
| **Investor Class** | | | | |
| Shares sold | 4,314,478 | 7,360,070 | $ 48,892,189 | $ 84,639,225 |
| Reinvestment of distributions | 2,886,754 | 1,642,865 | 32,362,896 | 18,825,242 |
| Shares redeemed | (6,795,492) | (4,177,704) | (76,720,627) | (48,109,863) |
| Net increase (decrease) | 405,740 | 4,825,231 | $ 4,534,458 | $ 55,354,604 |
| **VIP FundsManager 50% Portfolio** | | | | |
| **Service Class** | | | | |
| Shares sold | 30 | 2,001 | $ 376 | $ 24,453 |
| Reinvestment of distributions | 261 | 149 | 3,173 | 1,859 |
| Shares redeemed | (767) | (2,910) | (9,305) | (36,173) |
| Net increase (decrease) | (476) | (760) | $ (5,756) | $ (9,861) |
| **Service Class 2** | | | | |
| Shares sold | 1,197,918 | 924,485 | $ 14,606,195 | $ 11,192,972 |
| Reinvestment of distributions | 314,646 | 128,803 | 3,812,346 | 1,597,521 |
| Shares redeemed | (1,639,641) | (1,310,587) | (19,955,650) | (16,071,640) |
| Net increase (decrease) | (127,077) | (257,299) | $ (1,537,109) | $ (3,281,147) |
| **Investor Class** | | | | |
| Shares sold | 87,789,959 | 131,490,722 | $1,074,317,628 | $1,619,426,914 |
| Reinvestment of distributions | 20,301,767 | 7,774,660 | 246,167,696 | 96,711,963 |
| Shares redeemed | (8,600,399) | (5,005,123) | (105,237,774) | (61,618,784) |
| Net increase (decrease) | 99,491,327 | 134,260,259 | $1,215,247,550 | $1,654,520,093 |

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| **VIP FundsManager 60% Portfolio** | | | | |
| **Service Class** | | | | |
| Shares sold | 92 | 463 | $ 1,058 | $ 5,525 |
| Reinvestment of distributions | 488 | 255 | 5,505 | 3,024 |
| Shares redeemed | (942) | (1,322) | (10,684) | (15,803) |
| Net increase (decrease) | (362) | (604) | $ (4,121) | $ (7,254) |
| **Service Class 2** | | | | |
| Shares sold | 11,496,489 | 6,953,884 | $ 131,468,035 | $ 82,535,716 |
| Reinvestment of distributions | 3,139,200 | 1,285,709 | 35,298,302 | 15,246,452 |
| Shares redeemed | (5,178,599) | (4,175,282) | (58,979,106) | (49,658,448) |
| Net increase (decrease) | 9,457,090 | 4,064,311 | $ 107,787,231 | $ 48,123,720 |
| **Investor Class** | | | | |
| Shares sold | 54,600,995 | 14,294,873 | $ 628,143,142 | $ 171,539,075 |
| Reinvestment of distributions | 45,130,041 | 20,038,775 | 508,386,359 | 237,994,425 |
| Shares redeemed | (38,801,862) | (29,853,294) | (444,895,412) | (356,642,962) |
| Net increase (decrease) | 60,929,174 | 4,480,354 | $ 691,634,089 | $ 52,890,538 |
| **VIP FundsManager 70% Portfolio** | | | | |
| **Service Class** | | | | |
| Shares sold | 95 | 2,986 | $ 1,186 | $ 35,038 |
| Reinvestment of distributions | 202 | 139 | 2,492 | 1,727 |
| Shares redeemed | (608) | (4,423) | (7,499) | (54,626) |
| Net increase (decrease) | (311) | (1,298) | $ (3,821) | $ (17,861) |
| **Service Class 2** | | | | |
| Shares sold | 433,265 | 112,676 | $ 5,385,934 | $ 1,387,511 |
| Reinvestment of distributions | 24,649 | 10,813 | 302,789 | 134,731 |
| Shares redeemed | (72,562) | (71,628) | (901,788) | (884,279) |
| Net increase (decrease) | 385,352 | 51,861 | $ 4,786,935 | $ 637,963 |
| **Investor Class** | | | | |
| Shares sold | 9,520,512 | 10,959,979 | $ 119,096,572 | $ 134,785,691 |
| Reinvestment of distributions | 2,825,692 | 1,555,261 | 34,849,407 | 19,425,206 |
| Shares redeemed | (3,585,245) | (2,713,625) | (44,259,783) | (33,487,725) |
| Net increase (decrease) | 8,760,959 | 9,801,615 | $ 109,686,196 | $ 120,723,172 |
| **VIP FundsManager 85% Portfolio** | | | | |
| **Service Class** | | | | |
| Shares sold | 152 | 2,972 | $ 1,870 | $ 36,635 |
| Reinvestment of distributions | 34 | 105 | 422 | 1,314 |
| Shares redeemed | (148) | (22,457) | (1,816) | (275,993) |
| Net increase (decrease) | 38 | (19,380) | $ 476 | $ (238,044) |
| **Service Class 2** | | | | |
| Shares sold | 324,229 | 148,009 | $ 3,937,469 | $ 1,809,858 |
| Reinvestment of distributions | 37,474 | 12,240 | 456,704 | 153,492 |
| Shares redeemed | (148,025) | (69,583) | (1,816,406) | (866,270) |
| Net increase (decrease) | 213,678 | 90,666 | $ 2,577,767 | $ 1,097,080 |
| **Investor Class** | | | | |
| Shares sold | 4,116,729 | 4,805,833 | $ 50,957,543 | $ 59,092,080 |
| Reinvestment of distributions | 1,652,617 | 593,808 | 20,232,228 | 7,470,102 |
| Shares redeemed | (2,415,852) | (2,089,886) | (29,842,847) | (25,830,650) |
| Net increase (decrease) | 3,353,494 | 3,309,755 | $ 41,346,924 | $ 40,731,532 |

## 8. Other.

The Funds' organizational documents provide former and current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Funds. In the normal course of business, the Funds may also enter into contracts that provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Funds. The risk of material loss from such claims is considered remote.

The Funds do not invest in the Underlying Funds for the purpose of exercising management or control: however, investments by the Funds within their principal investment strategies may represent a significant portion of the Underlying Fund's net assets.

At the end of the period, the following Funds were each the owners of record of 10% or more of the total outstanding shares of the Underlying Funds.

| Fund | VIP FundsManager 50% Portfolio | VIP FundsManager60% Portfolio |
|---|---|---|
| Fidelity Banking Portfolio | 12% | 21% |
| Fidelity Blue Chip Value Fund | 10% | – |
| Fidelity Construction and Housing Portfolio | – | 10% |
| Fidelity Consumer Discretionary Portfolio | 14% | 20% |
| Fidelity Financial Service Portfolio | 12% | 20% |
| Fidelity Industrial Portfolio | – | 14% |
| Fidelity Industrial Equipment Portfolio | 20% | 28% |
| Fidelity Insurance Portfolio | 13% | 15% |
| Fidelity Technology Portfolio | – | 12% |
| Fidelity Telecommunication Portfolio | 10% | 14% |
| Spartan Inflation-Protected Bond Index Fund | 19% | 19% |

The Funds, in aggregate, were the owners of record of more than 20% of the total outstanding shares of the following Underlying Funds.

| | % of shares held |
|---|---|
| Fidelity Banking Portfolio | 40% |
| Fidelity Blue Chip Value Portfolio | 22% |
| Fidelity Construction and Housing Portfolio | 20% |
| Fidelity Consumer Discretionary Portfolio | 39% |
| Fidelity Financial Service Portfolio | 37% |
| Fidelity Industrial Portfolio | 28% |
| Fidelity Industrial Equipment Portfolio | 55% |
| Fidelity Insurance Portfolio | 34% |
| Fidelity Japan Fund | 21% |
| Fidelity Technology Portfolio | 22% |
| Fidelity Tetecommunication Portfolio | 29% |
| Spartan Inflation-Protected Bond Index Fund | 46% |
| Spartan Long-Term Treasury Bond Index Fund | 23% |
| Spartan U.S. Bond Index Fund | 22% |

In addition, at the end of the period, the investment adviser or its affiliates and certain otherwise unaffiliated shareholders each were owners of record of more than 10% of the outstanding shares of the following funds:

| | Affiliated % | Number of Unaffiliated Shareholders | Unaffiliated Shareholders % |
|---|---|---|---|
| VIP FundsManager 20% Portfolio | 100% | – | – |
| VIP FundsManager 50% Portfolio | 22% | 1 | 72% |
| VIP FundsManager 60% Portfolio | 27% | 1 | 54% |
| VIP FundsManager 70% Portfolio | 99% | – | – |
| VIP FundsManager 85% Portfolio | 97% | – | – |

# Report of Independent Registered Public Accounting Firm

To the Trustees of Variable Insurance Products and the Shareholders of VIP FundsManager 20% Portfolio, VIP FundsManager 50% Portfolio, VIP FundsManager 60% Portfolio, VIP FundsManager 70% Portfolio and VIP FundsManager 85% Portfolio:

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of VIP FundsManager 20% Portfolio, VIP FundsManager 50% Portfolio, VIP FundsManager 60% Portfolio, VIP FundsManager 70% Portfolio and VIP FundsManager 85% Portfolio (the Funds) each a fund of Variable Insurance Products Fund V at December 31, 2015, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 24, 2016

# Trustees and Officers

The Trustees, Members of the Advisory Board (if any), and officers of the trust and funds, as applicable, are listed below. The Board of Trustees governs each fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who meet periodically throughout the year to oversee each fund's activities, review contractual arrangements with companies that provide services to each fund, oversee management of the risks associated with such activities and contractual arrangements, and review each fund's performance. If the interests of a fund and an underlying Fidelity®fund were to diverge, a conflict of interest could arise and affect how the Trustees and Members of the Advisory Board fulfill their fiduciary duties to the affected funds. FMRC has structured the funds to avoid these potential conflicts, although there may be situations where a conflict of interest is unavoidable. In such instances, FMRC, the Trustees, and Members of the Advisory Board would take reasonable steps to minimize and, if possible, eliminate the conflict. Except for Elizabeth S. Acton, John Engler, and Geoffrey A. von Kuhn, each of the Trustees oversees 236 funds. Ms. Acton and Mr. Engler each oversees 228 funds. Mr. von Kuhn oversees 148 funds.

The Trustees hold office without limit in time except that (a) any Trustee may resign; (b) any Trustee may be removed by written instrument, signed by at least two-thirds of the number of Trustees prior to such removal; (c) any Trustee who requests to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees; and (d) any Trustee may be removed at any special meeting of shareholders by a two-thirds vote of the outstanding voting securities of the trust. Each Trustee who is not an interested person (as defined in the 1940 Act) of the trust and the funds is referred to herein as an Independent Trustee. Each Independent Trustee shall retire not later than the last day of the calendar year in which his or her 75th birthday occurs. The Independent Trustees may waive this mandatory retirement age policy with respect to individual Trustees. Officers and Advisory Board Members hold office without limit in time, except that any officer or Advisory Board Member may resign or may be removed by a vote of a majority of the Trustees at any regular meeting or any special meeting of the Trustees. Except as indicated, each individual has held the office shown or other offices in the same company for the past five years.

Each fund's Statement of Additional Information (SAI) includes more information about the Trustees. To request a free copy, call Fidelity at 1-877-208-0098.

**Experience, Skills, Attributes, and Qualifications of the Trustees.** The Governance and Nominating Committee has adopted a statement of policy that describes the experience, qualifications, attributes, and skills that are necessary and desirable for potential Independent Trustee candidates (Statement of Policy). The Board believes that each Trustee satisfied at the time he or she was initially elected or appointed a Trustee, and continues to satisfy, the standards contemplated by the Statement of Policy. The Governance and Nominating Committee also engages professional search firms to help identify potential Independent Trustee candidates who have the experience, qualifications, attributes, and skills consistent with the Statement of Policy. From time to time, additional criteria based on the composition and skills of the current Independent Trustees, as well as experience or skills that may be appropriate in light of future changes to board composition, business conditions, and regulatory or other developments, have also been considered by the professional search firms and the Governance and Nominating Committee. In addition, the Board takes into account the Trustees' commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout their tenure.

In determining that a particular Trustee was and continues to be qualified to serve as a Trustee, the Board has considered a variety of criteria, none of which, in isolation, was controlling. The Board believes that, collectively, the Trustees have balanced and diverse experience, qualifications, attributes, and skills, which allow the Board to operate effectively in governing each fund and protecting the interests of shareholders. Information about the specific experience, skills, attributes, and qualifications of each Trustee, which in each case led to the Board's conclusion that the Trustee should serve (or continue to serve) as a trustee of the funds, is provided below.

**Board Structure and Oversight Function.** Abigail P. Johnson is an interested person and currently serves as Chairman. The Trustees have determined that an interested Chairman is appropriate and benefits shareholders because an interested Chairman has a personal and professional stake in the quality and continuity of services provided to the funds. Independent Trustees exercise their informed business judgment to appoint an individual of their choosing to serve as Chairman, regardless of whether the Trustee happens to be independent or a member of management. The Independent Trustees have determined that they can act independently and effectively without having an Independent Trustee serve as Chairman and that a key structural component for assuring that they are in a position to do so is for the Independent Trustees to constitute a substantial majority for the Board. The Independent Trustees also regularly meet in executive session. Marie L. Knowles serves as Chairman of the Independent Trustees and as such (i) acts as a liaison between the Independent Trustees and management with respect to matters important to the Independent Trustees and (ii) with management prepares agendas for Board meetings.

Fidelity® funds are overseen by different Boards of Trustees. The funds' Board oversees Fidelity's investment-grade bond, money market, asset allocation and certain equity funds, and other Boards oversee Fidelity's high income, sector and other equity funds. The asset allocation funds may invest in Fidelity® funds that are overseen by such other Boards. The use of separate Boards, each with its own committee structure, allows the Trustees of each group of Fidelity® funds to focus on the unique issues of the funds they oversee, including common research, investment, and operational issues. On occasion, the separate Boards establish joint committees to address issues of overlapping consequences for the Fidelity® funds overseen by each Board.

The Trustees operate using a system of committees to facilitate the timely and efficient consideration of all matters of importance to the Trustees, each fund, and fund shareholders and to facilitate compliance with legal and regulatory requirements and oversight of the funds' activities and associated risks. The Board, acting through its committees, has charged FMR and its affiliates with (i) identifying events or circumstances the occurrence of which could have demonstrably adverse effects on the funds' business and/or reputation; (ii) implementing processes and controls to lessen the possibility that such events or circumstances occur or to mitigate the effects of such events or circumstances if they do occur; and (iii) creating and maintaining a system designed to evaluate continuously business and market conditions in order to facilitate the identification and implementation processes described in (i) and (ii) above. Because the day-to-day operations and activities of the funds are carried out by or through FMR, its affiliates, and other service providers, the funds' exposure to risks is mitigated but not eliminated by the processes overseen by the Trustees. While each of the Board's committees has responsibility for overseeing different aspects of the funds' activities, oversight is exercised primarily through the Operations and Audit Committees. In addition, an ad hoc Board committee of Independent Trustees has worked with FMR to enhance the Board's oversight of investment and financial risks, legal and regulatory risks, technology risks, and operational risks, including the development of additional risk reporting to the Board. Appropriate personnel, including but not limited to the funds' Chief Compliance Officer (CCO), FMR's internal auditor, the independent accountants, the funds' Treasurer and portfolio management personnel, make periodic reports to the Board's committees, as appropriate, including an annual review of Fidelity's risk management program for the Fidelity®funds. The responsibilities of each standing committee, including their oversight responsibilities, are described further under "Standing Committees of the Trustees."

Interested Trustees*:

Correspondence intended for a Trustee who is an interested person may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Abigail P. Johnson (1961)

Year of Election or Appointment: 2009
Trustee
Chairman of the Board of Trustees

Ms. Johnson also serves as Trustee of other Fidelity® funds. Ms. Johnson serves as President (2013-present) and Chief Executive Officer (2014-present) of FMR LLC (diversified financial services company), President of Fidelity Financial Services (2012-present) and President of Personal, Workplace and Institutional Services (2005-present). Ms. Johnson is Chairman and Director of FMR Co., Inc. (investment adviser firm, 2011-present), Chairman and Director of FMR (investment adviser firm, 2011-present), and the Vice Chairman and Director (2007-present) of FMR LLC. Previously, Ms. Johnson served as President and a Director of FMR (2001-2005), a Trustee of other investment companies advised by FMR, Fidelity Investments Money Management, Inc. (investment adviser firm), and FMR Co., Inc. (2001-2005), Senior Vice President of the Fidelity® funds (2001-2005), and managed a number of Fidelity® funds. Ms. Abigail P. Johnson and Mr. Arthur E. Johnson are not related.

Geoffrey A. von Kuhn (1951)

Year of Election or Appointment: 2015
Trustee

Mr. von Kuhn also serves as Trustee or Member of the Advisory Board of other Fidelity funds. Mr. von Kuhn is Chief Administrative Officer for FMR LLC (diversified financial services company, 2013-present), a Director of Pembroke Real Estate, Inc. (2009-present), and a Director of Discovery Natural Resources LLC (2012-present). Previously, Mr. von Kuhn was a managing director of Crosby Group (private wealth management company, 2007-2013), a member of the management committee and senior executive in the Wealth Management Group of AmSouth Bank (2001-2006), and head of the U.S. private bank at Citigroup (2000-2001).

* Determined to be an "Interested Trustee" by virtue of, among other things, his or her affiliation with the trust or various entities under common control with FMR.

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for each fund.

Independent Trustees:

Correspondence intended for an Independent Trustee may be sent to Fidelity Investments, P.O. Box 55235, Boston, Massachusetts 02205-5235.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Elizabeth S. Acton (1951)

Year of Election or Appointment: 2013
Trustee

Ms. Acton also serves as Trustee or Member of the Advisory Board of other Fidelity® funds. Prior to her retirement in April 2012, Ms. Acton was Executive Vice President, Finance (2011-2012), Executive Vice President, Chief Financial Officer (2002-2011), and Treasurer (2004-2005) of Comerica Incorporated (financial services). Prior to joining Comerica, Ms. Acton held a variety of positions at Ford Motor Company (1983-2002), including Vice President and Treasurer (2000-2002) and Executive Vice President and Chief Financial Officer of Ford Motor Credit Company (1998-2000). Ms. Acton currently serves as a member of the Board of Directors and Audit and Finance Committees of Beazer Homes USA, Inc. (homebuilding, 2012-present).

John Engler (1948)

Year of Election or Appointment: 2014
Trustee

Mr. Engler also serves as Trustee or Member of the Advisory Board of other Fidelity® funds. He serves as president of the Business Roundtable (2011-present), and on the board of directors/trustees for Universal Forest Products (manufacturer and distributor of wood and wood-alternative products, 2003-present) and K12 Inc. (technology-based education company, 2012-present). Previously, Mr. Engler served as a trustee of The Munder Funds (2003-2014), president and CEO of the National Association of Manufacturers (2004-2011), member of the Board of Trustees of the Annie E. Casey Foundation (2004-2015), and as governor of Michigan (1991-2003). He is a past chairman of the National Governors Association.

Albert R. Gamper, Jr. (1942)

Year of Election or Appointment: 2007
Trustee

Mr. Gamper also serves as Trustee of other Fidelity® funds. Prior to his retirement in December 2004, Mr. Gamper served as Chairman of the Board of CIT Group Inc. (commercial finance). During his tenure with CIT Group Inc. Mr. Gamper served in numerous senior management positions, including Chairman (1987-1989; 1999-2001; 2002-2004), Chief Executive Officer (1987-2004), and President (2002-2003). Mr. Gamper currently serves as a member of the Board of Directors of Public Service Enterprise Group (utilities, 2000-present), and Member of the Board of Trustees of Barnabas Health Care System (1997-present). Previously, Mr. Gamper served as Chairman (2012-2015) and Vice Chairman (2011-2012) of the Independent Trustees of certain Fidelity® funds and as Chairman of the Board of Governors, Rutgers University (2004-2007).

Robert F. Gartland (1951)

Year of Election or Appointment: 2010
Trustee

Mr. Gartland also serves as Trustee of other Fidelity® funds. Mr. Gartland is Chairman and an investor in Gartland and Mellina Group Corp. (consulting, 2009-present). Previously, Mr. Gartland served as a partner and investor of Vietnam Partners LLC (investments and consulting, 2008-2011). Prior to his retirement, Mr. Gartland held a variety of positions at Morgan Stanley (financial services, 1979-2007) including Managing Director (1987-2007).

Arthur E. Johnson (1947)

Year of Election or Appointment: 2008
Trustee
Vice Chairman of the Independent Trustees

Mr. Johnson also serves as Trustee of other Fidelity® funds. Mr. Johnson serves as a member of the Board of Directors of Eaton Corporation plc (diversified power management, 2009-present), AGL Resources, Inc. (holding company, 2002-present) and Booz Allen Hamilton (management consulting, 2011-present). Prior to his retirement, Mr. Johnson served as Senior Vice President of Corporate Strategic Development of Lockheed Martin Corporation (defense contractor, 1999-2009). He previously served on the Board of Directors of IKON Office Solutions, Inc. (1999-2008) and Delta Airlines (2005-2007). Mr. Arthur E. Johnson is not related to Ms. Abigail P. Johnson.

Michael E. Kenneally (1954)

Year of Election or Appointment: 2009
Trustee

Mr. Kenneally also serves as Trustee of other Fidelity® funds. Prior to his retirement, Mr. Kenneally served as Chairman and Global Chief Executive Officer of Credit Suisse Asset Management. Before joining Credit Suisse, he was an Executive Vice President and Chief Investment Officer for Bank of America Corporation. Earlier roles at Bank of America included Director of Research, Senior Portfolio Manager and Research Analyst, and Mr. Kenneally was awarded the Chartered Financial Analyst (CFA) designation in 1991.

James H. Keyes (1940)

Year of Election or Appointment: 2007
Trustee

Mr. Keyes also serves as Trustee of other Fidelity® funds. Mr. Keyes serves as a member of the Board and Non-Executive Chairman of Navistar International Corporation (manufacture and sale of trucks, buses, and diesel engines, since 2002). Previously, Mr. Keyes served as a member of the Board of Pitney Bowes, Inc. (integrated mail, messaging, and document management solutions, 1998-2013). Prior to his retirement, Mr. Keyes served as Chairman (1993-2002) and Chief Executive Officer (1988-2002) of Johnson Controls (automotive, building, and energy) and as a member of the Board of LSI Logic Corporation (semiconductor technologies, 1984-2008).

Marie L. Knowles (1946)

Year of Election or Appointment: 2001
Trustee
Chairman of the Independent Trustees

Ms. Knowles also serves as Trustee of other Fidelity® funds. Prior to Ms. Knowles' retirement in June 2000, she served as Executive Vice President and Chief Financial Officer of Atlantic Richfield Company (ARCO) (diversified energy, 1996-2000). From 1993 to 1996, she was a Senior Vice President of ARCO and President of ARCO Transportation Company (pipeline and tanker operations). Ms. Knowles currently serves as a Director and Chairman of the Audit Committee of McKesson Corporation (healthcare service, since 2002). Ms. Knowles is a member of the Board of the Santa Catalina Island Company (real estate, 2009-present). Ms. Knowles is a Member of the Investment Company Institute Board of Governors and a Member of the Governing Council of the Independent Directors Council (2014-present). She also serves as a member of the Advisory Board for the School of Engineering of the University of Southern California. Previously, Ms. Knowles served as a Director of Phelps Dodge Corporation (copper mining and manufacturing, 1994-2007), URS Corporation (engineering and construction, 2000-2003) and America West (airline, 1999-2002). Ms. Knowles previously served as Vice Chairman of the Independent Trustees of certain Fidelity® funds (2012-2015).

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for each fund.

Advisory Board Members and Officers:

Correspondence intended for an officer may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210. Officers appear below in alphabetical order.

Name, Year of Birth; Principal Occupation

Marc R. Bryant (1966)

Year of Election or Appointment: 2015
Secretary and Chief Legal Officer (CLO)

Mr. Bryant also serves as Secretary and CLO of other funds. Mr. Bryant serves as CLO, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2015-present) and FMR Co., Inc. (investment adviser firm, 2015-present); Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2015-present) and Fidelity Investments Money Management, Inc. (investment adviser firm, 2015-present); and CLO of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2015-present). He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company). Previously, Mr. Bryant served as Secretary and CLO of Fidelity Rutland Square Trust II (2010-2014) and Assistant Secretary of Fidelity's Fixed Income and Asset Allocation Funds (2013-2015). Prior to joining Fidelity Investments, Mr. Bryant served as a Senior Vice President and the Head of Global Retail Legal for AllianceBernstein L.P. (2006-2010), and as the General Counsel for ProFund Advisors LLC (2001-2006).

Jonathan Davis (1968)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Davis also serves as Assistant Treasurer of other funds, and is an employee of Fidelity Investments. Previously, Mr. Davis served as Vice President and Associate General Counsel of FMR LLC (diversified financial services company, 2003-2010).

Adrien E. Deberghes (1967)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Deberghes also serves as an officer of other funds. He is an employee of Fidelity Investments (2008-present). Prior to joining Fidelity Investments, Mr. Deberghes was Senior Vice President of Mutual Fund Administration at State Street Corporation (2007-2008), Senior Director of Mutual Fund Administration at Investors Bank & Trust (2005-2007), and Director of Finance for Dunkin' Brands (2000-2005).

Stephanie J. Dorsey (1969)

Year of Election or Appointment: 2013
President and Treasurer

Ms. Dorsey also serves as an officer of other funds. She is an employee of Fidelity Investments (2008-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Dorsey served as Treasurer (2004-2008) of the JPMorgan Mutual Funds and Vice President (2004-2008) of JPMorgan Chase Bank.

Howard J. Galligan III (1966)

Year of Election or Appointment: 2014
Chief Financial Officer

Mr. Galligan also serves as Chief Financial Officer of other funds. Mr. Galligan serves as President of Fidelity Pricing and Cash Management Services (FPCMS) (2014-present) and as a Director of Strategic Advisers, Inc. (investment adviser firm, 2008-present). Previously, Mr. Galligan served as Chief Administrative Officer of Asset Management (2011-2014) and Chief Operating Officer and Senior Vice President of Investment Support for Strategic Advisers, Inc. (2003-2011).

Scott C. Goebel (1968)

Year of Election or Appointment: 2015
Vice President

Mr. Goebel serves as Vice President of other funds and is an employee of Fidelity Investments (2001-present). Previously, Mr. Goebel served as Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2013-2015), Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2010-2015), and Fidelity Research and Analysis Company (FRAC) (investment adviser firm, 2010-2015); General Counsel, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2008-2015) and FMR Co., Inc. (investment adviser firm, 2008-2015); Assistant Secretary of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2008-2015) and FMR Investment Management (U.K.) Limited (investment adviser firm, 2008-2015); Chief Legal Officer (CLO) of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2008-2015); Secretary and CLO of certain Fidelity® funds (2008-2015); Assistant Secretary of FIMM (2008-2010), FRAC (2008-2010), and certain funds (2007-2008); and as Vice President and Secretary of Fidelity Distributors Corporation (FDC) (2005-2007).

Chris Maher (1972)

Year of Election or Appointment: 2013
Assistant Treasurer

Mr. Maher serves as Assistant Treasurer of other funds. Mr. Maher is Vice President of Valuation Oversight and is an employee of Fidelity Investments. Previously, Mr. Maher served as Vice President of Asset Management Compliance (2013), Vice President of the Program Management Group of FMR (investment adviser firm, 2010-2013), and Vice President of Valuation Oversight (2008-2010).

John F. Papandrea (1972)

Year of Election or Appointment: 2016
Anti-Money Laundering (AML) Officer

Mr. Papandrea also serves as AML Officer of other funds. Mr. Papandrea is Vice President of FMR LLC (diversified financial services company, 2008-present) and is an employee of Fidelity Investments (2005-present).

Jason P. Pogorelec (1975)

Year of Election or Appointment: 2015
Assistant Secretary

Mr. Pogorelec also serves as Assistant Secretary of other funds. Mr. Pogorelec serves as Vice President, Associate General Counsel (2010-present) and is an employee of Fidelity Investments (2006-present).

Nancy D. Prior (1967)

Year of Election or Appointment: 2014
Vice President

Ms. Prior also serves as Vice President of other funds. Ms. Prior serves as a Director of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2014-present), President, Fixed Income (2014-present), Vice Chairman of FIAM LLC (investment adviser firm, 2014-present), and is an employee of Fidelity Investments (2002-present). Previously, Ms. Prior served as Vice President of Fidelity's Money Market Funds (2012-2014), President, Money Market and Short Duration Bond Group of Fidelity Management & Research (FMR) (investment adviser firm, 2013-2014), President, Money Market Group of FMR (2011-2013), Managing Director of Research (2009-2011), Senior Vice President and Deputy General Counsel (2007-2009), and Assistant Secretary of other Fidelity® funds (2008-2009).

Kenneth B. Robins (1969)

Year of Election or Appointment: 2009
Assistant Treasurer

Mr. Robins also serves as an officer of other funds. Mr. Robins serves as Executive Vice President of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2013-present) and is an employee of Fidelity Investments (2004-present). Previously, Mr. Robins served in other fund officer roles.

Stacie M. Smith (1974)

Year of Election or Appointment: 2013
Assistant Treasurer

Ms. Smith also serves as an officer of other funds. She is an employee of Fidelity Investments (2009-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Smith served as Senior Audit Manager of Ernst & Young LLP (1996-2009).

Renee Stagnone (1975)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Stagnone also serves as Deputy Treasurer of other funds. Ms. Stagnone is an employee of Fidelity Investments (1997-present).

Michael H. Whitaker (1967)

Year of Election or Appointment: 2008
Chief Compliance Officer

Mr. Whitaker also serves as Chief Compliance Officer of other funds. Mr. Whitaker also serves as Compliance Officer of FMR Co., Inc. (investment adviser firm, 2014-present), FMR (investment adviser firm, 2014-present), and Fidelity Investments Money Management, Inc. (investment adviser firm, 2014-present) and is an employee of Fidelity Investments (2007-present). Prior to joining Fidelity Investments, Mr. Whitaker worked at MFS Investment Management where he served as Senior Vice President and Chief Compliance Officer (2004-2006), and Assistant General Counsel.

Derek L. Young (1964)

Year of Election or Appointment: 2009
Vice President of Fidelity's Asset Allocation Funds

Mr. Young also serves as an officer of other funds. He is a Director of Strategic Advisers, Inc. (investment adviser firm, 2011-present), President of Fidelity Global Asset Allocation (GAA) (2011-present), and Vice Chairman of FIAM LLC (investment adviser firm, 2011-present). Previously, Mr. Young served as Trustee of certain funds (2012-2015), President of Strategic Advisers, Inc. (2011-2015), Chief Investment Officer of GAA (2009-2011), and as a portfolio manager.

Joseph F. Zambello (1957)

Year of Election or Appointment: 2011
Deputy Treasurer

Mr. Zambello also serves as Deputy Treasurer of other funds. Mr. Zambello is an employee of Fidelity Investments (1991-present). Previously, Mr. Zambello served as Vice President of the Program Management Group of FMR (investment adviser firm, 2009-2011) and Vice President of the Transfer Agent Oversight Group (2005-2009).

# Shareholder Expense Example

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, and (2) ongoing costs, including distribution and/or service (12b-1) fees 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 the ongoing costs of investing in other mutual funds.

The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

### *Actual Expenses*

The first line of the accompanying table for each class of each fund 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 paid over the period. Simply divide your account value by $1,000.00 (for example, an $8,600 account value divided by $1,000.00 = 8.6), then multiply the result by the number in the first line for a class of the fund under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, each Fund, as a shareholder in underlying Fidelity Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Funds. These fees and expenses are not included in each Fund's annualized expense ratio used to calculate the expense estimates in the table below.

### *Hypothetical Example for Comparison Purposes*

The second line of the accompanying table for each class of each fund provides information about hypothetical account values and hypothetical expenses based on a Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' 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. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, each Fund, as a shareholder in underlying Fidelity Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Funds. These fees and expenses are not included in each Fund's annualized expense ratio used to calculate the expense estimates in the table below.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

| | Annualized Expense Ratio-[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **VIP FundsManager 20% Portfolio** | | | | |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $991.40 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $990.90 | $1.76 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.44 | $1.79 |
| **Investor Class** | .20% | | | |
| **Actual** | | $1,000.00 | $991.40 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **VIP FundsManager 50% Portfolio** | | | | |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $979.00 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $979.10 | $1.75 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.44 | $1.79 |
| **Investor Class** | .20% | | | |
| **Actual** | | $1,000.00 | $979.00 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **VIP FundsManager 60% Portfolio** | | | | |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $976.50 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $975.90 | $1.74 |

| | Annualized Expense Ratio-[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Hypothetical-[C]** | | $1,000.00 | $1,023.44 | $1.79 |
| **Investor Class** | .20% | | | |
| **Actual** | | $1,000.00 | $976.50 | $1.00 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **VIP FundsManager 70% Portfolio** | | | | |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $972.30 | $.99 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $971.90 | $1.74 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.44 | $1.79 |
| **Investor Class** | .20% | | | |
| **Actual** | | $1,000.00 | $972.30 | $.99 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |
| **VIP FundsManager 85% Portfolio** | | | | |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $ 966.80 | $ .99 |
| **Hypothetical-[C]** | | $1,000.00 | 1,024.20 | $ 1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $966.30 | $1.73 |
| **Hypothetical-[C]** | | $1,000.00 | $1,023.44 | $1.79 |
| **Investor Class** | .20% | | | |
| **Actual** | | $1,000.00 | $966.10 | $.99 |
| **Hypothetical-[C]** | | $1,000.00 | $1,024.20 | $1.02 |

[A] *Annualized expense ratio reflects expenses net of applicable fee waivers.*

[B] *Expenses are equal to each Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). The fees and expenses of the underlying Fidelity Funds in which each Fund invests are not included in each Class' annualized expense ratio.*

[C] *5% return per year before expenses*

# Distributions (Unaudited)

The Board of Trustees of each voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities, and dividends derived from net investment income:

| | Pay Date | Record Date | Dividends | Capital Gains |
|---|---|---|---|---|
| **VIP Funds Manager 20%** | | | | |
| Service Class | 02/12/16 | 02/12/16 | $0.001 | $0.134 |
| Service Class 2 | 02/12/16 | 02/12/16 | $0.001 | $0.134 |
| Investor Class | 02/12/16 | 02/12/16 | $0.001 | $0.134 |
| **VIP Funds Manager 50%** | | | | |
| Service Class | 02/12/16 | 02/12/16 | $0.000 | $0.138 |
| Service Class 2 | 02/12/16 | 02/12/16 | $0.000 | $0.138 |
| Investor Class | 02/12/16 | 02/12/16 | $0.000 | $0.138 |
| **VIP Funds Manager 60%** | | | | |
| Service Class | 02/12/16 | 02/12/16 | $0.001 | $0.348 |
| Service Class 2 | 02/12/16 | 02/12/16 | $0.001 | $0.348 |
| Investor Class | 02/12/16 | 02/12/16 | $0.001 | $0.348 |
| **VIP Funds Manager 70%** | | | | |
| Service Class | 02/12/16 | 02/12/16 | $0.002 | $0.459 |
| Service Class 2 | 02/12/16 | 02/12/16 | $0.002 | $0.459 |
| Investor Class | 02/12/16 | 02/12/16 | $0.002 | $0.459 |
| **VIP Funds Manager 85%** | | | | |
| Service Class | 02/12/16 | 02/12/16 | $0.000 | $0.499 |
| Service Class 2 | 02/12/16 | 02/12/16 | $0.000 | $0.499 |
| Investor Class | 02/12/16 | 02/12/16 | $0.000 | $0.499 |

The funds hereby designate as capital gain dividend the amounts noted below for the taxable year ended December 31, 2015, or, if subsequently determined to be different, the net capital gain of such year.

| Fund | |
|---|---|
| VIP Funds Manager 20% | $ 8,920,746 |
| VIP Funds Manager 50% | $ 73,058,611 |
| VIP Funds Manager 60% | $213,803,962 |
| VIP Funds Manager 70% | $ 42,174,899 |
| VIP Funds Manager 85% | $ 18,079,599 |

A percentage of the dividends distributed during the fiscal year for the following funds qualifies for the dividends–received deduction for corporate shareholders:

| Fund | February, 2015 | December, 2015 |
|---|---|---|
| **VIP Funds Manager 20%** | | |
| Service Class | 2% | 9% |
| Service Class 2 | 2% | 10% |
| Investor Class | 2% | 9% |
| **VIP Funds Manager 50%** | | |
| Service Class | 4% | 21% |
| Service Class 2 | 4% | 24% |
| Investor Class | 4% | 21% |
| **VIP Funds Manager 60%** | | |
| Service Class | 0% | 24% |
| Service Class 2 | 0% | 26% |
| Investor Class | 0% | 24% |
| **VIP Funds Manager 70%** | | |
| Service Class | 9% | 29% |
| Service Class 2 | 9% | 32% |
| Investor Class | 9% | 29% |
| **VIP Funds Manager 85%** | | |
| Service Class | 11% | 32% |
| Service Class 2 | 11% | 35% |
| Investor Class | 11% | 32% |

## Distributions (Unaudited) – continued

A percentage of the dividends distributed during the fiscal year for the following funds was derived from interest on U.S. Government securities which is generally exempt from state income tax:

| | |
|---|---|
| **VIP Funds Manager 20%** | |
| Service Class | 13.33% |
| Service Class 2 | 13.33% |
| Investor Class | 13.33% |
| **VIP Funds Manager 50%** | |
| Service Class | 6.98% |
| Service Class 2 | 6.98% |
| Investor Class | 6.98% |
| **VIP Funds Manager 60%** | |
| Service Class | 5.68% |
| Service Class 2 | 5.68% |
| Investor Class | 5.68% |
| **VIP Funds Manager 70%** | |
| Service Class | 3.88% |
| Service Class 2 | 3.88% |
| Investor Class | 3.88% |
| **VIP Funds Manager 85%** | |
| Service Class | 2.63% |
| Service Class 2 | 2.63% |
| Investor Class | 2.63% |

The amounts per share which represent income derived from sources within, and taxes paid to, foreign countries or possessions of the United States are as follows:

| Fund | Pay Date | Income | Taxes |
|---|---|---|---|
| **VIP Funds Manager 20%** | | | |
| Service Class | 12/29/15 | $ 0.0161 | $0.0014 |
| Service Class 2 | 12/29/15 | $ 0.0144 | $0.0014 |
| Investor Class | 12/29/15 | $ 0.0161 | $0.0014 |
| **VIP Funds Manager 50%** | | | |
| Service Class | 12/29/15 | $ 0.3110 | $0.0029 |
| Service Class 2 | 12/29/15 | $ 0.0277 | $0.0029 |
| Investor Class | 12/29/15 | $0.03110 | $0.0029 |
| **VIP Funds Manager 60%** | | | |
| Service Class | 12/29/15 | $ 0.0336 | $0.0030 |
| Service Class 2 | 12/29/15 | $ 0.0305 | $0.0030 |
| Investor Class | 12/29/15 | $ 0.0336 | $0.0030 |
| **VIP Funds Manager 70%** | | | |
| Service Class | 12/29/15 | $ 0.0401 | $0.0036 |
| Service Class 2 | 12/29/15 | $ 0.0367 | $0.0036 |
| Investor Class | 12/29/15 | $ 0.0401 | $0.0036 |
| **VIP Funds Manager 85%** | | | |
| Service Class | 12/29/15 | $ 0.0449 | $0.0041 |
| Service Class 2 | 12/29/15 | $ 0.0412 | $0.0041 |
| Investor Class | 12/29/15 | $ 0.0449 | $0.0041 |

# Board Approval of Investment Advisory Contracts and Management Fees

## VIP FundsManager Funds

Each year, the Board of Trustees, including the Independent Trustees (together, the Board), votes on the management and administration arrangements for each fund. The Board, assisted by the advice of fund counsel and Independent Trustees' counsel, requests and considers a broad range of information relevant to the contract arrangements throughout the year.

The Board meets regularly and, at each of its meetings, covers an extensive agenda of topics and materials and considers factors that are relevant to its annual consideration of each fund's management and administration arrangements, including the services and support provided to each fund and its shareholders. The Board has established four standing committees (Committees) — Operations, Audit, Fair Valuation, and Governance and Nominating — each composed of and chaired by Independent Trustees with varying backgrounds, to which the Board has assigned specific subject matter responsibilities in order to enhance effective decision-making by the Board. The Operations Committee, of which all of the Independent Trustees are members, meets regularly throughout the year and considers, among other matters, information specifically related to the annual consideration of each fund's management and administration arrangements. The Board, acting directly and through its Committees, requests and receives information concerning the annual consideration of each fund's management and administration arrangements. The Board also meets as needed to consider matters specifically related to the Board's annual consideration of the management and administration arrangements. Members of the Board may also meet with trustees of other Fidelity funds through ad hoc joint committees to discuss certain matters relevant to all of the Fidelity funds.

At its September 2015 meeting, the Board unanimously determined to approve an amended and restated management contract (Advisory Contract) and administration agreement for each fund to reflect the fact that, effective October 1, 2015, FMR Co., Inc. (FMRC), an affiliate of Strategic Advisers, Inc. (Strategic Advisers) and Fidelity Management & Research Company (FMR), would assume the duties and rights of Strategic Advisers under the fund's then current management contract. The Board noted that, with the exception of the date, term, and entity name, the terms of each fund's management contract, including the fees payable thereunder, would not change as a result of the approval of the Advisory Contract. The Board considered that FMRC would render the same services to the funds under the Advisory Contracts that Strategic Advisers rendered to the funds under the then current management contracts. The Board also considered that approval of the Advisory Contracts would not result in any changes to (i) the investment process or strategies employed in the management of the funds' assets; or (ii) the day-to-day management of the funds or the persons primarily responsible for such management. As a result, the Board considered that its prior experience with Strategic Advisers as investment adviser for the funds was relevant to its consideration of the Advisory Contracts. In reaching its determination, the Board considered all factors it believed relevant, including (i) the nature, extent, and quality of the services to be provided to each fund and its shareholders (including the investment performance of each fund); (ii) the competitiveness of each fund's management fee and total expense ratio relative to peer funds; (iii) the total costs of the services to be provided by and the profits to be realized by Fidelity from its relationship with each fund; and (iv) the extent to which (if any) economies of scale exist and would be realized as each fund grows, and whether any economies of scale are appropriately shared with fund shareholders.

In considering whether to approve the Advisory Contract for each fund, the Board reached a determination, with the assistance of fund counsel and Independent Trustees' counsel and through the exercise of its business judgment, that the approval of the Advisory Contract was in the best interests of each fund and its shareholders and that the compensation payable under the Advisory Contracts was fair and reasonable. The Board's decision to approve the Advisory Contracts was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. The Board, in reaching its determination to approve the Advisory Contracts, was aware that shareholders of each fund have a broad range of investment choices available to them, including a wide choice among funds offered by Fidelity's competitors, and that each fund's shareholders, who have the opportunity to review and weigh the disclosure provided by the fund in its prospectus and other public disclosures, have chosen to invest in that fund, which is part of the Fidelity family of funds.

**Nature, Extent, and Quality of Services Provided.** The Board considered Fidelity's staffing as it relates to the funds, including the backgrounds of investment personnel that provide services to the funds, and also considered the funds' investment objectives, strategies, and related investment philosophies. The Independent Trustees also had discussions with senior management of Fidelity's investment operations and investment groups with responsibility for the underlying Fidelity funds in which each fund invests. The Board considered the structure of the portfolio manager compensation program and whether this structure provides appropriate incentives to act in the best interests of each fund. Additionally, the Board considered the portfolio managers' investments, if any, in the funds that they manage.

Resources Dedicated to Investment Management and Support Services. The Board reviewed the general qualifications and capabilities of Fidelity's investment staff, including its size, education, experience, and resources, as well as Fidelity's approach to recruiting, training, managing, and compensating investment personnel. The Board noted that Fidelity has continued to increase the resources devoted to non-U.S. offices, including expansion of Fidelity's global investment organization. The Board also noted that Fidelity's analysts have extensive resources, tools and capabilities that allow them to conduct sophisticated quantitative and fundamental analysis, as well as credit analysis of issuers, counterparties and guarantors. Further, the Board considered that Fidelity's investment professionals have sufficient access to global information and data so as to provide competitive investment results over time, and that those professionals also have access to sophisticated tools that permit them to assess portfolio construction and risk and performance attribution characteristics continuously, as well as to transmit new information and research conclusions rapidly around the world. Additionally, in its deliberations, the Board considered Fidelity's risk management, compliance, and technology and operations capabilities and resources, which are integral parts of the investment management process.

Shareholder and Administrative Services. The Board considered (i) the nature, extent, quality, and cost of advisory, administrative, and shareholder services performed by Fidelity under the then current management contract (and to be performed under the Advisory Contract) and under separate agreements covering administration, transfer agency, and pricing and bookkeeping services for each fund; (ii) the nature and extent of the supervision of third party service providers, principally custodians, subcustodians, and pricing vendors; and (iii) the resources devoted to, and the record of compliance with, each fund's compliance policies and procedures.

The Board noted that the growth of fund assets over time across the complex allows Fidelity to reinvest in the development of services designed to enhance the value or convenience of the Fidelity funds as investment vehicles. These services include 24-hour access to account information and market information through telephone representatives and over the Internet, investor education materials and asset allocation tools, and the expanded availability of Fidelity Investor Centers.

Investment in a Large Fund Family. The Board considered the benefits to shareholders of investing in a Fidelity fund, including the benefits of investing in a fund that is part of a large family of funds offering a variety of investment disciplines and providing a large variety of mutual fund investor services. The Board noted that Fidelity had taken, or had made recommendations that resulted in the Fidelity funds taking, a number of actions over the previous year that benefited particular funds, including (i) continuing to dedicate additional resources to investment research and to the support of the senior management team that oversees asset management; (ii) continuing efforts to enhance Fidelity's global research capabilities; (iii) launching new funds and making other enhancements to meet client needs; (iv) reducing management fees and total expenses for certain index funds and diversified international funds; (v) continuing to launch dedicated lower cost underlying funds to meet portfolio construction needs related to expanding underlying fund options for Fidelity funds of funds, specifically for the Freedom Fund product lines; (vi) rationalizing product lines and gaining increased efficiencies through fund mergers; (vii) launching active fixed-income exchange-traded funds; (viii) continuing to develop, acquire and implement systems and technology to improve services to the funds and shareholders, strengthen information security, and increase efficiency; (ix) implementing investment enhancements to further strengthen Fidelity's target date product line to increase investors' probability of success in achieving their goals; (x) modifying the eligibility criteria for certain share classes to accommodate roll-over assets from employer-sponsored retirement plans; (xi) launching a new Class W of the Freedom Index Funds to attract and retain Fidelity record-kept retirement plan assets; and (xii) implementing changes to Fidelity's money market product line in response to recent money market regulatory reforms.

Investment Performance. The Board considered whether each fund has operated in accordance with its investment objective, as well as its record of compliance with its investment restrictions and its performance history, and noted that the approval of the Advisory Contract for each fund would not result in any changes to the fund's investment strategy or the personnel responsible for providing advisory services to the fund.

The Board took into account discussions with representatives of the investment adviser about fund investment performance that occur at Board meetings throughout the year. In this regard the Board noted that as part of regularly scheduled fund reviews and other reports to the Board on fund performance, the Board considers annualized return information for each fund for different time periods, measured against one or more securities market indices, including a customized blended index representative of the fund's asset classes (each a "benchmark index") and a peer group of funds with similar objectives ("peer group"), if any. In its evaluation of fund investment performance at meetings throughout the year, the Board gave particular attention to information indicating underperformance of certain Fidelity funds for specific time periods and discussed with the investment adviser the reasons for such underperformance.

In addition to reviewing absolute and relative fund performance, the Independent Trustees periodically consider the appropriateness of fund performance metrics in evaluating the results achieved. In general, the Independent Trustees believe that fund performance should be evaluated based on gross performance (before fees and expenses, including acquired fund fees and expenses, but after transaction costs, if any) compared to appropriate benchmark indices, over appropriate time periods that may include full market cycles, and on net performance (after fees and expenses) compared to peer groups, as applicable, over the same periods, taking into account relevant factors including the following: general market conditions; the extent to which particular underlying funds affected performance; and fund cash flows and other factors. Depending on the circumstances, the Independent Trustees may be satisfied with a fund's performance notwithstanding that it lags its benchmark index or peer group for certain periods.

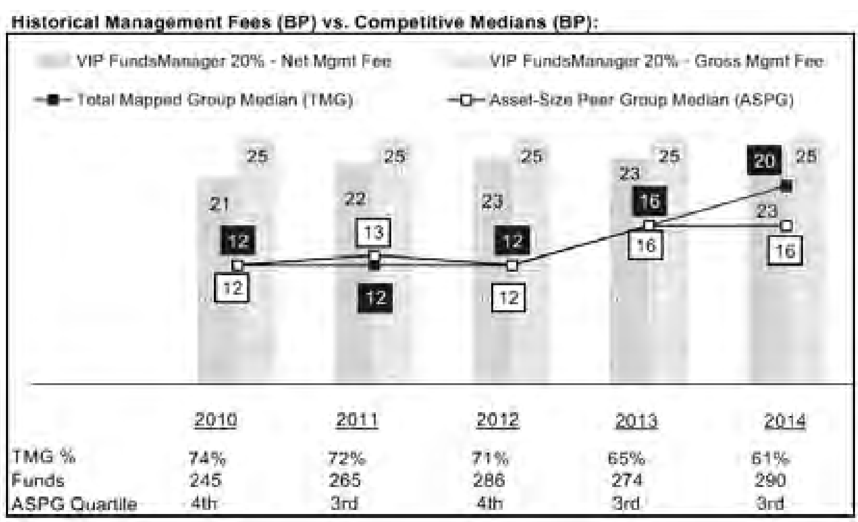
The Independent Trustees recognize that shareholders evaluate performance on a net basis over their own holding periods, for which one-, three-, and five-year periods are often used as a proxy. For this reason, the performance information reviewed by the Board also included net cumulative calendar year total return information for each fund and an appropriate benchmark index for the most recent one-, three-, and five-year periods.

Based on its review, the Board concluded that the nature, extent, and quality of services provided to each fund under the Advisory Contracts should benefit the shareholders of each fund.

**Competitiveness of Management Fee and Total Expense Ratio.** The Board considered each fund's management fee and total expense ratio compared to "mapped groups" of competitive funds and classes created for the purpose of facilitating the Trustees' competitive analysis of management fees and total expenses, and also considered that each fund bears indirectly the fees and expenses, including the management fees, paid by the underlying Fidelity funds in which it invests. Fidelity creates "mapped groups" by combining similar Lipper investment objective categories that have comparable investment mandates. Combining Lipper investment objective categories aids the Board's management fee and total expense ratio comparisons by broadening the competitive group used for comparison.

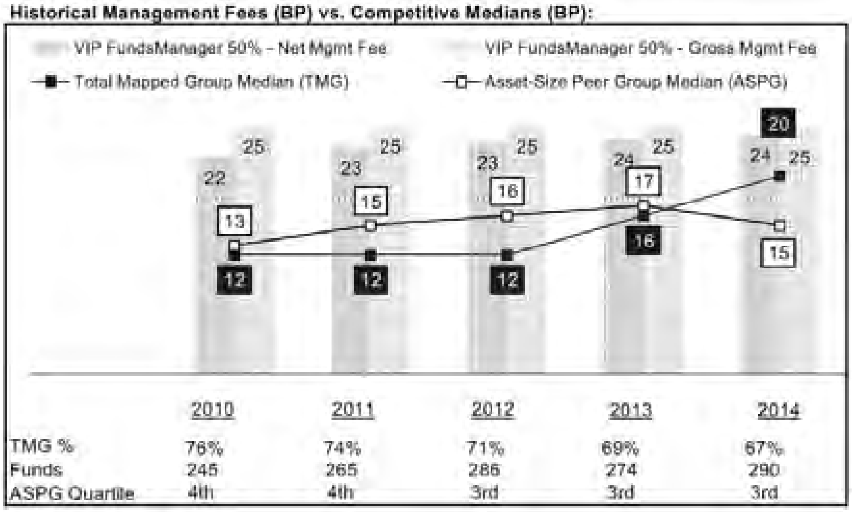
Management Fee. The Board considered two proprietary management fee comparisons forthe 12-month periods shown in basis points (BP) in the charts below. The group of Lipper funds used by the Board for management fee comparisons is referred to below as the "Total Mapped Group." The Total Mapped Group comparison focuses on a fund's standing in terms of gross management fees before expense reimbursements or caps relative to the total universe of funds with comparable investment mandates, regardless of whether their management fee structures also are comparable. Funds with comparable investment mandates offer exposure to similar types of securities. Funds with comparable management fee structures have similar management fee contractual arrangements (*e.g.*, flat rate charged for advisory services, all-inclusive fee rate, *etc.*). "TMG %" represents the percentage of funds in the Total Mapped Group that had management fees that were lower than a fund's. For example, a hypothetical TMG % of 20% would mean that 80% of the funds in the Total Mapped Group had higher, and 20% had lower, management fees than a fund. The funds' actual TMG %s and the number of funds in the Total Mapped Group are in the charts below. The "Asset-Size Peer Group" (ASPG) comparison focuses on a fund's standing relative to a subset of non-Fidelity funds within the Total Mapped Group that are similar in size and management fee structure. For example, if a fund is in the first quartile of the ASPG, the fund's management fee ranks in the least expensive or lowest 25% of funds in the ASPG. The ASPG represents at least 15% of the funds in the Total Mapped Group with comparable asset size and management fee structures, subject to a minimum of 50 funds (or all funds in the Total Mapped Group if fewer than 50). Additional information, such as the ASPG quartile in which a fund's management fee rate ranked, is also included in the charts and considered by the Board. Because the vast majority of competitor funds' management fees do not cover non-management expenses, for a more meaningful comparison of management fees, each fund is compared on the basis of a hypothetical "net management fee," which is derived by subtracting payments made by FMR (under the administration agreement) for non-management expenses (including pricing and bookkeeping fees and fees paid to non-affiliated custodians) from the fund's all-inclusive fee. In this regard, the Board considered that net management fees can vary from year to year because of differences in non-management expenses.

**VIP FundsManager 20%**

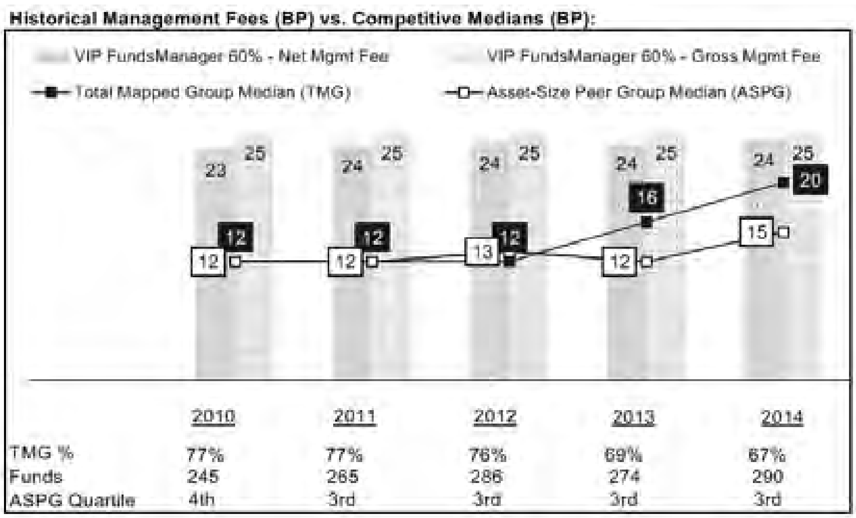


## Board Approval of Investment Advisory Contracts and Management Fees – continued

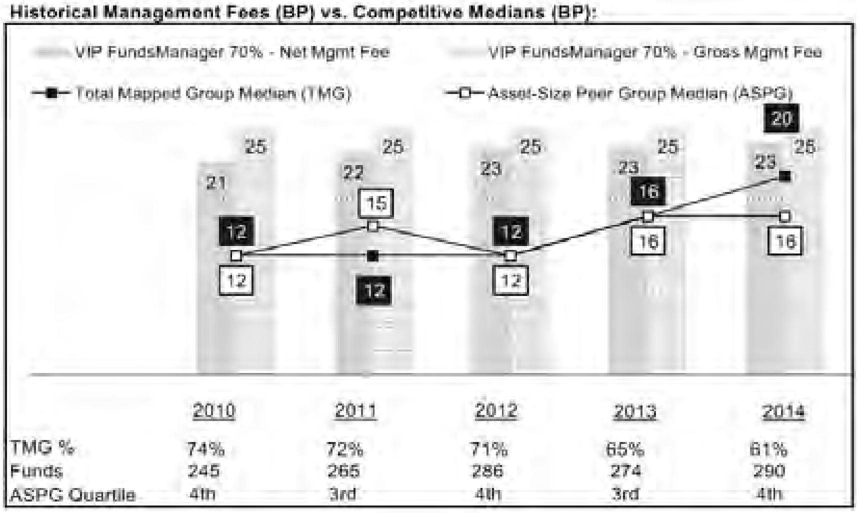
### VIP FundsManager 50%



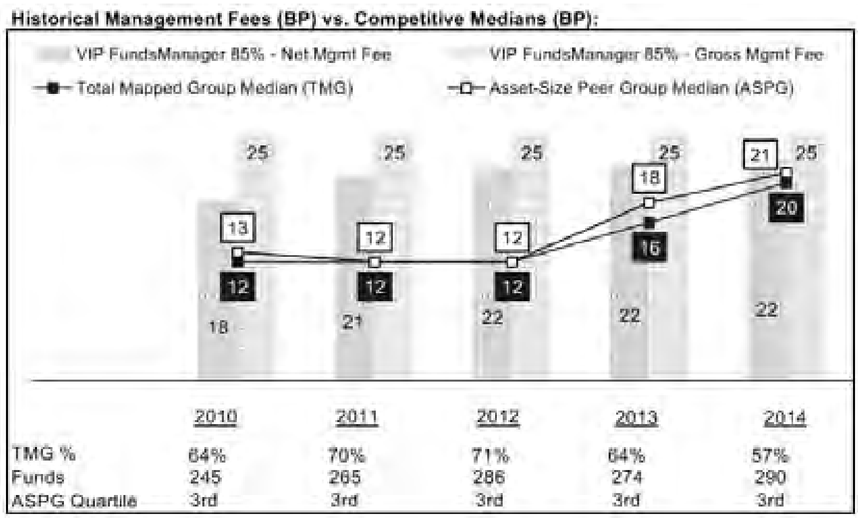

### VIP FundsManager 60%



## VIP FundsManager 70%




## VIP FundsManager 85%




The Board noted that each fund's hypothetical net management fee rate ranked above the median of its Total Mapped Group and above the median of its ASPG for 2014. The Board considered that the funds are more actively managed than most funds in their TMG and ASPG, many of which are target date funds.

Furthermore, the Board considered that the investment adviser contractually agreed to waive 0.05% of each fund's management fee through April 30, 2016 and that, including the management fee waiver, each fund would be below the median of its Total Mapped Group and below the median of its ASPG for 2014.

The Board noted that, in 2014, the ad hoc Committee on Group Fee was formed by it and other Fidelity fund boards to conduct an in-depth review of the "group fee" component of the management fee of funds with such management fee structures, and that while the funds do not pay a management fee with a group fee component, they indirectly bear a portion of the management fees paid by the Fidelity funds in which they invest, some of which are subject to the group fee. Committee focus included the mechanics of the group fee, the competitive landscape of group fee structures, Fidelity funds with no group fee component and investment products not included in group fee assets. The Board also considered that, for funds subject to the group fee, FMR agreed to voluntarily waive fees over a specified period of time in amounts designed to account for assets converted from certain funds to certain collective investment trusts.

Based on its review, the Board concluded that each fund's management fee is fair and reasonable in light of the services that the fund receives and the other factors considered.

Total Expense Ratio. In its review of the total expense ratio of each class of each fund, the Board considered the fund's hypothetical net management fee rate as well as the fund's all-inclusive fee. The Board also considered other expenses, such as pricing and bookkeeping fees and custodial, legal, and audit fees, paid by FMR under the all-inclusive arrangement. The Board also considered fund-paid 12b-1 fees. The Board also noted that Fidelity may agree to waive fees and expenses from time to time, and the extent to which, if any, it has done so for the funds. As part of its review, the Board also considered the current and historical total expense ratios of each class of each fund compared to competitive fund median expenses. Each class of each fund is compared to those funds and classes in the Total Mapped Group (used by the Board for management fee comparisons) that have a similar sales load structure.

The Board noted that each fund offers multiple classes, each of which has a different 12b-1 fee structure, and that the multiple structures are intended to offer a range of pricing options for the intermediary market. The Board also noted that the total expense ratios of the classes of each fund vary primarily by the level of their 12b-1 fees.

The Board considered the total expense ratio of each fund, after the effect of the contractual expense cap arrangements discussed below. The Board noted that the total expense ratio of each of Investor Class and Service Class of each fund ranked below its competitive median for 2014 and the total expense ratio of Service Class 2 of each fund ranked above its competitive median for 2014. The Board considered that, in general, various factors can affect total expense ratios. The Board noted that the total expense ratio of Service Class 2 was above the competitive median primarily because of higher 12b-1 fees for Service Class 2 as compared to most competitor funds.

In considering the total expense ratio for each class of each fund, the Board also considered an alternative competitive analysis that included both top level (*i.e.*, direct) fund fees and acquired fund fees and expenses for the class and the other funds and classes in the mapped group. The Board noted that, under this alternative competitive analysis, the total expense ratio of each of Investor Class and Service Class of each fund, except VIP FundsManager 85%, ranked below its competitive median for 2014 and the total expense ratio of each of Investor Class and Service Class of VIP FundsManager 85% ranked above its competitive median for 2014 because of higher acquired fund fees and expenses compared to competitor funds. The Board noted that the total expense ratio of Service Class 2 of VIP FundsManager 20% and VIP FundsManager 50% ranked below its competitive median for 2014 and the total expense ratio of Service Class 2 of each other fund ranked above its competitive median for 2014.

The Board further considered that FMR contractually agreed to reimburse 0.10% of "class-level" expenses for Service Class and Service Class 2 as long as these classes continue to be sold to unaffiliated insurance companies.

Fees Charged to Other Fidelity Clients. The Board also considered Fidelity fee structures and other information with respect to clients of Fidelity, such as other funds advised or subadvised by Fidelity, pension plan clients, and other institutional clients with similar mandates. The Board noted the findings of the 2013 ad hoc joint committee (created with the board of other Fidelity funds), which reviewed and compared Fidelity's institutional investment advisory business with its business of providing services to the Fidelity funds, including the differences in services provided, fees charged, and costs incurred, as well as competition in their respective marketplaces.

Based on its review of total expense ratios and fees charged to other Fidelity clients, the Board concluded that, although Service Class 2 was above the median of the universe presented for comparison, the total expense ratio of each class of each fund was reasonable in light of the services that the fund and its shareholders receive and the other factors considered.

**Costs of the Services and Profitability.** The Board consideredthe revenues earned and the expenses incurred by Fidelity in conducting the business of developing, marketing, distributing, managing, administering and servicing each fund and servicing each fund's shareholders. The Board also considered the level of Fidelity's profits in respect of all the Fidelity funds, including the Fidelity funds in which the funds invest.

On an annual basis, Fidelity presents to the Board information about the profitability of its relationship with each fund. Fidelity calculates profitability information for each fund, as well as aggregate profitability information for groups of Fidelity funds and all Fidelity funds, using a series of detailed revenue and cost allocation methodologies which originate with the books and records of Fidelity on which Fidelity's audited financial statements are based. The Audit Committee of the Board reviews any significant changes from the prior year's methodologies.

PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm and auditor to Fidelity and certain Fidelity funds, has been engaged annually by the Board as part of the Board's assessment of Fidelity's profitability analysis. PwC's engagement includes the review and assessment of the methodologies used by Fidelity in determining the revenues and expenses attributable to Fidelity's mutual fund business, and completion of agreed-upon procedures in respect of the mathematical accuracy of fund profitability and its conformity to established allocation methodologies. After considering PwC's reports issued under the engagement and information provided by Fidelity, the Board concluded that while other allocation methods may also be reasonable, Fidelity's profitability methodologies are reasonable in all material respects.

The Board also reviewed Fidelity's non-fund businesses and fall-out benefits related to the mutual fund business as well as cases where Fidelity's affiliates may benefit from or be related to the funds' business.

The Board considered the costs of the services provided by and the profits realized by Fidelity in connection with the operation of each fund and was satisfied that the profitability was not excessive.

**Economies of Scale.** The Board considered whether there have been economies of scale in respect of the management of the Fidelity funds, whether the Fidelity funds (including each fund) have appropriately benefited from any such economies of scale, and whether there is potential for realization of any further economies of scale. The Board considered the extent to which each fund will benefit from economies of scale as assets grow through increased services to the fund, through waivers or reimbursements, or through fee or expense ratio reductions. The Board also noted that in 2013, it and the boards of other Fidelity funds created an ad hoc committee (the Economies of Scale Committee) to analyze whether Fidelity attains economies of scale in respect of the management and servicing of the Fidelity funds, whether the Fidelity funds have appropriately benefited from such economies of scale, and whether there is potential for realization of any further economies of scale.

The Board concluded, taking into account the analysis of the Economies of Scale Committee, that economies of scale, if any, are being appropriately shared between fund shareholders and Fidelity.

**Additional Information Requested by the Board.** In order to develop fully the factual basis for consideration of the Fidelity funds' Advisory Contracts, the Board requested and received additional information on certain topics, including: (i) Fidelity's fund profitability methodology, profitability trends for certain funds, and the impact of certain factors on fund profitability results; (ii) portfolio manager changes that have occurred during the past year and the amount of the investment that each portfolio manager has made in the Fidelity fund(s) that he or she manages; (iii) Fidelity's compensation structure for portfolio managers, research analysts, and other key personnel, including its effects on fund profitability, the rationale for the compensation structure, and the extent to which current market conditions have affected retention and recruitment; (iv) the arrangements with and compensation paid to certain fund sub-advisers on behalf of the Fidelity funds; (v) Fidelity's voluntary waiver of its fees to maintain minimum yields for certain money market funds and classes as well as contractual waivers in place for certain funds; (vi) the methodology with respect to competitive fund data and peer group classifications; (vii) Fidelity's transfer agent fee, expense, and service structures for different funds and classes relative to competitive trends, and the impact of the increased use of omnibus accounts; (viii) Fidelity's long-term expectations for its offerings in the workplace investing channel; (ix) new developments in the retail and institutional marketplaces; and (x) the impact of money market reform on Fidelity's money market funds. In addition, the Board considered its discussions with Fidelity throughout the year regarding enhanced information security initiatives and the funds' fair valuation policies.

Based on its evaluation of all of the conclusions noted above, and after considering all factors it believed relevant, the Board concluded that the advisory fee structures are fair and reasonable, and that each fund's Advisory Contract should be approved.

# Proxy Voting Results

A special meeting of shareholders was held on May 12, 2015. The results of votes taken among shareholders on the proposal before them are reported below. Each vote reported represents one dollar of net asset value held on the record date for the meeting.

**PROPOSAL 1**

To elect a Board of Trustees.

| | # of Votes | % of Votes |
|---|---|---|
| **Elizabeth S. Acton** | | |
| **Affirmative** | 24,469,831,790.28 | 97.003 |
| **Withheld** | 756,086,184.43 | 2.997 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **John Engler** | | |
| **Affirmative** | 24,404,438,415.74 | 96.744 |
| **Withheld** | 821,479,558.97 | 3.256 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Albert R. Gamper, Jr.** | | |
| **Affirmative** | 24,431,670,090.08 | 96.852 |
| **Withheld** | 794,247,884.63 | 3.148 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Robert F. Gartland** | | |
| **Affirmative** | 24,472,637,370.54 | 97.014 |
| **Withheld** | 753,280,604.17 | 2.986 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Abigail P. Johnson** | | |
| **Affirmative** | 24,442,024,432.82 | 96.893 |
| **Withheld** | 783,893,541.89 | 3.107 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Arthur E. Johnson** | | |
| **Affirmative** | 24,444,583,833.78 | 96.903 |
| **Withheld** | 781,334,140.93 | 3.097 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Michael E. Kenneally** | | |
| **Affirmative** | 24,475,874,452.78 | 97.027 |
| **Withheld** | 750,043,521.93 | 2.973 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **James H. Keyes** | | |
| **Affirmative** | 24,434,496,321.71 | 96.863 |
| **Withheld** | 791,421,653.00 | 3.137 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Marie L. Knowles** | | |
| **Affirmative** | 24,446,177,909.79 | 96.909 |
| **Withheld** | 779,740,064.92 | 3.091 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |
| **Geoffrey A. von Kuhn** | | |
| **Affirmative** | 24,444,403,935.60 | 96.902 |
| **Withheld** | 781,514,039.11 | 3.098 |
| **TOTAL** | 25,225,917,974.71 | 100.000 |

**Proposal 1 reflects trust wide proposal and voting results.**

VIPFM-ANN-0216
1.843208.109

# Fidelity® Variable Insurance Products:

## Growth Portfolio

**Annual Report**
**December 31, 2015**

Fidelity
INVESTMENTS

# Contents



To view a fund's proxy voting guidelines and proxy voting record for the 12-month period ended June 30, visit http://www.fidelity.com/proxyvotingresults or visit the Securities and Exchange Commission's (SEC) web site at http://www.sec.gov.

You may also call 1-877-208-0098 to request a free copy of the proxy voting guidelines.



*This report and the financial statements contained herein are submitted for the general information of the shareholders of the Fund. This report is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus.*

*A fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Forms N-Q are available on the SEC's web site at http://www.sec.gov. A fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.*

*For a complete list of a fund's portfolio holdings, view the most recent holdings listing, semiannual report, or annual report on Fidelity's web site at http://www.fidelity.com, http://www.advisor.fidelity.com, or http://www.401k.com, as applicable.*

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | 7.17% | 13.32% | 7.87% |
| Service Class | 7.05% | 13.21% | 7.76% |
| Service Class 2 | 6.90% | 13.04% | 7.60% |
| Investor Class | 7.09% | 13.23% | 7.77% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Growth Portfolio – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the Russell 3000® Growth Index performed over the same period.


Period Ending Values

——— $21,338 VIP Growth Portfolio – Initial Class

....... $22,589 Russell 3000® Growth Index

# Management's Discussion of Fund Performance

**Market Recap:** U.S. stocks gained modestly in 2015, rebounding from a steep decline in August and September over worries about China's slowing economic growth. The S&P 500® index rose 1.38% for the period, its lowest calendar-year return since 2008. After the late-summer rout, stocks sharply reversed course in October, lifted by the Federal Reserve's decision to put off raising near-term interest rates until mid-December. Investors also were encouraged by an interest-rate cut in China and economic stimulus in Europe. Overall, growth stocks fared much better than their value counterparts, as investors sought growth in a subpar economic environment. This helped lift the technology-heavy Nasdaq Composite Index® 6.96% for the year. Sector performance in the broader market was split, with five of 10 sectors in the S&P 500® gaining ground and five retreating. Consumer discretionary (+10%) led the way, benefiting from rising personal income and low inflation. Health care (+7%), consumer staples (+7%) and information technology (+6%) also outpaced the broad market amid strong fundamentals. Conversely, the energy sector (-21%) was by far the worst performer, stung by deflated commodity prices that also hit materials (-8%). The defensive, but rate-sensitive utilities sector (-5%) lost ground on the cusp of Fed tightening, while industrials (-3%) were dragged down with energy prices and a slower-growing China.

**Comments from Portfolio Manager Jason Weiner:** For the year, the fund's share classes outpaced the 5.09% return of the Russell 3000® Growth Index. Versus the benchmark, positioning in information technology's software & services industry was a big plus. From this group, the fund's position in Facebook – the fund's largest holding – was its biggest individual contributor by a wide margin. Facebook shares rose 34% for the period, partly in anticipation of earnings that reflected a strong rise in advertising revenue and growth in the number of subscribers accessing its services on mobile devices. Shares of Alphabet and Electronic Arts also contributed. Conversely, picks in the food, beverage & tobacco industry, part of the consumer staples sector, hurt. Here, an overweighting in Keurig Green Mountain, a maker of at-home beverage brewers and accessories, was by far the fund's largest individual detractor. The stock returned roughly -63%. The firm reported consecutive quarters of lower-than-expected earnings and revenue earlier in the year. In August, Keurig lowered its earnings outlook and said it planned for about 330 job cuts. Then, in November, the stock hit a nearly three-year low when an influential analyst lowered its forecast for Keurig's sales due to lowered prices on its coffee brewers, decreased K-Cup volumes and weak demand for its new Kold machine. We sold the fund's position in Keurig by period end.

*The views expressed above reflect those of the portfolio manager(s) only through the end of the period as stated on the cover of this report and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.*

# Investment Summary (Unaudited)

## Top Ten Stocks as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Facebook, Inc. Class A | 11.5 | 9.2 |
| Alphabet, Inc. Class A | 7.2 | 3.3 |
| Gilead Sciences, Inc. | 4.2 | 5.2 |
| Valeant Pharmaceuticals International, Inc. (Canada) | 2.9 | 0.7 |
| Amazon.com, Inc. | 2.8 | 0.5 |
| Avago Technologies Ltd. | 2.6 | 0.1 |
| Salesforce.com, Inc. | 2.6 | 2.1 |
| Starbucks Corp. | 2.5 | 1.9 |
| Home Depot, Inc. | 2.4 | 1.8 |
| Apple, Inc. | 2.3 | 6.7 |
| | 41.0 | |

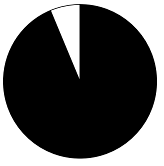
## Top Five Market Sectors as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Information Technology | 41.6 | 36.9 |
| Consumer Discretionary | 16.6 | 15.5 |
| Health Care | 16.5 | 16.7 |
| Industrials | 9.3 | 11.9 |
| Financials | 6.3 | 7.7 |

## Asset Allocation (% of fund's net assets)

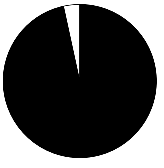
**As of December 31, 2015***

- ■ Stocks 93.7%
- □ Short-Term Investments and Net Other Assets (Liabilities) 6.3%



**As of June 30, 2015****

- ■ Stocks 96.6%
- □ Short-Term Investments and Net Other Assets (Liabilities) 3.4%



* *Foreign investments – 15.6%*

** *Foreign investments – 14.2%*

# Investments December 31, 2015

Showing Percentage of Net Assets

| Common Stocks – 92.9% | Shares | Value |
|---|---|---|
| **CONSUMER DISCRETIONARY – 16.5%** | | |
| **Automobiles – 1.3%** | | |
| Tesla Motors, Inc. (a)(b) | 264,800 | $ 63,554,648 |
| **Diversified Consumer Services – 1.3%** | | |
| Bright Horizons Family Solutions, Inc. (a) | 284,800 | 19,024,640 |
| Houghton Mifflin Harcourt Co. (a) | 379,400 | 8,263,332 |
| Nord Anglia Education, Inc. (a) | 229,635 | 4,656,998 |
| ServiceMaster Global Holdings, Inc. (a) | 822,300 | 32,267,052 |
| | | 64,212,022 |
| **Hotels, Restaurants & Leisure – 3.9%** | | |
| Buffalo Wild Wings, Inc. (a) | 88,500 | 14,129,025 |
| Chipotle Mexican Grill, Inc. (a) | 25,594 | 12,281,281 |
| Domino's Pizza, Inc. | 316,700 | 35,232,875 |
| Jubilant Foodworks Ltd. | 89,939 | 2,007,916 |
| Popeyes Louisiana Kitchen, Inc. (a) | 133,100 | 7,786,350 |
| Starbucks Corp. | 1,990,346 | 119,480,470 |
| | | 190,917,917 |
| **Household Durables – 0.9%** | | |
| Harman International Industries, Inc. | 310,500 | 29,252,205 |
| Toll Brothers, Inc. (a) | 351,800 | 11,714,940 |
| | | 40,967,145 |
| **Internet & Catalog Retail – 3.5%** | | |
| Amazon.com, Inc. (a) | 199,000 | 134,502,110 |
| Netflix, Inc. (a) | 254,100 | 29,063,958 |
| NutriSystem, Inc. | 209,300 | 4,529,252 |
| | | 168,095,320 |
| **Leisure Products – 0.0%** | | |
| NJOY, Inc. (a)(c) | 243,618 | 31,183 |
| **Specialty Retail – 4.0%** | | |
| AutoZone, Inc. (a) | 25,100 | 18,621,941 |
| Five Below, Inc. (a)(b) | 572,900 | 18,390,090 |
| Home Depot, Inc. | 888,132 | 117,455,457 |
| L Brands, Inc. | 148,700 | 14,248,434 |
| Lowe's Companies, Inc. | 261,100 | 19,854,044 |
| MarineMax, Inc. (a) | 358,000 | 6,594,360 |
| Restoration Hardware Holdings, Inc. (a) | 4,800 | 381,360 |
| | | 195,545,686 |
| **Textiles, Apparel & Luxury Goods – 1.6%** | | |
| Kate Spade & Co. (a) | 1,863,500 | 33,114,395 |
| NIKE, Inc. Class B | 706,152 | 44,134,500 |
| | | 77,248,895 |
| TOTAL CONSUMER DISCRETIONARY | | 800,572,816 |
| **CONSUMER STAPLES – 2.8%** | | |
| **Beverages – 0.6%** | | |
| Kweichow Moutai Co. Ltd. | 110,770 | 3,709,994 |
| The Coca-Cola Co. | 543,038 | 23,328,912 |
| | | 27,038,906 |
| **Food & Staples Retailing – 0.7%** | | |
| CVS Health Corp. | 227,900 | 22,281,783 |
| Whole Foods Market, Inc. | 418,266 | 14,011,911 |
| | | 36,293,694 |
| **Household Products – 0.3%** | | |
| Procter & Gamble Co. | 176,623 | $ 14,025,632 |
| **Personal Products – 1.2%** | | |
| Avon Products, Inc. (b) | 483,600 | 1,958,580 |
| Estee Lauder Companies, Inc. Class A | 173,000 | 15,234,380 |
| Herbalife Ltd. (a) | 798,855 | 42,834,605 |
| | | 60,027,565 |
| TOTAL CONSUMER STAPLES | | 137,385,797 |
| **ENERGY – 0.2%** | | |
| **Oil, Gas & Consumable Fuels – 0.2%** | | |
| Golar LNG Ltd. | 447,017 | 7,058,398 |
| **FINANCIALS – 6.3%** | | |
| **Banks – 0.9%** | | |
| First Republic Bank | 517,700 | 34,199,262 |
| HDFC Bank Ltd. | 117,289 | 2,367,655 |
| M&T Bank Corp. | 43,400 | 5,259,212 |
| | | 41,826,129 |
| **Capital Markets – 2.4%** | | |
| BlackRock, Inc. Class A | 71,606 | 24,383,275 |
| E*TRADE Financial Corp. (a) | 1,450,993 | 43,007,433 |
| HFF, Inc. | 341,400 | 10,607,298 |
| Invesco Ltd. | 477,693 | 15,993,162 |
| JMP Group, Inc. | 240,100 | 1,310,946 |
| PJT Partners, Inc. (a) | 37,346 | 1,056,518 |
| The Blackstone Group LP | 365,848 | 10,697,396 |
| Virtus Investment Partners, Inc. | 86,500 | 10,160,290 |
| | | 117,216,318 |
| **Diversified Financial Services – 1.5%** | | |
| Berkshire Hathaway, Inc. Class B (a) | 95,400 | 12,596,616 |
| McGraw Hill Financial, Inc. | 423,113 | 41,710,480 |
| MSCI, Inc. Class A | 259,640 | 18,727,833 |
| | | 73,034,929 |
| **Real Estate Investment Trusts – 0.6%** | | |
| American Tower Corp. | 294,000 | 28,503,300 |
| **Real Estate Management & Development – 0.7%** | | |
| Realogy Holdings Corp. (a) | 998,601 | 36,618,699 |
| **Thrifts & Mortgage Finance – 0.2%** | | |
| Essent Group Ltd. (a) | 392,000 | 8,580,880 |
| TOTAL FINANCIALS | | 305,780,255 |
| **HEALTH CARE – 16.5%** | | |
| **Biotechnology – 9.7%** | | |
| Amgen, Inc. | 299,300 | 48,585,369 |
| BioMarin Pharmaceutical, Inc. (a) | 277,025 | 29,021,139 |
| Celgene Corp. (a) | 276,900 | 33,161,544 |
| Cytokinetics, Inc. (a) | 97,090 | 1,015,561 |
| Cytokinetics, Inc. warrants 6/25/17 (a) | 1,084,980 | 1,000,243 |
| Gilead Sciences, Inc. | 2,021,590 | 204,564,692 |
| Insmed, Inc. (a) | 1,318,402 | 23,928,996 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **HEALTH CARE – continued** | | |
| **Biotechnology – continued** | | |
| Medivation, Inc. (a) | 1,626,900 | $ 78,644,346 |
| Vertex Pharmaceuticals, Inc. (a) | 397,100 | 49,967,093 |
| | | 469,888,983 |
| **Health Care Equipment & Supplies – 0.6%** | | |
| Medtronic PLC | 237,300 | 18,253,116 |
| Novadaq Technologies, Inc. (a) | 983,500 | 12,529,790 |
| | | 30,782,906 |
| **Health Care Providers & Services – 0.4%** | | |
| Express Scripts Holding Co. (a) | 188,100 | 16,441,821 |
| **Pharmaceuticals – 5.8%** | | |
| Astellas Pharma, Inc. | 5,252,700 | 74,776,203 |
| Teva Pharmaceutical Industries Ltd. sponsored ADR | 1,010,400 | 66,322,656 |
| Valeant Pharmaceuticals International, Inc. (Canada) (a) | 1,376,600 | 139,838,763 |
| | | 280,937,622 |
| TOTAL HEALTH CARE | | 798,051,332 |
| **INDUSTRIALS – 9.3%** | | |
| **Aerospace & Defense – 0.8%** | | |
| Textron, Inc. | 356,400 | 14,972,364 |
| TransDigm Group, Inc. (a) | 106,896 | 24,420,391 |
| | | 39,392,755 |
| **Air Freight & Logistics – 0.5%** | | |
| United Parcel Service, Inc. Class B | 232,700 | 22,392,721 |
| **Airlines – 0.8%** | | |
| Ryanair Holdings PLC sponsored ADR | 449,067 | 38,826,333 |
| **Building Products – 0.8%** | | |
| A.O. Smith Corp. | 232,918 | 17,843,848 |
| Caesarstone Sdot-Yam Ltd. | 436,922 | 18,936,199 |
| | | 36,780,047 |
| **Electrical Equipment – 0.8%** | | |
| Acuity Brands, Inc. | 88,100 | 20,597,780 |
| AMETEK, Inc. | 341,800 | 18,317,062 |
| | | 38,914,842 |
| **Industrial Conglomerates – 2.9%** | | |
| Danaher Corp. | 1,155,426 | 107,315,967 |
| Roper Technologies, Inc. | 177,217 | 33,634,014 |
| | | 140,949,981 |
| **Professional Services – 1.5%** | | |
| Equifax, Inc. | 107,500 | 11,972,275 |
| Resources Connection, Inc. | 532,855 | 8,706,851 |
| Robert Half International, Inc. | 492,000 | 23,192,880 |
| WageWorks, Inc. (a) | 671,729 | 30,476,345 |
| | | 74,348,351 |
| **Road & Rail – 0.0%** | | |
| Swift Transporation Co. (a) | 72,800 | 1,006,096 |
| **Trading Companies & Distributors – 1.2%** | | |
| HD Supply Holdings, Inc. (a) | 1,736,700 | 52,153,101 |
| Summit Ascent Holdings Ltd. (a)(b) | 9,214,000 | 3,960,292 |
| | | 56,113,393 |
| TOTAL INDUSTRIALS | | 448,724,519 |

| | Shares | Value |
|---|---|---|
| **INFORMATION TECHNOLOGY – 40.9%** | | |
| **Communications Equipment – 0.1%** | | |
| Qualcomm Technologies, Inc. | 125,000 | $ 6,248,125 |
| **Electronic Equipment & Components – 0.2%** | | |
| CDW Corp. | 168,300 | 7,075,332 |
| TE Connectivity Ltd. | 32,814 | 2,120,113 |
| | | 9,195,445 |
| **Internet Software & Services – 22.3%** | | |
| 58.com, Inc. ADR (a) | 243,800 | 16,081,048 |
| Alibaba Group Holding Ltd. sponsored ADR (a) | 567,100 | 46,088,217 |
| Alphabet, Inc.: | | |
| Class A (a) | 443,998 | 345,434,884 |
| Class C | 72,162 | 54,762,299 |
| Cvent, Inc. (a) | 584,275 | 20,397,040 |
| Facebook, Inc. Class A (a) | 5,333,909 | 558,246,916 |
| Just Dial Ltd. | 237,392 | 3,008,503 |
| JUST EAT Ltd. (a) | 1,293,803 | 9,416,461 |
| Shopify, Inc. Class A | 6,200 | 159,960 |
| Textura Corp. (a)(b) | 691,261 | 14,917,412 |
| Zillow Group, Inc.: | | |
| Class A (a)(b) | 119,300 | 3,106,572 |
| Class C (a)(b) | 238,600 | 5,602,328 |
| | | 1,077,221,640 |
| **IT Services – 3.3%** | | |
| Cognizant Technology Solutions Corp. Class A (a) | 749,100 | 44,960,982 |
| FleetCor Technologies, Inc. (a) | 16,000 | 2,286,880 |
| Global Payments, Inc. | 128,600 | 8,295,986 |
| MasterCard, Inc. Class A | 138,500 | 13,484,360 |
| Travelport Worldwide Ltd. | 242,700 | 3,130,830 |
| Visa, Inc. Class A | 1,152,572 | 89,381,959 |
| | | 161,540,997 |
| **Semiconductors & Semiconductor Equipment – 3.2%** | | |
| Avago Technologies Ltd. | 874,500 | 126,933,675 |
| Maxim Integrated Products, Inc. | 287,587 | 10,928,306 |
| Monolithic Power Systems, Inc. | 277,688 | 17,691,502 |
| | | 155,553,483 |
| **Software – 9.5%** | | |
| Activision Blizzard, Inc. | 435,932 | 16,874,928 |
| Adobe Systems, Inc. (a) | 612,600 | 57,547,644 |
| Atlassian Corp. PLC | 13,400 | 403,072 |
| Computer Modelling Group Ltd. | 1,071,300 | 6,952,572 |
| CyberArk Software Ltd. (a)(b) | 360,900 | 16,291,026 |
| Electronic Arts, Inc. (a) | 1,315,521 | 90,402,603 |
| Fleetmatics Group PLC (a) | 518,500 | 26,334,615 |
| HubSpot, Inc. (a) | 297,100 | 16,729,701 |
| Intuit, Inc. | 94,800 | 9,148,200 |
| Mobileye NV (a)(b) | 805,492 | 34,056,202 |
| Red Hat, Inc. (a) | 419,900 | 34,771,919 |
| Salesforce.com, Inc. (a) | 1,590,862 | 124,723,581 |
| ServiceNow, Inc. (a) | 280,900 | 24,314,704 |
| | | 458,550,767 |
| **Technology Hardware, Storage & Peripherals – 2.3%** | | |
| Apple, Inc. | 1,038,527 | 109,315,352 |
| TOTAL INFORMATION TECHNOLOGY | | 1,977,625,809 |

*See accompanying notes which are an integral part of the financial statements.*

| Common Stocks – continued | Shares | Value |
|---|---|---|
| **MATERIALS – 0.2%** | | |
| **Chemicals – 0.2%** | | |
| CF Industries Holdings, Inc. | 225,000 | $ 9,182,250 |
| **TELECOMMUNICATION SERVICES – 0.2%** | | |
| **Wireless Telecommunication Services – 0.2%** | | |
| SBA Communications Corp. Class A (a) | 91,500 | 9,613,905 |
| **TOTAL COMMON STOCKS** (Cost $3,247,139,264) | | **4,493,995,081** |

| Convertible Preferred Stocks – 0.8% | Shares | Value |
|---|---|---|
| **CONSUMER DISCRETIONARY – 0.1%** | | |
| **Household Durables – 0.1%** | | |
| Blu Homes, Inc. Series A, 5.00% (a)(c) | 1,049,416 | 4,239,641 |
| **INFORMATION TECHNOLOGY – 0.7%** | | |
| **Internet Software & Services – 0.6%** | | |
| Uber Technologies, Inc. Series D, 8.00% (a)(c) | 636,240 | 31,030,842 |
| **IT Services – 0.1%** | | |
| AppNexus, Inc. Series E (a)(c) | 181,657 | 3,446,033 |
| TOTAL INFORMATION TECHNOLOGY | | 34,476,875 |
| **TOTAL CONVERTIBLE PREFERRED STOCKS** (Cost $18,357,314) | | **38,716,516** |

| Money Market Funds – 7.5% | Shares | Value |
|---|---|---|
| Fidelity Cash Central Fund, 0.33% (d) | 313,577,531 | 313,577,531 |
| Fidelity Securities Lending Cash Central Fund, 0.35% (d)(e) | 51,265,471 | 51,265,471 |
| **TOTAL MONEY MARKET FUNDS** (Cost $364,843,002) | | **364,843,002** |
| **TOTAL INVESTMENT PORTFOLIO – 101.2%** (Cost $3,630,339,580) | | **4,897,554,599** |
| **NET OTHER ASSETS (LIABILITIES) – (1.2)%** | | **(57,718,399)** |
| **NET ASSETS – 100%** | | **$4,839,836,200** |

## Legend

(a) Non-income producing

(b) Security or a portion of the security is on loan at period end.

(c) Restricted securities – Investment in securities not registered under the Securities Act of 1933 (excluding 144A issues). At the end of the period, the value of restricted securities (excluding 144A issues) amounted to $38,747,699 or 0.8% of net assets.

(d) Affiliated fund that is generally available only to investment companies and other accounts managed by Fidelity Investments. The rate quoted is the annualized seven-day yield of the fund at period end. A complete unaudited listing of the fund's holdings as of its most recent quarter end is available upon request. In addition, each Fidelity Central Fund's financial statements, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC's website or upon request.

(e) Investment made with cash collateral received from securities on loan.

Additional information on each restricted holding is as follows:

| Security | Acquisition Date | Acquisition Cost |
|---|---|---|
| AppNexus, Inc. Series E | 8/1/14 | $ 3,638,989 |
| Blu Homes, Inc. Series A, 5.00% | 6/21/13 | $ 4,848,302 |
| NJOY, Inc. | 9/11/13 | $ 1,968,433 |
| Uber Technologies, Inc. Series D, 8.00% | 6/6/14 | $ 9,870,023 |

*See accompanying notes which are an integral part of the financial statements.*

## Affiliated Central Funds

Information regarding fiscal year to date income earned by the Fund from investments in Fidelity Central Funds is as follows:

| Fund | Income earned |
|---|---|
| Fidelity Cash Central Fund | $ 389,325 |
| Fidelity Securities Lending Cash Central Fund | 1,031,907 |
| Total | $ 1,421,232 |

## Investment Valuation

The following is a summary of the inputs used, as of December 31, 2015, involving the Fund's assets and liabilities carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs, and their aggregation into the levels used below, please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

**Valuation Inputs at Reporting Date:**

| Description | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Investments in Securities:** | | | | |
| **Equities:** | | | | |
| Consumer Discretionary | $ 804,812,457 | $ 798,533,717 | $ 2,007,916 | $ 4,270,824 |
| Consumer Staples | 137,385,797 | 133,675,803 | 3,709,994 | — |
| Energy | 7,058,398 | 7,058,398 | — | — |
| Financials | 305,780,255 | 303,412,600 | 2,367,655 | — |
| Health Care | 798,051,332 | 722,274,886 | 75,776,446 | — |
| Industrials | 448,724,519 | 444,764,227 | 3,960,292 | — |
| Information Technology | 2,012,102,684 | 1,974,617,306 | 3,008,503 | 34,476,875 |
| Materials | 9,182,250 | 9,182,250 | — | — |
| Telecommunication Services | 9,613,905 | 9,613,905 | — | — |
| Money Market Funds | 364,843,002 | 364,843,002 | — | — |
| **Total Investments in Securities:** | $4,897,554,599 | $4,767,976,094 | $90,830,806 | $38,747,699 |

## Other Information

Distribution of investments by country or territory of incorporation, as a percentage of Total Net Assets, is as follows (Unaudited):

| | |
|---|---|
| United States of America | 84.4% |
| Canada | 3.2% |
| Singapore | 2.6% |
| Cayman Islands | 2.3% |
| Israel | 2.1% |
| Ireland | 1.7% |
| Japan | 1.5% |
| Bermuda | 1.0% |
| Others (Individually Less Than 1%) | 1.2% |
| | 100.0% |

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (including securities loaned of $50,197,969) — See accompanying schedule: | | |
| Unaffiliated issuers (cost $3,265,496,578) | $ 4,532,711,597 | |
| Fidelity Central Funds (cost $364,843,002) | 364,843,002 | |
| Total Investments (cost $3,630,339,580) | | $ 4,897,554,599 |
| Receivable for fund shares sold | | 3,778,134 |
| Dividends receivable | | 781,132 |
| Distributions receivable from Fidelity Central Funds | | 148,423 |
| Prepaid expenses | | 9,953 |
| Other receivables | | 186,374 |
| **Total assets** | | 4,902,458,615 |
| **Liabilities** | | |
| Payable for investments purchased | $ 4,038,197 | |
| Payable for fund shares redeemed | 4,242,512 | |
| Accrued management fee | 2,213,598 | |
| Distribution and service plan fees payable | 242,072 | |
| Other affiliated payables | 379,817 | |
| Other payables and accrued expenses | 240,748 | |
| Collateral on securities loaned, at value | 51,265,471 | |
| **Total liabilities** | | 62,622,415 |
| **Net Assets** | | $ 4,839,836,200 |
| Net Assets consist of: | | |
| Paid in capital | | $ 3,144,567,107 |
| Distributions in excess of net investment income | | (168,922) |
| Accumulated undistributed net realized gain (loss) on investments and foreign currency transactions | | 428,222,996 |
| Net unrealized appreciation (depreciation) on investments | | 1,267,215,019 |
| **Net Assets** | | $ 4,839,836,200 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($3,045,731,930 ÷ 46,326,324 shares) | | $ 65.75 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($527,178,223 ÷ 8,039,575 shares) | | $ 65.57 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($958,370,811 ÷ 14,742,142 shares) | | $ 65.01 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($308,555,236 ÷ 4,707,523 shares) | | $ 65.55 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Dividends | | $ 43,549,304 |
| Income from Fidelity Central Funds | | 1,421,232 |
| **Total income** | | 44,970,536 |
| **Expenses** | | |
| Management fee | $ 26,611,226 | |
| Transfer agent fees | 3,440,810 | |
| Distribution and service plan fees | 2,802,913 | |
| Accounting and security lending fees | 1,087,813 | |
| Custodian fees and expenses | 112,074 | |
| Independent trustees' compensation | 21,666 | |
| Appreciation in deferred trustee compensation account | 296 | |
| Audit | 81,382 | |
| Legal | 23,321 | |
| Miscellaneous | 33,101 | |
| Total expenses before reductions | 34,214,602 | |
| Expense reductions | (181,724) | 34,032,878 |
| **Net investment income (loss)** | | 10,937,658 |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) on: | | |
| Investment securities: | | |
| Unaffiliated issuers | 435,877,029 | |
| Foreign currency transactions | (175,448) | |
| Total net realized gain (loss) | | 435,701,581 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investment securities | (112,813,527) | |
| Assets and liabilities in foreign currencies | (450) | |
| Total change in net unrealized appreciation (depreciation) | | (112,813,977) |
| **Net gain (loss)** | | 322,887,604 |
| **Net increase (decrease) in net assets resulting from operations** | | $ 333,825,262 |

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 10,937,658 | $ 13,248,024 |
| Net realized gain (loss) | 435,701,581 | 551,141,575 |
| Change in net unrealized appreciation (depreciation) | (112,813,977) | (58,286,995) |
| **Net increase (decrease) in net assets resulting from operations** | 333,825,262 | 506,102,604 |
| Distributions to shareholders from net investment income | (9,674,651) | (6,645,369) |
| Distributions to shareholders from net realized gain | (149,807,636) | – |
| **Total distributions** | (159,482,287) | (6,645,369) |
| Share transactions – net increase (decrease) | (152,738,757) | (324,112,807) |
| Redemption fees | 9,639 | 88,351 |
| **Total increase (decrease) in net assets** | 21,613,857 | 175,432,779 |
| **Net Assets** | | |
| Beginning of period | 4,818,222,343 | 4,642,789,564 |
| End of period (including distributions in excess of net investment income of $168,922 and distributions in excess of net investment income of $183,045, respectively) | $ 4,839,836,200 | $ 4,818,222,343 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Growth Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 63.48 | $ 57.14 | $ 42.05 | $ 36.89 | $ 37.09 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .19 | .20 | .14 | .26 | .14 |
| Net realized and unrealized gain (loss) | 4.24 | 6.26 | 15.13 | 5.16 | (.06) |
| Total from investment operations | 4.43 | 6.46 | 15.27 | 5.42 | .08 |
| Distributions from net investment income | (.17) | (.12) | (.15) | (.26) | (.15)[B] |
| Distributions from net realized gain | (1.98) | – | (.04) | – | (.12)[B] |
| Total distributions | (2.16)[C] | (.12) | (.18)[D] | (.26) | (.28)[E] |
| Redemption fees added to paid in capital[A,F] | – | – | – | – | – |
| Net asset value, end of period | $ 65.75 | $ 63.48 | $ 57.14 | $ 42.05 | $ 36.89 |
| **Total Return**[G,H] | 7.17% | 11.30% | 36.34% | 14.69% | .20% |
| **Ratios to Average Net Assets**[I,J] | | | | | |
| Expenses before reductions | .64% | .65% | .66% | .66% | .66% |
| Expenses net of fee waivers, if any | .64% | .65% | .65% | .66% | .66% |
| Expenses net of all reductions | .64% | .64% | .65% | .65% | .66% |
| Net investment income (loss) | .29% | .34% | .28% | .64% | .36% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 3,045,732 | $ 3,143,666 | $ 3,179,928 | $ 2,613,977 | $ 2,583,122 |
| Portfolio turnover rate[K] | 63% | 46% | 74% | 68% | 71% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $2.16 per share is comprised of distributions from net investment income of $.171 and distributions from net realized gain of $1.984 per share.*
D *Total distributions of $.18 per share is comprised of distributions from net investment income of $.147 and distributions from net realized gain of $.035 per share.*
E *Total distributions of $.28 per share is comprised of distributions from net investment income of $.152 and distributions from net realized gain of $.123 per share.*
F *Amount represents less than $.005 per share.*
G *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
H *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
I *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
J *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
K *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Growth Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 63.32 | $ 57.00 | $ 41.95 | $ 36.81 | $ 36.99 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .12 | .14 | .09 | .22 | .10 |
| Net realized and unrealized gain (loss) | 4.22 | 6.24 | 15.09 | 5.13 | (.05) |
| Total from investment operations | 4.34 | 6.38 | 15.18 | 5.35 | .05 |
| Distributions from net investment income | (.11) | (.06) | (.10) | (.21) | (.11)[B] |
| Distributions from net realized gain | (1.98) | – | (.04) | – | (.12)[B] |
| Total distributions | (2.09) | (.06) | (.13)[C] | (.21) | (.23) |
| Redemption fees added to paid in capital[A,D] | – | – | – | – | – |
| Net asset value, end of period | $ 65.57 | $ 63.32 | $ 57.00 | $ 41.95 | $ 36.81 |
| **Total Return**[E,F] | 7.05% | 11.19% | 36.20% | 14.54% | .14% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .74% | .75% | .76% | .76% | .77% |
| Expenses net of fee waivers, if any | .74% | .75% | .75% | .76% | .76% |
| Expenses net of all reductions | .74% | .74% | .75% | .75% | .76% |
| Net investment income (loss) | .19% | .24% | .18% | .54% | .26% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 527,178 | $ 521,455 | $ 491,959 | $ 395,589 | $ 395,217 |
| Portfolio turnover rate[I] | 63% | 46% | 74% | 68% | 71% |

A Calculated based on average shares outstanding during the period.
B The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.
C Total distributions of $.13 per share is comprised of distributions from net investment income of $.097 and distributions from net realized gain of $.035 per share.
D Amount represents less than $.005 per share.
E Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
F Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.
G Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.
H Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.
I Amount does not include the portfolio activity of any underlying Fidelity Central Funds.

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Growth Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 62.80 | $ 56.57 | $ 41.64 | $ 36.53 | $ 36.72 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .02 | .05 | .01 | .16 | .04 |
| Net realized and unrealized gain (loss) | 4.20 | 6.18 | 14.98 | 5.10 | (.05) |
| Total from investment operations | 4.22 | 6.23 | 14.99 | 5.26 | (.01) |
| Distributions from net investment income | (.02) | – | (.02) | (.15) | (.06)[B] |
| Distributions from net realized gain | (1.98) | – | (.04) | – | (.12)[B] |
| Total distributions | (2.01)[C] | – | (.06) | (.15) | (.18) |
| Redemption fees added to paid in capital[A,D] | – | – | – | – | – |
| Net asset value, end of period | $ 65.01 | $ 62.80 | $ 56.57 | $ 41.64 | $ 36.53 |
| **Total Return**[E,F] | 6.90% | 11.01% | 36.00% | 14.40% | (.03)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .89% | .90% | .91% | .91% | .92% |
| Expenses net of fee waivers, if any | .89% | .90% | .90% | .91% | .91% |
| Expenses net of all reductions | .89% | .89% | .90% | .90% | .91% |
| Net investment income (loss) | .04% | .09% | .03% | .39% | .11% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 958,371 | $ 845,165 | $ 739,551 | $ 592,407 | $ 590,556 |
| Portfolio turnover rate[I] | 63% | 46% | 74% | 68% | 71% |

A Calculated based on average shares outstanding during the period.
B The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.
C Total distributions of $2.01 per share is comprised of distributions from net investment income of $.021and distributions from net realized gain of $1.984 per share.
D Amount represents less than $.005 per share.
E Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
F Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.
G Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.
H Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.
I Amount does not include the portfolio activity of any underlying Fidelity Central Funds.

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Growth Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 63.30 | $ 56.99 | $ 41.95 | $ 36.81 | $ 37.00 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .15 | .10 | .23 | .10 |
| Net realized and unrealized gain (loss) | 4.23 | 6.24 | 15.09 | 5.13 | (.05) |
| Total from investment operations | 4.36 | 6.39 | 15.19 | 5.36 | .05 |
| Distributions from net investment income | (.13) | (.08) | (.11) | (.22) | (.12)[B] |
| Distributions from net realized gain | (1.98) | – | (.04) | – | (.12)[B] |
| Total distributions | (2.11) | (.08) | (.15) | (.22) | (.24) |
| Redemption fees added to paid in capital[A,C] | – | – | – | – | – |
| Net asset value, end of period | $ 65.55 | $ 63.30 | $ 56.99 | $ 41.95 | $ 36.81 |
| **Total Return**[D,E] | 7.09% | 11.20% | 36.22% | 14.58% | .14% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .72% | .73% | .74% | .75% | .75% |
| Expenses net of fee waivers, if any | .72% | .73% | .73% | .75% | .75% |
| Expenses net of all reductions | .72% | .73% | .73% | .74% | .74% |
| Net investment income (loss) | .21% | .25% | .20% | .55% | .27% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 308,555 | $ 269,599 | $ 214,067 | $ 143,005 | $ 126,551 |
| Portfolio turnover rate[H] | 63% | 46% | 74% | 68% | 71% |

A Calculated based on average shares outstanding during the period.
B The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.
C Amount represents less than $.005 per share.
D Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
E Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.
F Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.
G Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.
H Amount does not include the portfolio activity of any underlying Fidelity Central Funds.

*See accompanying notes which are an integral part of the financial statements.*

# Notes to Financial Statements
For the period ended December 31, 2015

### 1. Organization.

VIP Growth Portfolio (the Fund) is a fund of Variable Insurance Products Fund (the Trust) and is authorized to issue an unlimited number of shares. The Trust 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. Shares of the Fund may only be purchased by insurance companies for the purpose of funding variable annuity or variable life insurance contracts. The Fund offers the following classes of shares: Initial Class shares, Service Class shares, Service Class 2 shares and Investor Class shares. The Fund offered Service Class 2R shares during the period April 24, 2002 through April 30, 2015, and all outstanding shares were converted to Service Class 2 shares by April 30, 2015. All classes have equal rights and voting privileges, except for matters affecting a single class.

### 2. Investments in Fidelity Central Funds.

The Fund invests in Fidelity Central Funds, which are open-end investment companies generally available only to other investment companies and accounts managed by the investment adviser and its affiliates. The Fund's Schedule of Investments lists each of the Fidelity Central Funds held as of period end, if any, as an investment of the Fund, but does not include the underlying holdings of each Fidelity Central Fund. As an Investing Fund, the Fund indirectly bears its proportionate share of the expenses of the underlying Fidelity Central Funds.

The Money Market Central Funds seek preservation of capital and current income and are managed by Fidelity Investments Money Management, Inc. (FIMM), an affiliate of the investment adviser. Annualized expenses of the Money Market Central Funds as of their most recent shareholder report date are less than .005%.

A complete unaudited list of holdings for each Fidelity Central Fund is available upon request or at the Securities and Exchange Commission (the SEC) website at www.sec.gov. In addition, the financial statements of the Fidelity Central Funds, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC website or upon request.

### 3. Significant Accounting Policies.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date that the financial statements were issued have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Fund:

**Investment Valuation.** Investments are valued as of 4:00 p.m. Eastern time on the last calendar day of the period. The Board of Trustees (the Board) has delegated the day to day responsibility for the valuation of the Fund's investments to the Fidelity Management & Research Company (FMR) Fair Value Committee (the Committee). In accordance with valuation policies and procedures approved by the Board, the Fund attempts to obtain prices from one or more third party pricing vendors or brokers to value its investments. When current market prices, quotations or currency exchange rates are not readily available or reliable, investments will be fair valued in good faith by the Committee, in accordance with procedures adopted by the Board. Factors used in determining fair value vary by investment type and may include market or investment specific events. The frequency with which these procedures are used cannot be predicted and they may be utilized to a significant extent. The Committee oversees the Fund's valuation policies and procedures and reports to the Board on the Committee's activities and fair value determinations. The Board monitors the appropriateness of the procedures used in valuing the Fund's investments and ratifies the fair value determinations of the Committee.

The Fund categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as shown below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, etc.)

Level 3 – unobservable inputs (including the Fund's own assumptions based on the best information available)

Valuation techniques used to value the Fund's investments by major category are as follows:

Equity securities, including restricted securities, for which market quotations are readily available, are valued at the last reported sale price or official closing price as reported by a third party pricing vendor on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy. In the event there were no sales during the day or closing prices are not available, securities are valued at the last quoted bid price or may be valued using the last available price and are generally categorized as Level 2 in the hierarchy. For foreign equity securities, when market or security specific events arise, comparisons to the valuation of American Depositary Receipts (ADRs), futures contracts, Exchange-Traded Funds (ETFs) and certain indexes as well as quoted prices for similar securities may be used and would be categorized as Level 2 in the hierarchy. Utilizing these techniques may result in transfers between Level 1 and Level 2. For equity securities, including restricted securities, where observable inputs are limited, assumptions about market activity and risk are used and these securities may be categorized as Level 3 in the hierarchy.

Investments in open-end mutual funds, including the Fidelity Central Funds, are valued at their closing net asset value (NAV) each business day and are categorized as Level 1 in the hierarchy.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. The aggregate value of investments by input level as of December 31, 2015 is included at the end of the Fund's Schedule of Investments.

**Foreign Currency.** The Fund may use foreign currency contracts to facilitate transactions in foreign-denominated securities. Gains and losses from these transactions may arise from changes in the value of the foreign currency or if the counterparties do not perform under the contracts' terms.

Foreign-denominated assets, including investment securities, and liabilities are translated into U.S. dollars at the exchange rates at period end. Purchases and sales of investment securities, income and dividends received and expenses denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

The effects of exchange rate fluctuations on investments are included with the net realized and unrealized gain (loss) on investment securities. Other foreign currency transactions resulting in realized and unrealized gain (loss) are disclosed separately.

**Investment Transactions and Income.** For financial reporting purposes, the Fund's investment holdings and NAV include trades executed through the end of the last business day of the period. The NAV per share for processing shareholder transactions is calculated as of the close of business of the New York Stock Exchange (NYSE), normally 4:00 p.m. Eastern time and includes trades executed through the end of the prior business day. Gains and losses on securities sold are determined on the basis of identified cost and may include proceeds received from litigation. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Fund is informed of the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Income and capital gain distributions from Fidelity Central Funds, if any, are recorded on the ex-dividend date. Distributions received on securities that represent a return of capital or capital gain are recorded as a reduction of cost of investments and/or as a realized gain. Subsequent to ex-dividend date the Fund determines the components of these distributions, based upon receipt of tax filings or other correspondence relating to the underlying investment. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain.

**Class Allocations and Expenses.** Investment income, realized and unrealized capital gains and losses, common expenses of the Fund, and certain fund-level expense reductions, if any, are allocated daily on a pro-rata basis to each class based on the relative net assets of each class to the total net assets of the Fund. Each class differs with respect to transfer agent and distribution and service plan fees incurred. Certain expense reductions may also differ by class. For the reporting period, the allocated portion of income and expenses to each class as a percent of its average net assets may vary due to the timing of recording these transactions in relation to fluctuating net assets of the classes. Expenses directly attributable to a fund are charged to that fund. Expenses attributable to more than one fund are allocated among the respective funds on the basis of relative net assets or other appropriate methods. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

**Deferred Trustee Compensation.** Under a Deferred Compensation Plan (the Plan), independent Trustees may elect to defer receipt of a portion of their annual compensation. Deferred amounts are invested in a cross-section of Fidelity funds, are marked-to-market and remain in the Fund until distributed in accordance with the Plan. The investment of deferred amounts and the offsetting payable to the Trustees are included in the accompanying Statement of Assets and Liabilities.

**Income Tax Information and Distributions to Shareholders.** Each year, the Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, including distributing substantially all of its taxable income and realized gains. As a result, no provision for U.S. Federal income taxes is required. As of December 31, 2015, the Fund did not have any unrecognized tax benefits in the financial statements; nor is the Fund 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. The Fund files a U.S. federal tax return, in addition to state and local tax returns as required. The Fund's federal income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three fiscal years after they are filed. State and local tax returns may be subject to examination for an additional fiscal year depending on the jurisdiction. Foreign taxes are provided for based on the Fund's understanding of the tax rules and rates that exist in the foreign markets in which it invests.

Distributions are declared and recorded on the ex-dividend date. Income dividends and capital gain distributions are declared separately for each class. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Capital accounts are not adjusted for temporary book-tax differences which will reverse in a subsequent period.

Book-tax differences are primarily due to foreign currency transactions, deferred trustee compensation, partnerships and losses deferred due to wash sales.

The federal tax cost of investment securities and unrealized appreciation (depreciation) as of period end were as follows:

| | |
|---|---|
| **Gross unrealized appreciation** | $1,424,401,229 |
| **Gross unrealized depreciation** | (169,596,200) |
| **Net unrealized appreciation (depreciation) on securities** | $1,254,805,029 |
| **Tax Cost** | $3,642,749,570 |

The tax-based components of distributable earnings as of period end were as follows:

| | |
|---|---|
| **Undistributed long-term capital gain** | $ 440,632,985 |
| **Net unrealized appreciation (depreciation) on securities and other investments** | $1,254,805,029 |

The tax character of distributions paid was as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Ordinary Income** | $ 9,674,651 | $6,645,369 |
| **Long-term Capital Gains** | 149,807,636 | – |
| **Total** | $159,482,287 | $6,645,369 |

**Trading (Redemption) Fees.** Service Class 2R shares held by investors less than 60 days may have been subject to a redemption fee equal to 1% of the NAV of shares redeemed. All redemption fees, which reduce the proceeds of the shareholder redemption, are retained by the Fund and accounted for as an addition to paid in capital. These redemption fees were eliminated effective April 30, 2015.

**Restricted Securities.** The Fund may invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. Information regarding restricted securities is included at the end of the Fund's Schedule of Investments.

## 4. Purchases and Sales of Investments.

Purchases and sales of securities, other than short-term securities, aggregated $2,905,843,821 and $3,280,937,463, respectively.

## 5. Fees and Other Transactions with Affiliates.

**Management Fee.** Fidelity Management & Research Company (the investment adviser) and its affiliates provide the Fund with investment management related services for which the Fund pays a monthly management fee. The management fee is the sum of an individual fund fee rate that is based on an annual rate of .30% of the Fund's average net assets and an annualized group fee rate that averaged .25% during the period. The group fee rate is based upon the average net assets of all the mutual funds advised by the investment adviser, including any mutual funds previously advised by the investment adviser that are currently advised by Fidelity SelectCo, LLC, an affiliate of the investment adviser. The group fee rate decreases as assets under management increase and increases as assets under management decrease. For the reporting period, the total annual management fee rate was .55% of the Fund's average net assets.

**Distribution and Service Plan Fees.** In accordance with Rule 12b-1 of the 1940 Act, the Fund has adopted separate 12b-1 Plans for each Service Class of shares. Each Service Class pays Fidelity Distributors Corporation (FDC), an affiliate of the investment adviser, a service fee. For the period, the service fee is based on an annual rate of .10% of Service Class' average net assets and .25% of Service Class 2's and Service Class 2R's average net assets.

For the period, total fees, all of which were re-allowed to insurance companies for the distribution of shares and providing shareholder support services, were as follows:

| | |
|---|---|
| **Service Class** | $ 529,462 |
| **Service Class 2** | 2,246,915 |
| **Service Class 2R**[A] | 26,536 |
| | $2,802,913 |

[A] *For the period January 1, 2015 through April 30, 2015.*

**Transfer Agent Fees.** Fidelity Investments Institutional Operations Company, Inc. (FIIOC), an affiliate of the investment adviser, is the Fund's transfer, dividend disbursing, and shareholder servicing agent. FIIOC receives an asset-based fee with respect to each class. Each class (with the exception of Investor Class) pays a fee for transfer agent services, typesetting, printing and mailing of shareholder reports, excluding mailing of proxy statements and out of pocket expenses, equal to an annual rate of .07% (.15% for Investor Class) of class-level average net assets. For the period, transfer agent fees for each class, including out of pocket expenses, were as follows:

| | |
|---|---|
| **Initial Class** | $2,066,016 |
| **Service Class** | 349,971 |
| **Service Class 2** | 594,080 |
| **Service Class 2R**[A] | 6,998 |
| **Investor Class** | 423,745 |
| | $3,440,810 |

[A] *For the period January 1, 2015 through April 30, 2015.*

**Accounting and Security Lending Fees.** Fidelity Service Company, Inc. (FSC), an affiliate of the investment adviser, maintains the Fund's accounting records. The accounting fee is based on the level of average net assets for each month. Under a separate contract, FSC administers the security lending program. The security lending fee is based on the number and duration of lending transactions.

**Brokerage Commissions.** The Fund placed a portion of its portfolio transactions with brokerage firms which are affiliates of the investment adviser. Brokerage commissions are included in net realized gain (loss) and change in net unrealized appreciation (depreciation) in the Statement of Operations. The commissions paid to these affiliated firms were $36,719 for the period.

**Interfund Trades.** The Fund may purchase from or sell securities to other Fidelity Funds under procedures adopted by the Board. The procedures have been designed to ensure these interfund trades are executed in accordance with Rule 17a-7 of the 1940 Act. Interfund trades are included within the respective purchases and sales amounts shown in the Purchases and Sales of Investments note.

## 6. Committed Line of Credit.

The Fund participates with other funds managed by the investment adviser or an affiliate in a $4.25 billion credit facility (the "line of credit") to be utilized for temporary or emergency purposes to fund shareholder redemptions or for other short-term liquidity purposes. The Fund has agreed to pay commitment fees on its pro-rata portion of the line of credit, which amounted to $6,979 and is reflected in Miscellaneous expenses on the Statement of Operations. During the period, the Fund did not borrow on this line of credit.

## 7. Security Lending.

The Fund lends portfolio securities through a lending agent from time to time in order to earn additional income. For equity securities, a lending agent is used and may loan securities to certain qualified borrowers, including Fidelity Capital Markets (FCM), a broker-dealer affiliated with the Fund. On the settlement date of the loan, the Fund receives collateral (in the form of U.S. Treasury obligations, letters of credit and/or cash) against the loaned securities and maintains collateral in an amount not less than 100% of the market value of the loaned securities during the period of the loan. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund or borrower may terminate the loan at any time, and if the borrower defaults on its obligation to return the securities loaned because of insolvency or other reasons, the Fund may apply collateral received from the borrower against the obligation. The Fund may experience delays and costs in recovering the securities loaned. Any cash collateral received is invested in the Fidelity Securities Lending Cash Central Fund. The value of loaned securities and cash collateral at period end are disclosed on the Fund's Statement of Assets and Liabilities. The value of securities loaned to FCM at period end was $3,159,952. Security lending income represents the income earned on investing cash collateral, less rebates paid to borrowers, plus any premium payments received for lending certain types of securities. Security lending income is presented in the Statement of Operations as a component of income from Fidelity Central Funds. Total security lending income during the period amounted to $1,031,907, including $22,601 from securities loaned to FCM.

## 8. Expense Reductions.

Commissions paid to certain brokers with whom the investment adviser, or its affiliates, places trades on behalf of the Fund include an amount in addition to trade execution, which may be rebated back to the Fund to offset certain expenses. This amount totaled $156,945 for the period.

In addition, during the period the investment adviser reimbursed and/or waived a portion of fund-level operating expenses in the amount of $19,437 and a portion of class-level operating expenses as follows:

| | Amount |
|---|---|
| **Investor Class** | $5,342 |

## 9. Distributions to Shareholders.

Distributions to shareholders of each class were as follows:

| Years ended December 31, | 2015[A] | 2014 |
|---|---|---|
| **From net investment income** | | |
| Initial Class | $ 7,934,061 | $5,797,841 |
| Service Class | 849,151 | 478,056 |
| Service Class 2 | 305,804 | – |
| Service Class 2R | – | 45,219 |
| Investor Class | 585,635 | 324,253 |
| Total | $ 9,674,651 | $6,645,369 |
| **From net realized gain** | | |
| Initial Class | $ 97,164,090 | $ – |
| Service Class | 16,191,802 | – |
| Service Class 2 | 26,884,961 | – |
| Service Class 2R | 1,176,586 | – |
| Investor Class | 8,390,197 | – |
| Total | $149,807,636 | $ – |

[A] *All Service Class 2R shares were converted by April 30, 2015.*

## 10. Share Transactions.

Transactions for each class of shares were as follows:

| Years ended December 31, | Shares 2015[A] | Shares 2014 | Dollars 2015[A] | Dollars 2014 |
|---|---|---|---|---|
| **Initial Class** | | | | |
| Shares sold | 1,537,295 | 2,233,205 | $ 99,048,414 | $ 136,246,553 |
| Reinvestment of distributions | 1,689,662 | 90,127 | 105,098,151 | 5,797,841 |
| Shares redeemed | (6,421,101) | (8,457,263) | (414,843,526) | (515,793,249) |
| Net increase (decrease) | (3,194,144) | (6,133,931) | $ (210,696,961) | $ (373,748,855) |
| **Service Class** | | | | |
| Shares sold | 644,139 | 704,490 | $ 41,667,908 | $ 42,930,044 |
| Reinvestment of distributions | 274,936 | 7,450 | 17,040,953 | 478,056 |
| Shares redeemed | (1,114,617) | (1,108,161) | (71,657,612) | (66,877,454) |
| Net increase (decrease) | (195,542) | (396,221) | $ (12,948,751) | $ (23,469,354) |
| **Service Class 2** | | | | |
| Shares sold | 3,196,114 | 3,459,588 | $ 203,598,694 | $ 208,615,677 |
| Reinvestment of distributions | 443,005 | – | 27,190,765 | – |
| Shares redeemed | (2,354,140) | (3,076,660) | (149,858,061) | (185,716,847) |
| Net increase (decrease) | 1,284,979 | 382,928 | $ 80,931,398 | $ 22,898,830 |
| **Service Class 2R** | | | | |
| Shares sold | 23,176 | 638,965 | $ 1,461,854 | $ 39,497,431 |
| Reinvestment of distributions | 19,285 | 714 | 1,176,586 | 45,219 |
| Shares redeemed | (655,812) | (332,982) | (41,405,549) | (20,164,989) |
| Net increase (decrease) | (613,351) | 306,697 | $ (38,767,109) | $ 19,377,661 |
| **Investor Class** | | | | |
| Shares sold | 765,618 | 1,108,502 | $ 49,281,957 | $ 67,262,355 |
| Reinvestment of distributions | 144,780 | 5,055 | 8,975,832 | 324,253 |
| Shares redeemed | (461,826) | (611,138) | (29,515,123) | (36,757,697) |
| Net increase (decrease) | 448,572 | 502,419 | $ 28,742,666 | $ 30,828,911 |

[A] *All Service Class 2R shares were converted by April 30, 2015.*

## 11. Other.

The Fund's organizational documents provide former and current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Fund. In the normal course of business, the Fund may also enter into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

At the end of the period, the investment adviser or its affiliates were the owners of record of 15% of the total outstanding shares of the Fund and one otherwise unaffiliated shareholder was the owner of record of 26% of the total outstanding shares of the Fund.

# Report of Independent Registered Public Accounting Firm

To the Trustees of Variable Insurance Products Fund and Shareholders of VIP Growth Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Growth Portfolio (a fund of Variable Insurance Products Fund) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Growth Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 16, 2016

# Trustees and Officers

The Trustees, Members of the Advisory Board (if any), and officers of the trust and fund, as applicable, are listed below. The Board of Trustees governs the fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who meet periodically throughout the year to oversee the fund's activities, review contractual arrangements with companies that provide services to the fund, oversee management of the risks associated with such activities and contractual arrangements, and review the fund's performance. Each of the Trustees oversees 170 funds.

The Trustees hold office without limit in time except that (a) any Trustee may resign; (b) any Trustee may be removed by written instrument, signed by at least two-thirds of the number of Trustees prior to such removal; (c) any Trustee who requests to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees; and (d) any Trustee may be removed at any special meeting of shareholders by a two-thirds vote of the outstanding voting securities of the trust. Each Trustee who is not an interested person (as defined in the 1940 Act) of the trust and the fund is referred to herein as an Independent Trustee. Each Independent Trustee shall retire not later than the last day of the calendar year in which his or her 75th birthday occurs. The Independent Trustees may waive this mandatory retirement age policy with respect to individual Trustees. Officers and Advisory Board Members hold office without limit in time, except that any officer or Advisory Board Member may resign or may be removed by a vote of a majority of the Trustees at any regular meeting or any special meeting of the Trustees. Except as indicated, each individual has held the office shown or other offices in the same company for the past five years.

The fund's Statement of Additional Information (SAI) includes more information about the Trustees. To request a free copy, call Fidelity at 1-877-208-0098.

**Experience, Skills, Attributes, and Qualifications of the Trustees.** The Governance and Nominating Committee has adopted a statement of policy that describes the experience, qualifications, attributes, and skills that are necessary and desirable for potential Independent Trustee candidates (Statement of Policy). The Board believes that each Trustee satisfied at the time he or she was initially elected or appointed a Trustee, and continues to satisfy, the standards contemplated by the Statement of Policy. The Governance and Nominating Committee also engages professional search firms to help identify potential Independent Trustee candidates who have the experience, qualifications, attributes, and skills consistent with the Statement of Policy. From time to time, additional criteria based on the composition and skills of the current Independent Trustees, as well as experience or skills that may be appropriate in light of future changes to board composition, business conditions, and regulatory or other developments, have also been considered by the professional search firms and the Governance and Nominating Committee. In addition, the Board takes into account the Trustees' commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout their tenure.

In determining that a particular Trustee was and continues to be qualified to serve as a Trustee, the Board has considered a variety of criteria, none of which, in isolation, was controlling. The Board believes that, collectively, the Trustees have balanced and diverse experience, qualifications, attributes, and skills, which allow the Board to operate effectively in governing the fund and protecting the interests of shareholders. Information about the specific experience, skills, attributes, and qualifications of each Trustee, which in each case led to the Board's conclusion that the Trustee should serve (or continue to serve) as a trustee of the fund, is provided below.

**Board Structure and Oversight Function.** James C. Curvey is an interested person and currently serves as Chairman. The Trustees have determined that an interested Chairman is appropriate and benefits shareholders because an interested Chairman has a personal and professional stake in the quality and continuity of services provided to the fund. Independent Trustees exercise their informed business judgment to appoint an individual of their choosing to serve as Chairman, regardless of whether the Trustee happens to be independent or a member of management. The Independent Trustees have determined that they can act independently and effectively without having an Independent Trustee serve as Chairman and that a key structural component for assuring that they are in a position to do so is for the Independent Trustees to constitute a substantial majority for the Board. The Independent Trustees also regularly meet in executive session. Ned C. Lautenbach serves as Chairman of the Independent Trustees and as such (i) acts as a liaison between the Independent Trustees and management with respect to matters important to the Independent Trustees and (ii) with management prepares agendas for Board meetings.

Fidelity® funds are overseen by different Boards of Trustees. The fund's Board oversees Fidelity's high income and certain equity funds, and other Boards oversee Fidelity's investment-grade bond, money market, asset allocation, and sector funds. The asset allocation funds may invest in Fidelity® funds overseen by the fund's Board. The use of separate Boards, each with its own committee structure, allows the Trustees of each group of Fidelity® funds to focus on the unique issues of the funds they oversee, including common research, investment, and operational issues. On occasion, the separate Boards establish joint committees to address issues of overlapping consequences for the Fidelity® funds overseen by each Board.

The Trustees operate using a system of committees to facilitate the timely and efficient consideration of all matters of importance to the Trustees, the fund, and fund shareholders and to facilitate compliance with legal and regulatory requirements and oversight of the fund's activities and associated risks. The Board, acting through its committees, has charged FMR and its affiliates with (i) identifying events or circumstances the occurrence of which could have demonstrably adverse effects on the fund's business and/or reputation; (ii) implementing processes and controls to lessen the possibility that such events or circumstances occur or to mitigate the effects of such events or circumstances if they do occur; and (iii) creating and maintaining a system designed to evaluate continuously business and market conditions in order to facilitate the identification and implementation processes described in (i) and (ii) above. Because the day-to-day operations and activities of the fund are carried out by or through FMR, its affiliates, and other service providers, the fund's exposure to risks is mitigated but not eliminated by the processes overseen

by the Trustees. While each of the Board's committees has responsibility for overseeing different aspects of the fund's activities, oversight is exercised primarily through the Operations, Audit, and Compliance Committees. In addition, the Independent Trustees have worked with FMR to enhance the Board's oversight of investment and financial risks, legal and regulatory risks, technology risks, and operational risks, including the development of additional risk reporting to the Board. For example, a working group comprised of Independent Trustees and FMR has worked and continues to work to review the Fidelity® funds' valuation-related activities, reporting and risk management. Appropriate personnel, including but not limited to the fund's Chief Compliance Officer (CCO), FMR's internal auditor, the independent accountants, the fund's Treasurer and portfolio management personnel, make periodic reports to the Board's committees, as appropriate, including an annual review of Fidelity's risk management program for the Fidelity® funds. The responsibilities of each standing committee, including their oversight responsibilities, are described further under "Standing Committees of the Trustees."

Interested Trustees*:

Correspondence intended for a Trustee who is an interested person may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

James C. Curvey (1935)

Year of Election or Appointment: 2007
Trustee
Chairman of the Board of Trustees

Mr. Curvey also serves as Trustee of other Fidelity® funds. Mr. Curvey is a Director of Fidelity Research & Analysis Co. (investment adviser firm, 2009-present), and Vice Chairman (2007-present) and Director of FMR LLC (diversified financial services company). In addition, Mr. Curvey serves as an Overseer for the Boston Symphony Orchestra and a member of the board of Artis-Naples, Naples, Florida, and as a Trustee for Brewster Academy, Wolfeboro, New Hampshire. Previously, Mr. Curvey served as a Director of Fidelity Investments Money Management, Inc. (investment adviser firm, 2009-2014) and a Director of FMR and FMR Co., Inc. (investment adviser firms, 2007-2014).

Charles S. Morrison (1960)

Year of Election or Appointment: 2014
Trustee

Mr. Morrison also serves as Trustee of other funds. He serves as a Director of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2014-present), Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present), President, Asset Management (2014-present), and is an employee of Fidelity Investments. Previously, Mr. Morrison served as Vice President of Fidelity's Fixed Income and Asset Allocation Funds (2012-2014), President, Fixed Income (2011-2014), Vice President of Fidelity's Money Market Funds (2005-2009), President, Money Market Group Leader of FMR (investment adviser firm, 2009), and Senior Vice President, Money Market Group of FMR (2004-2009). Mr. Morrison also served as Vice President of Fidelity's Bond Funds (2002-2005), certain Balanced Funds (2002-2005), and certain Asset Allocation Funds (2002-2007), and as Senior Vice President (2002-2005) of Fidelity's Bond Division.

* Determined to be an "Interested Trustee" by virtue of, among other things, his or her affiliation with the trust or various entities under common control with FMR.

\+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Independent Trustees:

Correspondence intended for an Independent Trustee may be sent to Fidelity Investments, P.O. Box 55235, Boston, Massachusetts 02205-5235.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Dennis J. Dirks (1948)

Year of Election or Appointment: 2005
Trustee

Mr. Dirks also serves as Trustee of other Fidelity® funds. Prior to his retirement in May 2003, Mr. Dirks was Chief Operating Officer and a member of the Board of The Depository Trust & Clearing Corporation (DTCC). He also served as President, Chief Operating Officer, and Board member of The Depository Trust Company (DTC) and President and Board member of the National Securities Clearing Corporation (NSCC). In addition, Mr. Dirks served as Chief Executive Officer and Board member of the Government Securities Clearing Corporation, Chief Executive Officer and Board member of the Mortgage-Backed Securities Clearing Corporation, as a Trustee and a member of the Finance Committee of Manhattan College (2005-2008), as a Trustee and a member of the Finance Committee of AHRC of Nassau County (2006-2008), and as a member of the Independent Directors Council (IDC) Governing Council (2010-2015). Mr. Dirks is a member of the Board of Directors for The Brookville Center for Children's Services, Inc. (2009-present).

Alan J. Lacy (1953)

Year of Election or Appointment: 2008
Trustee

Mr. Lacy also serves as Trustee of other Fidelity® funds. Mr. Lacy serves as Chairman (2014-present) and a member (2010-present) of the Board of Directors of Dave & Buster's Entertainment, Inc. (restaurant and entertainment complexes) and a Director of Bristol-Myers Squibb Company (global pharmaceuticals, 2008-present). He is a Trustee of the California Chapter of The Nature Conservancy (2015-present) and a Director of the Center for Advanced Study in the Behavioral Sciences at Stanford University (2015-present). In addition, Mr. Lacy served as Senior Adviser (2007-2014) of Oak Hill Capital Partners, L.P. (private equity) and also served as Chief Executive Officer (2005) and Vice Chairman (2005-2006) of Sears Holdings Corporation (retail) and Chief Executive Officer and Chairman of the Board of Sears, Roebuck and Co. (retail, 2000-2005). Previously, Mr. Lacy served as Chairman (2008-2011) and a member (2006-2015) of the Board of Trustees of the National Parks Conservation Association and as a member of the Board of Directors for The Western Union Company (global money transfer, 2006-2011), The Hillman Companies, Inc. (hardware wholesalers, 2010-2014), and Earth Fare, Inc. (retail grocery, 2010-2014).

Ned C. Lautenbach (1944)

Year of Election or Appointment: 2000
Trustee
Chairman of the Independent Trustees

Mr. Lautenbach also serves as Trustee of other Fidelity® funds. Mr. Lautenbach currently serves as the Lead Director of the Eaton Corporation Board of Directors (diversified industrial, 1997-present). Mr. Lautenbach is Chairman of the Board of Directors of Artis-Naples in Naples, Florida (2012-present), a member of the Council on Foreign Relations (1994-present), and a member of the Board of Governors, State University System of Florida (2013-present). Previously, Mr. Lautenbach was a Partner/Advisory Partner at Clayton, Dubilier & Rice, LLC (private equity investment, 1998-2010), as well as a Director of Sony Corporation (2006-2007).

Joseph Mauriello (1944)

Year of Election or Appointment: 2008
Trustee

Mr. Mauriello also serves as Trustee of other Fidelity® funds. Prior to his retirement in January 2006, Mr. Mauriello served in numerous senior management positions including Deputy Chairman and Chief Operating Officer (2004-2005), and Vice Chairman of Financial Services (2002-2004) of KPMG LLP US (professional services, 1965-2005). Mr. Mauriello currently serves as a member of the Board of Directors of XL Group plc. (global insurance and re-insurance, 2006-present) and the Independent Directors Council (IDC) Governing Council (2015-present). Previously, Mr. Mauriello served as a Director of the Hamilton Funds of the Bank of New York (2006-2007) and of Arcadia Resources Inc. (health care services and products, 2007-2012).

Robert W. Selander (1950)

Year of Election or Appointment: 2011
Trustee

Mr. Selander also serves as Trustee of other Fidelity® funds. Mr. Selander serves as a Director of The Western Union Company (global money transfer, 2014-present) and a non-executive Chairman of Health Equity, Inc. (health savings custodian, 2015-present). Previously, Mr. Selander served as a Member of the Advisory Board of other Fidelity® funds (2011), and Executive Vice Chairman (2010), Chief Executive Officer (2009-2010), and President and Chief Executive Officer (1997-2009) of Mastercard, Inc.

Cornelia M. Small (1944)

Year of Election or Appointment: 2005
Trustee

Ms. Small also serves as Trustee of other Fidelity® funds. Ms. Small is a member of the Board of Directors (2009-present) and Chair of the Investment Committee (2010-present) of the Teagle Foundation. Ms. Small also serves on the Investment Committee of the Berkshire Taconic Community Foundation (2008-present). Previously, Ms. Small served as Chairperson (2002-2008) and a member of the Investment Committee and Chairperson (2008-2012) and a member of the Board of Trustees of Smith College. In addition, Ms. Small served as Chief Investment Officer, Director of Global Equity Investments, and a member of the Board of Directors of Scudder, Stevens & Clark and Scudder Kemper Investments.

William S. Stavropoulos (1939)

Year of Election or Appointment: 2001
Trustee
Vice Chairman of the Independent Trustees

Mr. Stavropoulos also serves as Trustee of other Fidelity® funds. Mr. Stavropoulos serves as President and Founder of the Michigan Baseball Foundation, the Great Lakes Loons (2007-present). Mr. Stavropoulos is Chairman Emeritus of the Board of Directors of The Dow Chemical Company, where he previously served in numerous senior management positions, including President, CEO (1995-2000; 2002-2004), Chairman of the Executive Committee (2000-2006), and as a member of the Board of Directors (1990-2006). Currently, Mr. Stavropoulos is Chairman of the Board of Directors of Univar Inc. (global distributor of commodity and specialty chemicals), a Director of Teradata Corporation (data warehousing and technology solutions), and Maersk Inc. (industrial conglomerate), and a member of the Advisory Board for Metalmark Capital LLC (private equity investment, 2005-present). Mr. Stavropoulos is an operating advisor to Clayton, Dubilier & Rice, LLC (private equity investment). In addition, Mr. Stavropoulos is a member of the University of Notre Dame Advisory Council for the College of Science, a Trustee of the Rollin L. Gerstacker Foundation, and a Director of the Naples Philharmonic Center for the Arts. Previously, Mr. Stavropoulos served as a Director of Chemical Financial Corporation (bank holding company, 1993-2012) and Tyco International, Ltd. (multinational manufacturing and services, 2007-2012).

David M. Thomas (1949)

Year of Election or Appointment: 2008
Trustee

Mr. Thomas also serves as Trustee of other Fidelity® funds. Mr. Thomas serves as Non-Executive Chairman of the Board of Directors of Fortune Brands Home and Security (home and security products, 2011-present), as a member of the Board of Directors (2004-present) and Presiding Director (2013-present) of Interpublic Group of Companies, Inc. (marketing communication), and as a member of the Board of Trustees of the University of Florida (2013-present). Previously, Mr. Thomas served as Executive Chairman (2005-2006) and Chairman and Chief Executive Officer (2000-2005) of IMS Health, Inc. (pharmaceutical and healthcare information solutions), and a Director of Fortune Brands, Inc. (consumer products, 2000-2011).

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Advisory Board Members and Officers:

Correspondence intended for an officer or Peter S. Lynch may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210. Officers appear below in alphabetical order.

Name, Year of Birth; Principal Occupation

Peter S. Lynch (1944)

Year of Election or Appointment: 2003
Member of the Advisory Board

Mr. Lynch also serves as Member of the Advisory Board of other Fidelity® funds. Mr. Lynch is Vice Chairman and a Director of FMR (investment adviser firm) and FMR Co., Inc. (investment adviser firm). In addition, Mr. Lynch serves as a Trustee of Boston College and as the Chairman of the Inner-City Scholarship Fund. Previously, Mr. Lynch served on the Special Olympics International Board of Directors (1997-2006).

Marc R. Bryant (1966)

Year of Election or Appointment: 2015
Secretary and Chief Legal Officer (CLO)

Mr. Bryant also serves as Secretary and CLO of other funds. Mr. Bryant serves as CLO, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2015-present) and FMR Co., Inc. (investment adviser firm, 2015-present); Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2015-present) and Fidelity Investments Money Management, Inc. (investment adviser firm, 2015-present); and CLO of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2015-present). He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company). Previously, Mr. Bryant served as Secretary and CLO of Fidelity Rutland Square Trust II (2010-2014) and Assistant Secretary of Fidelity's Fixed Income and Asset Allocation Funds (2013-2015). Prior to joining Fidelity Investments, Mr. Bryant served as a Senior Vice President and the Head of Global Retail Legal for AllianceBernstein L.P. (2006-2010), and as the General Counsel for ProFund Advisors LLC (2001-2006).

William C. Coffey (1969)

Year of Election or Appointment: 2009
Assistant Secretary

Mr. Coffey also serves as Assistant Secretary of other funds. He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company, 2010-present), and is an employee of Fidelity Investments. Previously, Mr. Coffey served as Vice President and Associate General Counsel of FMR LLC (2005-2009).

Jonathan Davis (1968)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Davis also serves as Assistant Treasurer of other funds, and is an employee of Fidelity Investments. Previously, Mr. Davis served as Vice President and Associate General Counsel of FMR LLC (diversified financial services company, 2003-2010).

Adrien E. Deberghes (1967)

Year of Election or Appointment: 2008
Deputy Treasurer

Mr. Deberghes also serves as an officer of other funds. He is an employee of Fidelity Investments (2008-present). Prior to joining Fidelity Investments, Mr. Deberghes was Senior Vice President of Mutual Fund Administration at State Street Corporation (2007-2008), Senior Director of Mutual Fund Administration at Investors Bank & Trust (2005-2007), and Director of Finance for Dunkin' Brands (2000-2005).

Stephanie J. Dorsey (1969)

Year of Election or Appointment: 2010
Assistant Treasurer

Ms. Dorsey also serves as an officer of other funds. She is an employee of Fidelity Investments (2008-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Dorsey served as Treasurer (2004-2008) of the JPMorgan Mutual Funds and Vice President (2004-2008) of JPMorgan Chase Bank.

Howard J. Galligan III (1966)

Year of Election or Appointment: 2014
Chief Financial Officer

Mr. Galligan also serves as Chief Financial Officer of other funds. Mr. Galligan serves as President of Fidelity Pricing and Cash Management Services (FPCMS) (2014-present) and as a Director of Strategic Advisers, Inc. (investment adviser firm, 2008-present). Previously, Mr. Galligan served as Chief Administrative Officer of Asset Management (2011-2014) and Chief Operating Officer and Senior Vice President of Investment Support for Strategic Advisers, Inc. (2003-2011).

## Trustees and Officers – continued

Scott C. Goebel (1968)

Year of Election or Appointment: 2015
Vice President

Mr. Goebel serves as Vice President of other funds and is an employee of Fidelity Investments (2001-present). Previously, Mr. Goebel served as Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2013-2015), Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2010-2015), and Fidelity Research and Analysis Company (FRAC) (investment adviser firm, 2010-2015); General Counsel, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2008-2015) and FMR Co., Inc. (investment adviser firm, 2008-2015); Assistant Secretary of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2008-2015) and FMR Investment Management (U.K.) Limited (investment adviser firm, 2008-2015); Chief Legal Officer (CLO) of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2008-2015); Secretary and CLO of certain Fidelity® funds (2008-2015); Assistant Secretary of FIMM (2008-2010), FRAC (2008-2010), and certain funds (2007-2008); and as Vice President and Secretary of Fidelity Distributors Corporation (FDC) (2005-2007).

Brian B. Hogan (1964)

Year of Election or Appointment: 2009
Vice President

Mr. Hogan also serves as Trustee or Vice President of other funds. Mr. Hogan serves as a Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present) and President of the Equity Division of FMR (investment adviser firm, 2009-present). Previously, Mr. Hogan served as Senior Vice President, Equity Research of FMR (2006-2009) and as a portfolio manager.

Chris Maher (1972)

Year of Election or Appointment: 2013
Assistant Treasurer

Mr. Maher serves as Assistant Treasurer of other funds. Mr. Maher is Vice President of Valuation Oversight and is an employee of Fidelity Investments. Previously, Mr. Maher served as Vice President of Asset Management Compliance (2013), Vice President of the Program Management Group of FMR (investment adviser firm, 2010-2013), and Vice President of Valuation Oversight (2008-2010).

John F. Papandrea (1972)

Year of Election or Appointment: 2016
Anti-Money Laundering (AML) Officer

Mr. Papandrea also serves as AML Officer of other funds. Mr. Papandrea is Vice President of FMR LLC (diversified financial services company, 2008-present) and is an employee of Fidelity Investments (2005-present).

Melissa M. Reilly (1971)

Year of Election or Appointment: 2014
Vice President of certain Equity Funds

Ms. Reilly also serves as Vice President of other funds. Ms. Reilly is an employee of Fidelity Investments (2004-present).

Kenneth B. Robins (1969)

Year of Election or Appointment: 2008
President and Treasurer

Mr. Robins also serves as an officer of other funds. Mr. Robins serves as Executive Vice President of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2013-present) and is an employee of Fidelity Investments (2004-present). Previously, Mr. Robins served in other fund officer roles.

Stacie M. Smith (1974)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Smith also serves as an officer of other funds. She is an employee of Fidelity Investments (2009-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Smith served as Senior Audit Manager of Ernst & Young LLP (1996-2009).

Renee Stagnone (1975)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Stagnone also serves as Deputy Treasurer of other funds. Ms. Stagnone is an employee of Fidelity Investments (1997-present).

Linda J. Wondrack (1964)

Year of Election or Appointment: 2014
Chief Compliance Officer

Ms. Wondrack also serves as Chief Compliance Officer of other funds. Ms. Wondrack is Executive Vice President and head of the Ethics Office and Asset Management Compliance for Fidelity Investments (2012-present). Ms. Wondrack also serves as Chief Compliance Officer of Fidelity SelectCo, LLC (investment adviser firm, 2014-present); Chief Compliance Officer of Impresa Management LLC (2013-present); and Chief Compliance Officer of FMR Co., Inc. (investment adviser firm), Fidelity Investments Money Management, Inc. (investment adviser firm), FMR Investment Management (U.K.) Limited (investment adviser firm), Fidelity Management & Research (Hong Kong) (investment adviser firm), Fidelity Management & Research Company (investment adviser firm), FIAM LLC (investment adviser firm), and Strategic Advisers, Inc. (investment adviser firm), Ballyrock Investment Advisors LLC, and Northern Neck Investors LLC (2012-present). Previously, Ms. Wondrack served as Chief Compliance Officer of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2012-2016); Senior Vice President and Chief Compliance Officer for Columbia Management Investment Advisers, LLC (2005-2012); Chief Compliance Officer for certain funds within the Columbia Family of Funds (2007-2012); and Senior Vice President of Compliance Risk Management at Bank of America (2005-2010).

Joseph F. Zambello (1957)

Year of Election or Appointment: 2011
Deputy Treasurer

Mr. Zambello also serves as Deputy Treasurer of other funds. Mr. Zambello is an employee of Fidelity Investments (1991-present). Previously, Mr. Zambello served as Vice President of the Program Management Group of FMR (investment adviser firm, 2009-2011) and Vice President of the Transfer Agent Oversight Group (2005-2009).

# Shareholder Expense Example

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service (12b-1) fees 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 the ongoing costs of investing in other mutual funds.

The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

### *Actual Expenses*

The first line of the accompanying table for each class of the Fund 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 paid over the period. Simply divide your account value by $1,000.00 (for example, an $8,600 account value divided by $1,000.00 = 8.6), then multiply the result by the number in the first line for a class of the Fund under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

### *Hypothetical Example for Comparison Purposes*

The second line of the accompanying table for each class of the Fund provides information about hypothetical account values and hypothetical expenses based on a Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' 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. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line of 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.

| | Annualized Expense Ratio-[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Initial Class** | .64% | | | |
| **Actual** | | $1,000.00 | $1,015.80 | $3.25 |
| **Hypothetical-[C]** | | $1,000.00 | $1,021.98 | $3.26 |
| **Service Class** | .74% | | | |
| **Actual** | | $1,000.00 | $1,015.20 | $3.76 |
| **Hypothetical-[C]** | | $1,000.00 | $1,021.48 | $3.77 |
| **Service Class 2** | .89% | | | |
| **Actual** | | $1,000.00 | $1,014.60 | $4.52 |
| **Hypothetical-[C]** | | $1,000.00 | $1,020.72 | $4.53 |
| **Investor Class** | .72% | | | |
| **Actual** | | $1,000.00 | $1,015.50 | $3.66 |
| **Hypothetical-[C]** | | $1,000.00 | $1,021.58 | $3.67 |

A *Annualized expense ratio reflects expenses net of applicable fee waivers.*

B *Expenses are equal to each Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

C *5% return per year before expenses*

# Distributions (Unaudited)

The Board of Trustees of VIP Growth Portfolio voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities:

| | Pay Date | Record Date | Capital Gains |
|---|---|---|---|
| Initial Class | 02/05/16 | 02/05/16 | $6.061 |
| Service Class | 02/05/16 | 02/05/16 | $6.061 |
| Service Class 2 | 02/05/16 | 02/05/16 | $6.061 |
| Investor Class | 02/05/16 | 02/05/16 | $6.061 |

The fund hereby designates as a capital gain dividend with respect to the taxable year ended December 31, 2015 $440,921,629, or, if subsequently determined to be different, the net capital gain of such year.

Initial Class designates 100%, Service Class designates 100%, Service Class 2 designates 100%, and Investor Class designates 100%, of the dividends distributed in December 2015 as qualifying for the dividends–received deduction for corporate shareholders.

# Board Approval of Investment Advisory Contracts and Management Fees

## VIP Growth Portfolio

Each year, the Board of Trustees, including the Independent Trustees (together, the Board), votes on the renewal of the management contract with Fidelity Management & Research Company (FMR) and the sub-advisory agreements (together, the Advisory Contracts) for the fund. The Board, assisted by the advice of fund counsel and Independent Trustees' counsel, requests and considers a broad range of information relevant to the renewal of the Advisory Contracts throughout the year.

The Board meets regularly and, at each of its meetings, covers an extensive agenda of topics and materials and considers factors that are relevant to its annual consideration of the renewal of the fund's Advisory Contracts, including the services and support provided to the fund and its shareholders. The Board has established various standing committees (Committees), each composed of and chaired by Independent Trustees with varying backgrounds, to which the Board has assigned specific subject matter responsibilities in order to enhance effective decision-making by the Board. The Board, acting directly and through its Committees, requests and receives information concerning the annual consideration of the renewal of the fund's Advisory Contracts. The Board also meets as needed to consider matters specifically related to the Board's annual consideration of the renewal of the Advisory Contracts. Members of the Board may also meet with trustees of other Fidelity funds through ad hoc joint committees to discuss certain matters relevant to all of the Fidelity funds.

At its July 2015 meeting, the Board unanimously determined to renew the fund's Advisory Contracts. In reaching its determination, the Board considered all factors it believed relevant, including (i) the nature, extent, and quality of the services to be provided to the fund and its shareholders (including the investment performance of the fund); (ii) the competitiveness of the fund's management fee and total expense ratio relative to peer funds; (iii) the total costs of the services to be provided by and the profits to be realized by Fidelity from its relationship with the fund; and (iv) the extent to which (if any) economies of scale exist and would be realized as the fund grows, and whether any economies of scale are appropriately shared with fund shareholders.

In considering whether to renew the Advisory Contracts for the fund, the Board reached a determination, with the assistance of fund counsel and Independent Trustees' counsel and through the exercise of its business judgment, that the renewal of the Advisory Contracts was in the best interests of the fund and its shareholders and that the compensation payable under the Advisory Contracts was fair and reasonable. The Board's decision to renew the Advisory Contracts was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. The Board, in reaching its determination to renew the Advisory Contracts, was aware that shareholders of the fund have a broad range of investment choices available to them, including a wide choice among funds offered by Fidelity's competitors, and that the fund's shareholders, who have the opportunity to review and weigh the disclosure provided by the fund in its prospectus and other public disclosures, have chosen to invest in this fund, which is part of the Fidelity family of funds.

**Nature, Extent, and Quality of Services Provided.** The Board considered Fidelity's staffing as it relates to the fund, including the backgrounds of investment personnel of Fidelity, and also considered the fund's investment objective, strategies, and related investment philosophy. The Independent Trustees also had discussions with senior management of Fidelity's investment operations and investment groups. The Board considered the structure of the portfolio manager compensation program and whether this structure provides appropriate incentives to act in the best interests of the fund. Additionally, the Board considered the portfolio managers' investments, if any, in the funds that they manage.

Resources Dedicated to Investment Management and Support Services. The Board and the Fund Oversight and Research Committees reviewed the general qualifications and capabilities of Fidelity's investment staff, including its size, education, experience, and resources, as well as Fidelity's approach to recruiting, training, managing, and compensating investment personnel. The Board noted that Fidelity has continued to increase the resources devoted to non-U.S. offices, including expansion of Fidelity's global investment organization. The Board also noted that Fidelity's analysts have extensive resources, tools and capabilities that allow them to conduct sophisticated quantitative and fundamental analysis, as well as credit analysis of issuers, counterparties and guarantors. Further, the Board considered that Fidelity's investment professionals have sufficient access to global information and data so as to provide competitive investment results over time, and that those professionals also have access to sophisticated tools that permit them to assess portfolio construction and risk and performance attribution characteristics continuously, as well as to transmit new information and research conclusions rapidly around the world. Additionally, in its deliberations, the Board considered Fidelity's trading, risk management, and compliance capabilities and resources, which are integral parts of the investment management process.

Shareholder and Administrative Services. The Board considered (i) the nature, extent, quality, and cost of advisory, administrative, and shareholder services performed by FMR, the sub-advisers (together with FMR, the Investment Advisers), and their affiliates under the Advisory Contracts and under separate agreements covering transfer agency, pricing and bookkeeping, and securities lending services for the fund; (ii) the nature and extent of the supervision of third party service providers, principally custodians and subcustodians; and (iii) the resources devoted to, and the record of compliance with, the fund's compliance policies and procedures. The Board also reviewed the allocation of fund brokerage, including allocations to brokers affiliated with the Investment Advisers, the use of brokerage commissions to pay fund expenses, and the use of "soft" commission dollars to pay for research services.

The Board noted that the growth of fund assets over time across the complex allows Fidelity to reinvest in the development of services designed to enhance the value or convenience of the Fidelity funds as investment vehicles. These services include 24-hour access to account information and market information through telephone representatives and over the Internet, investor education materials and asset allocation tools, and the expanded availability of Fidelity Investor Centers.

In 2014, the Board formed an ad hoc Committee on Transfer Agency Fees to review the variety of transfer agency fee structures throughout the industry and Fidelity's competitive positioning with respect to industry participants.

Investment in a Large Fund Family. The Board considered the benefits to shareholders of investing in a Fidelity fund, including the benefits of investing in a fund that is part of a large family of funds offering a variety of investment disciplines and providing a large variety of mutual fund investor services. The Board noted that Fidelity had taken, or had made recommendations that resulted in the Fidelity funds taking, a number of actions over the previous year that benefited particular funds, including (i) continuing to dedicate additional resources to investment research and to the support of the senior management team that oversees asset management; (ii) continuing efforts to enhance Fidelity's global research capabilities; (iii) launching new funds and making other enhancements to meet client needs; (iv) reducing management fees and total expenses for certain index funds and diversified international funds; (v) continuing to launch dedicated lower cost underlying funds to meet portfolio construction needs related to expanding underlying fund options for Fidelity funds of funds, specifically for the Freedom Fund product lines; (vi) rationalizing product lines and gaining increased efficiencies through fund mergers; (vii) launching active fixed-income exchange-traded funds; (viii) continuing to develop, acquire and implement systems and technology to improve services to the funds and information security and to increase efficiency; (ix) implementing investment enhancements to further strengthen Fidelity's target date product line to increase investors' probability of success in achieving their goals; (x) modifying the eligibility criteria for certain share classes to accommodate roll-over assets from employer-sponsored retirement plans; (xi) launching a new Class W of the Freedom Index Funds to attract and retain Fidelity record-kept retirement plan assets; and (xii) implementing changes to Fidelity's money market product line in response to recent money market regulatory reforms.

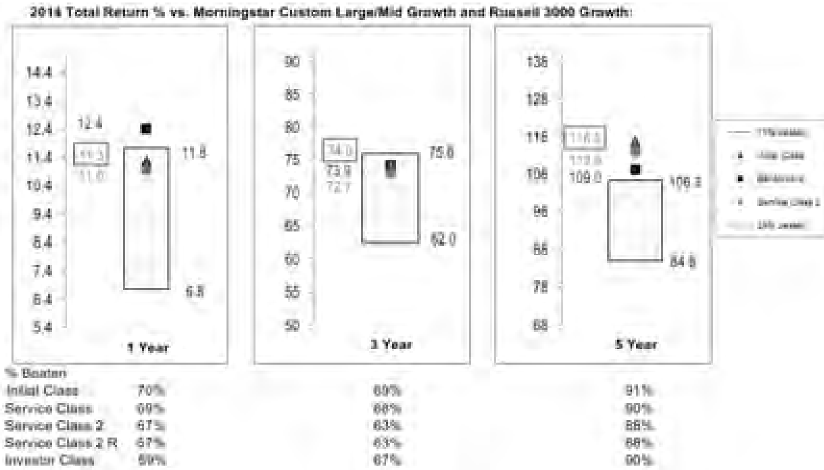
Investment Performance. The Board considered whether the fund has operated in accordance with its investment objective, as well as its record of compliance with its investment restrictions and its performance history.

The Board took into account discussions with representatives of the Investment Advisers about fund investment performance that occur at Board meetings throughout the year. In this regard the Board noted that as part of regularly scheduled fund reviews and other reports to the Board on fund performance, the Board considers annualized return information for the fund, for different time periods, measured against a securities market index ("benchmark index") and a peer group of funds with similar objectives ("peer group"), if any. In its evaluation of fund investment performance, the Board gave particular attention to information indicating changes in performance of certain Fidelity funds for specific time periods and discussed with the Investment Advisers the reasons for any overperformance or underperformance.

In addition to reviewing absolute and relative fund performance, the Independent Trustees periodically consider the appropriateness of fund performance metrics in evaluating the results achieved. In general, the Independent Trustees believe that fund performance should be evaluated based on net performance (after fees and expenses) of both the highest performing and lowest performing fund share classes, where applicable, compared to appropriate benchmark indices, over appropriate time periods that may include full market cycles, and compared to peer groups, as applicable, over the same periods, taking into account relevant factors including the following: general market conditions; issuer-specific information; and fund cash flows and other factors.

The Independent Trustees recognize that shareholders evaluate performance on a net basis over their own holding periods, for which one-, three-, and five-year periods are often used as a proxy. For this reason, the performance information reviewed by the Board also included net cumulative calendar year total return information for the fund and an appropriate benchmark index and peer group for the most recent one-, three-, and five-year periods, as shown below. Returns are shown compared to the 25th percentile (top of box, 75% beaten) and 75th percentile (bottom of box, 25% beaten) of the peer universe.

## VIP Growth Portfolio



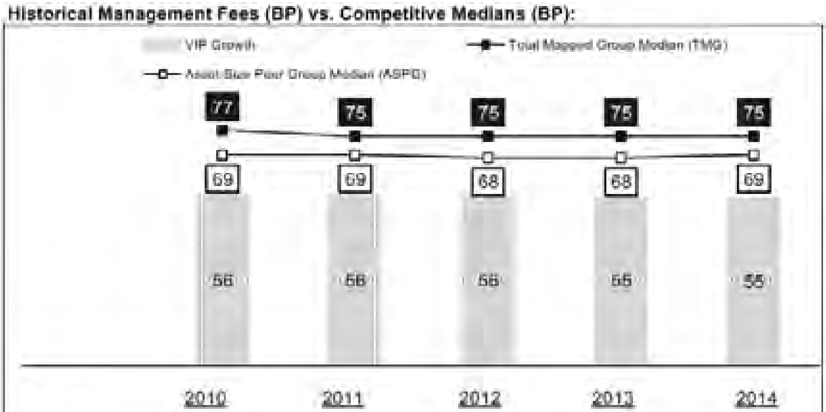

The Board noted that, on April 30, 2015 (after the periods shown in the chart above), FMR converted assets in Service Class 2 R into Service Class 2.

Based on its review, the Board concluded that the nature, extent, and quality of services provided to the fund under the Advisory Contracts should benefit the shareholders of the fund.

**Competitiveness of Management Fee and Total Expense Ratio.** The Board considered the fund's management fee and total expense ratio compared to "mapped groups" of competitive funds and classes created for the purpose of facilitating the Trustees' competitive analysis of management fees and total expenses. Fidelity creates "mapped groups" by combining similar Lipper investment objective categories that have comparable investment mandates. Combining Lipper investment objective categories aids the Board's management fee and total expense ratio comparisons by broadening the competitive group used for comparison.

Management Fee. The Board considered two proprietary management fee comparisons for the 12-month periods shown in basis points (BP) in the chart below. The group of Lipper funds used by the Board for management fee comparisons is referred to below as the "Total Mapped Group." The Total Mapped Group comparison focuses on a fund's standing in terms of gross management fees before expense reimbursements or caps relative to the total universe of funds with comparable investment mandates, regardless of whether their management fee structures also are comparable. Funds with comparable investment mandates offer exposure to similar types of securities. Funds with comparable management fee structures have similar management fee contractual arrangements (*e.g.*, flat rate charged for advisory services, all-inclusive fee rate, *etc.*). "TMG %" represents the percentage of funds in the Total Mapped Group that had management fees that were lower than the fund's. For example, a hypothetical TMG % of 20% would mean that 80% of the funds in the Total Mapped Group had higher, and 20% had lower, management fees than the fund. The fund's actual TMG %s and the number of funds in the Total Mapped Group are in the chart below. The "Asset-Size Peer Group" (ASPG) comparison focuses on a fund's standing relative to a subset of non-Fidelity funds within the Total Mapped Group that are similar in size and management fee structure without taking into account performance adjustments, if any. For example, if a fund is in the first quartile of the ASPG, the fund's management fee ranks in the least expensive or lowest 25% of funds in the ASPG. The ASPG represents at least 15% of the funds in the Total Mapped Group with comparable asset size and management fee structures, subject to a minimum of 50 funds (or all funds in the Total Mapped Group if fewer than 50). Additional information, such as the ASPG quartile in which the fund's management fee rate ranked, is also included in the chart and considered by the Board.

### VIP Growth Portfolio




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| TMG % | 10% | 10% | 10% | 9% | 10% |
| Funds | 431 | 431 | 416 | 393 | 368 |
| ASPG Quartile | 1st | 1st | 1st | 1st | 1st |

The Board noted that the fund's management fee rate ranked below the median of its Total Mapped Group and below the median of its ASPG for 2014.

The Board noted that, in 2014, the ad hoc Committee on Group Fee was formed by it and other Fidelity fund boards to conduct an in-depth review of the "group fee" component of the management fee of funds with such management fee structures. Committee focus included the mechanics of the group fee, the competitive landscape of group fee structures, Fidelity funds with no group fee component and investment products not included in group fee assets. The Board also considered that, for funds subject to the group fee, FMR agreed to voluntarily waive fees over a specified period of time in amounts designed to account for assets converted from certain funds to certain collective investment trusts.

The Board also noted that, in 2013, the ad hoc Committee on Management Fees was formed to conduct an in-depth review of the management fee rates of Fidelity's active equity mutual funds. The Committee focused on the following areas: (i) standard fee structures; (ii) research consumption and trading evolution; (iii) management fee competitiveness/profitability by category; and (iv) factors that drive institutional pricing.

Based on its review, the Board concluded that the fund's management fee is fair and reasonable in light of the services that the fund receives and the other factors considered.

Total Expense Ratio. In its review of each class's total expense ratio, the Board considered the fund's management fee as well as other fund or class expenses, as applicable, such as transfer agent fees, pricing and bookkeeping fees, fund-paid 12b-1 fees, and custodial, legal, and audit fees. The Board also noted that Fidelity may agree to waive fees and expenses from time to time, and the extent to which, if any, it has done so for the fund. As part of its review, the Board also considered the current and historical total expense ratios of each class of the fund compared to competitive fund median expenses. Each class of the fund is compared to those funds and classes in the Total Mapped Group (used by the Board for management fee comparisons) that have a similar sales load structure.

The Board noted that the total expense ratio of each class ranked below its competitive median for 2014.

Fees Charged to Other Fidelity Clients. The Board also considered Fidelity fee structures and other information with respect to clients of Fidelity, such as other funds advised or subadvised by Fidelity, pension plan clients, and other institutional clients with similar mandates. The Board noted the findings of the 2013 ad hoc joint committee (created with the board of other Fidelity funds), which reviewed and compared Fidelity's institutional investment advisory business with its business of providing services to the Fidelity funds, including the differences in services provided, fees charged, and costs incurred, as well as competition in their respective marketplaces.

Based on its review of total expense ratios and fees charged to other Fidelity clients, the Board concluded that the total expense ratio of each class of the fund was reasonable in light of the services that the fund and its shareholders receive and the other factors considered.

**Costs of the Services and Profitability.** The Board considered the revenues earned and the expenses incurred by Fidelity in conducting the business of developing, marketing, distributing, managing, administering and servicing the fund and servicing the fund's shareholders. The Board also considered the level of Fidelity's profits in respect of all the Fidelity funds.

On an annual basis, Fidelity presents to the Board information about the profitability of its relationship with the fund. Fidelity calculates profitability information for each fund, as well as aggregate profitability information for groups of Fidelity funds and all Fidelity funds, using a series of detailed revenue and cost allocation methodologies which originate with the books and records of Fidelity on which Fidelity's audited financial statements are based. The Audit Committee of the Board reviews any significant changes from the prior year's methodologies.

PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm and auditor to Fidelity and certain Fidelity funds, has been engaged annually by the Board as part of the Board's assessment of Fidelity's profitability analysis. PwC's engagement includes the review and assessment of the methodologies used by Fidelity in determining the revenues and expenses attributable to Fidelity's mutual fund business, and completion of agreed-upon procedures in respect of the mathematical accuracy of fund profitability and its conformity to established allocation methodologies. After considering PwC's reports issued under the engagement and information provided by Fidelity, the Board concluded that while other allocation methods may also be reasonable, Fidelity's profitability methodologies are reasonable in all material respects.

The Board also reviewed Fidelity's non-fund businesses and fall-out benefits related to the mutual fund business as well as cases where Fidelity's affiliates may benefit from or be related to the fund's business.

The Board considered the costs of the services provided by and the profits realized by Fidelity in connection with the operation of the fund and was satisfied that the profitability was not excessive.

**Economies of Scale.** The Board considered whether there have been economies of scale in respect of the management of the Fidelity funds, whether the Fidelity funds (including the fund) have appropriately benefited from any such economies of scale, and whether there is potential for realization of any further economies of scale. The Board considered the extent to which the fund will benefit from economies of scale as assets grow through increased services to the fund, through waivers or reimbursements, or through fee or expense ratio reductions. The Board also noted that in 2013, it and the boards of other Fidelity funds created an ad hoc committee (the Economies of Scale Committee) to analyze whether Fidelity attains economies of scale in respect of the management and servicing of the Fidelity funds, whether the Fidelity funds have appropriately benefited from such economies of scale, and whether there is potential for realization of any further economies of scale.

The Board recognized that the fund's management contract incorporates a "group fee" structure, which provides for lower group fee rates as total group assets increase, and for higher group fee rates as total group assets decrease (with "group assets" defined to include fund assets under FMR's management plus sector fund assets previously under FMR's management and currently managed by Fidelity SelectCo, LLC). FMR calculates the group fee rates based on a tiered asset "breakpoint" schedule that varies based on asset class. The Board considered that the group fee is designed to deliver the benefits of economies of scale to fund shareholders when total Fidelity fund assets increase, even if assets of any particular fund are unchanged or have declined, because some portion of Fidelity's costs are attributable to services provided to all Fidelity funds, and all funds benefit if those costs can be allocated among more assets. The Board concluded that, given the group fee structure, fund shareholders will benefit from lower management fees as group assets increase at the fund complex level, regardless of whether Fidelity achieves any such economies of scale.

The Board concluded, taking into account the analysis of the Economies of Scale Committee, that economies of scale, if any, are being appropriately shared between fund shareholders and Fidelity.

**Additional Information Requested by the Board.** In order to develop fully the factual basis for consideration of the Fidelity funds' Advisory Contracts, the Board requested and received additional information on certain topics, including: (i) fund performance trends and Fidelity's long-term strategies for certain funds; (ii) the various share classes employed by Fidelity and the attributes of each class, together with similar information on the distribution and servicing payments made by Fidelity or the funds to third-party participants in the distribution channels; (iii) fund profitability, and fund performance in relation to fund profitability; (iv) the methodology with respect to evaluating competitive fund data and peer group classifications and fee comparisons; (v) annual fund profitability margins, with particular focus on certain funds with negative margins; (vi) the realization of fall-out benefits in certain Fidelity business units; (vii) economies of scale and the way in which they are shared with fund shareholders;(viii) Fidelity's group fee structures, including the group fee schedule of breakpoints;(ix) the impact of cost containment measures on the funds; and (x) the transfer agent fee structure.

Based on its evaluation of all of the conclusions noted above, and after considering all factors it believed relevant, the Board concluded that the advisory fee structures are fair and reasonable, and that the fund's Advisory Contracts should be renewed.

VIPGRWT-ANN-0216
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# Fidelity® Variable Insurance Products:

## Index 500 Portfolio

**Annual Report**
**December 31, 2015**

# Contents



To view a fund's proxy voting guidelines and proxy voting record for the 12-month period ended June 30, visit http://www.fidelity.com/proxyvotingresults or visit the Securities and Exchange Commission's (SEC) web site at http://www.sec.gov.

You may also call 1-877-208-0098 to request a free copy of the proxy voting guidelines.

Fidelity® Variable Insurance Products are separate account options which are purchased through a variable insurance contract.



*This report and the financial statements contained herein are submitted for the general information of the shareholders of the Fund. This report is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus.*

*A fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Forms N-Q are available on the SEC's web site at http://www.sec.gov. A fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.*

*For a complete list of a fund's portfolio holdings, view the most recent holdings listing, semiannual report, or annual report on Fidelity's web site at http://www.fidelity.com, http://www.advisor.fidelity.com, or http://www.401k.com, as applicable.*

**NOT FDIC INSURED •MAY LOSE VALUE •NO BANK GUARANTEE**

*Neither the Fund nor Fidelity Distributors Corporation is a bank.*

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

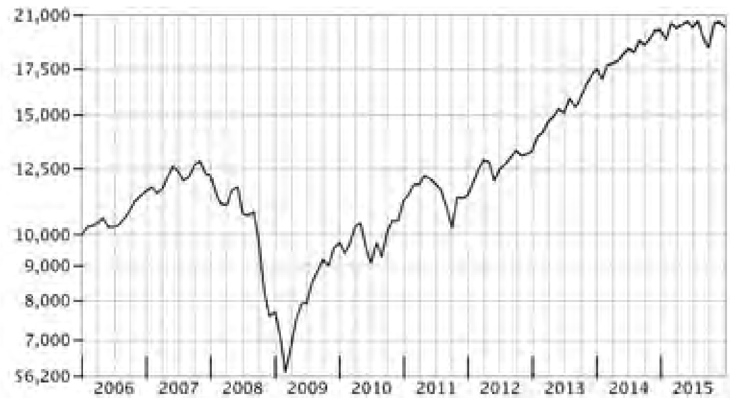
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | 1.33% | 12.48% | 7.26% |
| Service Class | 1.24% | 12.36% | 7.15% |
| Service Class 2 | 1.08% | 12.20% | 6.99% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Index 500 Portfolio – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P 500® Index performed over the same period.




Period Ending Values

—— $20,153 VIP Index 500 Portfolio – Initial Class

....... $20,242 S&P 500® Index

# Management's Discussion of Fund Performance

**Market Recap:** U.S. stocks gained modestly in 2015, rebounding from a steep decline in August and September over worries about China's slowing economic growth. The S&P 500® index rose 1.38% for the period, its lowest calendar-year return since 2008. After the late-summer rout, stocks sharply reversed course in October, lifted by the Federal Reserve's decision to put off raising near-term interest rates until mid-December. Investors also were encouraged by an interest-rate cut in China and economic stimulus in Europe. Overall, growth stocks fared much better than their value counterparts, as investors sought growth in a subpar economic environment. This helped lift the technology-heavy Nasdaq Composite Index® 6.96% for the year. Sector performance in the broader market was split, with five of 10 sectors in the S&P 500® gaining ground and five retreating. Consumer discretionary (+10%) led the way, benefiting from rising personal income and low inflation. Health care (+7%), consumer staples (+7%) and information technology (+6%) also outpaced the broad market amid strong fundamentals. Conversely, the energy sector (-21%) was by far the worst performer, stung by deflated commodity prices that also hit materials (-8%). The defensive, but rate-sensitive utilities sector (-5%) lost ground on the cusp of Fed tightening, while industrials (-3%) were dragged down with energy prices and a slower-growing China.

**Comments from Patrick Waddell, Senior Portfolio Manager of the Geode Capital Management, LLC, investment management team:** For the year, the fund's share classes produced a gain in the low single digits, a result that was roughly in line with the benchmark S&P 500®. In the consumer discretionary sector, the strongest-performing category in the index this period, online retail giant Amazon.com made a particularly large performance contribution. Amazon's shares more than doubled, due in part to stronger-than-expected financial results. Also in consumer discretionary, home products superstore retailer Home Depot and coffee retailer Starbucks added value, gaining about 28% and 48%, respectively. Several technology stocks also lifted results, most notably software manufacturer Microsoft; social networking company Facebook; and Alphabet, the parent company of Internet search leader Google. On the negative side, various energy companies detracted, an unsurprising development in light of the plummeting price of oil. In this sector, integrated energy producers such as Exxon Mobil (-13%), Chevron (-16%) and ConocoPhillips (-29%) hampered results, as did energy transportation company Kinder Morgan (-63%). Another detractor was QUALCOMM, whose proprietary technology is found in most of the world's smartphones. Concerns about the company's ability to collect royalty payments in China was partly behind the stock's roughly -31% return for the year.

*The views expressed above reflect those of the portfolio manager(s) only through the end of the period as stated on the cover of this report and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.*

# Investment Summary (Unaudited)

## Top Ten Stocks as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Apple, Inc. | 3.2 | 3.9 |
| Microsoft Corp. | 2.4 | 1.9 |
| Exxon Mobil Corp. | 1.8 | 1.9 |
| General Electric Co. | 1.6 | 1.5 |
| Johnson & Johnson | 1.6 | 1.5 |
| Amazon.com, Inc. | 1.4 | 0.9 |
| Wells Fargo & Co. | 1.4 | 1.4 |
| Berkshire Hathaway, Inc. Class B | 1.4 | 1.4 |
| JPMorgan Chase & Co. | 1.3 | 1.4 |
| Facebook, Inc. Class A | 1.3 | 1.0 |
| | 17.4 | |

## Market Sectors as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Information Technology | 20.4 | 19.5 |
| Financials | 16.3 | 16.4 |
| Health Care | 15.0 | 15.3 |
| Consumer Discretionary | 12.7 | 12.7 |
| Consumer Staples | 10.0 | 9.3 |
| Industrials | 9.9 | 10.0 |
| Energy | 6.4 | 7.8 |
| Utilities | 3.0 | 2.8 |
| Materials | 2.7 | 3.2 |
| Telecommunication Services | 2.4 | 2.2 |

## Asset Allocation (% of fund's net assets)

To match the S&P 500® Index, VIP Index 500 Portfolio seeks 100% investment exposure to stocks at all times.

# Investments December 31, 2015

Showing Percentage of Net Assets

## Common Stocks – 98.8%

| | Shares | Value |
|---|---|---|
| **CONSUMER DISCRETIONARY – 12.7%** | | |
| **Auto Components – 0.4%** | | |
| BorgWarner, Inc. (a) | 58,674 | $ 2,536,477 |
| Delphi Automotive PLC | 73,319 | 6,285,638 |
| Johnson Controls, Inc. | 169,542 | 6,695,214 |
| The Goodyear Tire & Rubber Co. | 70,392 | 2,299,707 |
| | | 17,817,036 |
| **Automobiles – 0.6%** | | |
| Ford Motor Co. | 1,020,325 | 14,376,379 |
| General Motors Co. | 370,699 | 12,607,473 |
| Harley-Davidson, Inc. (a) | 50,223 | 2,279,622 |
| | | 29,263,474 |
| **Distributors – 0.1%** | | |
| Genuine Parts Co. | 39,473 | 3,390,336 |
| **Diversified Consumer Services – 0.0%** | | |
| H&R Block, Inc. (a) | 61,741 | 2,056,593 |
| **Hotels, Restaurants & Leisure – 1.8%** | | |
| Carnival Corp. unit | 120,490 | 6,564,295 |
| Chipotle Mexican Grill, Inc. (a)(b) | 8,165 | 3,917,975 |
| Darden Restaurants, Inc. | 30,188 | 1,921,164 |
| Marriott International, Inc. Class A (a) | 50,481 | 3,384,246 |
| McDonald's Corp. | 240,366 | 28,396,839 |
| Royal Caribbean Cruises Ltd. (a) | 44,919 | 4,546,252 |
| Starbucks Corp. | 388,678 | 23,332,340 |
| Starwood Hotels & Resorts Worldwide, Inc. | 44,160 | 3,059,405 |
| Wyndham Worldwide Corp. | 30,393 | 2,208,051 |
| Wynn Resorts Ltd. (a) | 21,270 | 1,471,671 |
| Yum! Brands, Inc. | 112,887 | 8,246,395 |
| | | 87,048,633 |
| **Household Durables – 0.4%** | | |
| D.R. Horton, Inc. | 85,902 | 2,751,441 |
| Garmin Ltd. (a) | 30,893 | 1,148,293 |
| Harman International Industries, Inc. | 18,608 | 1,753,060 |
| Leggett & Platt, Inc. | 35,599 | 1,495,870 |
| Lennar Corp. Class A (a) | 46,872 | 2,292,510 |
| Mohawk Industries, Inc. (b) | 16,644 | 3,152,207 |
| Newell Rubbermaid, Inc. (a) | 69,921 | 3,082,118 |
| PulteGroup, Inc. | 83,174 | 1,482,161 |
| Whirlpool Corp. | 20,470 | 3,006,429 |
| | | 20,164,089 |
| **Internet & Catalog Retail – 2.2%** | | |
| Amazon.com, Inc. (b) | 100,620 | 68,008,052 |
| Expedia, Inc. | 30,809 | 3,829,559 |
| Netflix, Inc. (b) | 111,878 | 12,796,606 |
| Priceline Group, Inc. (b) | 13,031 | 16,613,873 |
| TripAdvisor, Inc. (a)(b) | 29,577 | 2,521,439 |
| | | 103,769,529 |
| **Leisure Products – 0.1%** | | |
| Hasbro, Inc. | 29,361 | 1,977,757 |
| Mattel, Inc. (a) | 88,833 | 2,413,593 |
| | | 4,391,350 |
| **Media – 3.0%** | | |
| Cablevision Systems Corp. - NY Group Class A | 58,260 | 1,858,494 |
| CBS Corp. Class B | 113,531 | 5,350,716 |
| Comcast Corp. Class A | 639,202 | $ 36,070,169 |
| Discovery Communications, Inc.: | | |
| Class A (a)(b) | 39,161 | 1,044,815 |
| Class C (non-vtg.) (b) | 67,502 | 1,702,400 |
| Interpublic Group of Companies, Inc. | 106,370 | 2,476,294 |
| News Corp.: | | |
| Class A | 99,663 | 1,331,498 |
| Class B | 28,422 | 396,771 |
| Omnicom Group, Inc. | 63,415 | 4,797,979 |
| Scripps Networks Interactive, Inc. Class A (a) | 24,767 | 1,367,386 |
| Tegna, Inc. | 58,033 | 1,481,002 |
| The Walt Disney Co. | 398,133 | 41,835,816 |
| Time Warner Cable, Inc. | 74,132 | 13,758,158 |
| Time Warner, Inc. | 209,280 | 13,534,138 |
| Twenty-First Century Fox, Inc.: | | |
| Class A | 306,515 | 8,324,947 |
| Class B | 112,831 | 3,072,388 |
| Viacom, Inc. Class B (non-vtg.) | 90,878 | 3,740,538 |
| | | 142,143,509 |
| **Multiline Retail – 0.6%** | | |
| Dollar General Corp. | 76,158 | 5,473,475 |
| Dollar Tree, Inc. (b) | 61,463 | 4,746,173 |
| Kohl's Corp. (a) | 49,689 | 2,366,687 |
| Macy's, Inc. | 82,292 | 2,878,574 |
| Nordstrom, Inc. (a) | 35,616 | 1,774,033 |
| Target Corp. | 161,264 | 11,709,379 |
| | | 28,948,321 |
| **Specialty Retail – 2.6%** | | |
| Advance Auto Parts, Inc. | 19,171 | 2,885,427 |
| AutoNation, Inc. (b) | 19,982 | 1,192,126 |
| AutoZone, Inc. (a)(b) | 7,980 | 5,920,442 |
| Bed Bath & Beyond, Inc. (b) | 43,687 | 2,107,898 |
| Best Buy Co., Inc. (a) | 78,051 | 2,376,653 |
| CarMax, Inc. (a)(b) | 53,044 | 2,862,785 |
| GameStop Corp. Class A (a) | 27,614 | 774,297 |
| Gap, Inc. | 59,966 | 1,481,160 |
| Home Depot, Inc. | 331,894 | 43,892,982 |
| L Brands, Inc. | 66,674 | 6,388,703 |
| Lowe's Companies, Inc. | 239,548 | 18,215,230 |
| O'Reilly Automotive, Inc. (a)(b) | 25,821 | 6,543,558 |
| Ross Stores, Inc. | 106,019 | 5,704,882 |
| Signet Jewelers Ltd. | 20,818 | 2,574,978 |
| Staples, Inc. | 168,480 | 1,595,506 |
| Tiffany & Co., Inc. | 29,188 | 2,226,753 |
| TJX Companies, Inc. | 175,263 | 12,427,899 |
| Tractor Supply Co. | 35,164 | 3,006,522 |
| Urban Outfitters, Inc. (a)(b) | 22,726 | 517,017 |
| | | 122,694,818 |
| **Textiles, Apparel & Luxury Goods – 0.9%** | | |
| Coach, Inc. (a) | 72,645 | 2,377,671 |
| Fossil Group, Inc. (a)(b) | 10,839 | 396,274 |
| Hanesbrands, Inc. | 102,567 | 3,018,547 |
| Michael Kors Holdings Ltd. (b) | 48,178 | 1,930,011 |
| NIKE, Inc. Class B | 353,253 | 22,078,313 |
| PVH Corp. | 21,607 | 1,591,356 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **CONSUMER DISCRETIONARY – continued** | | |
| **Textiles, Apparel & Luxury Goods – continued** | | |
| Ralph Lauren Corp. | 15,395 | $ 1,716,235 |
| Under Armour, Inc. Class A (sub. vtg.) (a)(b) | 47,148 | 3,800,600 |
| VF Corp. | 89,276 | 5,557,431 |
| | | 42,466,438 |
| TOTAL CONSUMER DISCRETIONARY | | 604,154,126 |
| **CONSUMER STAPLES – 10.0%** | | |
| **Beverages – 2.3%** | | |
| Brown-Forman Corp. Class B (non-vtg.) (a) | 26,604 | 2,641,245 |
| Coca-Cola Enterprises, Inc. | 54,656 | 2,691,261 |
| Constellation Brands, Inc. Class A (sub. vtg.) | 45,325 | 6,456,093 |
| Dr. Pepper Snapple Group, Inc. | 49,447 | 4,608,460 |
| Molson Coors Brewing Co. Class B | 41,247 | 3,873,918 |
| Monster Beverage Corp. | 39,270 | 5,849,659 |
| PepsiCo, Inc. | 381,361 | 38,105,591 |
| The Coca-Cola Co. | 1,024,593 | 44,016,515 |
| | | 108,242,742 |
| **Food & Staples Retailing – 2.4%** | | |
| Costco Wholesale Corp. | 114,500 | 18,491,750 |
| CVS Health Corp. | 289,863 | 28,339,906 |
| Kroger Co. | 254,817 | 10,658,995 |
| Sysco Corp. | 137,429 | 5,634,589 |
| Wal-Mart Stores, Inc. | 410,699 | 25,175,849 |
| Walgreens Boots Alliance, Inc. | 228,011 | 19,416,277 |
| Whole Foods Market, Inc. | 89,334 | 2,992,689 |
| | | 110,710,055 |
| **Food Products – 1.7%** | | |
| Archer Daniels Midland Co. | 156,208 | 5,729,709 |
| Campbell Soup Co. | 47,013 | 2,470,533 |
| ConAgra Foods, Inc. | 113,323 | 4,777,698 |
| General Mills, Inc. | 156,457 | 9,021,311 |
| Hormel Foods Corp. | 35,314 | 2,792,631 |
| Kellogg Co. | 66,794 | 4,827,202 |
| Keurig Green Mountain, Inc. | 30,408 | 2,736,112 |
| McCormick & Co., Inc. (non-vtg.) | 30,441 | 2,604,532 |
| Mead Johnson Nutrition Co. Class A | 51,604 | 4,074,136 |
| Mondelez International, Inc. | 415,998 | 18,653,350 |
| The Hershey Co. | 37,612 | 3,357,623 |
| The J.M. Smucker Co. | 31,327 | 3,863,872 |
| The Kraft Heinz Co. | 155,646 | 11,324,803 |
| Tyson Foods, Inc. Class A | 77,390 | 4,127,209 |
| | | 80,360,721 |
| **Household Products – 1.9%** | | |
| Church & Dwight Co., Inc. | 34,246 | 2,906,800 |
| Clorox Co. | 33,792 | 4,285,839 |
| Colgate-Palmolive Co. | 234,788 | 15,641,577 |
| Kimberly-Clark Corp. | 95,021 | 12,096,173 |
| Procter & Gamble Co. | 712,165 | 56,553,023 |
| | | 91,483,412 |
| **Personal Products – 0.1%** | | |
| Estee Lauder Companies, Inc. Class A (a) | 58,264 | $ 5,130,728 |
| **Tobacco – 1.6%** | | |
| Altria Group, Inc. | 513,248 | 29,876,166 |
| Philip Morris International, Inc. | 405,560 | 35,652,780 |
| Reynolds American, Inc. (a) | 216,976 | 10,013,442 |
| | | 75,542,388 |
| TOTAL CONSUMER STAPLES | | 471,470,046 |
| **ENERGY – 6.4%** | | |
| **Energy Equipment & Services – 1.0%** | | |
| Baker Hughes, Inc. | 114,153 | 5,268,161 |
| Cameron International Corp. (b) | 50,027 | 3,161,706 |
| Diamond Offshore Drilling, Inc. (a) | 16,892 | 356,421 |
| Ensco PLC Class A (a) | 61,649 | 948,778 |
| FMC Technologies, Inc. (b) | 59,704 | 1,732,013 |
| Halliburton Co. | 224,022 | 7,625,709 |
| Helmerich & Payne, Inc. (a) | 28,213 | 1,510,806 |
| National Oilwell Varco, Inc. | 98,355 | 3,293,909 |
| Schlumberger Ltd. | 330,117 | 23,025,661 |
| Transocean Ltd. (United States) (a) | 89,500 | 1,108,010 |
| | | 48,031,174 |
| **Oil, Gas & Consumable Fuels – 5.4%** | | |
| Anadarko Petroleum Corp. | 133,017 | 6,461,966 |
| Apache Corp. | 98,953 | 4,400,440 |
| Cabot Oil & Gas Corp. | 108,340 | 1,916,535 |
| Chesapeake Energy Corp. (a) | 135,471 | 609,620 |
| Chevron Corp. | 492,662 | 44,319,874 |
| Cimarex Energy Co. | 24,753 | 2,212,423 |
| Columbia Pipeline Group, Inc. | 101,858 | 2,037,160 |
| ConocoPhillips Co. | 323,192 | 15,089,834 |
| CONSOL Energy, Inc. (a) | 59,957 | 473,660 |
| Devon Energy Corp. | 101,131 | 3,236,192 |
| EOG Resources, Inc. | 143,897 | 10,186,469 |
| EQT Corp. | 39,930 | 2,081,551 |
| Exxon Mobil Corp. | 1,089,735 | 84,944,843 |
| Hess Corp. | 62,908 | 3,049,780 |
| Kinder Morgan, Inc. | 478,998 | 7,146,650 |
| Marathon Oil Corp. | 177,284 | 2,232,006 |
| Marathon Petroleum Corp. | 139,498 | 7,231,576 |
| Murphy Oil Corp. (a) | 42,366 | 951,117 |
| Newfield Exploration Co. (b) | 42,315 | 1,377,776 |
| Noble Energy, Inc. | 111,413 | 3,668,830 |
| Occidental Petroleum Corp. | 199,923 | 13,516,794 |
| ONEOK, Inc. (a) | 54,781 | 1,350,899 |
| Phillips 66 Co. | 124,279 | 10,166,022 |
| Pioneer Natural Resources Co. | 39,103 | 4,902,734 |
| Range Resources Corp. (a) | 44,336 | 1,091,109 |
| Southwestern Energy Co. (a)(b) | 100,630 | 715,479 |
| Spectra Energy Corp. (a) | 175,755 | 4,207,575 |
| Tesoro Corp. | 31,515 | 3,320,736 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **ENERGY – continued** | | |
| **Oil, Gas & Consumable Fuels – continued** | | |
| The Williams Companies, Inc. | 178,602 | $ 4,590,071 |
| Valero Energy Corp. | 126,043 | 8,912,501 |
| | | 256,402,222 |
| TOTAL ENERGY | | 304,433,396 |
| **FINANCIALS – 16.3%** | | |
| **Banks – 6.0%** | | |
| Bank of America Corp. | 2,725,680 | 45,873,194 |
| BB&T Corp. | 204,219 | 7,721,520 |
| Citigroup, Inc. | 779,811 | 40,355,219 |
| Comerica, Inc. | 46,293 | 1,936,436 |
| Fifth Third Bancorp | 207,932 | 4,179,433 |
| Huntington Bancshares, Inc. | 208,547 | 2,306,530 |
| JPMorgan Chase & Co. | 963,612 | 63,627,300 |
| KeyCorp | 218,585 | 2,883,136 |
| M&T Bank Corp. (a) | 41,880 | 5,075,018 |
| Peoples United Financial, Inc. (a) | 81,206 | 1,311,477 |
| PNC Financial Services Group, Inc. | 132,929 | 12,669,463 |
| Regions Financial Corp. | 341,729 | 3,280,598 |
| SunTrust Banks, Inc. | 133,401 | 5,714,899 |
| U.S. Bancorp | 430,410 | 18,365,595 |
| Wells Fargo & Co. | 1,216,739 | 66,141,932 |
| Zions Bancorporation (a) | 53,472 | 1,459,786 |
| | | 282,901,536 |
| **Capital Markets – 2.1%** | | |
| Affiliated Managers Group, Inc. (b) | 14,145 | 2,259,805 |
| Ameriprise Financial, Inc. | 45,577 | 4,850,304 |
| Bank of New York Mellon Corp. | 286,103 | 11,793,166 |
| BlackRock, Inc. Class A | 33,055 | 11,255,889 |
| Charles Schwab Corp. | 313,611 | 10,327,210 |
| E*TRADE Financial Corp. (b) | 76,674 | 2,272,617 |
| Franklin Resources, Inc. | 99,194 | 3,652,323 |
| Goldman Sachs Group, Inc. | 103,840 | 18,715,083 |
| Invesco Ltd. | 110,954 | 3,714,740 |
| Legg Mason, Inc. | 28,199 | 1,106,247 |
| Morgan Stanley | 395,340 | 12,575,765 |
| Northern Trust Corp. | 56,895 | 4,101,561 |
| State Street Corp. | 105,620 | 7,008,943 |
| T. Rowe Price Group, Inc. | 65,729 | 4,698,966 |
| | | 98,332,619 |
| **Consumer Finance – 0.8%** | | |
| American Express Co. | 219,000 | 15,231,450 |
| Capital One Financial Corp. | 139,273 | 10,052,725 |
| Discover Financial Services | 111,903 | 6,000,239 |
| Navient Corp. | 94,840 | 1,085,918 |
| Synchrony Financial (b) | 218,270 | 6,637,591 |
| | | 39,007,923 |
| **Diversified Financial Services – 2.0%** | | |
| Berkshire Hathaway, Inc. Class B (b) | 490,410 | 64,753,736 |
| CME Group, Inc. | 88,540 | 8,021,724 |
| IntercontinentalExchange, Inc. | 31,083 | 7,965,330 |
| Leucadia National Corp. | 87,260 | 1,517,451 |
| McGraw Hill Financial, Inc. | 70,757 | 6,975,225 |

| | Shares | Value |
|---|---|---|
| Moody's Corp. (a) | 45,024 | $ 4,517,708 |
| The NASDAQ OMX Group, Inc. | 30,095 | 1,750,626 |
| | | 95,501,800 |
| **Insurance – 2.7%** | | |
| ACE Ltd. | 84,861 | 9,916,008 |
| AFLAC, Inc. | 111,708 | 6,691,309 |
| Allstate Corp. | 101,385 | 6,294,995 |
| American International Group, Inc. | 323,814 | 20,066,754 |
| Aon PLC | 71,703 | 6,611,734 |
| Assurant, Inc. | 17,234 | 1,388,026 |
| Cincinnati Financial Corp. | 38,603 | 2,284,140 |
| Hartford Financial Services Group, Inc. | 107,224 | 4,659,955 |
| Lincoln National Corp. | 64,780 | 3,255,843 |
| Loews Corp. | 73,278 | 2,813,875 |
| Marsh & McLennan Companies, Inc. | 136,553 | 7,571,864 |
| MetLife, Inc. | 290,990 | 14,028,628 |
| Principal Financial Group, Inc. | 71,263 | 3,205,410 |
| Progressive Corp. | 153,005 | 4,865,559 |
| Prudential Financial, Inc. | 117,536 | 9,568,606 |
| The Chubb Corp. | 59,437 | 7,883,724 |
| The Travelers Companies, Inc. (a) | 79,636 | 8,987,719 |
| Torchmark Corp. | 30,024 | 1,716,172 |
| Unum Group | 63,727 | 2,121,472 |
| XL Group PLC Class A | 77,946 | 3,053,924 |
| | | 126,985,717 |
| **Real Estate Investment Trusts – 2.7%** | | |
| American Tower Corp. | 110,878 | 10,749,622 |
| Apartment Investment & Management Co. Class A | 40,946 | 1,639,068 |
| AvalonBay Communities, Inc. | 35,830 | 6,597,378 |
| Boston Properties, Inc. | 40,202 | 5,127,363 |
| Crown Castle International Corp. | 87,372 | 7,553,309 |
| Equinix, Inc. (a) | 16,222 | 4,905,533 |
| Equity Residential (SBI) | 95,353 | 7,779,851 |
| Essex Property Trust, Inc. | 17,286 | 4,138,441 |
| General Growth Properties, Inc. | 152,423 | 4,147,430 |
| HCP, Inc. | 121,733 | 4,655,070 |
| Host Hotels & Resorts, Inc. | 196,748 | 3,018,114 |
| Iron Mountain, Inc. | 50,296 | 1,358,495 |
| Kimco Realty Corp. | 108,190 | 2,862,707 |
| Plum Creek Timber Co., Inc. | 45,462 | 2,169,447 |
| Prologis, Inc. | 137,247 | 5,890,641 |
| Public Storage | 38,528 | 9,543,386 |
| Realty Income Corp. | 65,337 | 3,373,349 |
| Simon Property Group, Inc. | 80,994 | 15,748,473 |
| SL Green Realty Corp. | 26,099 | 2,948,665 |
| The Macerich Co. | 35,228 | 2,842,547 |
| Ventas, Inc. | 87,165 | 4,918,721 |
| Vornado Realty Trust | 46,392 | 4,637,344 |
| Welltower, Inc. | 92,635 | 6,301,959 |
| Weyerhaeuser Co. | 133,619 | 4,005,898 |
| | | 126,912,811 |
| **Real Estate Management & Development – 0.0%** | | |
| CBRE Group, Inc. (b) | 76,104 | 2,631,676 |
| TOTAL FINANCIALS | | 772,274,082 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **HEALTH CARE – 15.0%** | | |
| **Biotechnology – 3.7%** | | |
| AbbVie, Inc. | 427,928 | $ 25,350,455 |
| Alexion Pharmaceuticals, Inc. (b) | 58,983 | 11,251,007 |
| Amgen, Inc. | 197,461 | 32,053,844 |
| Baxalta, Inc. | 142,087 | 5,545,656 |
| Biogen, Inc. (b) | 58,350 | 17,875,523 |
| Celgene Corp. (b) | 205,659 | 24,629,722 |
| Gilead Sciences, Inc. | 377,258 | 38,174,737 |
| Regeneron Pharmaceuticals, Inc. (b) | 20,323 | 11,032,747 |
| Vertex Pharmaceuticals, Inc. (b) | 64,321 | 8,093,511 |
| | | 174,007,202 |
| **Health Care Equipment & Supplies – 2.1%** | | |
| Abbott Laboratories | 390,488 | 17,536,816 |
| Baxter International, Inc. | 143,192 | 5,462,775 |
| Becton, Dickinson & Co. | 55,165 | 8,500,375 |
| Boston Scientific Corp. (b) | 352,133 | 6,493,333 |
| C.R. Bard, Inc. | 19,341 | 3,663,959 |
| DENTSPLY International, Inc. | 36,612 | 2,227,840 |
| Edwards Lifesciences Corp. (b) | 56,467 | 4,459,764 |
| Intuitive Surgical, Inc. (b) | 9,780 | 5,341,445 |
| Medtronic PLC | 368,090 | 28,313,483 |
| St. Jude Medical, Inc. | 73,992 | 4,570,486 |
| Stryker Corp. | 82,678 | 7,684,093 |
| Varian Medical Systems, Inc. (a)(b) | 25,362 | 2,049,250 |
| Zimmer Biomet Holdings, Inc. | 44,808 | 4,596,853 |
| | | 100,900,472 |
| **Health Care Providers & Services – 2.7%** | | |
| Aetna, Inc. | 91,279 | 9,869,085 |
| AmerisourceBergen Corp. | 51,137 | 5,303,418 |
| Anthem, Inc. | 68,341 | 9,529,469 |
| Cardinal Health, Inc. | 86,116 | 7,687,575 |
| Cigna Corp. | 67,432 | 9,867,325 |
| DaVita HealthCare Partners, Inc. (b) | 43,634 | 3,041,726 |
| Express Scripts Holding Co. (b) | 177,029 | 15,474,105 |
| HCA Holdings, Inc. (a)(b) | 82,171 | 5,557,225 |
| Henry Schein, Inc. (b) | 21,714 | 3,434,938 |
| Humana, Inc. | 38,801 | 6,926,367 |
| Laboratory Corp. of America Holdings (b) | 26,491 | 3,275,347 |
| McKesson Corp. | 60,237 | 11,880,544 |
| Patterson Companies, Inc. | 21,863 | 988,426 |
| Quest Diagnostics, Inc. | 37,524 | 2,669,457 |
| Tenet Healthcare Corp. (a)(b) | 26,091 | 790,557 |
| UnitedHealth Group, Inc. | 249,495 | 29,350,592 |
| Universal Health Services, Inc. Class B | 23,867 | 2,851,868 |
| | | 128,498,024 |
| **Health Care Technology – 0.1%** | | |
| Cerner Corp. (a)(b) | 79,702 | 4,795,669 |
| **Life Sciences Tools & Services – 0.7%** | | |
| Agilent Technologies, Inc. | 86,751 | 3,627,059 |
| Illumina, Inc. (a)(b) | 38,323 | 7,355,908 |
| PerkinElmer, Inc. | 29,301 | 1,569,655 |
| Thermo Fisher Scientific, Inc. | 104,472 | 14,819,353 |
| Waters Corp. (b) | 21,378 | 2,877,051 |
| | | 30,249,026 |
| **Pharmaceuticals – 5.7%** | | |
| Allergan PLC (b) | 103,171 | $ 32,240,938 |
| Bristol-Myers Squibb Co. | 436,708 | 30,041,143 |
| Eli Lilly & Co. | 255,485 | 21,527,166 |
| Endo Health Solutions, Inc. (b) | 54,491 | 3,335,939 |
| Johnson & Johnson | 724,305 | 74,400,610 |
| Mallinckrodt PLC (b) | 30,351 | 2,265,095 |
| Merck & Co., Inc. | 731,267 | 38,625,523 |
| Mylan N.V. (a) | 108,129 | 5,846,535 |
| Perrigo Co. PLC | 38,324 | 5,545,483 |
| Pfizer, Inc. | 1,615,909 | 52,161,543 |
| Zoetis, Inc. Class A | 119,914 | 5,746,279 |
| | | 271,736,254 |
| TOTAL HEALTH CARE | | 710,186,647 |
| **INDUSTRIALS – 9.9%** | | |
| **Aerospace & Defense – 2.7%** | | |
| General Dynamics Corp. | 77,788 | 10,684,960 |
| Honeywell International, Inc. | 201,745 | 20,894,730 |
| L-3 Communications Holdings, Inc. | 20,519 | 2,452,226 |
| Lockheed Martin Corp. | 69,179 | 15,022,220 |
| Northrop Grumman Corp. | 47,743 | 9,014,356 |
| Precision Castparts Corp. | 36,017 | 8,356,304 |
| Raytheon Co. | 78,818 | 9,815,206 |
| Rockwell Collins, Inc. | 34,408 | 3,175,858 |
| Textron, Inc. | 71,638 | 3,009,512 |
| The Boeing Co. | 164,859 | 23,836,963 |
| United Technologies Corp. | 215,941 | 20,745,452 |
| | | 127,007,787 |
| **Air Freight & Logistics – 0.7%** | | |
| C.H. Robinson Worldwide, Inc. (a) | 37,596 | 2,331,704 |
| Expeditors International of Washington, Inc. | 48,798 | 2,200,790 |
| FedEx Corp. | 68,745 | 10,242,318 |
| United Parcel Service, Inc. Class B | 182,231 | 17,536,089 |
| | | 32,310,901 |
| **Airlines – 0.6%** | | |
| American Airlines Group, Inc. | 165,000 | 6,987,750 |
| Delta Air Lines, Inc. | 205,876 | 10,435,854 |
| Southwest Airlines Co. | 170,244 | 7,330,707 |
| United Continental Holdings, Inc. (b) | 97,591 | 5,591,964 |
| | | 30,346,275 |
| **Building Products – 0.1%** | | |
| Allegion PLC | 25,108 | 1,655,119 |
| Masco Corp. | 88,081 | 2,492,692 |
| | | 4,147,811 |
| **Commercial Services & Supplies – 0.4%** | | |
| ADT Corp. (a) | 43,175 | 1,423,912 |
| Cintas Corp. | 22,891 | 2,084,226 |
| Pitney Bowes, Inc. | 51,580 | 1,065,127 |
| Republic Services, Inc. | 62,717 | 2,758,921 |
| Stericycle, Inc. (b) | 22,246 | 2,682,868 |
| Tyco International Ltd. | 110,662 | 3,529,011 |
| Waste Management, Inc. | 108,698 | 5,801,212 |
| | | 19,345,277 |

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

| Common Stocks – continued | Shares | Value |
|---|---|---|
| **INDUSTRIALS – continued** | | |
| **Construction & Engineering – 0.1%** | | |
| Fluor Corp. | 37,068 | $ 1,750,351 |
| Jacobs Engineering Group, Inc. (a)(b) | 32,081 | 1,345,798 |
| Quanta Services, Inc. (b) | 41,820 | 846,855 |
| | | 3,943,004 |
| **Electrical Equipment – 0.4%** | | |
| AMETEK, Inc. | 62,270 | 3,337,049 |
| Eaton Corp. PLC | 121,147 | 6,304,490 |
| Emerson Electric Co. | 171,343 | 8,195,336 |
| Rockwell Automation, Inc. (a) | 34,558 | 3,545,996 |
| | | 21,382,871 |
| **Industrial Conglomerates – 2.5%** | | |
| 3M Co. | 161,176 | 24,279,553 |
| Danaher Corp. | 156,068 | 14,495,596 |
| General Electric Co. | 2,470,557 | 76,957,851 |
| Roper Technologies, Inc. | 26,388 | 5,008,179 |
| | | 120,741,179 |
| **Machinery – 1.2%** | | |
| Caterpillar, Inc. | 152,412 | 10,357,920 |
| Cummins, Inc. | 42,997 | 3,784,166 |
| Deere & Co. | 81,608 | 6,224,242 |
| Dover Corp. (a) | 40,565 | 2,487,040 |
| Flowserve Corp. | 34,256 | 1,441,492 |
| Illinois Tool Works, Inc. | 85,637 | 7,936,837 |
| Ingersoll-Rand PLC | 68,335 | 3,778,242 |
| PACCAR, Inc. | 92,524 | 4,385,638 |
| Parker Hannifin Corp. | 35,595 | 3,452,003 |
| Pentair PLC (a) | 47,184 | 2,337,024 |
| Snap-On, Inc. | 15,201 | 2,605,907 |
| Stanley Black & Decker, Inc. | 39,194 | 4,183,176 |
| Xylem, Inc. | 46,953 | 1,713,785 |
| | | 54,687,472 |
| **Professional Services – 0.3%** | | |
| Dun & Bradstreet Corp. | 9,458 | 982,970 |
| Equifax, Inc. | 31,014 | 3,454,029 |
| Nielsen Holdings PLC (a) | 95,300 | 4,440,980 |
| Robert Half International, Inc. | 34,732 | 1,637,266 |
| Verisk Analytics, Inc. (a)(b) | 40,803 | 3,136,935 |
| | | 13,652,180 |
| **Road & Rail – 0.7%** | | |
| CSX Corp. | 255,211 | 6,622,725 |
| J.B. Hunt Transport Services, Inc. | 23,700 | 1,738,632 |
| Kansas City Southern | 28,568 | 2,133,173 |
| Norfolk Southern Corp. | 78,158 | 6,611,385 |
| Ryder System, Inc. | 13,984 | 794,711 |
| Union Pacific Corp. | 223,584 | 17,484,269 |
| | | 35,384,895 |
| **Trading Companies & Distributors – 0.2%** | | |
| Fastenal Co. (a) | 75,833 | 3,095,503 |
| United Rentals, Inc. (b) | 24,299 | 1,762,649 |
| W.W. Grainger, Inc. (a) | 15,121 | 3,063,363 |
| | | 7,921,515 |
| TOTAL INDUSTRIALS | | 470,871,167 |

| | Shares | Value |
|---|---|---|
| **INFORMATION TECHNOLOGY – 20.4%** | | |
| **Communications Equipment – 1.4%** | | |
| Cisco Systems, Inc. | 1,328,769 | $ 36,082,722 |
| F5 Networks, Inc. (b) | 18,423 | 1,786,294 |
| Harris Corp. | 32,568 | 2,830,159 |
| Juniper Networks, Inc. | 92,925 | 2,564,730 |
| Motorola Solutions, Inc. (a) | 42,059 | 2,878,939 |
| Qualcomm Technologies, Inc. | 393,465 | 19,667,348 |
| | | 65,810,192 |
| **Electronic Equipment & Components – 0.4%** | | |
| Amphenol Corp. Class A | 80,693 | 4,214,595 |
| Corning, Inc. | 309,670 | 5,660,768 |
| FLIR Systems, Inc. | 36,159 | 1,014,983 |
| TE Connectivity Ltd. | 101,124 | 6,533,622 |
| | | 17,423,968 |
| **Internet Software & Services – 4.2%** | | |
| Akamai Technologies, Inc. (b) | 46,579 | 2,451,453 |
| Alphabet, Inc.: | | |
| Class A (b) | 76,262 | 59,332,599 |
| Class C | 77,781 | 59,026,445 |
| eBay, Inc. (b) | 289,153 | 7,945,924 |
| Facebook, Inc. Class A (b) | 594,338 | 62,203,415 |
| VeriSign, Inc. (a)(b) | 25,687 | 2,244,016 |
| Yahoo!, Inc. (b) | 227,428 | 7,564,255 |
| | | 200,768,107 |
| **IT Services – 3.6%** | | |
| Accenture PLC Class A | 163,556 | 17,091,602 |
| Alliance Data Systems Corp. (b) | 16,004 | 4,426,226 |
| Automatic Data Processing, Inc. | 120,729 | 10,228,161 |
| Cognizant Technology Solutions Corp. Class A (b) | 159,174 | 9,553,623 |
| CSRA, Inc. | 36,086 | 1,082,580 |
| Fidelity National Information Services, Inc. | 72,624 | 4,401,014 |
| Fiserv, Inc. (b) | 59,825 | 5,471,595 |
| IBM Corp. | 233,630 | 32,152,161 |
| MasterCard, Inc. Class A | 259,208 | 25,236,491 |
| Paychex, Inc. | 83,996 | 4,442,548 |
| PayPal Holdings, Inc. (b) | 291,020 | 10,534,924 |
| Teradata Corp. (a)(b) | 34,815 | 919,812 |
| The Western Union Co. (a) | 132,266 | 2,368,884 |
| Total System Services, Inc. | 44,310 | 2,206,638 |
| Visa, Inc. Class A (a) | 509,522 | 39,513,431 |
| Xerox Corp. | 249,114 | 2,648,082 |
| | | 172,277,772 |
| **Semiconductors & Semiconductor Equipment – 2.4%** | | |
| Analog Devices, Inc. | 81,690 | 4,519,091 |
| Applied Materials, Inc. | 300,812 | 5,616,160 |
| Avago Technologies Ltd. (a) | 68,636 | 9,962,515 |
| Broadcom Corp. Class A | 146,855 | 8,491,156 |
| First Solar, Inc. (b) | 19,814 | 1,307,526 |
| Intel Corp. | 1,235,300 | 42,556,085 |
| KLA-Tencor Corp. | 40,822 | 2,831,006 |
| Lam Research Corp. (a) | 41,463 | 3,292,991 |
| Linear Technology Corp. | 62,603 | 2,658,749 |
| Microchip Technology, Inc. (a) | 53,174 | 2,474,718 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **INFORMATION TECHNOLOGY – continued** | | |
| **Semiconductors & Semiconductor Equipment – continued** | | |
| Micron Technology, Inc. (b) | 284,218 | $ 4,024,527 |
| NVIDIA Corp. (a) | 133,793 | 4,409,817 |
| Qorvo, Inc. (b) | 36,999 | 1,883,249 |
| Skyworks Solutions, Inc. | 50,038 | 3,844,420 |
| Texas Instruments, Inc. | 265,545 | 14,554,521 |
| Xilinx, Inc. | 67,244 | 3,158,451 |
| | | 115,584,982 |
| **Software – 4.3%** | | |
| Activision Blizzard, Inc. | 132,068 | 5,112,352 |
| Adobe Systems, Inc. (b) | 130,571 | 12,265,840 |
| Autodesk, Inc. (b) | 59,212 | 3,607,787 |
| CA Technologies, Inc. | 81,522 | 2,328,268 |
| Citrix Systems, Inc. (b) | 40,267 | 3,046,199 |
| Electronic Arts, Inc. (b) | 81,360 | 5,591,059 |
| Intuit, Inc. | 69,109 | 6,669,019 |
| Microsoft Corp. | 2,091,000 | 116,008,680 |
| Oracle Corp. | 838,073 | 30,614,807 |
| Red Hat, Inc. (b) | 47,853 | 3,962,707 |
| Salesforce.com, Inc. (b) | 163,387 | 12,809,541 |
| Symantec Corp. | 176,832 | 3,713,472 |
| | | 205,729,731 |
| **Technology Hardware, Storage & Peripherals – 4.1%** | | |
| Apple, Inc. | 1,459,458 | 153,622,545 |
| EMC Corp. | 507,530 | 13,033,370 |
| Hewlett Packard Enterprise Co. | 470,722 | 7,154,974 |
| HP, Inc. | 472,866 | 5,598,733 |
| NetApp, Inc. | 76,527 | 2,030,261 |
| SanDisk Corp. | 52,535 | 3,992,135 |
| Seagate Technology LLC (a) | 78,278 | 2,869,671 |
| Western Digital Corp. | 60,656 | 3,642,393 |
| | | 191,944,082 |
| TOTAL INFORMATION TECHNOLOGY | | 969,538,834 |
| **MATERIALS – 2.7%** | | |
| **Chemicals – 2.1%** | | |
| Air Products & Chemicals, Inc. | 50,752 | 6,603,343 |
| Airgas, Inc. | 16,976 | 2,348,120 |
| CF Industries Holdings, Inc. | 61,012 | 2,489,900 |
| E.I. du Pont de Nemours & Co. | 229,417 | 15,279,172 |
| Eastman Chemical Co. | 38,900 | 2,626,139 |
| Ecolab, Inc. | 69,572 | 7,957,645 |
| FMC Corp. | 34,977 | 1,368,650 |
| International Flavors & Fragrances, Inc. | 21,006 | 2,513,158 |
| LyondellBasell Industries NV Class A | 94,120 | 8,179,028 |
| Monsanto Co. | 115,135 | 11,343,100 |
| PPG Industries, Inc. | 70,486 | 6,965,427 |
| Praxair, Inc. | 74,563 | 7,635,251 |
| Sherwin-Williams Co. | 20,715 | 5,377,614 |
| The Dow Chemical Co. | 294,365 | 15,153,910 |
| The Mosaic Co. | 87,809 | 2,422,650 |
| | | 98,263,107 |

| | Shares | Value |
|---|---|---|
| **Construction Materials – 0.1%** | | |
| Martin Marietta Materials, Inc. | 17,313 | $ 2,364,610 |
| Vulcan Materials Co. | 34,899 | 3,314,358 |
| | | 5,678,968 |
| **Containers & Packaging – 0.2%** | | |
| Avery Dennison Corp. | 23,847 | 1,494,253 |
| Ball Corp. (a) | 35,685 | 2,595,370 |
| Owens-Illinois, Inc. (b) | 42,102 | 733,417 |
| Sealed Air Corp. | 51,679 | 2,304,883 |
| WestRock Co. | 67,305 | 3,070,454 |
| | | 10,198,377 |
| **Metals & Mining – 0.2%** | | |
| Alcoa, Inc. (a) | 342,952 | 3,384,936 |
| Freeport-McMoRan, Inc. (a) | 302,571 | 2,048,406 |
| Newmont Mining Corp. | 138,507 | 2,491,741 |
| Nucor Corp. | 83,665 | 3,371,700 |
| | | 11,296,783 |
| **Paper & Forest Products – 0.1%** | | |
| International Paper Co. | 108,521 | 4,091,242 |
| TOTAL MATERIALS | | 129,528,477 |
| **TELECOMMUNICATION SERVICES – 2.4%** | | |
| **Diversified Telecommunication Services – 2.4%** | | |
| AT&T, Inc. | 1,610,413 | 55,414,311 |
| CenturyLink, Inc. | 143,712 | 3,615,794 |
| Frontier Communications Corp. (a) | 305,801 | 1,428,091 |
| Level 3 Communications, Inc. (b) | 75,540 | 4,106,354 |
| Verizon Communications, Inc. | 1,065,112 | 49,229,477 |
| | | 113,794,027 |
| **UTILITIES – 3.0%** | | |
| **Electric Utilities – 1.7%** | | |
| American Electric Power Co., Inc. | 128,480 | 7,486,530 |
| Duke Energy Corp. | 180,185 | 12,863,407 |
| Edison International | 85,287 | 5,049,843 |
| Entergy Corp. | 46,708 | 3,192,959 |
| Eversource Energy | 83,028 | 4,240,240 |
| Exelon Corp. | 240,713 | 6,684,600 |
| FirstEnergy Corp. | 110,738 | 3,513,717 |
| NextEra Energy, Inc. | 120,554 | 12,524,355 |
| Pepco Holdings, Inc. | 66,389 | 1,726,778 |
| Pinnacle West Capital Corp. | 29,016 | 1,870,952 |
| PPL Corp. | 175,854 | 6,001,897 |
| Southern Co. | 237,933 | 11,132,885 |
| Xcel Energy, Inc. | 132,847 | 4,770,536 |
| | | 81,058,699 |
| **Gas Utilities – 0.0%** | | |
| AGL Resources, Inc. | 31,476 | 2,008,484 |
| **Independent Power and Renewable Electricity Producers – 0.1%** | | |
| NRG Energy, Inc. | 82,241 | 967,977 |
| The AES Corp. | 176,137 | 1,685,631 |
| | | 2,653,608 |
| **Multi-Utilities – 1.2%** | | |
| Ameren Corp. | 63,513 | 2,745,667 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **UTILITIES – continued** | | |
| **Multi-Utilities – continued** | | |
| CenterPoint Energy, Inc. (a) | 112,628 | $ 2,067,850 |
| CMS Energy Corp. | 72,531 | 2,616,918 |
| Consolidated Edison, Inc. | 76,750 | 4,932,723 |
| Dominion Resources, Inc. (a) | 155,842 | 10,541,153 |
| DTE Energy Co. | 46,981 | 3,767,406 |
| NiSource, Inc. | 83,419 | 1,627,505 |
| PG&E Corp. | 128,387 | 6,828,905 |
| Public Service Enterprise Group, Inc. | 132,445 | 5,124,297 |
| SCANA Corp. (a) | 37,412 | 2,263,052 |
| Sempra Energy | 61,725 | 5,802,767 |
| TECO Energy, Inc. | 61,576 | 1,641,000 |
| WEC Energy Group, Inc. (a) | 82,637 | 4,240,104 |
| | | 54,199,347 |
| TOTAL UTILITIES | | 139,920,138 |
| **TOTAL COMMON STOCKS** (Cost $2,467,070,489) | | **4,686,170,940** |

## U.S. Treasury Obligations – 0.1%

| | Principal Amount | |
|---|---|---|
| U.S. Treasury Bills, yield at date of purchase 0.18% to 0.3% 3/31/16 to 5/26/16 (c) (Cost $3,497,255) | $ 3,500,000 | **3,496,840** |

## Money Market Funds – 6.3%

| | Shares | |
|---|---|---|
| Fidelity Cash Central Fund, 0.33% (d) | 64,407,948 | 64,407,948 |
| Fidelity Securities Lending Cash Central Fund, 0.35% (d)(e) | 234,937,835 | 234,937,835 |
| **TOTAL MONEY MARKET FUNDS** (Cost $299,345,783) | | **299,345,783** |
| **TOTAL INVESTMENT PORTFOLIO – 105.2%** (Cost $2,769,913,527) | | **4,989,013,563** |
| **NET OTHER ASSETS (LIABILITIES) – (5.2)%** | | **(245,371,942)** |
| **NET ASSETS – 100%** | | **$4,743,641,621** |

## Futures Contracts

| | Expiration Date | Underlying Face Amount at Value | Unrealized Appreciation/ (Depreciation) |
|---|---|---|---|
| **Purchased** | | | |
| **Equity Index Contracts** | | | |
| 123 CME E-mini S&P 500 Index Contracts (United States) | March 2016 | $ 12,517,710 | $ 32,026 |
| 82 CME S&P 500 Index Contracts (United States) | March 2016 | 41,725,700 | (29,119) |
| **TOTAL FUTURES CONTRACTS** | | | $ 2,907 |

The face value of futures purchased as a percentage of Net Assets is 1.1%

*See accompanying notes which are an integral part of the financial statements.*

## Legend

(a) Security or a portion of the security is on loan at period end.

(b) Non-income producing

(c) Security or a portion of the security was pledged to cover margin requirements for futures contracts. At period end, the value of securities pledged amounted to $2,421,723.

(d) Affiliated fund that is generally available only to investment companies and other accounts managed by Fidelity Investments. The rate quoted is the annualized seven-day yield of the fund at period end. A complete unaudited listing of the fund's holdings as of its most recent quarter end is available upon request. In addition, each Fidelity Central Fund's financial statements, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC's website or upon request.

(e) Investment made with cash collateral received from securities on loan.

## Affiliated Central Funds

Information regarding fiscal year to date income earned by the Fund from investments in Fidelity Central Funds is as follows:

| Fund | Income earned |
|---|---|
| Fidelity Cash Central Fund | $ 90,061 |
| Fidelity Securities Lending Cash Central Fund | 371,854 |
| Total | $ 461,915 |

## Investment Valuation

The following is a summary of the inputs used, as of December 31, 2015, involving the Fund's assets and liabilities carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs, and their aggregation into the levels used below, please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

**Valuation Inputs at Reporting Date:**

| Description | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Investments in Securities:** | | | | |
| **Equities:** | | | | |
| Consumer Discretionary | $ 604,154,126 | $ 604,154,126 | $ — | $ — |
| Consumer Staples | 471,470,046 | 471,470,046 | — | — |
| Energy | 304,433,396 | 304,433,396 | — | — |
| Financials | 772,274,082 | 772,274,082 | — | — |
| Health Care | 710,186,647 | 710,186,647 | — | — |
| Industrials | 470,871,167 | 470,871,167 | — | — |
| Information Technology | 969,538,834 | 969,538,834 | — | — |
| Materials | 129,528,477 | 129,528,477 | — | — |
| Telecommunication Services | 113,794,027 | 113,794,027 | — | — |
| Utilities | 139,920,138 | 139,920,138 | — | — |
| U.S. Government and Government Agency Obligations | 3,496,840 | — | 3,496,840 | — |
| Money Market Funds | 299,345,783 | 299,345,783 | — | — |
| **Total Investments in Securities:** | $4,989,013,563 | $4,985,516,723 | $3,496,840 | $ — |
| **Derivative Instruments:** | | | | |
| **Assets** | | | | |
| Futures Contracts | $ 32,026 | $ 32,026 | $ — | $ — |
| Total Assets | $ 32,026 | $ 32,026 | $ — | $ — |
| **Liabilities** | | | | |
| Futures Contracts | $ (29,119) | $ (29,119) | $ — | $ — |
| Total Liabilities | $ (29,119) | $ (29,119) | $ — | $ — |
| **Total Derivative Instruments:** | $ 2,907 | $ 2,907 | $ — | $ — |

*See accompanying notes which are an integral part of the financial statements.*

## Value of Derivative Instruments

The following table is a summary of the Fund's value of derivative instruments by primary risk exposure as of December 31, 2015. For additional information on derivative instruments, please refer to the Derivative Instruments section in the accompanying Notes to Financial Statements.

| Primary Risk Exposure / Derivative Type | Value | |
|---|---|---|
| | Asset | Liability |
| **Equity Risk** | | |
| Futures Contracts (a) | $32,026 | $ (29,119) |
| **Total Value of Derivatives** | $32,026 | $ (29,119) |

(a) Reflects gross cumulative appreciation (depreciation) on futures contracts as presented in the Schedule of Investments. Only the period end receivable or payable for daily variation margin and net unrealized appreciation (depreciation) are presented in the Statement of Assets and Liabilities.

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (including securities loaned of $227,920,784) — See accompanying schedule: | | |
| Unaffiliated issuers (cost $2,470,567,744) | $ 4,689,667,780 | |
| Fidelity Central Funds (cost $299,345,783) | 299,345,783 | |
| Total Investments (cost $2,769,913,527) | | $ 4,989,013,563 |
| Cash | | 604 |
| Receivable for fund shares sold | | 11,560,165 |
| Dividends receivable | | 6,297,845 |
| Distributions receivable from Fidelity Central Funds | | 54,213 |
| Other receivables | | 39,994 |
| **Total assets** | | 5,006,966,384 |
| **Liabilities** | | |
| Payable for investments purchased | $ 20,817,145 | |
| Payable for fund shares redeemed | 6,519,852 | |
| Accrued management fee | 178,572 | |
| Distribution and service plan fees payable | 135,060 | |
| Payable for daily variation margin for derivative instruments | 477,993 | |
| Other affiliated payables | 218,314 | |
| Other payables and accrued expenses | 39,992 | |
| Collateral on securities loaned, at value | 234,937,835 | |
| **Total liabilities** | | 263,324,763 |
| **Net Assets** | | $ 4,743,641,621 |
| Net Assets consist of: | | |
| Paid in capital | | $ 2,531,050,338 |
| Undistributed net investment income | | 151,183 |
| Accumulated undistributed net realized gain (loss) on investments | | (6,662,843) |
| Net unrealized appreciation (depreciation) on investments | | 2,219,102,943 |
| **Net Assets** | | $ 4,743,641,621 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($4,103,864,944 ÷ 19,879,854 shares) | | $ 206.43 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($64,618,218 ÷ 313,959 shares) | | $ 205.82 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($575,158,459 ÷ 2,815,996 shares) | | $ 204.25 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Statements – continued

### Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Dividends | | $ 94,485,501 |
| Interest | | 4,311 |
| Income from Fidelity Central Funds | | 461,915 |
| **Total income** | | 94,951,727 |
| **Expenses** | | |
| Management fee | $ 2,053,757 | |
| Transfer agent fees | 2,510,148 | |
| Distribution and service plan fees | 1,412,895 | |
| Independent trustees' compensation | 19,589 | |
| Interest | 784 | |
| Miscellaneous | 6,390 | |
| Total expenses before reductions | 6,003,563 | |
| Expense reductions | (107) | 6,003,456 |
| **Net investment income (loss)** | | 88,948,271 |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) on: | | |
| Investment securities: | | |
| Unaffiliated issuers | 260,788 | |
| Futures contracts | 1,240,704 | |
| Total net realized gain (loss) | | 1,501,492 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investment securities | (52,374,282) | |
| Futures contracts | (861,192) | |
| Total change in net unrealized appreciation (depreciation) | | (53,235,474) |
| **Net gain (loss)** | | (51,733,982) |
| **Net increase (decrease) in net assets resulting from operations** | | $ 37,214,289 |

### Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 88,948,271 | $ 73,306,066 |
| Net realized gain (loss) | 1,501,492 | 10,964,072 |
| Change in net unrealized appreciation (depreciation) | (53,235,474) | 419,365,494 |
| **Net increase (decrease) in net assets resulting from operations** | 37,214,289 | 503,635,632 |
| Distributions to shareholders from net investment income | (94,599,871) | (67,240,648) |
| Distributions to shareholders from net realized gain | (2,817,105) | (3,785,052) |
| **Total distributions** | (97,416,976) | (71,025,700) |
| Share transactions – net increase (decrease) | 449,403,160 | 335,970,800 |
| **Total increase (decrease) in net assets** | 389,200,473 | 768,580,732 |
| **Net Assets** | | |
| Beginning of period | 4,354,441,148 | 3,585,860,416 |
| End of period (including undistributed net investment income of $151,183 and undistributed net investment income of $5,759,036, respectively) | $ 4,743,641,621 | $ 4,354,441,148 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Index 500 Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 208.12 | $ 186.29 | $ 144.91 | $ 129.33 | $ 132.39 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | 4.15 | 3.75 | 3.31 | 3.12 | 2.58 |
| Net realized and unrealized gain (loss) | (1.44) | 21.58 | 42.98 | 17.29 | .10 |
| Total from investment operations | 2.71 | 25.33 | 46.29 | 20.41 | 2.68 |
| Distributions from net investment income | (4.26) | (3.31) | (3.27) | (3.06) | (2.65) |
| Distributions from net realized gain | (.13) | (.18) | (1.64) | (1.77) | (3.09) |
| Total distributions | (4.40)[B] | (3.50)[C] | (4.91) | (4.83) | (5.74) |
| Net asset value, end of period | $ 206.43 | $ 208.12 | $ 186.29 | $ 144.91 | $ 129.33 |
| **Total Return**[D,E] | 1.33% | 13.57% | 32.25% | 15.91% | 2.04% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .10% | .10% | .10% | .10% | .10% |
| Expenses net of fee waivers, if any | .10% | .10% | .10% | .10% | .10% |
| Expenses net of all reductions | .10% | .10% | .10% | .10% | .10% |
| Net investment income (loss) | 1.98% | 1.91% | 1.98% | 2.20% | 1.96% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 4,103,865 | $ 3,823,973 | $ 3,163,673 | $ 2,294,364 | $ 1,918,592 |
| Portfolio turnover rate[H] | 9% | 3% | 5% | 5% | 5% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $4.40 per share is comprised of distributions from net investment income of $4.262 and distributions from net realized gain of $.133 per share.*
C *Total distributions of $3.50 per share is comprised of distributions from net investment income of $3.314 and distributions from net realized gain of $.184 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
H *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Index 500 Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 207.49 | $ 185.77 | $ 144.53 | $ 129.00 | $ 132.07 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | 3.93 | 3.54 | 3.13 | 2.97 | 2.44 |
| Net realized and unrealized gain (loss) | (1.43) | 21.50 | 42.85 | 17.25 | .10 |
| Total from investment operations | 2.50 | 25.04 | 45.98 | 20.22 | 2.54 |
| Distributions from net investment income | (4.03) | (3.14) | (3.10) | (2.92) | (2.52) |
| Distributions from net realized gain | (.13) | (.18) | (1.64) | (1.77) | (3.09) |
| Total distributions | (4.17)[B] | (3.32) | (4.74) | (4.69) | (5.61) |
| Net asset value, end of period | $ 205.82 | $ 207.49 | $ 185.77 | $ 144.53 | $ 129.00 |
| **Total Return**[C,D] | 1.24% | 13.46% | 32.12% | 15.80% | 1.93% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .20% | .20% | .20% | .20% | .20% |
| Expenses net of fee waivers, if any | .20% | .20% | .20% | .20% | .20% |
| Expenses net of all reductions | .20% | .20% | .20% | .20% | .20% |
| Net investment income (loss) | 1.88% | 1.81% | 1.88% | 2.10% | 1.86% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 64,618 | $ 64,442 | $ 55,066 | $ 41,443 | $ 37,095 |
| Portfolio turnover rate[G] | 9% | 3% | 5% | 5% | 5% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $4.17 per share is comprised of distributions from net investment income of $4.033 and distributions from net realized gain of $.133 per share.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
G *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Index 500 Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 206.02 | $ 184.56 | $ 143.64 | $ 128.24 | $ 131.31 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | 3.59 | 3.23 | 2.86 | 2.74 | 2.23 |
| Net realized and unrealized gain (loss) | (1.42) | 21.34 | 42.56 | 17.14 | .11 |
| Total from investment operations | 2.17 | 24.57 | 45.42 | 19.88 | 2.34 |
| Distributions from net investment income | (3.80) | (2.92) | (2.86) | (2.71) | (2.32) |
| Distributions from net realized gain | (.13) | (.18) | (1.64) | (1.77) | (3.09) |
| Total distributions | (3.94)[B] | (3.11)[C] | (4.50) | (4.48) | (5.41) |
| Net asset value, end of period | $ 204.25 | $ 206.02 | $ 184.56 | $ 143.64 | $ 128.24 |
| **Total Return**[D,E] | 1.08% | 13.29% | 31.92% | 15.62% | 1.78% |
| **Ratios to Average Net Assets**[F,G] | | | | | |
| Expenses before reductions | .35% | .35% | .35% | .35% | .35% |
| Expenses net of fee waivers, if any | .35% | .35% | .35% | .35% | .35% |
| Expenses net of all reductions | .35% | .35% | .35% | .35% | .35% |
| Net investment income (loss) | 1.73% | 1.66% | 1.73% | 1.95% | 1.71% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 575,158 | $ 466,026 | $ 367,122 | $ 274,104 | $ 240,172 |
| Portfolio turnover rate[H] | 9% | 3% | 5% | 5% | 5% |

A *Calculated based on average shares outstanding during the period.*
B *Total distributions of $3.94 per share is comprised of distributions from net investment income of $3.804 and distributions from net realized gain of $.133 per share.*
C *Total distributions of $3.11 per share is comprised of distributions from net investment income of $2.923 and distributions from net realized gain of $.184 per share.*
D *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
E *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
F *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
G *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
H *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*

*See accompanying notes which are an integral part of the financial statements.*

# Notes to Financial Statements
For the period ended December 31, 2015

### 1. Organization.

VIP Index 500 Portfolio (the Fund) is a fund of Variable Insurance Products Fund II (the Trust) and is authorized to issue an unlimited number of shares. The Trust 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. Shares of the Fund may only be purchased by insurance companies for the purpose of funding variable annuity or variable life insurance contracts. The Fund offers the following classes of shares: Initial Class shares, Service Class shares and Service Class 2 shares. All classes have equal rights and voting privileges, except for matters affecting a single class.

### 2. Investments in Fidelity Central Funds.

The Fund invests in Fidelity Central Funds, which are open-end investment companies generally available only to other investment companies and accounts managed by the investment adviser and its affiliates. The Fund's Schedule of Investments lists each of the Fidelity Central Funds held as of period end, if any, as an investment of the Fund, but does not include the underlying holdings of each Fidelity Central Fund. As an Investing Fund, the Fund indirectly bears its proportionate share of the expenses of the underlying Fidelity Central Funds.

The Money Market Central Funds seek preservation of capital and current income and are managed by Fidelity Investments Money Management, Inc. (FIMM), an affiliate of the investment adviser. Annualized expenses of the Money Market Central Funds as of their most recent shareholder report date are less than .005%.

A complete unaudited list of holdings for each Fidelity Central Fund is available upon request or at the Securities and Exchange Commission (the SEC) website at www.sec.gov. In addition, the financial statements of the Fidelity Central Funds, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC website or upon request.

### 3. Significant Accounting Policies.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date that the financial statements were issued have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Fund:

**Investment Valuation.** Investments are valued as of 4:00 p.m. Eastern time on the last calendar day of the period. The Board of Trustees (the Board) has delegated the day to day responsibility for the valuation of the Fund's investments to the Fidelity Management & Research Company (FMR) Fair Value Committee (the Committee). In accordance with valuation policies and procedures approved by the Board, the Fund attempts to obtain prices from one or more third party pricing vendors or brokers to value its investments. When current market prices, quotations or currency exchange rates are not readily available or reliable, investments will be fair valued in good faith by the Committee, in accordance with procedures adopted by the Board. Factors used in determining fair value vary by investment type and may include market or investment specific events, changes in interest rates and credit quality. The frequency with which these procedures are used cannot be predicted and they may be utilized to a significant extent. The Committee oversees the Fund's valuation policies and procedures and reports to the Board on the Committee's activities and fair value determinations. The Board monitors the appropriateness of the procedures used in valuing the Fund's investments and ratifies the fair value determinations of the Committee.

The Fund categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as shown below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, etc.)

Level 3 – unobservable inputs (including the Fund's own assumptions based on the best information available)

Valuation techniques used to value the Fund's investments by major category are as follows:

Equity securities, including restricted securities, for which market quotations are readily available, are valued at the last reported sale price or official closing price as reported by a third party pricing vendor on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy. In the event there were no sales during the day or closing prices are not available, securities are valued at the last quoted bid price or may be valued using the last available price and are generally categorized as Level 2 in the hierarchy. For foreign equity securities, when market or security specific events arise, comparisons to the valuation of American Depositary Receipts (ADRs), futures contracts, Exchange-Traded Funds (ETFs) and certain indexes as well as quoted prices for similar securities may be used and would be categorized as Level 2 in the hierarchy. Utilizing these techniques may result in transfers between Level 1 and Level 2. For equity securities, including restricted securities, where observable inputs are limited, assumptions about market activity and risk are used and these securities may be categorized as Level 3 in the hierarchy.

Debt securities, including restricted securities, are valued based on evaluated prices received from third party pricing vendors or from brokers who make markets in such securities. U.S. government and government agency obligations are valued by pricing vendors who utilize matrix pricing which considers yield or price of bonds of comparable quality, coupon, maturity and type or by broker-supplied prices When independent prices are unavailable or unreliable, debt securities may be valued utilizing pricing methodologies which consider similar factors that would be used by third party pricing vendors. Debt securities are generally categorized as Level 2 in the hierarchy but may be Level 3 depending on the circumstances.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded and are categorized as Level 1 in the hierarchy. Investments in open-end mutual funds, including the Fidelity Central Funds, are valued at their closing net asset value (NAV) each business day and are categorized as Level 1 in the hierarchy.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. The aggregate value of investments by input level as of December 31, 2015 is included at the end of the Fund's Schedule of Investments.

**Investment Transactions and Income.** For financial reporting purposes, the Fund's investment holdings and NAV include trades executed through the end of the last business day of the period. The NAV per share for processing shareholder transactions is calculated as of the close of business of the New York Stock Exchange (NYSE), normally 4:00 p.m. Eastern time and includes trades executed through the end of the prior business day. Gains and losses on securities sold are determined on the basis of identified cost and may include proceeds received from litigation. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Fund is informed of the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Income and capital gain distributions from Fidelity Central Funds, if any, are recorded on the ex-dividend date. Distributions received on securities that represent a return of capital or capital gain are recorded as a reduction of cost of investments and/or as a realized gain. Subsequent to ex-dividend date the Fund determines the components of these distributions, based upon receipt of tax filings or other correspondence relating to the underlying investment. Interest income is accrued as earned and includes coupon interest and amortization of premium and accretion of discount on debt securities as applicable.

**Class Allocations and Expenses.** Investment income, realized and unrealized capital gains and losses, common expenses of the Fund, and certain fund-level expense reductions, if any, are allocated daily on a pro-rata basis to each class based on the relative net assets of each class to the total net assets of the Fund. Each class differs with respect to distribution and service plan fees incurred. Certain expense reductions may also differ by class. For the reporting period, the allocated portion of income and expenses to each class as a percent of its average net assets may vary due to the timing of recording these transactions in relation to fluctuating net assets of the classes. Expenses directly attributable to a fund are charged to that fund. Expenses attributable to more than one fund are allocated among the respective funds on the basis of relative net assets or other appropriate methods. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

**Deferred Trustee Compensation.** Under a Deferred Compensation Plan (the Plan), independent Trustees may elect to defer receipt of a portion of their annual compensation. Deferred amounts are invested in a cross-section of Fidelity funds, are marked-to-market and remain in the Fund until distributed in accordance with the Plan. The investment of deferred amounts and the offsetting payable to the Trustees are included in the accompanying Statement of Assets and Liabilities.

**Income Tax Information and Distributions to Shareholders.** Each year, the Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, including distributing substantially all of its taxable income and realized gains. As a result, no provision for U.S. Federal income taxes is required. As of December 31, 2015, the Fund did not have any unrecognized tax benefits in the financial statements; nor is the Fund 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. The Fund files a U.S. federal tax return, in addition to state and local tax returns as required. The Fund's federal income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three fiscal years after they are filed. State and local tax returns may be subject to examination for an additional fiscal year depending on the jurisdiction.

Distributions are declared and recorded on the ex-dividend date. Income dividends and capital gain distributions are declared separately for each class. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Capital accounts are not adjusted for temporary book-tax differences which will reverse in a subsequent period.

Book-tax differences are primarily due to futures contracts, market discount, deferred trustees compensation and losses deferred due to wash sales.

The federal tax cost of investment securities and unrealized appreciation (depreciation) as of period end were as follows:

| | |
|---|---|
| **Gross unrealized appreciation** | $ 2,368,147,015 |
| **Gross unrealized depreciation** | (160,474,402) |
| **Net unrealized appreciation (depreciation) on securities** | $ 2,207,672,613 |
| **Tax Cost** | $ 2,781,340,950 |

The tax-based components of distributable earnings as of period end were as follows:

| | |
|---|---|
| **Undistributed ordinary income** | $ 190,953 |
| **Undistributed long-term capital gain** | $ 4,767,769 |
| **Net unrealized appreciation (depreciation) on securities and other investments** | $2,207,672,613 |

The tax character of distributions paid was as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Ordinary Income** | $95,404,758 | $71,025,700 |
| **Long-term Capital Gains** | 2,012,218 | – |
| **Total** | $97,416,976 | $71,025,700 |

## 4. Derivative Instruments.

**Risk Exposures and the Use of Derivative Instruments.** The Fund's investment objective allows the Fund to enter into various types of derivative contracts, including futures contracts. Derivatives are investments whose value is primarily derived from underlying assets, indices or reference rates and may be transacted on an exchange or over-the-counter (OTC). Derivatives may involve a future commitment to buy or sell a specified asset based on specified terms, to exchange future cash flows at periodic intervals based on a notional principal amount, or for one party to make one or more payments upon the occurrence of specified events in exchange for periodic payments from the other party.

The Fund used derivatives to increase returns and to manage exposure to certain risks as defined below. The success of any strategy involving derivatives depends on analysis of numerous economic factors, and if the strategies for investment do not work as intended, the Fund may not achieve its objectives.

The Fund's use of derivatives increased or decreased its exposure to the following risk:

| | |
|---|---|
| Equity Risk | Equity risk relates to the fluctuations in the value of financial instruments as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. |

The Fund is also exposed to additional risks from investing in derivatives, such as liquidity risk and counterparty credit risk. Liquidity risk is the risk that the Fund will be unable to close out the derivative in the open market in a timely manner. Counterparty credit risk is the risk that the counterparty will not be able to fulfill its obligation to the Fund. Counterparty credit risk related to exchange-traded futures contracts may be mitigated by the protection provided by the exchange on which they trade.

Investing in derivatives may involve greater risks than investing in the underlying assets directly and, to varying degrees, may involve risk of loss in excess of any initial investment and collateral received and amounts recognized in the Statement of Assets and Liabilities. In addition, there may be the risk that the change in value of the derivative contract does not correspond to the change in value of the underlying instrument.

**Futures Contracts.** A futures contract is an agreement between two parties to buy or sell a specified underlying instrument for a fixed price at a specified future date. The Fund used futures contracts to manage its exposure to the stock market.

Upon entering into a futures contract, a fund is required to deposit either cash or securities (initial margin) with a clearing broker in an amount equal to a certain percentage of the face value of the contract. Futures contracts are marked-to-market daily and subsequent daily payments (variation margin) are made or received by a fund depending on the daily fluctuations in the value of the futures contracts and are recorded as unrealized appreciation or (depreciation). This receivable and/or payable, if any, is included in daily variation margin for derivative instruments in the Statement of Assets and Liabilities. Realized gain or (loss) is recorded upon the expiration or closing of a futures contract.

Any open futures contracts at period end are presented in the Schedule of Investments under the caption "Futures Contracts". The underlying face amount at value reflects each contract's exposure to the underlying instrument or index at period end and is representative of volume of activity during the period. Securities deposited to meet initial margin requirements are identified in the Schedule of Investments.

During the period the Fund recognized net realized gain (loss) of $1,240,704 and a change in net unrealized appreciation (depreciation) of $(861,192) related to its investment in futures contracts. These amounts are included in the Statement of Operations.

## 5. Purchases and Sales of Investments.

Purchases and sales of securities, other than short-term securities, aggregated $851,506,506 and $389,366,139, respectively.

## 6. Fees and Other Transactions with Affiliates.

**Management Fee and Expense Contract.** Fidelity Management & Research Company (the investment adviser) and its affiliates provide the Fund with investment management related services for which the Fund pays a monthly management fee. The management fee is based on an annual rate of .045% of the Fund's average net assets. Under the management contract, the investment adviser pays all other fund-level expenses, except the compensation of the independent Trustees and certain other expenses such as interest expense, including commitment fees. In addition, under an expense contract, the investment adviser pays class-level expenses as necessary so that total expenses do not exceed an annual rate of .10% of each class' average net assets, excluding the distribution and service fee for each applicable class, with certain exceptions.

**Sub-Adviser.** Geode Capital Management, LLC (Geode), serves as sub-adviser for the Fund. Geode provides discretionary investment advisory services to the Fund and is paid by the investment adviser for providing these services.

**Distribution and Service Plan Fees.** In accordance with Rule 12b-1 of the 1940 Act, the Fund has adopted separate 12b-1 Plans for each Service Class of shares. Each Service Class pays Fidelity Distributors Corporation (FDC), an affiliate of the investment adviser, a service fee. For the period, the service fee is based on an annual rate of .10% of Service Class' average net assets and .25% of Service Class 2's average net assets.

For the period, total fees, all of which were re-allowed to insurance companies for the distribution of shares and providing shareholder support services, were as follows:

| | |
|---|---|
| **Service Class** | $ 64,627 |
| **Service Class 2** | 1,348,268 |
| | $1,412,895 |

**Transfer Agent Fees.** Fidelity Investments Institutional Operations Company, Inc. (FIIOC), an affiliate of the investment adviser, is the transfer, dividend disbursing, and shareholder servicing agent for each class. FIIOC receives asset-based fees of .07% of each class's average net assets for transfer agent services, typesetting, printing and mailing of shareholder reports, excluding mailing of proxy statements and out of pocket expenses. Under the expense contract, each class pays a portion of the transfer agent fees equal to an annual rate of .055% of class-level average net assets. For the period, transfer agent fees for each class, including out of pocket expenses, were as follows:

| | |
|---|---|
| **Initial Class** | $2,177,984 |
| **Service Class** | 35,545 |
| **Service Class 2** | 296,619 |
| | $2,510,148 |

**Interfund Lending Program.** Pursuant to an Exemptive Order issued by the SEC, the Fund, along with other registered investment companies having management contracts with Fidelity Management & Research Company (FMR) or other affiliated entities of FMR, may participate in an interfund lending program. This program provides an alternative credit facility allowing the funds to borrow from, or lend money to, other participating affiliated funds. At period end, there were no interfund loans outstanding. The Fund's activity in this program during the period for which loans were outstanding was as follows:

| Borrower or Lender | Average Loan Balance | Weighted Average Interest Rate | Interest Expense |
|---|---|---|---|
| Borrower | $13,617,400 | .41% | $784 |

**Interfund Trades.** The Fund may purchase from or sell securities to other Fidelity Funds under procedures adopted by the Board. The procedures have been designed to ensure these interfund trades are executed in accordance with Rule 17a-7 of the 1940 Act. Interfund trades are included within the respective purchases and sales amounts shown in the Purchases and Sales of Investments note.

## 7. Committed Line of Credit.

The Fund participates with other funds managed by the investment adviser or an affiliate in a $4.25 billion credit facility (the "line of credit") to be utilized for temporary or emergency purposes to fund shareholder redemptions or for other short-term liquidity purposes. The Fund has agreed to pay commitment fees on its pro-rata portion of the line of credit, which amounted to $6,390 and is reflected in Miscellaneous expenses on the Statement of Operations. During the period, the Fund did not borrow on this line of credit.

## 8. Security Lending.

The Fund lends portfolio securities through a lending agent from time to time in order to earn additional income. On the settlement date of the loan, the Fund receives collateral (in the form of U.S. Treasury obligations, letters of credit and/or cash) against the loaned securities and maintains collateral in an amount not less than 100% of the market value of the loaned securities during the period of the loan. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund or borrower may terminate the loan at any time, and if the borrower defaults on its obligation to return the securities loaned because of insolvency or other reasons, the Fund may apply collateral received from the borrower against the obligation. The Fund may experience delays and costs in recovering the securities loaned. Any cash collateral received is invested in the Fidelity Securities Lending Cash Central Fund. The value of loaned securities and cash collateral at period end are disclosed on the Fund's Statement of Assets and Liabilities. Security lending income represents the income earned on investing cash collateral, less rebates paid to borrowers and any lending agent fees associated with the loan, plus any premium payments received for lending certain types of securities. Security lending income is presented in the Statement of Operations as a component of income from Fidelity Central Funds. Total security lending income during the period amounted to $371,854.

## 9. Expense Reductions.

Through arrangements with the Fund's custodian, credits realized as a result of certain uninvested cash balances were used to reduce the Fund's expenses. During the period, these credits reduced the Fund's custody expenses by $107.

## 10. Distributions to Shareholders.

Distributions to shareholders of each class were as follows:

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| **From net investment income** | | |
| Initial Class | $81,979,682 | $59,778,108 |
| Service Class | 1,236,538 | 964,455 |
| Service Class 2 | 11,383,651 | 6,498,085 |
| Total | $94,599,871 | $67,240,648 |
| **From net realized gain** | | |
| Initial Class | $ 2,464,544 | $ 3,319,370 |
| Service Class | 40,908 | 56,538 |
| Service Class 2 | 311,653 | 409,144 |
| Total | $ 2,817,105 | $ 3,785,052 |

## 11. Share Transactions.

Transactions for each class of shares were as follows:

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| **Initial Class** | | | | |
| Shares sold | 3,162,148 | 3,319,575 | $ 663,026,404 | $ 652,017,440 |
| Reinvestment of distributions | 415,051 | 298,991 | 84,444,226 | 63,097,478 |
| Shares redeemed | (2,070,988) | (2,227,193) | (432,681,340) | (438,600,626) |
| Net increase (decrease) | 1,506,211 | 1,391,373 | $ 314,789,290 | $ 276,514,292 |
| **Service Class** | | | | |
| Shares sold | 36,097 | 38,635 | $ 7,586,924 | $ 7,586,589 |
| Reinvestment of distributions | 6,296 | 4,853 | 1,277,446 | 1,020,993 |
| Shares redeemed | (39,010) | (29,328) | (8,131,171) | (5,767,815) |
| Net increase (decrease) | 3,383 | 14,160 | $ 733,199 | $ 2,839,767 |
| **Service Class 2** | | | | |
| Shares sold | 2,406,847 | 583,624 | $ 505,411,905 | $ 115,933,018 |
| Reinvestment of distributions | 58,109 | 33,065 | 11,695,304 | 6,907,229 |
| Shares redeemed | (1,911,012) | (343,791) | (383,226,538) | (66,223,506) |
| Net increase (decrease) | 553,944 | 272,898 | $ 133,880,671 | $ 56,616,741 |

## 12. Other.

The Fund's organizational documents provide former and current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Fund. In the normal course of business, the Fund may also enter into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

At the end of the period, the investment adviser or its affiliates were the owners of record of 39% of the total outstanding shares of the Fund.

# Report of Independent Registered Public Accounting Firm

To the Trustees of Variable Insurance Products Fund II and Shareholders of VIP Index 500 Portfolio:

We have audited the accompanying statement of assets and liabilities of VIP Index 500 Portfolio (the Fund), a fund of Variable Insurance Products Fund II, including the schedule of investments, as of December 31, 2015, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodians 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.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of VIP Index 500 Portfolio as of December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
February 16, 2016

# Trustees and Officers

The Trustees, Members of the Advisory Board (if any), and officers of the trust and fund, as applicable, are listed below. The Board of Trustees governs the fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who meet periodically throughout the year to oversee the fund's activities, review contractual arrangements with companies that provide services to the fund, oversee management of the risks associated with such activities and contractual arrangements, and review the fund's performance. Each of the Trustees oversees 170 funds.

The Trustees hold office without limit in time except that (a) any Trustee may resign; (b) any Trustee may be removed by written instrument, signed by at least two-thirds of the number of Trustees prior to such removal; (c) any Trustee who requests to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees; and (d) any Trustee may be removed at any special meeting of shareholders by a two-thirds vote of the outstanding voting securities of the trust. Each Trustee who is not an interested person (as defined in the 1940 Act) of the trust and the fund is referred to herein as an Independent Trustee. Each Independent Trustee shall retire not later than the last day of the calendar year in which his or her 75th birthday occurs. The Independent Trustees may waive this mandatory retirement age policy with respect to individual Trustees. Officers and Advisory Board Members hold office without limit in time, except that any officer or Advisory Board Member may resign or may be removed by a vote of a majority of the Trustees at any regular meeting or any special meeting of the Trustees. Except as indicated, each individual has held the office shown or other offices in the same company for the past five years.

The fund's Statement of Additional Information (SAI) includes more information about the Trustees. To request a free copy, call Fidelity at 1-877-208-0098.

**Experience, Skills, Attributes, and Qualifications of the Trustees.** The Governance and Nominating Committee has adopted a statement of policy that describes the experience, qualifications, attributes, and skills that are necessary and desirable for potential Independent Trustee candidates (Statement of Policy). The Board believes that each Trustee satisfied at the time he or she was initially elected or appointed a Trustee, and continues to satisfy, the standards contemplated by the Statement of Policy. The Governance and Nominating Committee also engages professional search firms to help identify potential Independent Trustee candidates who have the experience, qualifications, attributes, and skills consistent with the Statement of Policy. From time to time, additional criteria based on the composition and skills of the current Independent Trustees, as well as experience or skills that may be appropriate in light of future changes to board composition, business conditions, and regulatory or other developments, have also been considered by the professional search firms and the Governance and Nominating Committee. In addition, the Board takes into account the Trustees' commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout their tenure.

In determining that a particular Trustee was and continues to be qualified to serve as a Trustee, the Board has considered a variety of criteria, none of which, in isolation, was controlling. The Board believes that, collectively, the Trustees have balanced and diverse experience, qualifications, attributes, and skills, which allow the Board to operate effectively in governing the fund and protecting the interests of shareholders. Information about the specific experience, skills, attributes, and qualifications of each Trustee, which in each case led to the Board's conclusion that the Trustee should serve (or continue to serve) as a trustee of the fund, is provided below.

**Board Structure and Oversight Function.** James C. Curvey is an interested person and currently serves as Chairman. The Trustees have determined that an interested Chairman is appropriate and benefits shareholders because an interested Chairman has a personal and professional stake in the quality and continuity of services provided to the fund. Independent Trustees exercise their informed business judgment to appoint an individual of their choosing to serve as Chairman, regardless of whether the Trustee happens to be independent or a member of management. The Independent Trustees have determined that they can act independently and effectively without having an Independent Trustee serve as Chairman and that a key structural component for assuring that they are in a position to do so is for the Independent Trustees to constitute a substantial majority for the Board. The Independent Trustees also regularly meet in executive session. Ned C. Lautenbach serves as Chairman of the Independent Trustees and as such (i) acts as a liaison between the Independent Trustees and management with respect to matters important to the Independent Trustees and (ii) with management prepares agendas for Board meetings.

Fidelity® funds are overseen by different Boards of Trustees. The fund's Board oversees Fidelity's high income and certain equity funds, and other Boards oversee Fidelity's investment-grade bond, money market, asset allocation, and sector funds. The asset allocation funds may invest in Fidelity® funds overseen by the fund's Board. The use of separate Boards, each with its own committee structure, allows the Trustees of each group of Fidelity® funds to focus on the unique issues of the funds they oversee, including common research, investment, and operational issues. On occasion, the separate Boards establish joint committees to address issues of overlapping consequences for the Fidelity® funds overseen by each Board.

The Trustees operate using a system of committees to facilitate the timely and efficient consideration of all matters of importance to the Trustees, the fund, and fund shareholders and to facilitate compliance with legal and regulatory requirements and oversight of the fund's activities and associated risks. The Board, acting through its committees, has charged FMR and its affiliates with (i) identifying events or circumstances the occurrence of which could have demonstrably adverse effects on the fund's business and/or reputation; (ii) implementing processes and controls to lessen the possibility that such events or circumstances occur or to mitigate the effects of such events or circumstances if they do occur; and (iii) creating and maintaining a system designed to evaluate continuously business and market conditions in order to facilitate the identification and implementation processes described in (i) and (ii) above. Because the day-to-day operations and activities of the fund are carried out by or through FMR, its affiliates, and other service providers, the fund's exposure to risks is mitigated but not eliminated by the processes overseen

by the Trustees. While each of the Board's committees has responsibility for overseeing different aspects of the fund's activities, oversight is exercised primarily through the Operations, Audit, and Compliance Committees. In addition, the Independent Trustees have worked with FMR to enhance the Board's oversight of investment and financial risks, legal and regulatory risks, technology risks, and operational risks, including the development of additional risk reporting to the Board. For example, a working group comprised of Independent Trustees and FMR has worked and continues to work to review the Fidelity®funds' valuation-related activities, reporting and risk management. Appropriate personnel, including but not limited to the fund's Chief Compliance Officer (CCO), FMR's internal auditor, the independent accountants, the fund's Treasurer and portfolio management personnel, make periodic reports to the Board's committees, as appropriate, including an annual review of Fidelity's risk management program for the Fidelity®funds. The responsibilities of each standing committee, including their oversight responsibilities, are described further under "Standing Committees of the Trustees."

Interested Trustees*:

Correspondence intended for a Trustee who is an interested person may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

James C. Curvey (1935)

Year of Election or Appointment: 2007
Trustee
Chairman of the Board of Trustees

Mr. Curvey also serves as Trustee of other Fidelity® funds. Mr. Curvey is a Director of Fidelity Research & Analysis Co. (investment adviser firm, 2009-present), and Vice Chairman (2007-present) and Director of FMR LLC (diversified financial services company). In addition, Mr. Curvey serves as an Overseer for the Boston Symphony Orchestra and a member of the board of Artis-Naples, Naples, Florida, and as a Trustee for Brewster Academy, Wolfeboro, New Hampshire. Previously, Mr. Curvey served as a Director of Fidelity Investments Money Management, Inc. (investment adviser firm, 2009-2014) and a Director of FMR and FMR Co., Inc. (investment adviser firms, 2007-2014).

Charles S. Morrison (1960)

Year of Election or Appointment: 2014
Trustee

Mr. Morrison also serves as Trustee of other funds. He serves as a Director of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2014-present), Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present), President, Asset Management (2014-present), and is an employee of Fidelity Investments. Previously, Mr. Morrison served as Vice President of Fidelity's Fixed Income and Asset Allocation Funds (2012-2014), President, Fixed Income (2011-2014), Vice President of Fidelity's Money Market Funds (2005-2009), President, Money Market Group Leader of FMR (investment adviser firm, 2009), and Senior Vice President, Money Market Group of FMR (2004-2009). Mr. Morrison also served as Vice President of Fidelity's Bond Funds (2002-2005), certain Balanced Funds (2002-2005), and certain Asset Allocation Funds (2002-2007), and as Senior Vice President (2002-2005) of Fidelity's Bond Division.

* Determined to be an "Interested Trustee" by virtue of, among other things, his or her affiliation with the trust or various entities under common control with FMR.

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Independent Trustees:

Correspondence intended for an Independent Trustee may be sent to Fidelity Investments, P.O. Box 55235, Boston, Massachusetts 02205-5235.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Dennis J. Dirks (1948)

Year of Election or Appointment: 2005
Trustee

Mr. Dirks also serves as Trustee of other Fidelity® funds. Prior to his retirement in May 2003, Mr. Dirks was Chief Operating Officer and a member of the Board of The Depository Trust & Clearing Corporation (DTCC). He also served as President, Chief Operating Officer, and Board member of The Depository Trust Company (DTC) and President and Board member of the National Securities Clearing Corporation (NSCC). In addition, Mr. Dirks served as Chief Executive Officer and Board member of the Government Securities Clearing Corporation, Chief Executive Officer and Board member of the Mortgage-Backed Securities Clearing Corporation, as a Trustee and a member of the Finance Committee of Manhattan College (2005-2008), as a Trustee and a member of the Finance Committee of AHRC of Nassau County (2006-2008), and as a member of the Independent Directors Council (IDC) Governing Council (2010-2015). Mr. Dirks is a member of the Board of Directors for The Brookville Center for Children's Services, Inc. (2009-present).

Alan J. Lacy (1953)

Year of Election or Appointment: 2008
Trustee

Mr. Lacy also serves as Trustee of other Fidelity® funds. Mr. Lacy serves as Chairman (2014-present) and a member (2010-present) of the Board of Directors of Dave & Buster's Entertainment, Inc. (restaurant and entertainment complexes) and a Director of Bristol-Myers Squibb Company (global pharmaceuticals, 2008-present). He is a Trustee of the California Chapter of The Nature Conservancy (2015-present) and a Director of the Center for Advanced Study in the Behavioral Sciences at Stanford University (2015-present). In addition, Mr. Lacy served as Senior Adviser (2007-2014) of Oak Hill Capital Partners, L.P. (private equity) and also served as Chief Executive Officer (2005) and Vice Chairman (2005-2006) of Sears Holdings Corporation (retail) and Chief Executive Officer and Chairman of the Board of Sears, Roebuck and Co. (retail, 2000-2005). Previously, Mr. Lacy served as Chairman (2008-2011) and a member (2006-2015) of the Board of Trustees of the National Parks Conservation Association and as a member of the Board of Directors for The Western Union Company (global money transfer, 2006-2011), The Hillman Companies, Inc. (hardware wholesalers, 2010-2014), and Earth Fare, Inc. (retail grocery, 2010-2014).

Ned C. Lautenbach (1944)

Year of Election or Appointment: 2000
Trustee
Chairman of the Independent Trustees

Mr. Lautenbach also serves as Trustee of other Fidelity® funds. Mr. Lautenbach currently serves as the Lead Director of the Eaton Corporation Board of Directors (diversified industrial, 1997-present). Mr. Lautenbach is Chairman of the Board of Directors of Artis-Naples in Naples, Florida (2012-present), a member of the Council on Foreign Relations (1994-present), and a member of the Board of Governors, State University System of Florida (2013-present). Previously, Mr. Lautenbach was a Partner/Advisory Partner at Clayton, Dubilier & Rice, LLC (private equity investment, 1998-2010), as well as a Director of Sony Corporation (2006-2007).

Joseph Mauriello (1944)

Year of Election or Appointment: 2008
Trustee

Mr. Mauriello also serves as Trustee of other Fidelity® funds. Prior to his retirement in January 2006, Mr. Mauriello served in numerous senior management positions including Deputy Chairman and Chief Operating Officer (2004-2005), and Vice Chairman of Financial Services (2002-2004) of KPMG LLP US (professional services, 1965-2005). Mr. Mauriello currently serves as a member of the Board of Directors of XL Group plc. (global insurance and re-insurance, 2006-present) and the Independent Directors Council (IDC) Governing Council (2015-present). Previously, Mr. Mauriello served as a Director of the Hamilton Funds of the Bank of New York (2006-2007) and of Arcadia Resources Inc. (health care services and products, 2007-2012).

Robert W. Selander (1950)

Year of Election or Appointment: 2011
Trustee

Mr. Selander also serves as Trustee of other Fidelity® funds. Mr. Selander serves as a Director of The Western Union Company (global money transfer, 2014-present) and a non-executive Chairman of Health Equity, Inc. (health savings custodian, 2015-present). Previously, Mr. Selander served as a Member of the Advisory Board of other Fidelity® funds (2011), and Executive Vice Chairman (2010), Chief Executive Officer (2009-2010), and President and Chief Executive Officer (1997-2009) of Mastercard, Inc.

Cornelia M. Small (1944)

Year of Election or Appointment: 2005
Trustee

Ms. Small also serves as Trustee of other Fidelity® funds. Ms. Small is a member of the Board of Directors (2009-present) and Chair of the Investment Committee (2010-present) of the Teagle Foundation. Ms. Small also serves on the Investment Committee of the Berkshire Taconic Community Foundation (2008-present). Previously, Ms. Small served as Chairperson (2002-2008) and a member of the Investment Committee and Chairperson (2008-2012) and a member of the Board of Trustees of Smith College. In addition, Ms. Small served as Chief Investment Officer, Director of Global Equity Investments, and a member of the Board of Directors of Scudder, Stevens & Clark and Scudder Kemper Investments.

William S. Stavropoulos (1939)

Year of Election or Appointment: 2001
Trustee
Vice Chairman of the Independent Trustees

Mr. Stavropoulos also serves as Trustee of other Fidelity® funds. Mr. Stavropoulos serves as President and Founder of the Michigan Baseball Foundation, the Great Lakes Loons (2007-present). Mr. Stavropoulos is Chairman Emeritus of the Board of Directors of The Dow Chemical Company, where he previously served in numerous senior management positions, including President, CEO (1995-2000; 2002-2004), Chairman of the Executive Committee (2000-2006), and as a member of the Board of Directors (1990-2006). Currently, Mr. Stavropoulos is Chairman of the Board of Directors of Univar Inc. (global distributor of commodity and specialty chemicals), a Director of Teradata Corporation (data warehousing and technology solutions), and Maersk Inc. (industrial conglomerate), and a member of the Advisory Board for Metalmark Capital LLC (private equity investment, 2005-present). Mr. Stavropoulos is an operating advisor to Clayton, Dubilier & Rice, LLC (private equity investment). In addition, Mr. Stavropoulos is a member of the University of Notre Dame Advisory Council for the College of Science, a Trustee of the Rollin L. Gerstacker Foundation, and a Director of the Naples Philharmonic Center for the Arts. Previously, Mr. Stavropoulos served as a Director of Chemical Financial Corporation (bank holding company, 1993-2012) and Tyco International, Ltd. (multinational manufacturing and services, 2007-2012).

David M. Thomas (1949)

Year of Election or Appointment: 2008
Trustee

Mr. Thomas also serves as Trustee of other Fidelity® funds. Mr. Thomas serves as Non-Executive Chairman of the Board of Directors of Fortune Brands Home and Security (home and security products, 2011-present), as a member of the Board of Directors (2004-present) and Presiding Director (2013-present) of Interpublic Group of Companies, Inc. (marketing communication), and as a member of the Board of Trustees of the University of Florida (2013-present). Previously, Mr. Thomas served as Executive Chairman (2005-2006) and Chairman and Chief Executive Officer (2000-2005) of IMS Health, Inc. (pharmaceutical and healthcare information solutions), and a Director of Fortune Brands, Inc. (consumer products, 2000-2011).

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Advisory Board Members and Officers:

Correspondence intended for an officer or Peter S. Lynch may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210. Officers appear below in alphabetical order.

Name, Year of Birth; Principal Occupation

Peter S. Lynch (1944)

Year of Election or Appointment: 2003
Member of the Advisory Board

Mr. Lynch also serves as Member of the Advisory Board of other Fidelity® funds. Mr. Lynch is Vice Chairman and a Director of FMR (investment adviser firm) and FMR Co., Inc. (investment adviser firm). In addition, Mr. Lynch serves as a Trustee of Boston College and as the Chairman of the Inner-City Scholarship Fund. Previously, Mr. Lynch served on the Special Olympics International Board of Directors (1997-2006).

Marc R. Bryant (1966)

Year of Election or Appointment: 2015
Secretary and Chief Legal Officer (CLO)

Mr. Bryant also serves as Secretary and CLO of other funds. Mr. Bryant serves as CLO, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2015-present) and FMR Co., Inc. (investment adviser firm, 2015-present); Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2015-present) and Fidelity Investments Money Management, Inc. (investment adviser firm, 2015-present); and CLO of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2015-present). He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company). Previously, Mr. Bryant served as Secretary and CLO of Fidelity Rutland Square Trust II (2010-2014) and Assistant Secretary of Fidelity's Fixed Income and Asset Allocation Funds (2013-2015). Prior to joining Fidelity Investments, Mr. Bryant served as a Senior Vice President and the Head of Global Retail Legal for AllianceBernstein L.P. (2006-2010), and as the General Counsel for ProFund Advisors LLC (2001-2006).

William C. Coffey (1969)

Year of Election or Appointment: 2009
Assistant Secretary

Mr. Coffey also serves as Assistant Secretary of other funds. He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company, 2010-present), and is an employee of Fidelity Investments. Previously, Mr. Coffey served as Vice President and Associate General Counsel of FMR LLC (2005-2009).

Jonathan Davis (1968)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Davis also serves as Assistant Treasurer of other funds, and is an employee of Fidelity Investments. Previously, Mr. Davis served as Vice President and Associate General Counsel of FMR LLC (diversified financial services company, 2003-2010).

Adrien E. Deberghes (1967)

Year of Election or Appointment: 2008
Deputy Treasurer

Mr. Deberghes also serves as an officer of other funds. He is an employee of Fidelity Investments (2008-present). Prior to joining Fidelity Investments, Mr. Deberghes was Senior Vice President of Mutual Fund Administration at State Street Corporation (2007-2008), Senior Director of Mutual Fund Administration at Investors Bank & Trust (2005-2007), and Director of Finance for Dunkin' Brands (2000-2005).

Stephanie J. Dorsey (1969)

Year of Election or Appointment: 2010
Assistant Treasurer

Ms. Dorsey also serves as an officer of other funds. She is an employee of Fidelity Investments (2008-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Dorsey served as Treasurer (2004-2008) of the JPMorgan Mutual Funds and Vice President (2004-2008) of JPMorgan Chase Bank.

Howard J. Galligan III (1966)

Year of Election or Appointment: 2014
Chief Financial Officer

Mr. Galligan also serves as Chief Financial Officer of other funds. Mr. Galligan serves as President of Fidelity Pricing and Cash Management Services (FPCMS) (2014-present) and as a Director of Strategic Advisers, Inc. (investment adviser firm, 2008-present). Previously, Mr. Galligan served as Chief Administrative Officer of Asset Management (2011-2014) and Chief Operating Officer and Senior Vice President of Investment Support for Strategic Advisers, Inc. (2003-2011).

Scott C. Goebel (1968)

Year of Election or Appointment: 2015
Vice President

Mr. Goebel serves as Vice President of other funds and is an employee of Fidelity Investments (2001-present). Previously, Mr. Goebel served as Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2013-2015), Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2010-2015), and Fidelity Research and Analysis Company (FRAC) (investment adviser firm, 2010-2015); General Counsel, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2008-2015) and FMR Co., Inc. (investment adviser firm, 2008-2015); Assistant Secretary of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2008-2015) and FMR Investment Management (U.K.) Limited (investment adviser firm, 2008-2015); Chief Legal Officer (CLO) of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2008-2015); Secretary and CLO of certain Fidelity® funds (2008-2015); Assistant Secretary of FIMM (2008-2010), FRAC (2008-2010), and certain funds (2007-2008); and as Vice President and Secretary of Fidelity Distributors Corporation (FDC) (2005-2007).

Brian B. Hogan (1964)

Year of Election or Appointment: 2009
Vice President

Mr. Hogan also serves as Trustee or Vice President of other funds. Mr. Hogan serves as a Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present) and President of the Equity Division of FMR (investment adviser firm, 2009-present). Previously, Mr. Hogan served as Senior Vice President, Equity Research of FMR (2006-2009) and as a portfolio manager.

Chris Maher (1972)

Year of Election or Appointment: 2013
Assistant Treasurer

Mr. Maher serves as Assistant Treasurer of other funds. Mr. Maher is Vice President of Valuation Oversight and is an employee of Fidelity Investments. Previously, Mr. Maher served as Vice President of Asset Management Compliance (2013), Vice President of the Program Management Group of FMR (investment adviser firm, 2010-2013), and Vice President of Valuation Oversight (2008-2010).

John F. Papandrea (1972)

Year of Election or Appointment: 2016
Anti-Money Laundering (AML) Officer

Mr. Papandrea also serves as AML Officer of other funds. Mr. Papandrea is Vice President of FMR LLC (diversified financial services company, 2008-present) and is an employee of Fidelity Investments (2005-present).

Kenneth B. Robins (1969)

Year of Election or Appointment: 2008
President and Treasurer

Mr. Robins also serves as an officer of other funds. Mr. Robins serves as Executive Vice President of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2013-present) and is an employee of Fidelity Investments (2004-present). Previously, Mr. Robins served in other fund officer roles.

Stacie M. Smith (1974)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Smith also serves as an officer of other funds. She is an employee of Fidelity Investments (2009-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Smith served as Senior Audit Manager of Ernst & Young LLP (1996-2009).

Renee Stagnone (1975)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Stagnone also serves as Deputy Treasurer of other funds. Ms. Stagnone is an employee of Fidelity Investments (1997-present).

Linda J. Wondrack (1964)

Year of Election or Appointment: 2014
Chief Compliance Officer

Ms. Wondrack also serves as Chief Compliance Officer of other funds. Ms. Wondrack is Executive Vice President and head of the Ethics Office and Asset Management Compliance for Fidelity Investments (2012-present). Ms. Wondrack also serves as Chief Compliance Officer of Fidelity SelectCo, LLC (investment adviser firm, 2014-present); Chief Compliance Officer of Impresa Management LLC (2013-present); and Chief Compliance Officer of FMR Co., Inc. (investment adviser firm), Fidelity Investments Money Management, Inc. (investment adviser firm), FMR Investment Management (U.K.) Limited (investment adviser firm), Fidelity Management & Research (Hong Kong) (investment adviser firm), Fidelity Management & Research Company (investment adviser firm), FIAM LLC (investment adviser firm), and Strategic Advisers, Inc. (investment adviser firm), Ballyrock Investment Advisors LLC, and Northern Neck Investors LLC (2012-present). Previously, Ms. Wondrack served as Chief Compliance Officer of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2012-2016); Senior Vice President and Chief Compliance Officer for Columbia Management Investment Advisers, LLC (2005-2012); Chief Compliance Officer for certain funds within the Columbia Family of Funds (2007-2012); and Senior Vice President of Compliance Risk Management at Bank of America (2005-2010).

Joseph F. Zambello (1957)

Year of Election or Appointment: 2011
Deputy Treasurer

Mr. Zambello also serves as Deputy Treasurer of other funds. Mr. Zambello is an employee of Fidelity Investments (1991-present). Previously, Mr. Zambello served as Vice President of the Program Management Group of FMR (investment adviser firm, 2009-2011) and Vice President of the Transfer Agent Oversight Group (2005-2009).

# Shareholder Expense Example

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service (12b-1) fees 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 the ongoing costs of investing in other mutual funds.

The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

### *Actual Expenses*

The first line of the accompanying table for each class of the Fund 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 paid over the period. Simply divide your account value by $1,000.00 (for example, an $8,600 account value divided by $1,000.00 = 8.6), then multiply the result by the number in the first line for a class of the Fund under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

### *Hypothetical Example for Comparison Purposes*

The second line of the accompanying table for each class of the Fund provides information about hypothetical account values and hypothetical expenses based on a Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' 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. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

| | Annualized Expense Ratio-[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Initial Class** | .10% | | | |
| **Actual** | | $1,000.00 | $1,001.30 | $.50 |
| **Hypothetical-**[C] | | $1,000.00 | $1,024.70 | $.51 |
| **Service Class** | .20% | | | |
| **Actual** | | $1,000.00 | $1,000.80 | $1.01 |
| **Hypothetical-**[C] | | $1,000.00 | $1,024.20 | $1.02 |
| **Service Class 2** | .35% | | | |
| **Actual** | | $1,000.00 | $1,000.10 | $1.76 |
| **Hypothetical-**[C] | | $1,000.00 | $1,023.44 | $1.79 |

A *Annualized expense ratio reflects expenses net of applicable fee waivers.*

B *Expenses are equal to each Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

C *5% return per year before expenses*

# Distributions (Unaudited)

The Board of Trustees of VIP Index 500 Portfolio voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities, and dividends derived from net investment income:

| | Pay Date | Record Date | Dividends | Capital Gains |
|---|---|---|---|---|
| Initial Class | 02/05/2016 | 02/05/2016 | $0.009 | $0.216 |
| Service Class | 02/05/2016 | 02/05/2016 | $0.009 | $0.216 |
| Service Class 2 | 02/05/2016 | 02/05/2016 | $0.009 | $0.216 |

The fund hereby designates as a capital gain dividend with respect to the taxable year ended December 31, 2015, $4,854,971, or, if subsequently determined to be different, the net capital gain of such year.

Initial Class designates 30% and 100%; Service Class designates 32% and 100%; and Service Class 2 designates 34% and 100%; of the dividends distributed in February and December 2015, respectively during the fiscal year as qualifying for the dividends–received deduction for corporate shareholders.

# Board Approval of Investment Advisory Contracts and Management Fees

## VIP Index 500 Portfolio

Each year, the Board of Trustees, including the Independent Trustees (together, the Board), votes on the renewal of the management contract with Fidelity Management & Research Company (FMR) and the sub-advisory agreements (together, the Advisory Contracts) for the fund, including the fund's sub-advisory agreement with Geode Capital Management, LLC (Geode). The Board, assisted by the advice of fund counsel and Independent Trustees' counsel, requests and considers a broad range of information relevant to the renewal of the Advisory Contracts throughout the year.

The Board meets regularly and, at each of its meetings, covers an extensive agenda of topics and materials and considers factors that are relevant to its annual consideration of the renewal of the fund's Advisory Contracts, including the services and support provided to the fund and its shareholders. The Board has established various standing committees (Committees), each composed of and chaired by Independent Trustees with varying backgrounds, to which the Board has assigned specific subject matter responsibilities in order to enhance effective decision-making by the Board. The Board, acting directly and through its Committees, requests and receives information concerning the annual consideration of the renewal of the fund's Advisory Contracts. The Board also meets as needed to consider matters specifically related to the Board's annual consideration of the renewal of the Advisory Contracts. Members of the Board may also meet with trustees of other Fidelity funds through ad hoc joint committees to discuss certain matters relevant to all of the Fidelity funds.

At its July 2015 meeting, the Board unanimously determined to renew the fund's Advisory Contracts. In reaching its determination, the Board considered all factors it believed relevant, including (i) the nature, extent, and quality of the services to be provided to the fund and its shareholders (including the investment performance of the fund); (ii) the competitiveness of the fund's management fee and total expense ratio relative to peer funds; (iii) the total costs of the services to be provided by and the profits to be realized by Fidelity from its relationship with the fund; and (iv) the extent to which (if any) economies of scale exist and would be realized as the fund grows, and whether any economies of scale are appropriately shared with fund shareholders.

In considering whether to renew the Advisory Contracts for the fund, the Board reached a determination, with the assistance of fund counsel and Independent Trustees' counsel and through the exercise of its business judgment, that the renewal of the Advisory Contracts was in the best interests of the fund and its shareholders and that the compensation payable under the Advisory Contracts was fair and reasonable. The Board's decision to renew the Advisory Contracts was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. The Board, in reaching its determination to renew the Advisory Contracts, was aware that shareholders of the fund have a broad range of investment choices available to them, including a wide choice among funds offered by Fidelity's competitors, and that the fund's shareholders, who have the opportunity to review and weigh the disclosure provided by the fund in its prospectus and other public disclosures, have chosen to invest in this fund, which is part of the Fidelity family of funds.

**Nature, Extent, and Quality of Services Provided.** The Board considered staffing as it relates to the fund, including the backgrounds of investment personnel of Fidelity and Geode, and also considered the fund's investment objective, strategies, and related investment philosophy. The Independent Trustees also had discussions with senior management of Fidelity's investment operations and investment groups and with representatives of Geode. The Board considered the portfolio managers' investments, if any, in the funds that they manage.

Resources Dedicated to Investment Management and Support Services. The Board and the Fund Oversight and Research Committees reviewed the general qualifications and capabilities of Fidelity's and Geode's investment staff, including their size, education, experience, and resources, as well as Fidelity's approach to recruiting, training, managing, and compensating investment personnel. The Board noted that Fidelity has continued to increase the resources devoted to non-U.S. offices, including expansion of Fidelity's global investment organization. Additionally, in its deliberations, the Board considered Fidelity's and Geode's trading, risk management, and compliance capabilities and resources, which are integral parts of the investment management process.

Shareholder and Administrative Services. The Board considered (i) the nature, extent, quality, and cost of advisory, administrative, and shareholder services performed by FMR, the sub-advisers (together with FMR, the Investment Advisers), and their affiliates under the Advisory Contracts and under separate agreements covering transfer agency, pricing and bookkeeping, and securities lending services for the fund; (ii) the nature and extent of the supervision of third party service providers, principally custodians and subcustodians; and (iii) the resources devoted to, and the record of compliance with, the fund's compliance policies and procedures. The Board also reviewed the allocation of fund brokerage, including allocations to brokers affiliated with the Investment Advisers.

The Board noted that the growth of fund assets over time across the complex allows Fidelity to reinvest in the development of services designed to enhance the value or convenience of the Fidelity funds as investment vehicles. These services include 24-hour access to account information and market information through telephone representatives and over the Internet, investor education materials and asset allocation tools, and the expanded availability of Fidelity Investor Centers.

In 2014, the Board formed an ad hoc Committee on Transfer Agency Fees to review the variety of transfer agency fee structures throughout the industry and Fidelity's competitive positioning with respect to industry participants.

Investment in a Large Fund Family. The Board considered the benefits to shareholders of investing in a Fidelity fund, including the benefits of investing in a fund that is part of a large family of funds offering a variety of investment disciplines and providing a large variety of mutual fund investor services. The Board noted that Fidelity had taken, or had made recommendations that resulted in the Fidelity funds taking, a number of actions over the previous year that benefited particular funds, including (i) continuing to dedicate additional resources to investment research and to the support of the senior management team that oversees asset management; (ii) continuing efforts to enhance Fidelity's global research capabilities; (iii) launching new funds and making other enhancements to meet client needs; (iv) reducing management fees and total expenses for certain index funds and diversified international funds; (v) continuing to launch dedicated lower cost underlying funds to meet portfolio construction needs related to expanding underlying fund options for Fidelity funds of funds, specifically for the Freedom Fund product lines; (vi) rationalizing product lines and gaining increased efficiencies through fund mergers; (vii) launching active fixed-income exchange-traded funds; (viii) continuing to develop, acquire and implement systems and technology to improve services to the funds and information security and to increase efficiency; (ix) implementing investment enhancements to further strengthen Fidelity's target date product line to increase investors' probability of success in achieving their goals; (x) modifying the eligibility criteria for certain share classes to accommodate roll-over assets from employer-sponsored retirement plans; (xi) launching a new Class W of the Freedom Index Funds to attract and retain Fidelity record-kept retirement plan assets; and (xii) implementing changes to Fidelity's money market product line in response to recent money market regulatory reforms.

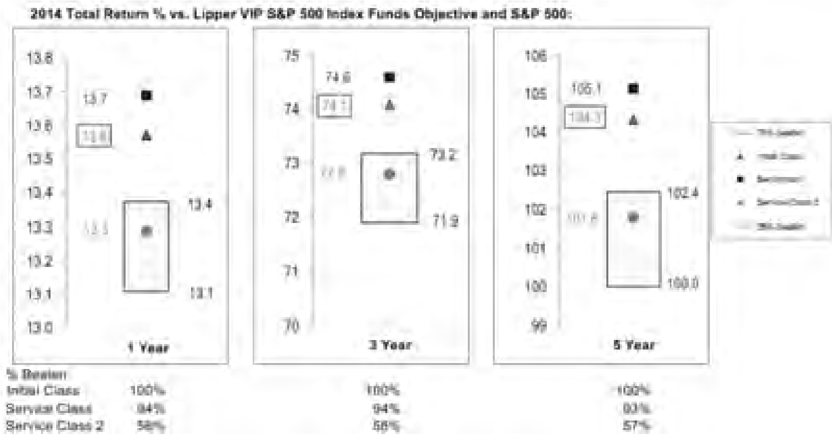
Investment Performance. The Board considered whether the fund has operated in accordance with its investment objective, as well as its record of compliance with its investment restrictions and its performance history.

The Board took into account discussions with representatives of the Investment Advisers about fund investment performance that occur at Board meetings throughout the year. In this regard the Board noted that as part of regularly scheduled fund reviews and other reports to the Board on fund performance, the Board considers annualized return information for the fund, for different time periods, measured against the securities market index the fund seeks to track and a peer group of funds with similar objectives ("peer group"), if any. The Board also periodically considers the fund's tracking error versus its benchmark index. In its evaluation of fund investment performance, the Board gave particular attention to information indicating changes in performance of certain Fidelity funds for specific time periods and discussed with the Investment Advisers the reasons for any overperformance or underperformance.

In addition to reviewing absolute and relative fund performance, the Independent Trustees periodically consider the appropriateness of fund performance metrics in evaluating the results achieved. In general, the Independent Trustees believe that fund performance should be evaluated based on net performance (after fees and expenses) of both the highest performing and lowest performing fund share classes, where applicable, compared to a fund's benchmark index, over appropriate time periods taking into account relevant factors including the following: general market conditions; the characteristics of the fund's benchmark index; the extent to which statistical sampling is employed; securities lending revenues; and fund cash flows and other factors.

The Independent Trustees recognize that shareholders evaluate performance on a net basis over their own holding periods, for which one-, three-, and five-year periods are often used as a proxy. For this reason, the performance information reviewed by the Board also included net cumulative calendar year total return information for the fund and an appropriate benchmark index and peer group for the most recent one-, three-, and five-year periods, as shown below. Returns are shown compared to the 25th percentile (top of box, 75% beaten) and 75th percentile (bottom of box, 25% beaten) of the peer universe.

## VIP Index 500 Portfolio

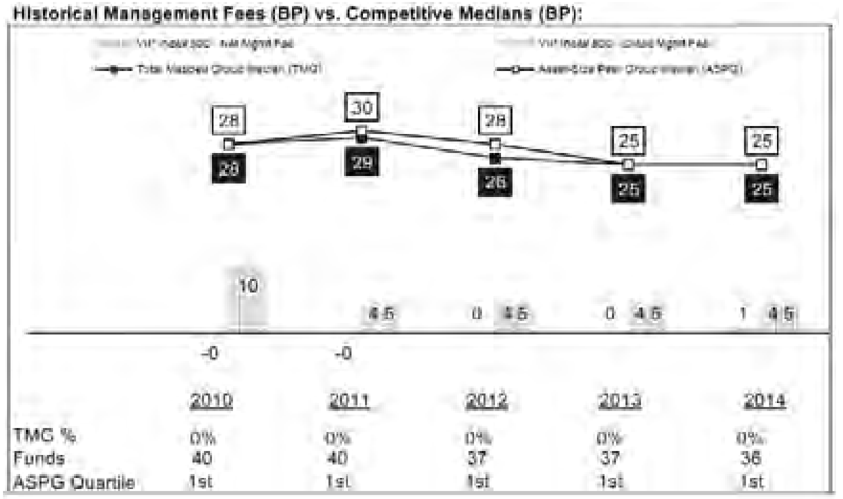



Based on its review, the Board concluded that the nature, extent, and quality of services provided to the fund under the Advisory Contracts should benefit the shareholders of the fund.

**Competitiveness of Management Fee and Total Expense Ratio.** The Board considered the fund's management fee and total expense ratio compared to "mapped groups" of competitive funds and classes created for the purpose of facilitating the Trustees' competitive analysis of management fees and total expenses. Fidelity creates "mapped groups" by combining similar Lipper investment objective categories that have comparable investment mandates. Combining Lipper investment objective categories aids the Board's management fee and total expense ratio comparisons by broadening the competitive group used for comparison.

Management Fee. The Board considered two proprietary management fee comparisons for the 12-month periods shown in basis points (BP) in the chart below. The group of Lipper funds used by the Board for management fee comparisons is referred to below as the "Total Mapped Group." The Total Mapped Group is broader than the Lipper peer group used by the Board for performance comparisons because the Total Mapped Group combines several Lipper investment objective categories while the Lipper peer group does not. The Total Mapped Group comparison focuses on a fund's standing in terms of gross management fees before expense reimbursements or caps relative to the total universe of funds with comparable investment mandates, regardless of whether their management fee structures also are comparable. Funds with comparable investment mandates offer exposure to similar types of securities. Funds with comparable management fee structures have similar management fee contractual arrangements (*e.g.*, flat rate charged for advisory services, all-inclusive fee rate, *etc.*). "TMG %" represents the percentage of funds in the Total Mapped Group that had management fees that were lower than the fund's. For example, a hypothetical TMG % of 20% would mean that 80% of the funds in the Total Mapped Group had higher, and 20% had lower, management fees than the fund. The fund's actual TMG %s and the number of funds in the Total Mapped Group are in the chart below. The "Asset-Size Peer Group" (ASPG) comparison focuses on a fund's standing relative to a subset of non-Fidelity funds within the Total Mapped Group that are similar in size and management fee structure. For example, if a fund is in the first quartile of the ASPG, the fund's management fee ranks in the least expensive or lowest 25% of funds in the ASPG. The ASPG represents at least 15% of the funds in the Total Mapped Group with comparable asset size and management fee structures, subject to a minimum of 50 funds (or all funds in the Total Mapped Group if fewer than 50). Additional information, such as the ASPG quartile in which the fund's management fee rate ranked, is also included in the chart and considered by the Board. Because the vast majority of competitor funds' management fees do not cover non-management expenses, for a more meaningful comparison of management fees, the fund is compared on the basis of a hypothetical "net management fee," which is derived by subtracting payments made by FMR for "fund-level" non-management expenses (including pricing and bookkeeping fees and fees paid to non-affiliated custodians) from the fund's management fee. In this regard, the Board considered that net management fees can vary from year to year because of differences in "fund-level" non-management expenses. The Board noted that, although FMR does not pay transfer agent fees or other "class-level" expenses under the fund's management contract, such expenses (excluding 12b-1 fees, if applicable) are paid by FMR pursuant to expense limitation arrangements in effect for the fund and, as a result, are also subtracted from the management fee for purposes of calculating the hypothetical "net management fee."

## VIP Index 500 Portfolio




The Board noted that the fund's hypothetical net management fee rate ranked below the median of its Total Mapped Group and below the median of its ASPG for 2014.

Furthermore, the Board considered that it had approved an amended and restated management contract for the fund (effective September 1, 2011) that lowered the fund's management fee from 0.10% to 0.045%. The Board considered that the chart reflects the fund's lower management fee for 2011, as if the lower fee were in effect for the entire year.

The Board noted that, in 2014, the ad hoc Committee on Group Fee was formed by it and other Fidelity fund boards to conduct an in-depth review of the "group fee" component of the management fee of funds with such management fee structures. Committee focus included the mechanics of the group fee, the competitive landscape of group fee structures, Fidelity funds with no group fee component and investment products not included in group fee assets. The Board also considered that, for funds subject to the group fee, FMR agreed to voluntarily waive fees over a specified period of time in amounts designed to account for assets converted from certain funds to certain collective investment trusts.

Based on its review, the Board concluded that the fund's management fee is fair and reasonable in light of the services that the fund receives and the other factors considered.

Total Expense Ratio. In its review of each class's total expense ratio, the Board considered the fund's hypothetical net management fee as well as the fund's gross management fee. The Board also considered other "fund-level" expenses, such as pricing and bookkeeping fees and custodial, legal, and audit fees. The Board also considered other "class-level" expenses, such as transfer agent fees and fund-paid 12b-1 fees. The Board also noted that Fidelity may agree to waive fees and expenses from time to time, and the extent to which, if any, it has done so for the fund. As part of its review, the Board also considered the current and historical total expense ratios of each class of the fund compared to competitive fund median expenses. Each class of the fund is compared to those funds and classes in the Total Mapped Group (used by the Board for management fee comparisons) that have a similar sales load structure.

The Board noted that the total expense ratio of each class ranked below its competitive median for 2014.

The Board considered that current contractual arrangements for the fund oblige FMR to pay all "class-level" expenses of each class of the fund to the extent necessary to limit total expenses, with certain exceptions, as follows: Initial Class: 0.10%; Service Class: 0.20%; and Service Class 2: 0.35%. These contractual arrangements may not be increased without the approval of the Board and the shareholders of the applicable class.

Fees Charged to Other Fidelity Clients. The Board also considered Fidelity fee structures and other information with respect to clients of Fidelity, such as other funds advised or subadvised by Fidelity, pension plan clients, and other institutional clients with similar mandates. The Board noted the findings of the 2013 ad hoc joint committee (created with the board of other Fidelity funds), which reviewed and compared Fidelity's institutional investment advisory business with its business of providing services to the Fidelity funds, including the differences in services provided, fees charged, and costs incurred, as well as competition in their respective marketplaces.

Based on its review of total expense ratios and fees charged to other Fidelity clients, the Board concluded that the total expense ratio of each class of the fund was reasonable in light of the services that the fund and its shareholders receive and the other factors considered.

**Costs of the Services and Profitability.** The Board considered the revenues earned and the expenses incurred by Fidelity in conducting the business of developing, marketing, distributing, managing, administering and servicing the fund and servicing the fund's shareholders. The Board also considered the level of Fidelity's profits in respect of all the Fidelity funds.

On an annual basis, Fidelity presents to the Board information about the profitability of its relationship with the fund. Fidelity calculates profitability information for each fund, as well as aggregate profitability information for groups of Fidelity funds and all Fidelity funds, using a series of detailed revenue and cost allocation methodologies which originate with the books and records of Fidelity on which Fidelity's audited financial statements are based. The Audit Committee of the Board reviews any significant changes from the prior year's methodologies.

PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm and auditor to Fidelity and certain Fidelity funds, has been engaged annually by the Board as part of the Board's assessment of Fidelity's profitability analysis. PwC's engagement includes the review and assessment of the methodologies used by Fidelity in determining the revenues and expenses attributable to Fidelity's mutual fund business, and completion of agreed-upon procedures in respect of the mathematical accuracy of fund profitability and its conformity to established allocation methodologies. After considering PwC's reports issued under the engagement and information provided by Fidelity, the Board concluded that while other allocation methods may also be reasonable, Fidelity's profitability methodologies are reasonable in all material respects.

The Board also reviewed Fidelity's non-fund businesses and fall-out benefits related to the mutual fund business as well as cases where Fidelity's affiliates may benefit from or be related to the fund's business.

The Board considered the costs of the services provided by and the profits realized by Fidelity in connection with the operation of the fund and was satisfied that the profitability was not excessive.

**Economies of Scale.** The Board considered whether there have been economies of scale in respect of the management of the Fidelity funds, whether the Fidelity funds (including the fund) have appropriately benefited from any such economies of scale, and whether there is potential for realization of any further economies of scale. The Board considered the extent to which the fund will benefit from economies of scale as assets grow through increased services to the fund, through waivers or reimbursements, or through fee or expense ratio reductions. The Board also noted that in 2013, it and the boards of other Fidelity funds created an ad hoc committee (the Economies of Scale Committee) to analyze whether Fidelity attains economies of scale in respect of the management and servicing of the Fidelity funds, whether the Fidelity funds have appropriately benefited from such economies of scale, and whether there is potential for realization of any further economies of scale.

The Board concluded, taking into account the analysis of the Economies of Scale Committee, that economies of scale, if any, are being appropriately shared between fund shareholders and Fidelity.

**Additional Information Requested by the Board.** In order to develop fully the factual basis for consideration of the Fidelity funds' Advisory Contracts, the Board requested and received additional information on certain topics, including: (i) fund performance trends and Fidelity's long-term strategies for certain funds; (ii) the various share classes employed by Fidelity and the attributes of each class, together with similar information on the distribution and servicing payments made by Fidelity or the funds to third-party participants in the distribution channels; (iii) fund profitability, and fund performance in relation to fund profitability; (iv) the methodology with respect to evaluating competitive fund data and peer group classifications and fee comparisons; (v) annual fund profitability margins, with particular focus on certain funds with negative margins; (vi) the realization of fall-out benefits in certain Fidelity business units; (vii) economies of scale and the way in which they are shared with fund shareholders;(viii) Fidelity's group fee structures, including the group fee schedule of breakpoints;(ix) the impact of cost containment measures on the funds; and (x) the transfer agent fee structure.

Based on its evaluation of all of the conclusions noted above, and after considering all factors it believed relevant, the Board concluded that the advisory fee structures are fair and reasonable, and that the fund's Advisory Contracts should be renewed.

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# Fidelity® Variable Insurance Products:

## Mid Cap Portfolio

**Annual Report**
**December 31, 2015**

# Contents



To view a fund's proxy voting guidelines and proxy voting record for the 12-month period ended June 30, visit http://www.fidelity.com/proxyvotingresults or visit the Securities and Exchange Commission's (SEC) web site at http://www.sec.gov.

You may also call 1-877-208-0098 to request a free copy of the proxy voting guidelines.



*This report and the financial statements contained herein are submitted for the general information of the shareholders of the Fund. This report is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus.*

*A fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Forms N-Q are available on the SEC's web site at http://www.sec.gov. A fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.*

*For a complete list of a fund's portfolio holdings, view the most recent holdings listing, semiannual report, or annual report on Fidelity's web site at http://www.fidelity.com, http://www.advisor.fidelity.com, or http://www.401k.com, as applicable.*

**NOT FDIC INSURED •MAY LOSE VALUE •NO BANK GUARANTEE**

*Neither the Fund nor Fidelity Distributors Corporation is a bank.*

# Performance: The Bottom Line

Average annual total return reflects the change in the value of an investment, assuming reinvestment of distributions from dividend income and capital gains (the profits earned upon the sale of securities that have grown in value, if any) and assuming a constant rate of performance each year. During periods of reimbursement by Fidelity, a fund's total return will be greater than it would be had the reimbursement not occurred. Performance numbers are net of all underlying fund operating expenses, but do not include any insurance charges imposed by your insurance company's separate account. If performance information included the effect of these additional charges, the total returns would have been lower. How a fund did yesterday is no guarantee of how it will do tomorrow.

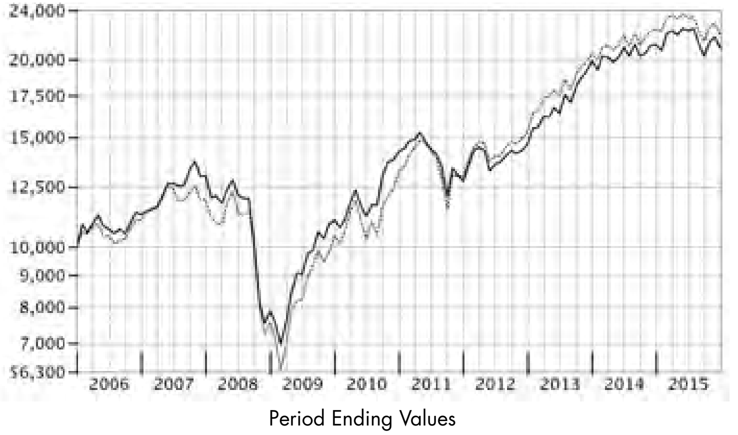
## Average Annual Total Returns

| For the periods ended December 31, 2015 | Past 1 year | Past 5 years | Past 10 years |
|---|---|---|---|
| Initial Class | -1.39% | 7.94% | 7.64% |
| Service Class | -1.50% | 7.84% | 7.53% |
| Service Class 2 | -1.63% | 7.68% | 7.37% |
| Investor Class | -1.47% | 7.85% | 7.54% |

## $10,000 Over 10 Years

Let's say hypothetically that $10,000 was invested in VIP Mid Cap Portfolio – Initial Class on December 31, 2005.

The chart shows how the value of your investment would have changed, and also shows how the S&P MidCap 400® Index performed over the same period.




Period Ending Values

——— $20,873 VIP Mid Cap Portfolio – Initial Class

....... $21,946 S&P MidCap 400® Index

# Management's Discussion of Fund Performance

**Market Recap:** U.S. stocks gained modestly in 2015, rebounding from a steep decline in August and September over worries about China's slowing economic growth. The S&P 500® index rose 1.38% for the period, its lowest calendar-year return since 2008. After the late-summer rout, stocks sharply reversed course in October, lifted by the Federal Reserve's decision to put off raising near-term interest rates until mid-December. Investors also were encouraged by an interest-rate cut in China and economic stimulus in Europe. Overall, growth stocks fared much better than their value counterparts, as investors sought growth in a subpar economic environment. This helped lift the technology-heavy Nasdaq Composite Index® 6.96% for the year. Sector performance in the broader market was split, with five of 10 sectors in the S&P 500® gaining ground and five retreating. Consumer discretionary (+10%) led the way, benefiting from rising personal income and low inflation. Health care (+7%), consumer staples (+7%) and information technology (+6%) also outpaced the broad market amid strong fundamentals. Conversely, the energy sector (-21%) was by far the worst performer, stung by deflated commodity prices that also hit materials (-8%). The defensive, but rate-sensitive utilities sector (-5%) lost ground on the cusp of Fed tightening, while industrials (-3%) were dragged down with energy prices and a slower-growing China.

**Comments from Portfolio Manager Thomas Allen:** For the year, the fund's share classes recorded small declines and finished modestly ahead of the -2.18% return of the benchmark S&P MidCap 400® index. Positioning in information technology, energy, materials and health care aided the fund's performance versus the index. Underweighting the lower end of the benchmark's market capitalization spectrum also was helpful, as larger-caps tended to perform better this period. At the stock level, Global Payments was the fund's top contributor. The provider of payment processing services announced strong quarterly results in both July and October, which aided its stock. Electronic Arts, a leading maker of video games, also was helpful, as were Freescale Semiconductor and Netherlands-based NXP Semiconductors. All three were non-index positions. NXP closed a deal to buy Freescale during the period. Conversely, performance was hampered by stock picking in industrials and financials. In the former category, a non-index position in Spirit Airlines was by far our biggest relative detractor. Another detractor from transportation – a group where I reduced the fund's allocation during the period – was less-than-truckload (LTL) hauler and logistics provider Saia. One detractor from the technology sector was Belden, a manufacturer of networking, connectivity and cable products.

*The views expressed above reflect those of the portfolio manager(s) only through the end of the period as stated on the cover of this report and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.*

# Investment Summary (Unaudited)

## Top Ten Stocks as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Global Payments, Inc. | 1.6 | 1.4 |
| Jones Lang LaSalle, Inc. | 1.1 | 1.1 |
| CBRE Group, Inc. | 1.1 | 1.1 |
| Electronic Arts, Inc. | 1.1 | 1.1 |
| Total System Services, Inc. | 1.1 | 1.0 |
| Cardinal Health, Inc. | 1.1 | 1.1 |
| McGraw Hill Financial, Inc. | 1.0 | 0.9 |
| Textron, Inc. | 1.0 | 1.2 |
| CDW Corp. | 1.0 | 0.8 |
| Steris PLC | 0.9 | 0.9 |
| | 11.0 | |

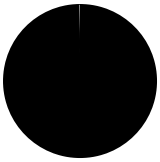
## Top Five Market Sectors as of December 31, 2015

| | % of fund's net assets | % of fund's net assets 6 months ago |
|---|---|---|
| Information Technology | 24.4 | 23.9 |
| Financials | 20.5 | 18.2 |
| Consumer Discretionary | 17.8 | 18.5 |
| Industrials | 14.5 | 15.5 |
| Health Care | 13.6 | 13.8 |

## Asset Allocation (% of fund's net assets)

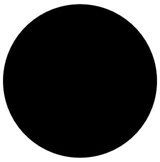
**As of December 31, 2015***

- ■ Stocks 99.7%
- □ Short-Term Investments and Net Other Assets (Liabilities) 0.3%



**As of June 30, 2015****

- ■ Stocks 99.9%
- □ Short-Term Investments and Net Other Assets (Liabilities) 0.1%



* *Foreign investments – 11.9%*

** *Foreign investments – 11.7%*

# Investments December 31, 2015

Showing Percentage of Net Assets

## Common Stocks – 99.6%

| | Shares | Value |
|---|---|---|
| **CONSUMER DISCRETIONARY – 17.8%** | | |
| **Auto Components – 1.6%** | | |
| Delphi Automotive PLC | 483,061 | $ 41,412,820 |
| Gentex Corp. | 2,316,292 | 37,083,835 |
| Johnson Controls, Inc. | 370,200 | 14,619,198 |
| Modine Manufacturing Co. (a) | 147,000 | 1,330,350 |
| Tenneco, Inc. (a) | 177,476 | 8,147,923 |
| Visteon Corp. | 235,822 | 27,001,619 |
| | | 129,595,745 |
| **Diversified Consumer Services – 0.6%** | | |
| Houghton Mifflin Harcourt Co. (a) | 1,831,364 | 39,887,108 |
| ServiceMaster Global Holdings, Inc. (a) | 213,200 | 8,365,968 |
| | | 48,253,076 |
| **Hotels, Restaurants & Leisure – 2.8%** | | |
| Brinker International, Inc. | 79,767 | 3,824,828 |
| Buffalo Wild Wings, Inc. (a) | 89,100 | 14,224,815 |
| DineEquity, Inc. | 696,400 | 58,964,188 |
| Interval Leisure Group, Inc. | 470,600 | 7,346,066 |
| Jubilant Foodworks Ltd. | 75,070 | 1,675,961 |
| Las Vegas Sands Corp. | 618,188 | 27,101,362 |
| Panera Bread Co. Class A (a) | 99,518 | 19,384,116 |
| Texas Roadhouse, Inc. Class A | 936,500 | 33,498,605 |
| The Restaurant Group PLC | 166,500 | 1,682,589 |
| Wyndham Worldwide Corp. | 796,600 | 57,872,990 |
| | | 225,575,520 |
| **Household Durables – 4.1%** | | |
| Ethan Allen Interiors, Inc. | 100,900 | 2,807,038 |
| Harman International Industries, Inc. | 198,205 | 18,672,893 |
| iRobot Corp. (a)(b) | 25,500 | 902,700 |
| Jarden Corp. (a) | 1,235,350 | 70,563,192 |
| Lennar Corp. Class A (b) | 1,291,900 | 63,186,829 |
| Mohawk Industries, Inc. (a) | 37,800 | 7,158,942 |
| NVR, Inc. (a) | 40,614 | 66,728,802 |
| PulteGroup, Inc. | 3,463,000 | 61,710,660 |
| Toll Brothers, Inc. (a) | 1,031,700 | 34,355,610 |
| Whirlpool Corp. | 50,899 | 7,475,536 |
| | | 333,562,202 |
| **Leisure Products – 0.9%** | | |
| Brunswick Corp. | 488,200 | 24,658,982 |
| Polaris Industries, Inc. (b) | 529,819 | 45,537,943 |
| | | 70,196,925 |
| **Media – 1.6%** | | |
| AMC Networks, Inc. Class A (a) | 410,100 | 30,626,268 |
| Interpublic Group of Companies, Inc. | 2,228,985 | 51,890,771 |
| John Wiley & Sons, Inc. Class A | 18,100 | 815,043 |
| Lions Gate Entertainment Corp. (b) | 376,300 | 12,188,357 |
| MDC Partners, Inc. Class A | 67,300 | 1,461,756 |
| Naspers Ltd. Class N | 62,800 | 8,583,776 |
| News Corp. Class A | 791,100 | 10,569,096 |
| Omnicom Group, Inc. | 135,800 | 10,274,628 |
| | | 126,409,695 |
| **Multiline Retail – 0.8%** | | |
| Dollar Tree, Inc. (a) | 874,200 | 67,505,724 |

| | Shares | Value |
|---|---|---|
| **Specialty Retail – 3.0%** | | |
| AutoZone, Inc. (a) | 52,732 | $ 39,122,398 |
| Dick's Sporting Goods, Inc. | 510,600 | 18,049,710 |
| Foot Locker, Inc. | 647,087 | 42,118,893 |
| GNC Holdings, Inc. | 823,000 | 25,529,460 |
| L Brands, Inc. | 141,600 | 13,568,112 |
| Party City Holdco, Inc. (b) | 179,500 | 2,317,345 |
| Select Comfort Corp. (a) | 71,400 | 1,528,674 |
| Signet Jewelers Ltd. | 340,743 | 42,146,502 |
| TJX Companies, Inc. | 536,800 | 38,064,488 |
| Urban Outfitters, Inc. (a) | 365,800 | 8,321,950 |
| Williams-Sonoma, Inc. | 183,200 | 10,700,712 |
| | | 241,468,244 |
| **Textiles, Apparel & Luxury Goods – 2.4%** | | |
| Deckers Outdoor Corp. (a) | 540,500 | 25,511,600 |
| G-III Apparel Group Ltd. (a) | 1,274,866 | 56,425,569 |
| Hanesbrands, Inc. | 748,700 | 22,034,241 |
| Kate Spade & Co. (a) | 368,800 | 6,553,576 |
| Page Industries Ltd. | 21,178 | 4,270,835 |
| PVH Corp. | 444,000 | 32,700,600 |
| Ralph Lauren Corp. | 259,100 | 28,884,468 |
| VF Corp. | 214,276 | 13,338,681 |
| | | 189,719,570 |
| TOTAL CONSUMER DISCRETIONARY | | 1,432,286,701 |
| **CONSUMER STAPLES – 2.2%** | | |
| **Beverages – 0.8%** | | |
| C&C Group PLC | 1,473,293 | 5,944,889 |
| Dr. Pepper Snapple Group, Inc. | 641,525 | 59,790,130 |
| | | 65,735,019 |
| **Food & Staples Retailing – 0.9%** | | |
| CVS Health Corp. | 405,447 | 39,640,553 |
| Kroger Co. | 815,880 | 34,128,260 |
| | | 73,768,813 |
| **Food Products – 0.5%** | | |
| Amplify Snack Brands, Inc. | 70,500 | 812,160 |
| Archer Daniels Midland Co. | 127,854 | 4,689,685 |
| Britannia Industries Ltd. | 15,000 | 669,588 |
| Bunge Ltd. | 374,988 | 25,604,181 |
| Ingredion, Inc. | 59,405 | 5,693,375 |
| | | 37,468,989 |
| TOTAL CONSUMER STAPLES | | 176,972,821 |
| **ENERGY – 3.1%** | | |
| **Energy Equipment & Services – 1.1%** | | |
| Baker Hughes, Inc. | 264,581 | 12,210,413 |
| Dril-Quip, Inc. (a) | 478,600 | 28,347,478 |
| Ensco PLC Class A | 107,000 | 1,646,730 |
| Halliburton Co. | 839,200 | 28,566,368 |
| Nuverra Environmental Solutions, Inc. (a) | 470 | 241 |
| Oceaneering International, Inc. | 569,700 | 21,375,144 |
| | | 92,146,374 |
| **Oil, Gas & Consumable Fuels – 2.0%** | | |
| Apache Corp. | 379,496 | 16,876,187 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **ENERGY – continued** | | |
| **Oil, Gas & Consumable Fuels – continued** | | |
| Cimarex Energy Co. | 298,752 | $ 26,702,454 |
| Columbia Pipeline Group, Inc. | 67,721 | 1,354,420 |
| Emerald Oil, Inc. warrants 2/4/16 (a) | 6,490 | 0 |
| Energen Corp. | 26,603 | 1,090,457 |
| EOG Resources, Inc. | 50,800 | 3,596,132 |
| Newfield Exploration Co. (a) | 558,100 | 18,171,736 |
| PDC Energy, Inc. (a) | 74,800 | 3,992,824 |
| Phillips 66 Co. | 238,285 | 19,491,713 |
| Rice Energy, Inc. (a) | 81,100 | 883,990 |
| SM Energy Co. | 274,500 | 5,396,670 |
| Southwestern Energy Co. (a)(b) | 1,276,900 | 9,078,759 |
| Suncor Energy, Inc. | 1,778,800 | 45,919,445 |
| Western Refining, Inc. | 149,200 | 5,314,504 |
| | | 157,869,291 |
| TOTAL ENERGY | | 250,015,665 |
| **FINANCIALS – 20.4%** | | |
| **Banks – 6.5%** | | |
| Boston Private Financial Holdings, Inc. | 1,579,316 | 17,909,443 |
| CIT Group, Inc. | 528,300 | 20,973,510 |
| Comerica, Inc. | 787,529 | 32,942,338 |
| Commerce Bancshares, Inc. | 820,449 | 34,901,900 |
| CVB Financial Corp. | 1,142,400 | 19,329,408 |
| First Citizen Bancshares, Inc. | 44,300 | 11,436,931 |
| First Commonwealth Financial Corp. | 1,170,400 | 10,615,528 |
| First Republic Bank | 538,200 | 35,553,492 |
| Hilltop Holdings, Inc. (a) | 389,400 | 7,484,268 |
| Huntington Bancshares, Inc. | 4,846,716 | 53,604,679 |
| Investors Bancorp, Inc. | 2,678,600 | 33,321,784 |
| Lakeland Financial Corp. | 679,346 | 31,671,111 |
| M&T Bank Corp. | 395,300 | 47,902,454 |
| PacWest Bancorp | 606,093 | 26,122,608 |
| Prosperity Bancshares, Inc. | 259,000 | 12,395,740 |
| Regions Financial Corp. | 3,919,900 | 37,631,040 |
| SunTrust Banks, Inc. | 1,093,165 | 46,831,189 |
| UMB Financial Corp. | 786,200 | 36,597,610 |
| Valley National Bancorp | 266,400 | 2,624,040 |
| | | 519,849,073 |
| **Capital Markets – 3.1%** | | |
| Ameriprise Financial, Inc. | 280,913 | 29,894,761 |
| E*TRADE Financial Corp. (a) | 156,600 | 4,641,624 |
| Franklin Resources, Inc. | 196,800 | 7,246,176 |
| Greenhill & Co., Inc. | 235,500 | 6,737,655 |
| Invesco Ltd. | 1,770,100 | 59,262,948 |
| Lazard Ltd. Class A | 839,745 | 37,796,922 |
| Legg Mason, Inc. | 240,500 | 9,434,815 |
| PJT Partners, Inc. (a) | 34,123 | 965,340 |
| Raymond James Financial, Inc. | 817,795 | 47,407,576 |
| Stifel Financial Corp. (a) | 590,800 | 25,026,288 |
| The Blackstone Group LP | 810,935 | 23,711,739 |
| | | 252,125,844 |
| **Consumer Finance – 1.6%** | | |
| American Express Co. | 63,989 | $ 4,450,435 |
| Capital One Financial Corp. | 488,500 | 35,259,930 |
| Discover Financial Services | 245,600 | 13,169,072 |
| OneMain Holdings, Inc. (a) | 355,700 | 14,775,778 |
| SLM Corp. (a) | 8,999,300 | 58,675,436 |
| Synchrony Financial (a) | 161,100 | 4,899,051 |
| | | 131,229,702 |
| **Diversified Financial Services – 1.2%** | | |
| CRISIL Ltd. | 84,555 | 2,504,881 |
| McGraw Hill Financial, Inc. | 814,130 | 80,256,935 |
| Moody's Corp. | 167,900 | 16,847,086 |
| | | 99,608,902 |
| **Insurance – 4.5%** | | |
| ACE Ltd. | 32,300 | 3,774,255 |
| AFLAC, Inc. | 704,500 | 42,199,550 |
| Bajaj Finserv Ltd. | 58,922 | 1,765,540 |
| Brown & Brown, Inc. | 56,700 | 1,820,070 |
| First American Financial Corp. | 1,466,308 | 52,640,457 |
| Hiscox Ltd. | 1,760,076 | 27,348,181 |
| Marsh & McLennan Companies, Inc. | 1,165,084 | 64,603,908 |
| Primerica, Inc. | 550,920 | 26,019,952 |
| Principal Financial Group, Inc. | 1,107,100 | 49,797,358 |
| Progressive Corp. | 319,600 | 10,163,280 |
| Reinsurance Group of America, Inc. | 674,058 | 57,665,662 |
| The Chubb Corp. | 147,100 | 19,511,344 |
| The Travelers Companies, Inc. | 9,000 | 1,015,740 |
| | | 358,325,297 |
| **Real Estate Investment Trusts – 0.5%** | | |
| Ladder Capital Corp. Class A | 1,444,799 | 17,944,404 |
| Mid-America Apartment Communities, Inc. | 121,300 | 11,015,253 |
| SL Green Realty Corp. | 8,400 | 949,032 |
| VEREIT, Inc. | 754,400 | 5,974,848 |
| | | 35,883,537 |
| **Real Estate Management & Development – 2.2%** | | |
| CBRE Group, Inc. (a) | 2,547,523 | 88,093,345 |
| Colliers International Group, Inc. | 24,800 | 1,104,840 |
| Jones Lang LaSalle, Inc. | 566,560 | 90,570,282 |
| Realogy Holdings Corp. (a) | 21,900 | 803,073 |
| | | 180,571,540 |
| **Thrifts & Mortgage Finance – 0.8%** | | |
| Beneficial Bancorp, Inc. (a) | 427,862 | 5,699,122 |
| BofI Holding, Inc. (a)(b) | 106,700 | 2,246,035 |
| Essent Group Ltd. (a) | 2,413,800 | 52,838,082 |
| Housing Development Finance Corp. Ltd. | 349,130 | 6,635,357 |
| | | 67,418,596 |
| TOTAL FINANCIALS | | 1,645,012,491 |
| **HEALTH CARE – 13.6%** | | |
| **Biotechnology – 0.9%** | | |
| Amgen, Inc. | 32,700 | 5,308,191 |
| Baxalta, Inc. | 344,000 | 13,426,320 |
| Biogen, Inc. (a) | 54,800 | 16,787,980 |
| BioMarin Pharmaceutical, Inc. (a) | 8,500 | 890,460 |

*See accompanying notes which are an integral part of the financial statements.*

## Investments – continued

**Common Stocks – continued**

| | Shares | Value |
|---|---|---|
| **HEALTH CARE – continued** | | |
| **Biotechnology – continued** | | |
| Medivation, Inc. (a) | 19,900 | $ 961,966 |
| United Therapeutics Corp. (a) | 196,300 | 30,742,543 |
| | | 68,117,460 |
| **Health Care Equipment & Supplies – 4.3%** | | |
| Alere, Inc. (a) | 37,000 | 1,446,330 |
| Becton, Dickinson & Co. | 173,300 | 26,703,797 |
| Boston Scientific Corp. (a) | 3,814,103 | 70,332,059 |
| DENTSPLY International, Inc. | 783,000 | 47,645,550 |
| Hologic, Inc. (a) | 1,594,824 | 61,703,741 |
| St. Jude Medical, Inc. | 62,300 | 3,848,271 |
| Steris PLC (b) | 966,500 | 72,816,110 |
| Zimmer Biomet Holdings, Inc. | 635,100 | 65,154,909 |
| | | 349,650,767 |
| **Health Care Providers & Services – 3.8%** | | |
| Cardinal Health, Inc. | 950,847 | 84,882,112 |
| Cigna Corp. | 97,500 | 14,267,175 |
| Community Health Systems, Inc. (a) | 473,900 | 12,572,567 |
| DaVita HealthCare Partners, Inc. (a) | 728,500 | 50,783,735 |
| HCA Holdings, Inc. (a) | 638,135 | 43,157,070 |
| Laboratory Corp. of America Holdings (a) | 340,900 | 42,148,876 |
| McKesson Corp. | 250,750 | 49,455,423 |
| Molina Healthcare, Inc. (a) | 32,400 | 1,948,212 |
| Surgery Partners, Inc. (a)(b) | 181,800 | 3,725,082 |
| Surgical Care Affiliates, Inc. (a) | 103,100 | 4,104,411 |
| Universal Health Services, Inc. Class B | 6,200 | 740,838 |
| | | 307,785,501 |
| **Life Sciences Tools & Services – 1.5%** | | |
| Agilent Technologies, Inc. | 814,606 | 34,058,677 |
| Bruker Corp. (a) | 616,800 | 14,969,736 |
| Thermo Fisher Scientific, Inc. | 489,963 | 69,501,252 |
| | | 118,529,665 |
| **Pharmaceuticals – 3.1%** | | |
| Allergan PLC (a) | 186,745 | 58,357,813 |
| Catalent, Inc. (a) | 511,500 | 12,802,845 |
| Endo Health Solutions, Inc. (a) | 870,800 | 53,310,376 |
| Horizon Pharma PLC (a) | 165,870 | 3,594,403 |
| Jazz Pharmaceuticals PLC (a) | 405,271 | 56,964,892 |
| Perrigo Co. PLC | 10,900 | 1,577,230 |
| Teva Pharmaceutical Industries Ltd. sponsored ADR | 951,656 | 62,466,700 |
| | | 249,074,259 |
| TOTAL HEALTH CARE | | 1,093,157,652 |
| **INDUSTRIALS – 14.5%** | | |
| **Aerospace & Defense – 2.4%** | | |
| Curtiss-Wright Corp. | 396,548 | 27,163,538 |
| Esterline Technologies Corp. (a) | 238,248 | 19,298,088 |
| Huntington Ingalls Industries, Inc. | 234,800 | 29,784,380 |
| Rockwell Collins, Inc. | 445,583 | 41,127,311 |
| Textron, Inc. | 1,879,181 | 78,944,394 |
| | | 196,317,711 |
| **Air Freight & Logistics – 0.9%** | | |
| C.H. Robinson Worldwide, Inc. | 242,600 | $ 15,046,052 |
| FedEx Corp. | 369,011 | 54,978,949 |
| | | 70,025,001 |
| **Airlines – 1.3%** | | |
| Allegiant Travel Co. | 63,400 | 10,640,422 |
| Copa Holdings SA Class A | 67,400 | 3,252,724 |
| Southwest Airlines Co. | 777,600 | 33,483,456 |
| Spirit Airlines, Inc. (a) | 1,456,013 | 58,022,118 |
| | | 105,398,720 |
| **Building Products – 0.5%** | | |
| A.O. Smith Corp. | 207,800 | 15,919,558 |
| Lennox International, Inc. | 210,356 | 26,273,464 |
| | | 42,193,022 |
| **Commercial Services & Supplies – 1.1%** | | |
| Copart, Inc. (a) | 111,100 | 4,222,911 |
| G&K Services, Inc. Class A | 203,000 | 12,768,700 |
| Herman Miller, Inc. | 303,600 | 8,713,320 |
| HNI Corp. | 231,277 | 8,339,849 |
| KAR Auction Services, Inc. | 321,282 | 11,897,072 |
| Knoll, Inc. | 1,026,700 | 19,301,960 |
| Matthews International Corp. Class A | 104,700 | 5,596,215 |
| Multi-Color Corp. | 66,100 | 3,953,441 |
| Republic Services, Inc. | 301,213 | 13,250,360 |
| | | 88,043,828 |
| **Construction & Engineering – 1.0%** | | |
| AECOM (a) | 31,800 | 954,954 |
| EMCOR Group, Inc. | 925,707 | 44,470,964 |
| Jacobs Engineering Group, Inc. (a) | 755,055 | 31,674,557 |
| Quanta Services, Inc. (a) | 360,371 | 7,297,513 |
| | | 84,397,988 |
| **Electrical Equipment – 0.1%** | | |
| AMETEK, Inc. | 185,500 | 9,940,945 |
| Rockwell Automation, Inc. | 15,900 | 1,631,499 |
| | | 11,572,444 |
| **Industrial Conglomerates – 0.6%** | | |
| Roper Technologies, Inc. | 233,686 | 44,351,266 |
| **Machinery – 4.6%** | | |
| AGCO Corp. | 672,000 | 30,502,080 |
| Caterpillar, Inc. (b) | 55,265 | 3,755,809 |
| Colfax Corp. (a) | 783,400 | 18,292,390 |
| Cummins, Inc. | 203,175 | 17,881,432 |
| Deere & Co. (b) | 356,600 | 27,197,882 |
| IDEX Corp. | 17,500 | 1,340,675 |
| Illinois Tool Works, Inc. | 439,367 | 40,720,534 |
| Ingersoll-Rand PLC | 627,345 | 34,685,905 |
| Manitowoc Co., Inc. (b) | 882,579 | 13,547,588 |
| Mueller Industries, Inc. | 719,904 | 19,509,398 |
| Rexnord Corp. (a) | 3,617,434 | 65,547,904 |
| Snap-On, Inc. | 160,600 | 27,531,658 |
| Stanley Black & Decker, Inc. | 74,400 | 7,940,712 |
| Valmont Industries, Inc. | 141,881 | 15,042,224 |
| Wabtec Corp. | 116,660 | 8,296,859 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **INDUSTRIALS – continued** | | |
| **Machinery – continued** | | |
| Woodward, Inc. | 527,107 | $ 26,176,134 |
| Xylem, Inc. | 263,600 | 9,621,400 |
| | | 367,590,584 |
| **Professional Services – 0.7%** | | |
| CEB, Inc. | 224,600 | 13,788,194 |
| Dun & Bradstreet Corp. | 428,205 | 44,503,346 |
| | | 58,291,540 |
| **Road & Rail – 0.6%** | | |
| ArcBest Corp. | 30,140 | 644,695 |
| CSX Corp. | 193,000 | 5,008,350 |
| J.B. Hunt Transport Services, Inc. | 52,500 | 3,851,400 |
| Old Dominion Freight Lines, Inc. (a) | 269,300 | 15,907,551 |
| Saia, Inc. (a) | 741,205 | 16,491,811 |
| Swift Transporation Co. (a) | 588,178 | 8,128,620 |
| | | 50,032,427 |
| **Trading Companies & Distributors – 0.7%** | | |
| Air Lease Corp. Class A (b) | 1,018,894 | 34,112,571 |
| HD Supply Holdings, Inc. (a) | 82,900 | 2,489,487 |
| Misumi Group, Inc. | 775,200 | 10,708,345 |
| WESCO International, Inc. (a) | 111,400 | 4,865,952 |
| | | 52,176,355 |
| TOTAL INDUSTRIALS | | 1,170,390,886 |
| **INFORMATION TECHNOLOGY – 24.4%** | | |
| **Communications Equipment – 1.1%** | | |
| Brocade Communications Systems, Inc. | 868,403 | 7,971,940 |
| CommScope Holding Co., Inc. (a) | 1,207,390 | 31,259,327 |
| F5 Networks, Inc. (a) | 455,554 | 44,170,516 |
| Juniper Networks, Inc. | 189,962 | 5,242,951 |
| | | 88,644,734 |
| **Electronic Equipment & Components – 4.3%** | | |
| Arrow Electronics, Inc. (a) | 648,180 | 35,118,392 |
| Avnet, Inc. | 816,630 | 34,984,429 |
| Belden, Inc. | 870,300 | 41,495,904 |
| CDW Corp. | 1,821,220 | 76,564,089 |
| IPG Photonics Corp. (a)(b) | 315,200 | 28,103,232 |
| Jabil Circuit, Inc. | 260,900 | 6,076,361 |
| Keysight Technologies, Inc. (a) | 365,453 | 10,353,283 |
| Littelfuse, Inc. | 29,500 | 3,156,795 |
| Methode Electronics, Inc. Class A | 529,000 | 16,838,070 |
| TE Connectivity Ltd. | 737,266 | 47,634,756 |
| Trimble Navigation Ltd. (a) | 1,649,600 | 35,383,920 |
| Zebra Technologies Corp. Class A (a) | 155,100 | 10,802,715 |
| | | 346,511,946 |
| **Internet Software & Services – 0.7%** | | |
| Alphabet, Inc. Class C | 60,302 | 45,761,982 |
| Tencent Holdings Ltd. | 549,000 | 10,749,412 |
| | | 56,511,394 |
| **IT Services – 10.4%** | | |
| Alliance Data Systems Corp. (a) | 226,990 | 62,778,624 |
| Blackhawk Network Holdings, Inc. (a) | 1,492,994 | 66,005,265 |
| Broadridge Financial Solutions, Inc. | 311,203 | $ 16,720,937 |
| Cognizant Technology Solutions Corp. Class A (a) | 74,400 | 4,465,488 |
| Euronet Worldwide, Inc. (a) | 983,477 | 71,233,239 |
| EVERTEC, Inc. | 1,003,693 | 16,801,821 |
| Fidelity National Information Services, Inc. | 980,777 | 59,435,086 |
| Fiserv, Inc. (a) | 701,614 | 64,169,616 |
| FleetCor Technologies, Inc. (a) | 387,240 | 55,348,213 |
| Genpact Ltd. (a) | 2,744,988 | 68,569,800 |
| Global Payments, Inc. | 1,965,376 | 126,786,398 |
| Maximus, Inc. | 440,300 | 24,766,875 |
| The Western Union Co. | 1,509,648 | 27,037,796 |
| Total System Services, Inc. | 1,723,410 | 85,825,818 |
| Vantiv, Inc. (a) | 576,400 | 27,332,888 |
| Visa, Inc. Class A | 404,100 | 31,337,955 |
| Xerox Corp. | 2,686,149 | 28,553,764 |
| | | 837,169,583 |
| **Semiconductors & Semiconductor Equipment – 3.0%** | | |
| Atmel Corp. | 1,777,633 | 15,305,420 |
| Broadcom Corp. Class A | 733,200 | 42,393,624 |
| Cree, Inc. (a) | 796,800 | 21,250,656 |
| Intersil Corp. Class A | 658,608 | 8,403,838 |
| Maxim Integrated Products, Inc. | 584,300 | 22,203,400 |
| Microchip Technology, Inc. (b) | 101,875 | 4,741,263 |
| NVIDIA Corp. | 1,467,033 | 48,353,408 |
| NXP Semiconductors NV (a) | 799,643 | 67,369,923 |
| Qorvo, Inc. (a) | 74,800 | 3,807,320 |
| Semtech Corp. (a) | 325,000 | 6,149,000 |
| | | 239,977,852 |
| **Software – 3.8%** | | |
| Activision Blizzard, Inc. | 1,350,700 | 52,285,597 |
| Cadence Design Systems, Inc. (a) | 2,450,100 | 50,986,581 |
| Electronic Arts, Inc. (a) | 1,251,890 | 86,029,881 |
| Fair Isaac Corp. | 334,900 | 31,540,882 |
| Intuit, Inc. | 192,997 | 18,624,211 |
| Parametric Technology Corp. (a) | 884,741 | 30,638,581 |
| Synopsys, Inc. (a) | 884,749 | 40,353,402 |
| | | 310,459,135 |
| **Technology Hardware, Storage & Peripherals – 1.1%** | | |
| EMC Corp. | 1,075,239 | 27,612,138 |
| SanDisk Corp. | 431,500 | 32,789,685 |
| Western Digital Corp. | 470,300 | 28,241,515 |
| | | 88,643,338 |
| TOTAL INFORMATION TECHNOLOGY | | 1,967,917,982 |
| **MATERIALS – 3.0%** | | |
| **Chemicals – 2.1%** | | |
| Albemarle Corp. U.S. | 776,956 | 43,517,306 |
| Ashland, Inc. | 86,126 | 8,845,140 |
| Eastman Chemical Co. | 553,500 | 37,366,785 |
| Ferro Corp. (a) | 1,648,609 | 18,332,532 |
| PolyOne Corp. | 928,460 | 29,487,890 |
| PPG Industries, Inc. | 99,900 | 9,872,118 |
| Praxair, Inc. | 189,300 | 19,384,320 |
| | | 166,806,091 |

*See accompanying notes which are an integral part of the financial statements.*

## Common Stocks – continued

| | Shares | Value |
|---|---|---|
| **MATERIALS – continued** | | |
| **Containers & Packaging – 0.4%** | | |
| Aptargroup, Inc. | 189,630 | $ 13,776,620 |
| WestRock Co. | 519,500 | 23,699,590 |
| | | 37,476,210 |
| **Metals & Mining – 0.2%** | | |
| B2Gold Corp. (a) | 8,111,000 | 8,206,548 |
| New Gold, Inc. (a) | 2,039,120 | 4,745,224 |
| Randgold Resources Ltd. sponsored ADR | 41,100 | 2,545,323 |
| | | 15,497,095 |
| **Paper & Forest Products – 0.3%** | | |
| Boise Cascade Co. (a) | 986,464 | 25,184,426 |
| TOTAL MATERIALS | | 244,963,822 |
| **UTILITIES – 0.6%** | | |
| **Electric Utilities – 0.5%** | | |
| Exelon Corp. | 1,107,300 | 30,749,721 |
| OGE Energy Corp. | 295,000 | 7,755,550 |
| | | 38,505,271 |
| **Independent Power and Renewable Electricity Producers – 0.0%** | | |
| Calpine Corp. (a) | 171,700 | 2,484,499 |
| Dynegy, Inc. (a) | 254,900 | 3,415,660 |
| | | 5,900,159 |
| **Multi-Utilities – 0.1%** | | |
| CMS Energy Corp. | 160,519 | 5,791,526 |
| NiSource, Inc. | 67,721 | 1,321,237 |
| | | 7,112,763 |
| TOTAL UTILITIES | | 51,518,193 |
| **TOTAL COMMON STOCKS** (Cost $7,196,519,579) | | **8,032,236,213** |

## Nonconvertible Preferred Stocks – 0.1%

| | Shares | Value |
|---|---|---|
| **FINANCIALS – 0.1%** | | |
| **Capital Markets – 0.1%** | | |
| GMAC Capital Trust I Series 2, 8.125% (Cost $8,358,700) | 405,466 | **10,282,618** |

## Money Market Funds – 1.3%

| | Shares | Value |
|---|---|---|
| Fidelity Cash Central Fund, 0.33% (c) | 30,864,252 | $ 30,864,252 |
| Fidelity Securities Lending Cash Central Fund, 0.35% (c)(d) | 72,375,074 | 72,375,074 |
| **TOTAL MONEY MARKET FUNDS** (Cost $103,239,326) | | **103,239,326** |
| **TOTAL INVESTMENT PORTFOLIO – 101.0%** (Cost $7,308,117,605) | | **8,145,758,157** |
| **NET OTHER ASSETS (LIABILITIES) – (1.0)%** | | **(82,484,203)** |
| **NET ASSETS – 100%** | | **$8,063,273,954** |

*See accompanying notes which are an integral part of the financial statements.*

## Legend

(a) Non-income producing

(b) Security or a portion of the security is on loan at period end.

(c) Affiliated fund that is generally available only to investment companies and other accounts managed by Fidelity Investments. The rate quoted is the annualized seven-day yield of the fund at period end. A complete unaudited listing of the fund's holdings as of its most recent quarter end is available upon request. In addition, each Fidelity Central Fund's financial statements, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC's website or upon request.

(d) Investment made with cash collateral received from securities on loan.

## Affiliated Central Funds

Information regarding fiscal year to date income earned by the Fund from investments in Fidelity Central Funds is as follows:

| Fund | Income earned |
|---|---|
| Fidelity Cash Central Fund | $ 68,209 |
| Fidelity Securities Lending Cash Central Fund | 333,919 |
| Total | $ 402,128 |

## Investment Valuation

The following is a summary of the inputs used, as of December 31, 2015, involving the Fund's assets and liabilities carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities. For more information on valuation inputs, and their aggregation into the levels used below, please refer to the Investment Valuation section in the accompanying Notes to Financial Statements.

**Valuation Inputs at Reporting Date:**

| Description | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Investments in Securities:** | | | | |
| **Equities:** | | | | |
| Consumer Discretionary | $1,432,286,701 | $1,417,756,129 | $14,530,572 | $ — |
| Consumer Staples | 176,972,821 | 176,303,233 | 669,588 | — |
| Energy | 250,015,665 | 250,015,665 | — | — |
| Financials | 1,655,295,109 | 1,644,389,331 | 10,905,778 | — |
| Health Care | 1,093,157,652 | 1,093,157,652 | — | — |
| Industrials | 1,170,390,886 | 1,159,682,541 | 10,708,345 | — |
| Information Technology | 1,967,917,982 | 1,957,168,570 | 10,749,412 | — |
| Materials | 244,963,822 | 244,963,822 | — | — |
| Utilities | 51,518,193 | 51,518,193 | — | — |
| Money Market Funds | 103,239,326 | 103,239,326 | — | — |
| **Total Investments in Securities:** | $8,145,758,157 | $8,098,194,462 | $47,563,695 | $ — |

## Other Information

Distribution of investments by country or territory of incorporation, as a percentage of Total Net Assets, is as follows (Unaudited):

| | |
|---|---|
| United States of America | 88.1% |
| Bermuda | 3.8% |
| Ireland | 2.6% |
| Canada | 1.0% |
| Others (Individually Less Than 1%) | 4.5% |
| | 100.0% |

*See accompanying notes which are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities

| | | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in securities, at value (including securities loaned of $70,372,992) — See accompanying schedule: | | |
| Unaffiliated issuers (cost $7,204,878,279) | $ 8,042,518,831 | |
| Fidelity Central Funds (cost $103,239,326) | 103,239,326 | |
| Total Investments (cost $7,308,117,605) | | $ 8,145,758,157 |
| Receivable for investments sold | | 2,413,943 |
| Receivable for fund shares sold | | 1,668,407 |
| Dividends receivable | | 8,844,998 |
| Distributions receivable from Fidelity Central Funds | | 57,265 |
| Prepaid expenses | | 18,370 |
| Other receivables | | 118,918 |
| **Total assets** | | 8,158,880,058 |
| **Liabilities** | | |
| Payable for investments purchased | $ 12,379,836 | |
| Payable for fund shares redeemed | 5,154,612 | |
| Accrued management fee | 3,747,681 | |
| Distribution and service plan fees payable | 1,234,422 | |
| Other affiliated payables | 588,392 | |
| Other payables and accrued expenses | 126,087 | |
| Collateral on securities loaned, at value | 72,375,074 | |
| **Total liabilities** | | 95,606,104 |
| **Net Assets** | | $ 8,063,273,954 |
| Net Assets consist of: | | |
| Paid in capital | | $ 6,760,040,663 |
| Distributions in excess of net investment income | | (115,077) |
| Accumulated undistributed net realized gain (loss) on investments and foreign currency transactions | | 465,748,069 |
| Net unrealized appreciation (depreciation) on investments and assets and liabilities in foreign currencies | | 837,600,299 |
| **Net Assets** | | $ 8,063,273,954 |
| **Initial Class:** | | |
| **Net Asset Value,** offering price and redemption price per share ($1,382,527,358 ÷ 42,341,816 shares) | | $ 32.65 |
| **Service Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($566,348,884 ÷ 17,474,295 shares) | | $ 32.41 |
| **Service Class 2:** | | |
| **Net Asset Value**, offering price and redemption price per share ($5,591,029,554 ÷ 175,676,779 shares) | | $ 31.83 |
| **Investor Class:** | | |
| **Net Asset Value**, offering price and redemption price per share ($523,368,158 ÷ 16,102,145 shares) | | $ 32.50 |

*See accompanying notes which are an integral part of the financial statements.*

## Statement of Operations

| | | Year ended December 31, 2015 |
|---|---|---|
| **Investment Income** | | |
| Dividends | | $ 98,775,296 |
| Income from Fidelity Central Funds | | 402,128 |
| **Total income** | | 99,177,424 |
| **Expenses** | | |
| Management fee | $ 48,488,119 | |
| Transfer agent fees | 6,277,624 | |
| Distribution and service plan fees | 16,125,395 | |
| Accounting and security lending fees | 1,257,908 | |
| Custodian fees and expenses | 129,012 | |
| Independent trustees' compensation | 38,064 | |
| Audit | 74,079 | |
| Legal | 31,695 | |
| Interest | 16,782 | |
| Miscellaneous | 59,847 | |
| Total expenses before reductions | 72,498,525 | |
| Expense reductions | (132,320) | 72,366,205 |
| **Net investment income (loss)** | | 26,811,219 |
| **Realized and Unrealized Gain (Loss)** | | |
| Net realized gain (loss) on: | | |
| Investment securities: | | |
| Unaffiliated issuers | 506,895,720 | |
| Foreign currency transactions | 66,493 | |
| Total net realized gain (loss) | | 506,962,213 |
| Change in net unrealized appreciation (depreciation) on: | | |
| Investment securities | (648,517,058) | |
| Assets and liabilities in foreign currencies | (3,073) | |
| Total change in net unrealized appreciation (depreciation) | | (648,520,131) |
| **Net gain (loss)** | | (141,557,918) |
| **Net increase (decrease) in net assets resulting from operations** | | $ (114,746,699) |

## Statement of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Increase (Decrease) in Net Assets** | | |
| Operations | | |
| Net investment income (loss) | $ 26,811,219 | $ 14,348,386 |
| Net realized gain (loss) | 506,962,213 | 1,118,713,559 |
| Change in net unrealized appreciation (depreciation) | (648,520,131) | (608,445,007) |
| **Net increase (decrease) in net assets resulting from operations** | (114,746,699) | 524,616,938 |
| Distributions to shareholders from net investment income | (24,497,724) | (6,886,171) |
| Distributions to shareholders from net realized gain | (1,074,651,414) | (212,967,306) |
| **Total distributions** | (1,099,149,138) | (219,853,477) |
| Share transactions – net increase (decrease) | 244,251,301 | (445,133,654) |
| **Total increase (decrease) in net assets** | (969,644,536) | (140,370,193) |
| **Net Assets** | | |
| Beginning of period | 9,032,918,490 | 9,173,288,683 |
| End of period (including distributions in excess of net investment income of $115,077 and distributions in excess of net investment income of $109,829, respectively) | $ 8,063,273,954 | $ 9,032,918,490 |

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Mid Cap Portfolio Initial Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 37.68 | $ 36.39 | $ 30.55 | $ 29.08 | $ 32.69 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .17 | .13 | .18 | .29 | .08 |
| Net realized and unrealized gain (loss) | (.59) | 2.11 | 10.57 | 3.99 | (3.55) |
| Total from investment operations | (.42) | 2.24 | 10.75 | 4.28 | (3.47) |
| Distributions from net investment income | (.16)[B] | (.10) | (.19) | (.20)[B] | (.08) |
| Distributions from net realized gain | (4.45)[B] | (.85) | (4.72) | (2.61)[B] | (.06) |
| Total distributions | (4.61) | (.95) | (4.91) | (2.81) | (.14) |
| Net asset value, end of period | $ 32.65 | $ 37.68 | $ 36.39 | $ 30.55 | $ 29.08 |
| **Total Return**[C,D] | (1.39)% | 6.29% | 36.23% | 14.83% | (10.61)% |
| **Ratios to Average Net Assets**[E,F] | | | | | |
| Expenses before reductions | .63% | .64% | .64% | .65% | .66% |
| Expenses net of fee waivers, if any | .63% | .64% | .64% | .65% | .66% |
| Expenses net of all reductions | .63% | .63% | .63% | .63% | .65% |
| Net investment income (loss) | .49% | .35% | .52% | .90% | .25% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 1,382,527 | $ 1,476,171 | $ 1,489,788 | $ 1,217,359 | $ 1,085,843 |
| Portfolio turnover rate[G] | 26%[H] | 142% | 132% | 187% | 84% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
D *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
E *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
F *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
G *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*
H *The portfolio turnover rate does not include the assets acquired in the merger.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Mid Cap Portfolio Service Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 37.44 | $ 36.16 | $ 30.39 | $ 28.93 | $ 32.52 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .13 | .09 | .15 | .25 | .05 |
| Net realized and unrealized gain (loss) | (.59) | 2.10 | 10.49 | 3.98 | (3.54) |
| Total from investment operations | (.46) | 2.19 | 10.64 | 4.23 | (3.49) |
| Distributions from net investment income | (.13)[B] | (.06) | (.15) | (.16)[B] | (.05) |
| Distributions from net realized gain | (4.45)[B] | (.85) | (4.72) | (2.61)[B] | (.06) |
| Total distributions | (4.57)[C] | (.91) | (4.87) | (2.77) | (.10)[D] |
| Net asset value, end of period | $ 32.41 | $ 37.44 | $ 36.16 | $ 30.39 | $ 28.93 |
| **Total Return**[E,F] | (1.50)% | 6.20% | 36.06% | 14.75% | (10.72)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .73% | .74% | .74% | .75% | .76% |
| Expenses net of fee waivers, if any | .73% | .74% | .74% | .75% | .76% |
| Expenses net of all reductions | .73% | .73% | .73% | .73% | .75% |
| Net investment income (loss) | .39% | .25% | .42% | .80% | .15% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 566,349 | $ 622,227 | $ 638,612 | $ 525,875 | $ 566,560 |
| Portfolio turnover rate[I] | 26%[J] | 142% | 132% | 187% | 84% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $4.57 per share is comprised of distributions from net investment income of $.128 and distributions from net realized gain of $4.445 per share.*
D *Total distributions of $.10 per share is comprised of distributions from net investment income of $.048 and distributions from net realized gain of $.055 per share.*
E *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
F *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
G *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
H *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
I *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*
J *The portfolio turnover rate does not include the assets acquired in the merger.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Mid Cap Portfolio Service Class 2

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 36.84 | $ 35.60 | $ 29.98 | $ 28.58 | $ 32.13 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .08 | .04 | .09 | .20 | –[B] |
| Net realized and unrealized gain (loss) | (.57) | 2.06 | 10.35 | 3.93 | (3.49) |
| Total from investment operations | (.49) | 2.10 | 10.44 | 4.13 | (3.49) |
| Distributions from net investment income | (.08)[C] | (.01) | (.10) | (.12)[C] | (.01) |
| Distributions from net realized gain | (4.45)[C] | (.85) | (4.72) | (2.61)[C] | (.06) |
| Total distributions | (4.52)[D] | (.86) | (4.82) | (2.73) | (.06)[E] |
| Net asset value, end of period | $ 31.83 | $ 36.84 | $ 35.60 | $ 29.98 | $ 28.58 |
| **Total Return**[F,G] | (1.63)% | 6.03% | 35.87% | 14.56% | (10.85)% |
| **Ratios to Average Net Assets**[H,I] | | | | | |
| Expenses before reductions | .88% | .88% | .89% | .90% | .91% |
| Expenses net of fee waivers, if any | .88% | .88% | .89% | .90% | .91% |
| Expenses net of all reductions | .88% | .88% | .88% | .88% | .90% |
| Net investment income (loss) | .24% | .10% | .27% | .65% | -%[J] |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 5,591,030 | $ 6,431,011 | $ 6,574,623 | $ 5,335,565 | $ 4,888,475 |
| Portfolio turnover rate[K] | 26%[L] | 142% | 132% | 187% | 84% |

A *Calculated based on average shares outstanding during the period.*
B *Amount represents less than $.005 per share.*
C *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
D *Total distributions of $4.52 per share is comprised of distributions from net investment income of $.075 and distributions from net realized gain of $4.446 per share.*
E *Total distributions of $.06 per share is comprised of distributions from net investment income of $.007 and distributions from net realized gain of $.055 per share.*
F *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
G *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
H *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
I *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
J *Amount represents less than .005%.*
K *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*
L *The portfolio turnover rate does not include the assets acquired in the merger.*

*See accompanying notes which are an integral part of the financial statements.*

## Financial Highlights — VIP Mid Cap Portfolio Investor Class

| Years ended December 31, | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Selected Per–Share Data** | | | | | |
| Net asset value, beginning of period | $ 37.53 | $ 36.25 | $ 30.46 | $ 29.00 | $ 32.60 |
| Income from Investment Operations | | | | | |
| Net investment income (loss)[A] | .14 | .10 | .15 | .26 | .05 |
| Net realized and unrealized gain (loss) | (.59) | 2.10 | 10.52 | 3.98 | (3.54) |
| Total from investment operations | (.45) | 2.20 | 10.67 | 4.24 | (3.49) |
| Distributions from net investment income | (.14)[B] | (.07) | (.16) | (.17)[B] | (.06) |
| Distributions from net realized gain | (4.45)[B] | (.85) | (4.72) | (2.61)[B] | (.06) |
| Total distributions | (4.58)[C] | (.92) | (4.88) | (2.78) | (.11)[D] |
| Net asset value, end of period | $ 32.50 | $ 37.53 | $ 36.25 | $ 30.46 | $ 29.00 |
| **Total Return**[E,F] | (1.47)% | 6.20% | 36.08% | 14.74% | (10.70)% |
| **Ratios to Average Net Assets**[G,H] | | | | | |
| Expenses before reductions | .71% | .72% | .73% | .74% | .74% |
| Expenses net of fee waivers, if any | .71% | .72% | .72% | .74% | .74% |
| Expenses net of all reductions | .71% | .71% | .71% | .72% | .73% |
| Net investment income (loss) | .41% | .27% | .44% | .82% | .17% |
| **Supplemental Data** | | | | | |
| Net assets, end of period (000 omitted) | $ 523,368 | $ 503,509 | $ 470,265 | $ 312,004 | $ 314,362 |
| Portfolio turnover rate[I] | 26%[J] | 142% | 132% | 187% | 84% |

A *Calculated based on average shares outstanding during the period.*
B *The amounts shown reflect certain reclassifications related to book to tax differences that were made in the year shown.*
C *Total distributions of $4.58 per share is comprised of distributions from net investment income of $.137 and distributions from net realized gain of $4.446 per share.*
D *Total distributions of $.11 per share is comprised of distributions from net investment income of $.056 and distributions from net realized gain of $.055 per share.*
E *Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.*
F *Total returns would have been lower if certain expenses had not been reduced during the applicable periods shown.*
G *Fees and expenses of any underlying Fidelity Central Funds are not included in the Fund's expense ratio. The Fund indirectly bears its proportionate share of the expenses of any underlying Fidelity Central Funds.*
H *Expense ratios reflect operating expenses of the class. Expenses before reductions do not reflect amounts reimbursed by the investment adviser or reductions from brokerage service arrangements or reductions from other expense offset arrangements and do not represent the amount paid by the class during periods when reimbursements or reductions occur. Expenses net of fee waivers reflect expenses after reimbursement by the investment adviser but prior to reductions from brokerage service arrangements or other expense offset arrangements. Expenses net of all reductions represent the net expenses paid by the class.*
I *Amount does not include the portfolio activity of any underlying Fidelity Central Funds.*
J *The portfolio turnover rate does not include the assets acquired in the merger.*

*See accompanying notes which are an integral part of the financial statements.*

# Notes to Financial Statements

For the period ended December 31, 2015

## 1. Organization.

VIP Mid Cap Portfolio (the Fund) is a fund of Variable Insurance Products Fund III (the Trust) and is authorized to issue an unlimited number of shares. The Trust 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. Shares of the Fund may only be purchased by insurance companies for the purpose of funding variable annuity or variable life insurance contracts. The Fund offers the following classes of shares: Initial Class shares, Service Class shares, Service Class 2 shares and Investor Class shares. All classes have equal rights and voting privileges, except for matters affecting a single class.

## 2. Investments in Fidelity Central Funds.

The Fund invests in Fidelity Central Funds, which are open-end investment companies generally available only to other investment companies and accounts managed by the investment adviser and its affiliates. The Fund's Schedule of Investments lists each of the Fidelity Central Funds held as of period end, if any, as an investment of the Fund, but does not include the underlying holdings of each Fidelity Central Fund. As an Investing Fund, the Fund indirectly bears its proportionate share of the expenses of the underlying Fidelity Central Funds.

The Money Market Central Funds seek preservation of capital and current income and are managed by Fidelity Investments Money Management, Inc. (FIMM), an affiliate of the investment adviser. Annualized expenses of the Money Market Central Funds as of their most recent shareholder report date are less than .005%.

A complete unaudited list of holdings for each Fidelity Central Fund is available upon request or at the Securities and Exchange Commission (the SEC) website at www.sec.gov. In addition, the financial statements of the Fidelity Central Funds, which are not covered by the Fund's Report of Independent Registered Public Accounting Firm, are available on the SEC website or upon request.

## 3. Significant Accounting Policies.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date that the financial statements were issued have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Fund:

**Investment Valuation.** Investments are valued as of 4:00 p.m. Eastern time on the last calendar day of the period. The Board of Trustees (the Board) has delegated the day to day responsibility for the valuation of the Fund's investments to the Fidelity Management & Research Company (FMR) Fair Value Committee (the Committee). In accordance with valuation policies and procedures approved by the Board, the Fund attempts to obtain prices from one or more third party pricing vendors or brokers to value its investments. When current market prices, quotations or currency exchange rates are not readily available or reliable, investments will be fair valued in good faith by the Committee, in accordance with procedures adopted by the Board. Factors used in determining fair value vary by investment type and may include market or investment specific events. The frequency with which these procedures are used cannot be predicted and they may be utilized to a significant extent. The Committee oversees the Fund's valuation policies and procedures and reports to the Board on the Committee's activities and fair value determinations. The Board monitors the appropriateness of the procedures used in valuing the Fund's investments and ratifies the fair value determinations of the Committee.

The Fund categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as shown below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, etc.)

Level 3 – unobservable inputs (including the Fund's own assumptions based on the best information available)

Valuation techniques used to value the Fund's investments by major category are as follows:

Equity securities, including restricted securities, for which market quotations are readily available, are valued at the last reported sale price or official closing price as reported by a third party pricing vendor on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy. In the event there were no sales during the day or closing prices are not available, securities are valued at the last quoted bid price or may be valued using the last available price and are generally categorized as Level 2 in the hierarchy. For foreign equity securities, when market or security specific events arise, comparisons to the valuation of American Depositary Receipts (ADRs), futures contracts, Exchange-Traded Funds (ETFs) and certain indexes as well as quoted prices for similar securities may be used and would be categorized as Level 2 in the hierarchy. Utilizing these techniques may result in transfers between Level 1 and Level 2. For equity securities, including restricted securities, where observable inputs are limited, assumptions about market activity and risk are used and these securities may be categorized as Level 3 in the hierarchy.

Investments in open-end mutual funds, including the Fidelity Central Funds, are valued at their closing net asset value (NAV) each business day and are categorized as Level 1 in the hierarchy.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. The aggregate value of investments by input level, as of December 31, 2015, is included at the end of the Fund's Schedule of Investments.

**Foreign Currency.** The Fund may use foreign currency contracts to facilitate transactions in foreign-denominated securities. Gains and losses from these transactions may arise from changes in the value of the foreign currency or if the counterparties do not perform under the contracts' terms.

Foreign-denominated assets, including investment securities, and liabilities are translated into U.S. dollars at the exchange rates at period end. Purchases and sales of investment securities, income and dividends received and expenses denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

The effects of exchange rate fluctuations on investments are included with the net realized and unrealized gain (loss) on investment securities. Other foreign currency transactions resulting in realized and unrealized gain (loss) are disclosed separately.

**Investment Transactions and Income.** For financial reporting purposes, the Fund's investment holdings and NAV include trades executed through the end of the last business day of the period. The NAV per share for processing shareholder transactions is calculated as of the close of business of the New York Stock Exchange (NYSE), normally 4:00 p.m. Eastern time and includes trades executed through the end of the prior business day. Gains and losses on securities sold are determined on the basis of identified cost and may include proceeds received from litigation. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Fund is informed of the ex-dividend date. Non-cash dividends included in dividend income, if any, are recorded at the fair market value of the securities received. Income and capital gain distributions from Fidelity Central Funds, if any, are recorded on the ex-dividend date. Distributions received on securities that represent a return of capital or capital gain are recorded as a reduction of cost of investments and/or as a realized gain. Subsequent to ex-dividend date the Fund determines the components of these distributions, based upon receipt of tax filings or other correspondence relating to the underlying investment. Investment income is recorded net of foreign taxes withheld where recovery of such taxes is uncertain.

**Class Allocations and Expenses.** Investment income, realized and unrealized capital gains and losses, common expenses of the Fund, and certain fund-level expense reductions, if any, are allocated daily on a pro-rata basis to each class based on the relative net assets of each class to the total net assets of the Fund. Each class differs with respect to transfer agent and distribution and service plan fees incurred. Certain expense reductions may also differ by class. For the reporting period, the allocated portion of income and expenses to each class as a percent of its average net assets may vary due to the timing of recording these transactions in relation to fluctuating net assets of the classes. Expenses directly attributable to a fund are charged to that fund. Expenses attributable to more than one fund are allocated among the respective funds on the basis of relative net assets or other appropriate methods. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

**Income Tax Information and Distributions to Shareholders.** Each year, the Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, including distributing substantially all of its taxable income and realized gains. As a result, no provision for U.S. Federal income taxes is required. As of December 31, 2015, the Fund did not have any unrecognized tax benefits in the financial statements; nor is the Fund 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. The Fund files a U.S. federal tax return, in addition to state and local tax returns as required. The Fund's federal income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three fiscal years after they are filed. State and local tax returns may be subject to examination for an additional fiscal year depending on the jurisdiction. Foreign taxes are provided for based on the Fund's understanding of the tax rules and rates that exist in the foreign markets in which it invests. The Fund is subject to a tax imposed on capital gains by certain countries in which it invests.

Distributions are declared and recorded on the ex-dividend date. Income dividends and capital gain distributions are declared separately for each class. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. These differences resulted in distribution reclassifications.

Capital accounts within the financial statements are adjusted for permanent book-tax differences. These adjustments have no impact on net assets or the results of operations. Capital accounts are not adjusted for temporary book-tax differences which will reverse in a subsequent period.

Book-tax differences are primarily due to foreign currency transactions, partnerships, certain foreign taxes, equity-debt classifications and losses deferred due to wash sales and excise tax regulations.

The federal tax cost of investment securities and unrealized appreciation (depreciation) as of period end were as follows:

| | |
|---|---|
| **Gross unrealized appreciation** | $1,472,882,706 |
| **Gross unrealized depreciation** | (654,677,896) |
| **Net unrealized appreciation (depreciation) on securities** | $ 818,204,810 |
| **Tax Cost** | $7,327,553,347 |

The tax-based components of distributable earnings as of period end were as follows:

| | |
|---|---|
| **Undistributed long-term capital gain** | $493,205,790 |
| **Net unrealized appreciation (depreciation) on securities and other investments** | $818,164,557 |

The Fund intends to elect to defer to its next fiscal year $8,021,978 of capital losses recognized during the period November 1, 2015 to December 31, 2015.

The tax character of distributions paid was as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Ordinary Income** | $ 30,795,763 | $ 87,283,265 |
| **Long-term Capital Gains** | 1,068,353,375 | 132,570,212 |
| **Total** | $1,099,149,138 | $219,853,477 |

## 4. Purchases and Sales of Investments.

Purchases and sales of securities, other than short-term securities and securities acquired in the merger, aggregated $2,296,119,671 and $3,188,329,627, respectively.

## 5. Fees and Other Transactions with Affiliates.

**Management Fee.** Fidelity Management & Research Company (the investment adviser) and its affiliates provide the Fund with investment management related services for which the Fund pays a monthly management fee. The management fee is the sum of an individual fund fee rate that is based on an annual rate of .30% of the Fund's average net assets and an annualized group fee rate that averaged .25% during the period. The group fee rate is based upon the average net assets of all the mutual funds advised by the investment adviser, including any mutual funds previously advised by the investment adviser that are currently advised by Fidelity SelectCo, LLC, an affiliate of the investment adviser. The group fee rate decreases as assets under management increase and increases as assets under management decrease. For the reporting period, the total annual management fee rate was .55% of the Fund's average net assets.

**Distribution and Service Plan Fees.** In accordance with Rule 12b-1 of the 1940 Act, the Fund has adopted separate 12b-1 Plans for each Service Class of shares. Each Service Class pays Fidelity Distributors Corporation (FDC), an affiliate of the investment adviser, a service fee. For the period, the service fee is based on an annual rate of .10% of Service Class' average net assets and .25% of Service Class 2's average net assets.

For the period, total fees, all of which were re-allowed to insurance companies for the distribution of shares and providing shareholder support services, were as follows:

| | |
|---|---|
| **Service Class** | $ 614,201 |
| **Service Class 2** | 15,511,194 |
| | $16,125,395 |

**Transfer Agent Fees.** Fidelity Investments Institutional Operations Company, Inc. (FIIOC), an affiliate of the investment adviser, is the Fund's transfer, dividend disbursing, and shareholder servicing agent. FIIOC receives an asset-based fee with respect to each class. Each class (with the exception of Investor Class) pays a fee for transfer agent services, typesetting, printing and mailing of shareholder reports, excluding mailing of proxy statements and out of pocket expenses, equal to an annual rate of .07% (.15% for Investor Class) of class-level average net assets. For the period, transfer agent fees for each class, including out of pocket expenses, were as follows:

| | |
|---|---|
| **Initial Class** | $ 978,036 |
| **Service Class** | 405,885 |
| **Service Class 2** | 4,095,758 |
| **Investor Class** | 797,945 |
| | $6,277,624 |

**Accounting and Security Lending Fees.** Fidelity Service Company, Inc. (FSC), an affiliate of the investment adviser, maintains the Fund's accounting records. The accounting fee is based on the level of average net assets for each month. Under a separate contract, FSC administers the security lending program. The security lending fee is based on the number and duration of lending transactions.

**Brokerage Commissions.** The Fund placed a portion of its portfolio transactions with brokerage firms which are affiliates of the investment adviser. Brokerage commissions are included in net realized gain (loss) and change in net unrealized appreciation (depreciation) in the Statement of Operations. The commissions paid to these affiliated firms were $53,341 for the period.

**Interfund Lending Program.** Pursuant to an Exemptive Order issued by the SEC, the Fund, along with other registered investment companies having management contracts with Fidelity Management & Research Company (FMR) or other affiliated entities of FMR, may participate in an interfund lending program. This program provides an alternative credit facility allowing the funds to borrow from, or lend money to, other participating affiliated funds. At period end, there were no interfund loans outstanding. The Fund's activity in this program during the period for which loans were outstanding was as follows:

| Borrower or Lender | Average Loan Balance | Weighted Average Interest Rate | Interest Expense |
|---|---|---|---|
| **Borrower** | $9,404,229 | .36% | $9,964 |

**Interfund Trades.** The Fund may purchase from or sell securities to other Fidelity Funds under procedures adopted by the Board. The procedures have been designed to ensure these interfund trades are executed in accordance with Rule 17a-7 of the 1940 Act. Interfund trades are included within the respective purchases and sales amounts shown in the Purchases and Sales of Investments note.

## 6. Committed Line of Credit.

The Fund participates with other funds managed by the investment adviser or an affiliate in a $4.25 billion credit facility (the "line of credit") to be utilized for temporary or emergency purposes to fund shareholder redemptions or for other short-term liquidity purposes. The Fund has agreed to pay commitment fees on its pro-rata portion of the line of credit, which amounted to $12,913 and is reflected in Miscellaneous expenses on the Statement of Operations. During the period, the Fund did not borrow on this line of credit.

## 7. Security Lending.

The Fund lends portfolio securities through a lending agent from time to time in order to earn additional income. For equity securities, a lending agent is used and may loan securities to certain qualified borrowers, including Fidelity Capital Markets (FCM), a broker-dealer affiliated with the Fund. On the settlement date of the loan, the Fund receives collateral (in the form of U.S. Treasury obligations, letters of credit and/or cash) against the loaned securities and maintains collateral in an amount not less than 100% of the market value of the loaned securities during the period of the loan. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund or borrower may terminate the loan at any time, and if the borrower defaults on its obligation to return the securities loaned because of insolvency or other reasons, the Fund may apply collateral received from the borrower against the obligation. The Fund may experience delays and costs in recovering the securities loaned. Any cash collateral received is invested in the Fidelity Securities Lending Cash Central Fund. The value of loaned securities and cash collateral at period end are disclosed on the Fund's Statement of Assets and Liabilities. At period end, there were no security loans outstanding with FCM. Security lending income represents the income earned on investing cash collateral, less rebates paid to borrowers and any lending agent fees associated with the loan, plus any premium payments received for lending certain types of securities. Security lending income is presented in the Statement of Operations as a component of income from Fidelity Central Funds. Total security lending income during the period amounted to $333,919, including $876 from securities loaned to FCM.

## 8. Bank Borrowings.

The Fund is permitted to have bank borrowings for temporary or emergency purposes to fund shareholder redemptions or for other short-term liquidity requirements. The Fund has established borrowing arrangements with certain banks. The interest rate on the borrowings is the bank's base rate, as revised from time to time. The average loan balance during the period for which loans were outstanding amounted to $11,037,722. The weighted average interest rate was .62%. The interest expense amounted to $6,818 under the bank borrowing program. At period end, there were no bank borrowings outstanding.

## 9. Expense Reductions.

Commissions paid to certain brokers with whom the investment adviser, or its affiliates, places trades on behalf of the Fund include an amount in addition to trade execution, which may be rebated back to the Fund to offset certain expenses. This amount totaled $84,123 for the period. In addition, through arrangements with the Fund's custodian, credits realized as a result of certain uninvested cash balances were used to reduce the Fund's expenses. During the period, these credits reduced the Fund's custody expenses by $145.

In addition, during the period the investment adviser reimbursed and/or waived a portion of fund-level operating expenses in the amount $36,698 and a portion of class-level operating expenses as follows:

| | Amount |
|---|---|
| **Investor Class** | $11,354 |

## 10. Distributions to Shareholders.

Distributions to shareholders of each class were as follows:

| Years ended December 31, | 2015 | 2014 |
|---|---|---|
| **From net investment income** | | |
| Initial Class | $ 6,856,691 | $ 3,774,917 |
| Service Class | 2,239,466 | 990,351 |
| Service Class 2 | 13,204,712 | 1,215,921 |
| Investor Class | 2,196,855 | 904,982 |
| Total | $ 24,497,724 | $ 6,886,171 |
| **From net realized gain** | | |
| Initial Class | $ 173,008,924 | $ 34,174,917 |
| Service Class | 73,895,308 | 14,603,745 |
| Service Class 2 | 768,328,236 | 153,016,366 |
| Investor Class | 59,418,946 | 11,172,278 |
| Total | $1,074,651,414 | $212,967,306 |

## 11. Share Transactions.

Transactions for each class of shares were as follows:

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| **Initial Class** | | | | |
| Shares sold | 4,347457 | 3,868,698 | $ 150,311,214 | $ 141,786,603 |
| Issued in exchange for the shares of VIP Growth Strategies Portfolio | 360,771 | – | 12,767,680 | – |
| Reinvestment of distributions | 5,354,795 | 1,054,394 | 179,865,615 | 37,949,834 |
| Shares redeemed | (6,893,278) | (6,692,546) | (237,965,645) | (244,766,127) |
| Net increase (decrease) | 3,169,745 | (1,769,454) | $ 104,978,864 | $ (65,029,690) |
| **Service Class** | | | | |
| Shares sold | 1,507,053 | 1,246,174 | $ 51,724,215 | $ 45,087,196 |
| Issued in exchange for the shares of VIP Growth Strategies Portfolio | 2,365 | – | 83,060 | – |
| Reinvestment of distributions | 2,283,479 | 437,179 | 76,134,774 | 15,594,096 |
| Shares redeemed | (2,939,119) | (2,725,033) | (101,018,159) | (98,952,997) |
| Net increase (decrease) | 853,778 | (1,041,680) | $ 26,923,890 | $ (38,271,705) |
| **Service Class 2** | | | | |
| Shares sold | 8,545,475 | 12,121,569 | $ 287,200,999 | $ 436,064,579 |
| Issued in exchange for the shares of VIP Growth Strategies Portfolio | 219,579 | – | 7,566,682 | – |
| Reinvestment of distributions | 23,864,809 | 4,408,382 | 781,532,948 | 154,232,287 |
| Shares redeemed | (31,525,458) | (26,657,188) | (1,056,122,491) | (947,962,455) |
| Net increase (decrease) | 1,104,405 | (10,127,237) | $ 20,178,138 | $ (357,665,589) |
| **Investor Class** | | | | |
| Shares sold | 1,067,585 | 1,116,739 | $ 36,914,564 | $ 40,550,127 |
| Issued in exchange for the shares of VIP Growth Strategies Portfolio | 1,289,847 | – | 45,428,423 | – |

| Years ended December 31, | Shares 2015 | Shares 2014 | Dollars 2015 | Dollars 2014 |
|---|---|---|---|---|
| Reinvestment of distributions | 1,843,002 | 336,975 | 61,615,801 | 12,077,260 |
| Shares redeemed | (1,513,170) | (1,012,211) | (51,788,379) | (36,794,057) |
| Net increase (decrease) | 2,687,264 | 441,503 | $ 92,170,409 | $ 15,833,330 |

## 12. Other.

The Fund's organizational documents provide former and current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Fund. In the normal course of business, the Fund may also enter into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

At the end of the period, the investment adviser or its affiliates were the owners of record of 11% of the total outstanding shares of the Fund.

## 13. Merger Information.

On April 24, 2015, the Fund acquired all of the assets and assumed all of the liabilities of VIP Growth Strategies Portfolio ("Target Fund") pursuant to an Agreement and Plan of Reorganization approved by the Board of Trustees ("The Board"). The acquisition was accomplished by an exchange of shares of each class of the Fund for corresponding shares then outstanding of the Target Fund at their respective net asset value on the acquisition date. The reorganization provides shareholders of the Target Fund access to a larger portfolio with a similar investment objective and lower expenses. The reorganization qualified as a tax-free reorganization for federal income tax purposes with no gain or loss recognized to the funds or their shareholders. The Target Fund's net assets of $65,845,845, including securities of $65,918,670 and unrealized appreciation of $3,990,039 were combined with the Fund's net assets of $9,322,211,254 for total net assets after the acquisition of $9,388,057,099.

Pro forma results of operations of the combined entity for the entire period ended December 31, 2015, as though the acquisition had occurred as of the beginning of the year (rather than on the actual acquisition date), are as follows:

| | |
|---|---|
| Net Investment income (loss) | $ 26,894,205 |
| Total net realized gain (loss) | 515,198,842 |
| Total change in net unrealized appreciation (depreciation) | (653,262,046) |
| Net increase (decrease) in net assets resulting from operations | $(111,168,999) |

Because the combined investment portfolios have been managed as a single portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of the acquired fund that have been included in the Fund's accompanying Statement of Operations since April 24, 2015.

# Report of Independent Registered Public Accounting Firm

To the Trustees of Variable Insurance Products Fund III and Shareholders of VIP Mid Cap Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of VIP Mid Cap Portfolio (a fund of Variable Insurance Products Fund III) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the VIP Mid Cap Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 16, 2016

# Trustees and Officers

The Trustees, Members of the Advisory Board (if any), and officers of the trust and fund, as applicable, are listed below. The Board of Trustees governs the fund and is responsible for protecting the interests of shareholders. The Trustees are experienced executives who meet periodically throughout the year to oversee the fund's activities, review contractual arrangements with companies that provide services to the fund, oversee management of the risks associated with such activities and contractual arrangements, and review the fund's performance. Each of the Trustees oversees 170 funds.

The Trustees hold office without limit in time except that (a) any Trustee may resign; (b) any Trustee may be removed by written instrument, signed by at least two-thirds of the number of Trustees prior to such removal; (c) any Trustee who requests to be retired or who has become incapacitated by illness or injury may be retired by written instrument signed by a majority of the other Trustees; and (d) any Trustee may be removed at any special meeting of shareholders by a two-thirds vote of the outstanding voting securities of the trust. Each Trustee who is not an interested person (as defined in the 1940 Act) of the trust and the fund is referred to herein as an Independent Trustee. Each Independent Trustee shall retire not later than the last day of the calendar year in which his or her 75th birthday occurs. The Independent Trustees may waive this mandatory retirement age policy with respect to individual Trustees. Officers and Advisory Board Members hold office without limit in time, except that any officer or Advisory Board Member may resign or may be removed by a vote of a majority of the Trustees at any regular meeting or any special meeting of the Trustees. Except as indicated, each individual has held the office shown or other offices in the same company for the past five years.

The fund's Statement of Additional Information (SAI) includes more information about the Trustees. To request a free copy, call Fidelity at 1-877-208-0098.

**Experience, Skills, Attributes, and Qualifications of the Trustees.** The Governance and Nominating Committee has adopted a statement of policy that describes the experience, qualifications, attributes, and skills that are necessary and desirable for potential Independent Trustee candidates (Statement of Policy). The Board believes that each Trustee satisfied at the time he or she was initially elected or appointed a Trustee, and continues to satisfy, the standards contemplated by the Statement of Policy. The Governance and Nominating Committee also engages professional search firms to help identify potential Independent Trustee candidates who have the experience, qualifications, attributes, and skills consistent with the Statement of Policy. From time to time, additional criteria based on the composition and skills of the current Independent Trustees, as well as experience or skills that may be appropriate in light of future changes to board composition, business conditions, and regulatory or other developments, have also been considered by the professional search firms and the Governance and Nominating Committee. In addition, the Board takes into account the Trustees' commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout their tenure.

In determining that a particular Trustee was and continues to be qualified to serve as a Trustee, the Board has considered a variety of criteria, none of which, in isolation, was controlling. The Board believes that, collectively, the Trustees have balanced and diverse experience, qualifications, attributes, and skills, which allow the Board to operate effectively in governing the fund and protecting the interests of shareholders. Information about the specific experience, skills, attributes, and qualifications of each Trustee, which in each case led to the Board's conclusion that the Trustee should serve (or continue to serve) as a trustee of the fund, is provided below.

**Board Structure and Oversight Function.** James C. Curvey is an interested person and currently serves as Chairman. The Trustees have determined that an interested Chairman is appropriate and benefits shareholders because an interested Chairman has a personal and professional stake in the quality and continuity of services provided to the fund. Independent Trustees exercise their informed business judgment to appoint an individual of their choosing to serve as Chairman, regardless of whether the Trustee happens to be independent or a member of management. The Independent Trustees have determined that they can act independently and effectively without having an Independent Trustee serve as Chairman and that a key structural component for assuring that they are in a position to do so is for the Independent Trustees to constitute a substantial majority for the Board. The Independent Trustees also regularly meet in executive session. Ned C. Lautenbach serves as Chairman of the Independent Trustees and as such (i) acts as a liaison between the Independent Trustees and management with respect to matters important to the Independent Trustees and (ii) with management prepares agendas for Board meetings.

Fidelity® funds are overseen by different Boards of Trustees. The fund's Board oversees Fidelity's high income and certain equity funds, and other Boards oversee Fidelity's investment-grade bond, money market, asset allocation, and sector funds. The asset allocation funds may invest in Fidelity® funds overseen by the fund's Board. The use of separate Boards, each with its own committee structure, allows the Trustees of each group of Fidelity® funds to focus on the unique issues of the funds they oversee, including common research, investment, and operational issues. On occasion, the separate Boards establish joint committees to address issues of overlapping consequences for the Fidelity® funds overseen by each Board.

The Trustees operate using a system of committees to facilitate the timely and efficient consideration of all matters of importance to the Trustees, the fund, and fund shareholders and to facilitate compliance with legal and regulatory requirements and oversight of the fund's activities and associated risks. The Board, acting through its committees, has charged FMR and its affiliates with (i) identifying events or circumstances the occurrence of which could have demonstrably adverse effects on the fund's business and/or reputation; (ii) implementing processes and controls to lessen the possibility that such events or circumstances occur or to mitigate the effects of such events or circumstances if they do occur; and (iii) creating and maintaining a system designed to evaluate continuously business and market conditions in order to facilitate the identification and implementation processes described in (i) and (ii) above. Because the day-to-day operations and activities of the fund are carried out by or through FMR, its affiliates, and other service providers, the fund's exposure to risks is mitigated but not eliminated by the processes overseen

by the Trustees. While each of the Board's committees has responsibility for overseeing different aspects of the fund's activities, oversight is exercised primarily through the Operations, Audit, and Compliance Committees. In addition, the Independent Trustees have worked with FMR to enhance the Board's oversight of investment and financial risks, legal and regulatory risks, technology risks, and operational risks, including the development of additional risk reporting to the Board. For example, a working group comprised of Independent Trustees and FMR has worked and continues to work to review the Fidelity® funds' valuation-related activities, reporting and risk management. Appropriate personnel, including but not limited to the fund's Chief Compliance Officer (CCO), FMR's internal auditor, the independent accountants, the fund's Treasurer and portfolio management personnel, make periodic reports to the Board's committees, as appropriate, including an annual review of Fidelity's risk management program for the Fidelity® funds. The responsibilities of each standing committee, including their oversight responsibilities, are described further under "Standing Committees of the Trustees."

Interested Trustees*:

Correspondence intended for a Trustee who is an interested person may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

James C. Curvey (1935)

Year of Election or Appointment: 2007
Trustee
Chairman of the Board of Trustees

Mr. Curvey also serves as Trustee of other Fidelity® funds. Mr. Curvey is a Director of Fidelity Research & Analysis Co. (investment adviser firm, 2009-present), and Vice Chairman (2007-present) and Director of FMR LLC (diversified financial services company). In addition, Mr. Curvey serves as an Overseer for the Boston Symphony Orchestra and a member of the board of Artis-Naples, Naples, Florida, and as a Trustee for Brewster Academy, Wolfeboro, New Hampshire. Previously, Mr. Curvey served as a Director of Fidelity Investments Money Management, Inc. (investment adviser firm, 2009-2014) and a Director of FMR and FMR Co., Inc. (investment adviser firms, 2007-2014).

Charles S. Morrison (1960)

Year of Election or Appointment: 2014
Trustee

Mr. Morrison also serves as Trustee of other funds. He serves as a Director of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2014-present), Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present), President, Asset Management (2014-present), and is an employee of Fidelity Investments. Previously, Mr. Morrison served as Vice President of Fidelity's Fixed Income and Asset Allocation Funds (2012-2014), President, Fixed Income (2011-2014), Vice President of Fidelity's Money Market Funds (2005-2009), President, Money Market Group Leader of FMR (investment adviser firm, 2009), and Senior Vice President, Money Market Group of FMR (2004-2009). Mr. Morrison also served as Vice President of Fidelity's Bond Funds (2002-2005), certain Balanced Funds (2002-2005), and certain Asset Allocation Funds (2002-2007), and as Senior Vice President (2002-2005) of Fidelity's Bond Division.

* Determined to be an "Interested Trustee" by virtue of, among other things, his or her affiliation with the trust or various entities under common control with FMR.

+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Independent Trustees:

Correspondence intended for an Independent Trustee may be sent to Fidelity Investments, P.O. Box 55235, Boston, Massachusetts 02205-5235.

Name, Year of Birth; Principal Occupations and Other Relevant Experience+

Dennis J. Dirks (1948)

Year of Election or Appointment: 2005
Trustee

Mr. Dirks also serves as Trustee of other Fidelity® funds. Prior to his retirement in May 2003, Mr. Dirks was Chief Operating Officer and a member of the Board of The Depository Trust & Clearing Corporation (DTCC). He also served as President, Chief Operating Officer, and Board member of The Depository Trust Company (DTC) and President and Board member of the National Securities Clearing Corporation (NSCC). In addition, Mr. Dirks served as Chief Executive Officer and Board member of the Government Securities Clearing Corporation, Chief Executive Officer and Board member of the Mortgage-Backed Securities Clearing Corporation, as a Trustee and a member of the Finance Committee of Manhattan College (2005-2008), as a Trustee and a member of the Finance Committee of AHRC of Nassau County (2006-2008), and as a member of the Independent Directors Council (IDC) Governing Council (2010-2015). Mr. Dirks is a member of the Board of Directors for The Brookville Center for Children's Services, Inc. (2009-present).

Alan J. Lacy (1953)

Year of Election or Appointment: 2008
Trustee

Mr. Lacy also serves as Trustee of other Fidelity® funds. Mr. Lacy serves as Chairman (2014-present) and a member (2010-present) of the Board of Directors of Dave & Buster's Entertainment, Inc. (restaurant and entertainment complexes) and a Director of Bristol-Myers Squibb Company (global pharmaceuticals, 2008-present). He is a Trustee of the California Chapter of The Nature Conservancy (2015-present) and a Director of the Center for Advanced Study in the Behavioral Sciences at Stanford University (2015-present). In addition, Mr. Lacy served as Senior Adviser (2007-2014) of Oak Hill Capital Partners, L.P. (private equity) and also served as Chief Executive Officer (2005) and Vice Chairman (2005-2006) of Sears Holdings Corporation (retail) and Chief Executive Officer and Chairman of the Board of Sears, Roebuck and Co. (retail, 2000-2005). Previously, Mr. Lacy served as Chairman (2008-2011) and a member (2006-2015) of the Board of Trustees of the National Parks Conservation Association and as a member of the Board of Directors for The Western Union Company (global money transfer, 2006-2011), The Hillman Companies, Inc. (hardware wholesalers, 2010-2014), and Earth Fare, Inc. (retail grocery, 2010-2014).

Ned C. Lautenbach (1944)

Year of Election or Appointment: 2000
Trustee
Chairman of the Independent Trustees

Mr. Lautenbach also serves as Trustee of other Fidelity® funds. Mr. Lautenbach currently serves as the Lead Director of the Eaton Corporation Board of Directors (diversified industrial, 1997-present). Mr. Lautenbach is Chairman of the Board of Directors of Artis-Naples in Naples, Florida (2012-present), a member of the Council on Foreign Relations (1994-present), and a member of the Board of Governors, State University System of Florida (2013-present). Previously, Mr. Lautenbach was a Partner/Advisory Partner at Clayton, Dubilier & Rice, LLC (private equity investment, 1998-2010), as well as a Director of Sony Corporation (2006-2007).

Joseph Mauriello (1944)

Year of Election or Appointment: 2008
Trustee

Mr. Mauriello also serves as Trustee of other Fidelity® funds. Prior to his retirement in January 2006, Mr. Mauriello served in numerous senior management positions including Deputy Chairman and Chief Operating Officer (2004-2005), and Vice Chairman of Financial Services (2002-2004) of KPMG LLP US (professional services, 1965-2005). Mr. Mauriello currently serves as a member of the Board of Directors of XL Group plc. (global insurance and re-insurance, 2006-present) and the Independent Directors Council (IDC) Governing Council (2015-present). Previously, Mr. Mauriello served as a Director of the Hamilton Funds of the Bank of New York (2006-2007) and of Arcadia Resources Inc. (health care services and products, 2007-2012).

Robert W. Selander (1950)

Year of Election or Appointment: 2011
Trustee

Mr. Selander also serves as Trustee of other Fidelity® funds. Mr. Selander serves as a Director of The Western Union Company (global money transfer, 2014-present) and a non-executive Chairman of Health Equity, Inc. (health savings custodian, 2015-present). Previously, Mr. Selander served as a Member of the Advisory Board of other Fidelity® funds (2011), and Executive Vice Chairman (2010), Chief Executive Officer (2009-2010), and President and Chief Executive Officer (1997-2009) of Mastercard, Inc.

Cornelia M. Small (1944)

Year of Election or Appointment: 2005
Trustee

Ms. Small also serves as Trustee of other Fidelity® funds. Ms. Small is a member of the Board of Directors (2009-present) and Chair of the Investment Committee (2010-present) of the Teagle Foundation. Ms. Small also serves on the Investment Committee of the Berkshire Taconic Community Foundation (2008-present). Previously, Ms. Small served as Chairperson (2002-2008) and a member of the Investment Committee and Chairperson (2008-2012) and a member of the Board of Trustees of Smith College. In addition, Ms. Small served as Chief Investment Officer, Director of Global Equity Investments, and a member of the Board of Directors of Scudder, Stevens & Clark and Scudder Kemper Investments.

William S. Stavropoulos (1939)

Year of Election or Appointment: 2002
Trustee
Vice Chairman of the Independent Trustees

Mr. Stavropoulos also serves as Trustee of other Fidelity® funds. Mr. Stavropoulos serves as President and Founder of the Michigan Baseball Foundation, the Great Lakes Loons (2007-present). Mr. Stavropoulos is Chairman Emeritus of the Board of Directors of The Dow Chemical Company, where he previously served in numerous senior management positions, including President, CEO (1995-2000; 2002-2004), Chairman of the Executive Committee (2000-2006), and as a member of the Board of Directors (1990-2006). Currently, Mr. Stavropoulos is Chairman of the Board of Directors of Univar Inc. (global distributor of commodity and specialty chemicals), a Director of Teradata Corporation (data warehousing and technology solutions), and Maersk Inc. (industrial conglomerate), and a member of the Advisory Board for Metalmark Capital LLC (private equity investment, 2005-present). Mr. Stavropoulos is an operating advisor to Clayton, Dubilier & Rice, LLC (private equity investment). In addition, Mr. Stavropoulos is a member of the University of Notre Dame Advisory Council for the College of Science, a Trustee of the Rollin L. Gerstacker Foundation, and a Director of the Naples Philharmonic Center for the Arts. Previously, Mr. Stavropoulos served as a Director of Chemical Financial Corporation (bank holding company, 1993-2012) and Tyco International, Ltd. (multinational manufacturing and services, 2007-2012).

David M. Thomas (1949)

Year of Election or Appointment: 2008
Trustee

Mr. Thomas also serves as Trustee of other Fidelity® funds. Mr. Thomas serves as Non-Executive Chairman of the Board of Directors of Fortune Brands Home and Security (home and security products, 2011-present), as a member of the Board of Directors (2004-present) and Presiding Director (2013-present) of Interpublic Group of Companies, Inc. (marketing communication), and as a member of the Board of Trustees of the University of Florida (2013-present). Previously, Mr. Thomas served as Executive Chairman (2005-2006) and Chairman and Chief Executive Officer (2000-2005) of IMS Health, Inc. (pharmaceutical and healthcare information solutions), and a Director of Fortune Brands, Inc. (consumer products, 2000-2011).

\+ The information includes the Trustee's principal occupation during the last five years and other information relating to the experience, attributes, and skills relevant to the Trustee's qualifications to serve as a Trustee, which led to the conclusion that the Trustee should serve as a Trustee for the fund.

Advisory Board Members and Officers:

Correspondence intended for an officer or Peter S. Lynch may be sent to Fidelity Investments, 245 Summer Street, Boston, Massachusetts 02210. Officers appear below in alphabetical order.

Name, Year of Birth; Principal Occupation

Peter S. Lynch (1944)

Year of Election or Appointment: 2003
Member of the Advisory Board

Mr. Lynch also serves as Member of the Advisory Board of other Fidelity® funds. Mr. Lynch is Vice Chairman and a Director of FMR (investment adviser firm) and FMR Co., Inc. (investment adviser firm). In addition, Mr. Lynch serves as a Trustee of Boston College and as the Chairman of the Inner-City Scholarship Fund. Previously, Mr. Lynch served on the Special Olympics International Board of Directors (1997-2006).

Marc R. Bryant (1966)

Year of Election or Appointment: 2015
Secretary and Chief Legal Officer (CLO)

Mr. Bryant also serves as Secretary and CLO of other funds. Mr. Bryant serves as CLO, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2015-present) and FMR Co., Inc. (investment adviser firm, 2015-present); Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2015-present) and Fidelity Investments Money Management, Inc. (investment adviser firm, 2015-present); and CLO of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2015-present). He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company). Previously, Mr. Bryant served as Secretary and CLO of Fidelity Rutland Square Trust II (2010-2014) and Assistant Secretary of Fidelity's Fixed Income and Asset Allocation Funds (2013-2015). Prior to joining Fidelity Investments, Mr. Bryant served as a Senior Vice President and the Head of Global Retail Legal for AllianceBernstein L.P. (2006-2010), and as the General Counsel for ProFund Advisors LLC (2001-2006).

William C. Coffey (1969)

Year of Election or Appointment: 2009
Assistant Secretary

Mr. Coffey also serves as Assistant Secretary of other funds. He is Senior Vice President and Deputy General Counsel of FMR LLC (diversified financial services company, 2010-present), and is an employee of Fidelity Investments. Previously, Mr. Coffey served as Vice President and Associate General Counsel of FMR LLC (2005-2009).

Jonathan Davis (1968)

Year of Election or Appointment: 2010
Assistant Treasurer

Mr. Davis also serves as Assistant Treasurer of other funds, and is an employee of Fidelity Investments. Previously, Mr. Davis served as Vice President and Associate General Counsel of FMR LLC (diversified financial services company, 2003-2010).

Adrien E. Deberghes (1967)

Year of Election or Appointment: 2008
Deputy Treasurer

Mr. Deberghes also serves as an officer of other funds. He is an employee of Fidelity Investments (2008-present). Prior to joining Fidelity Investments, Mr. Deberghes was Senior Vice President of Mutual Fund Administration at State Street Corporation (2007-2008), Senior Director of Mutual Fund Administration at Investors Bank & Trust (2005-2007), and Director of Finance for Dunkin' Brands (2000-2005).

Stephanie J. Dorsey (1969)

Year of Election or Appointment: 2010
Assistant Treasurer

Ms. Dorsey also serves as an officer of other funds. She is an employee of Fidelity Investments (2008-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Dorsey served as Treasurer (2004-2008) of the JPMorgan Mutual Funds and Vice President (2004-2008) of JPMorgan Chase Bank.

Howard J. Galligan III (1966)

Year of Election or Appointment: 2014
Chief Financial Officer

Mr. Galligan also serves as Chief Financial Officer of other funds. Mr. Galligan serves as President of Fidelity Pricing and Cash Management Services (FPCMS) (2014-present) and as a Director of Strategic Advisers, Inc. (investment adviser firm, 2008-present). Previously, Mr. Galligan served as Chief Administrative Officer of Asset Management (2011-2014) and Chief Operating Officer and Senior Vice President of Investment Support for Strategic Advisers, Inc. (2003-2011).

Scott C. Goebel (1968)

Year of Election or Appointment: 2015
Vice President

Mr. Goebel serves as Vice President of other funds and is an employee of Fidelity Investments (2001-present). Previously, Mr. Goebel served as Secretary of Fidelity SelectCo, LLC (investment adviser firm, 2013-2015), Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2010-2015), and Fidelity Research and Analysis Company (FRAC) (investment adviser firm, 2010-2015); General Counsel, Secretary, and Senior Vice President of Fidelity Management & Research Company (investment adviser firm, 2008-2015) and FMR Co., Inc. (investment adviser firm, 2008-2015); Assistant Secretary of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2008-2015) and FMR Investment Management (U.K.) Limited (investment adviser firm, 2008-2015); Chief Legal Officer (CLO) of Fidelity Management & Research (Hong Kong) Limited (investment adviser firm, 2008-2015); Secretary and CLO of certain Fidelity® funds (2008-2015); Assistant Secretary of FIMM (2008-2010), FRAC (2008-2010), and certain funds (2007-2008); and as Vice President and Secretary of Fidelity Distributors Corporation (FDC) (2005-2007).

Brian B. Hogan (1964)

Year of Election or Appointment: 2009
Vice President

Mr. Hogan also serves as Trustee or Vice President of other funds. Mr. Hogan serves as a Director of Fidelity SelectCo, LLC (investment adviser firm, 2014-present) and President of the Equity Division of FMR (investment adviser firm, 2009-present). Previously, Mr. Hogan served as Senior Vice President, Equity Research of FMR (2006-2009) and as a portfolio manager.

Chris Maher (1972)

Year of Election or Appointment: 2013
Assistant Treasurer

Mr. Maher serves as Assistant Treasurer of other funds. Mr. Maher is Vice President of Valuation Oversight and is an employee of Fidelity Investments. Previously, Mr. Maher served as Vice President of Asset Management Compliance (2013), Vice President of the Program Management Group of FMR (investment adviser firm, 2010-2013), and Vice President of Valuation Oversight (2008-2010).

John F. Papandrea (1972)

Year of Election or Appointment: 2016
Anti-Money Laundering (AML) Officer

Mr. Papandrea also serves as AML Officer of other funds. Mr. Papandrea is Vice President of FMR LLC (diversified financial services company, 2008-present) and is an employee of Fidelity Investments (2005-present).

Melissa M. Reilly (1971)

Year of Election or Appointment: 2014
Vice President of certain Equity Funds

Ms. Reilly also serves as Vice President of other funds. Ms. Reilly is an employee of Fidelity Investments (2004-present).

Kenneth B. Robins (1969)

Year of Election or Appointment: 2008
President and Treasurer

Mr. Robins also serves as an officer of other funds. Mr. Robins serves as Executive Vice President of Fidelity Investments Money Management, Inc. (FIMM) (investment adviser firm, 2013-present) and is an employee of Fidelity Investments (2004-present). Previously, Mr. Robins served in other fund officer roles.

Stacie M. Smith (1974)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Smith also serves as an officer of other funds. She is an employee of Fidelity Investments (2009-present) and has served in other fund officer roles. Prior to joining Fidelity Investments, Ms. Smith served as Senior Audit Manager of Ernst & Young LLP (1996-2009).

Renee Stagnone (1975)

Year of Election or Appointment: 2013
Deputy Treasurer

Ms. Stagnone also serves as Deputy Treasurer of other funds. Ms. Stagnone is an employee of Fidelity Investments (1997-present).

Linda J. Wondrack (1964)

Year of Election or Appointment: 2014
Chief Compliance Officer

Ms. Wondrack also serves as Chief Compliance Officer of other funds. Ms. Wondrack is Executive Vice President and head of the Ethics Office and Asset Management Compliance for Fidelity Investments (2012-present). Ms. Wondrack also serves as Chief Compliance Officer of Fidelity SelectCo, LLC (investment adviser firm, 2014-present); Chief Compliance Officer of Impresa Management LLC (2013-present); and Chief Compliance Officer of FMR Co., Inc. (investment adviser firm), Fidelity Investments Money Management, Inc. (investment adviser firm), FMR Investment Management (U.K.) Limited (investment adviser firm), Fidelity Management & Research (Hong Kong) (investment adviser firm), Fidelity Management & Research Company (investment adviser firm), FIAM LLC (investment adviser firm), and Strategic Advisers, Inc. (investment adviser firm), Ballyrock Investment Advisors LLC, and Northern Neck Investors LLC (2012-present). Previously, Ms. Wondrack served as Chief Compliance Officer of Fidelity Management & Research (Japan) Limited (investment adviser firm, 2012-2016); Senior Vice President and Chief Compliance Officer for Columbia Management Investment Advisers, LLC (2005-2012); Chief Compliance Officer for certain funds within the Columbia Family of Funds (2007-2012); and Senior Vice President of Compliance Risk Management at Bank of America (2005-2010).

Joseph F. Zambello (1957)

Year of Election or Appointment: 2011
Deputy Treasurer

Mr. Zambello also serves as Deputy Treasurer of other funds. Mr. Zambello is an employee of Fidelity Investments (1991-present). Previously, Mr. Zambello served as Vice President of the Program Management Group of FMR (investment adviser firm, 2009-2011) and Vice President of the Transfer Agent Oversight Group (2005-2009).

# Shareholder Expense Example

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service (12b-1) fees 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 the ongoing costs of investing in other mutual funds.

The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2015 to December 31, 2015).

### *Actual Expenses*

The first line of the accompanying table for each class of the Fund 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 paid over the period. Simply divide your account value by $1,000.00 (for example, an $8,600 account value divided by $1,000.00 = 8.6), then multiply the result by the number in the first line for a class of the Fund under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

### *Hypothetical Example for Comparison Purposes*

The second line of the accompanying table for each class of the Fund provides information about hypothetical account values and hypothetical expenses based on a Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' 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. The estimate of expenses does not include any fees or other expenses of any variable annuity or variable life insurance product. If they were, the estimate of expenses you paid during the period would be higher, and your ending account value would be lower. In addition, the Fund, as a shareholder in the underlying Fidelity Central Funds, will indirectly bear its pro-rata share of the fees and expenses incurred by the underlying Fidelity Central Funds. These fees and expenses are not included in the Fund's annualized expense ratio used to calculate the expense estimate in the table below.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

| | Annualized Expense Ratio-[A] | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period-[B] July 1, 2015 to December 31, 2015 |
|---|---|---|---|---|
| **Initial Class** | .63% | | | |
| **Actual** | | $1,000.00 | $936.90 | $3.08 |
| **Hypothetical-[C]** | | $1,000.00 | $1,022.03 | $3.21 |
| **Service Class** | .73% | | | |
| **Actual** | | $1,000.00 | $936.50 | $3.56 |
| **Hypothetical-[C]** | | $1,000.00 | $1,021.53 | $3.72 |
| **Service Class 2** | .88% | | | |
| **Actual** | | $1,000.00 | $936.10 | $4.29 |
| **Hypothetical-[C]** | | $1,000.00 | $1,020.77 | $4.48 |
| **Investor Class** | .71% | | | |
| **Actual** | | $1,000.00 | $936.70 | $3.47 |
| **Hypothetical-[C]** | | $1,000.00 | $1,021.63 | $3.62 |

[A] *Annualized expense ratio reflects expenses net of applicable fee waivers.*

[B] *Expenses are equal to each Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

[C] *5% return per year before expenses*

# Distributions (Unaudited)

The Board of Trustees of VIP Growth Strategies Portfolio voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities:

| | Pay Date | Record Date | Capital Gains |
|---|---|---|---|
| Initial Class | 04/21/15 | 04/21/15 | $1.272 |
| Service Class | 04/21/15 | 04/21/15 | $1.272 |
| Service Class 2 | 04/21/15 | 04/21/15 | $1.272 |
| Investor Class | 04/21/15 | 04/21/15 | $1.272 |

The Board of Trustees of VIP Mid Cap Portfolio voted to pay to shareholders of record at the opening of business on record date, the following distributions per share derived from capital gains realized from sales of portfolio securities:

| | Pay Date | Record Date | Capital Gains |
|---|---|---|---|
| Initial Class | 02/05/16 | 02/05/16 | $1.983 |
| Service Class | 02/05/16 | 02/05/16 | $1.983 |
| Service Class 2 | 02/05/16 | 02/05/16 | $1.983 |
| Investor Class | 02/05/16 | 02/05/16 | $1.983 |

VIP Growth Strategies Portfolio hereby designates as a capital gain dividend with respect to the taxable year ended April 24, 2015 $5,514,443, or, if subsequently determined to be different, the net capital gain of such year.

VIP Mid Cap Portfolio hereby designates as a capital gain dividend with respect to the taxable year ended December 31, 2015 $495,935,518, or, if subsequently determined to be different, the net capital gain of such year.

VIP Mid Cap Portfolio Initial Class, VIP Mid Cap Portfolio Service Class, VIP Mid Cap Portfolio Service Class 2, and VIP Mid Cap Portfolio Investor Class designate 100% of the dividends distributed in December 2015, as qualifying for the dividends-received deduction for corporate shareholders.

# Board Approval of Investment Advisory Contracts and Management Fees

## VIP Mid Cap Portfolio

Each year, the Board of Trustees, including the Independent Trustees (together, the Board), votes on the renewal of the management contract with Fidelity Management & Research Company (FMR) and the sub-advisory agreements (together, the Advisory Contracts) for the fund. The Board, assisted by the advice of fund counsel and Independent Trustees' counsel, requests and considers a broad range of information relevant to the renewal of the Advisory Contracts throughout the year.

The Board meets regularly and, at each of its meetings, covers an extensive agenda of topics and materials and considers factors that are relevant to its annual consideration of the renewal of the fund's Advisory Contracts, including the services and support provided to the fund and its shareholders. The Board has established various standing committees (Committees), each composed of and chaired by Independent Trustees with varying backgrounds, to which the Board has assigned specific subject matter responsibilities in order to enhance effective decision-making by the Board. The Board, acting directly and through its Committees, requests and receives information concerning the annual consideration of the renewal of the fund's Advisory Contracts. The Board also meets as needed to consider matters specifically related to the Board's annual consideration of the renewal of the Advisory Contracts. Members of the Board may also meet with trustees of other Fidelity funds through ad hoc joint committees to discuss certain matters relevant to all of the Fidelity funds.

At its July 2015 meeting, the Board unanimously determined to renew the fund's Advisory Contracts. In reaching its determination, the Board considered all factors it believed relevant, including (i) the nature, extent, and quality of the services to be provided to the fund and its shareholders (including the investment performance of the fund); (ii) the competitiveness of the fund's management fee and total expense ratio relative to peer funds; (iii) the total costs of the services to be provided by and the profits to be realized by Fidelity from its relationship with the fund; and (iv) the extent to which (if any) economies of scale exist and would be realized as the fund grows, and whether any economies of scale are appropriately shared with fund shareholders.

In considering whether to renew the Advisory Contracts for the fund, the Board reached a determination, with the assistance of fund counsel and Independent Trustees' counsel and through the exercise of its business judgment, that the renewal of the Advisory Contracts was in the best interests of the fund and its shareholders and that the compensation payable under the Advisory Contracts was fair and reasonable. The Board's decision to renew the Advisory Contracts was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. The Board, in reaching its determination to renew the Advisory Contracts, was aware that shareholders of the fund have a broad range of investment choices available to them, including a wide choice among funds offered by Fidelity's competitors, and that the fund's shareholders, who have the opportunity to review and weigh the disclosure provided by the fund in its prospectus and other public disclosures, have chosen to invest in this fund, which is part of the Fidelity family of funds.

**Nature, Extent, and Quality of Services Provided.** The Board considered Fidelity's staffing as it relates to the fund, including the backgrounds of investment personnel of Fidelity, and also considered the fund's investment objective, strategies, and related investment philosophy. The Independent Trustees also had discussions with senior management of Fidelity's investment operations and investment groups. The Board considered the structure of the portfolio manager compensation program and whether this structure provides appropriate incentives to act in the best interests of the fund. Additionally, the Board considered the portfolio managers' investments, if any, in the funds that they manage.

Resources Dedicated to Investment Management and Support Services. The Board and the Fund Oversight and Research Committees reviewed the general qualifications and capabilities of Fidelity's investment staff, including its size, education, experience, and resources, as well as Fidelity's approach to recruiting, training, managing, and compensating investment personnel. The Board noted that Fidelity has continued to increase the resources devoted to non-U.S. offices, including expansion of Fidelity's global investment organization. The Board also noted that Fidelity's analysts have extensive resources, tools and capabilities that allow them to conduct sophisticated quantitative and fundamental analysis, as well as credit analysis of issuers, counterparties and guarantors. Further, the Board considered that Fidelity's investment professionals have sufficient access to global information and data so as to provide competitive investment results over time, and that those professionals also have access to sophisticated tools that permit them to assess portfolio construction and risk and performance attribution characteristics continuously, as well as to transmit new information and research conclusions rapidly around the world. Additionally, in its deliberations, the Board considered Fidelity's trading, risk management, and compliance capabilities and resources, which are integral parts of the investment management process.

Shareholder and Administrative Services. The Board considered (i) the nature, extent, quality, and cost of advisory, administrative, and shareholder services performed by FMR, the sub-advisers (together with FMR, the Investment Advisers), and their affiliates under the Advisory Contracts and under separate agreements covering transfer agency, pricing and bookkeeping, and securities lending services for the fund; (ii) the nature and extent of the supervision of third party service providers, principally custodians and subcustodians; and (iii) the resources devoted to, and the record of compliance with, the fund's compliance policies and procedures. The Board also reviewed the allocation of fund brokerage, including allocations to brokers affiliated with the Investment Advisers, the use of brokerage commissions to pay fund expenses, and the use of "soft" commission dollars to pay for research services.

The Board noted that the growth of fund assets over time across the complex allows Fidelity to reinvest in the development of services designed to enhance the value or convenience of the Fidelity funds as investment vehicles. These services include 24-hour access to account information and market information through telephone representatives and over the Internet, investor education materials and asset allocation tools, and the expanded availability of Fidelity Investor Centers.

In 2014, the Board formed an ad hoc Committee on Transfer Agency Fees to review the variety of transfer agency fee structures throughout the industry and Fidelity's competitive positioning with respect to industry participants.

Investment in a Large Fund Family. The Board considered the benefits to shareholders of investing in a Fidelity fund, including the benefits of investing in a fund that is part of a large family of funds offering a variety of investment disciplines and providing a large variety of mutual fund investor services. The Board noted that Fidelity had taken, or had made recommendations that resulted in the Fidelity funds taking, a number of actions over the previous year that benefited particular funds, including (i) continuing to dedicate additional resources to investment research and to the support of the senior management team that oversees asset management; (ii) continuing efforts to enhance Fidelity's global research capabilities; (iii) launching new funds and making other enhancements to meet client needs; (iv) reducing management fees and total expenses for certain index funds and diversified international funds; (v) continuing to launch dedicated lower cost underlying funds to meet portfolio construction needs related to expanding underlying fund options for Fidelity funds of funds, specifically for the Freedom Fund product lines; (vi) rationalizing product lines and gaining increased efficiencies through fund mergers; (vii) launching active fixed-income exchange-traded funds; (viii) continuing to develop, acquire and implement systems and technology to improve services to the funds and information security and to increase efficiency; (ix) implementing investment enhancements to further strengthen Fidelity's target date product line to increase investors' probability of success in achieving their goals; (x) modifying the eligibility criteria for certain share classes to accommodate roll-over assets from employer-sponsored retirement plans; (xi) launching a new Class W of the Freedom Index Funds to attract and retain Fidelity record-kept retirement plan assets; and (xii) implementing changes to Fidelity's money market product line in response to recent money market regulatory reforms.

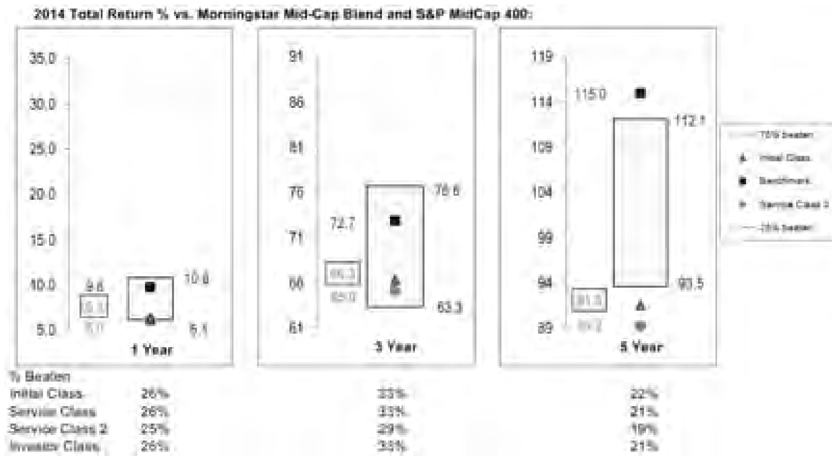
Investment Performance. The Board considered whether the fund has operated in accordance with its investment objective, as well as its record of compliance with its investment restrictions and its performance history.

The Board took into account discussions with representatives of the Investment Advisers about fund investment performance that occur at Board meetings throughout the year. In this regard the Board noted that as part of regularly scheduled fund reviews and other reports to the Board on fund performance, the Board considers annualized return information for the fund, for different time periods, measured against a securities market index ("benchmark index") and a peer group of funds with similar objectives ("peer group"), if any. In its evaluation of fund investment performance, the Board gave particular attention to information indicating changes in performance of certain Fidelity funds for specific time periods and discussed with the Investment Advisers the reasons for any overperformance or underperformance.

In addition to reviewing absolute and relative fund performance, the Independent Trustees periodically consider the appropriateness of fund performance metrics in evaluating the results achieved. In general, the Independent Trustees believe that fund performance should be evaluated based on net performance (after fees and expenses) of both the highest performing and lowest performing fund share classes, where applicable, compared to appropriate benchmark indices, over appropriate time periods that may include full market cycles, and compared to peer groups, as applicable, over the same periods, taking into account relevant factors including the following: general market conditions; issuer-specific information; and fund cash flows and other factors.

The Independent Trustees recognize that shareholders evaluate performance on a net basis over their own holding periods, for which one-, three-, and five-year periods are often used as a proxy. For this reason, the performance information reviewed by the Board also included net cumulative calendar year total return information for the fund and an appropriate benchmark index and peer group for the most recent one-, three-, and five-year periods, as shown below. Returns are shown compared to the 25th percentile (top of box, 75% beaten) and 75th percentile (bottom of box, 25% beaten) of the peer universe.

## VIP Mid Cap Portfolio




The Board has discussed with FMR the fund's underperformance (based on the December 31, 2014 data presented herein) and has engaged with FMR to consider what steps might be taken to remediate the fund's underperformance. The Board noted that the fund's performance has improved since the period shown.

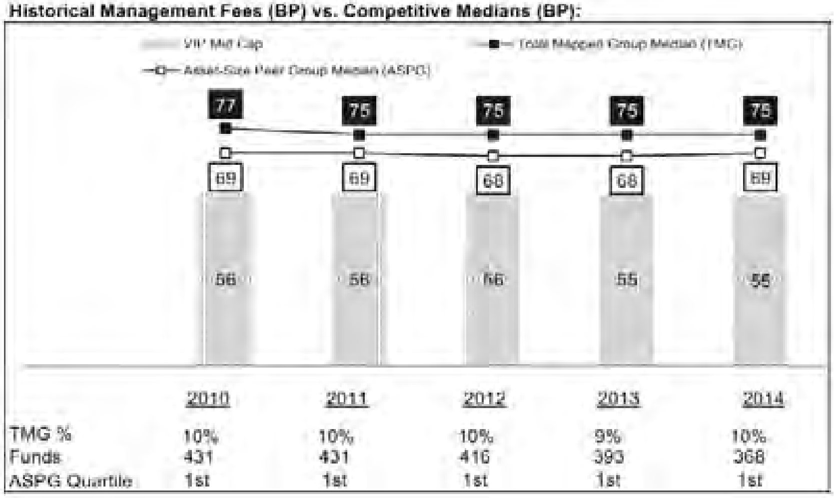
Based on its review, the Board concluded that the nature, extent, and quality of services provided to the fund under the Advisory Contracts should benefit the shareholders of the fund.

**Competitiveness of Management Fee and Total Expense Ratio.** The Board considered the fund's management fee and total expense ratio compared to "mapped groups" of competitive funds and classes created for the purpose of facilitating the Trustees' competitive analysis of management fees and total expenses. Fidelity creates "mapped groups" by combining similar Lipper investment objective categories that have comparable investment mandates. Combining Lipper investment objective categories aids the Board's management fee and total expense ratio comparisons by broadening the competitive group used for comparison.

Management Fee. The Board considered two proprietary management fee comparisons for the 12-month periods shown in basis points (BP) in the chart below. The group of Lipper funds used by the Board for management fee comparisons is referred to below as the "Total Mapped Group." The Total Mapped Group comparison focuses on a fund's standing in terms of gross management fees before expense reimbursements or caps relative to the total universe of funds with comparable investment mandates, regardless of whether their management fee structures also are comparable. Funds with comparable investment mandates offer exposure to similar types of securities. Funds with comparable management fee structures have similar management fee contractual arrangements (*e.g.*, flat rate charged for advisory services, all-inclusive fee rate, *etc.*). "TMG %" represents the percentage of funds in the Total Mapped Group that had management fees that were lower than the fund's. For example, a hypothetical TMG % of 20% would mean that 80% of the funds in the Total Mapped Group had higher, and 20% had lower, management fees than the fund. The fund's actual TMG %s and the number of funds in the Total Mapped Group are in the chart below. The "Asset-Size Peer Group" (ASPG) comparison focuses on a fund's standing relative to a subset of non-Fidelity funds within the Total Mapped Group that are similar in size and management fee structure without taking into account performance adjustments, if any. For example, if a fund is in the first quartile of the ASPG, the fund's management fee ranks in the least expensive or lowest 25% of funds in the ASPG. The ASPG represents at least 15% of the funds in the Total Mapped Group with comparable asset size and management fee structures, subject to a minimum of 50 funds (or all funds in the Total Mapped Group if fewer than 50). Additional information, such as the ASPG quartile in which the fund's management fee rate ranked, is also included in the chart and considered by the Board.

## VIP Mid Cap Portfolio

Historical Management Fees (BP) vs. Competitive Medians (BP):




The Board noted that the fund's management fee rate ranked below the median of its Total Mapped Group and below the median of its ASPG for 2014.

The Board noted that, in 2014, the ad hoc Committee on Group Fee was formed by it and other Fidelity fund boards to conduct an in-depth review of the "group fee" component of the management fee of funds with such management fee structures. Committee focus included the mechanics of the group fee, the competitive landscape of group fee structures, Fidelity funds with no group fee component and investment products not included in group fee assets. The Board also considered that, for funds subject to the group fee, FMR agreed to voluntarily waive fees over a specified period of time in amounts designed to account for assets converted from certain funds to certain collective investment trusts.

The Board also noted that, in 2013, the ad hoc Committee on Management Fees was formed to conduct an in-depth review of the management fee rates of Fidelity's active equity mutual funds. The Committee focused on the following areas: (i) standard fee structures; (ii) research consumption and trading evolution; (iii) management fee competitiveness/profitability by category; and (iv) factors that drive institutional pricing.

Based on its review, the Board concluded that the fund's management fee is fair and reasonable in light of the services that the fund receives and the other factors considered.

Total Expense Ratio. In its review of each class's total expense ratio, the Board considered the fund's management fee as well as other fund or class expenses, as applicable, such as transfer agent fees, pricing and bookkeeping fees, fund-paid 12b-1 fees, and custodial, legal, and audit fees. The Board also noted that Fidelity may agree to waive fees and expenses from time to time, and the extent to which, if any, it has done so for the fund. As part of its review, the Board also considered the current and historical total expense ratios of each class of the fund compared to competitive fund median expenses. Each class of the fund is compared to those funds and classes in the Total Mapped Group (used by the Board for management fee comparisons) that have a similar sales load structure.

The Board noted that the total expense ratio of each class ranked below its competitive median for 2014.

Fees Charged to Other Fidelity Clients. The Board also considered Fidelity fee structures and other information with respect to clients of Fidelity, such as other funds advised or subadvised by Fidelity, pension plan clients, and other institutional clients with similar mandates. The Board noted the findings of the 2013 ad hoc joint committee (created with the board of other Fidelity funds), which reviewed and compared Fidelity's institutional investment advisory business with its business of providing services to the Fidelity funds, including the differences in services provided, fees charged, and costs incurred, as well as competition in their respective marketplaces.

Based on its review of total expense ratios and fees charged to other Fidelity clients, the Board concluded that the total expense ratio of each class of the fund was reasonable in light of the services that the fund and its shareholders receive and the other factors considered.

**Costs of the Services and Profitability.** The Board considered the revenues earned and the expenses incurred by Fidelity in conducting the business of developing, marketing, distributing, managing, administering and servicing the fund and servicing the fund's shareholders. The Board also considered the level of Fidelity's profits in respect of all the Fidelity funds.

On an annual basis, Fidelity presents to the Board information about the profitability of its relationship with the fund. Fidelity calculates profitability information for each fund, as well as aggregate profitability information for groups of Fidelity funds and all Fidelity funds, using a series of detailed revenue and cost allocation methodologies which originate with the books and records of Fidelity on which Fidelity's audited financial statements are based. The Audit Committee of the Board reviews any significant changes from the prior year's methodologies.

PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm and auditor to Fidelity and certain Fidelity funds, has been engaged annually by the Board as part of the Board's assessment of Fidelity's profitability analysis. PwC's engagement includes the review and assessment of the methodologies used by Fidelity in determining the revenues and expenses attributable to Fidelity's mutual fund business, and completion of agreed-upon procedures in respect of the mathematical accuracy of fund profitability and its conformity to established allocation methodologies. After considering PwC's reports issued under the engagement and information provided by Fidelity, the Board concluded that while other allocation methods may also be reasonable, Fidelity's profitability methodologies are reasonable in all material respects.

The Board also reviewed Fidelity's non-fund businesses and fall-out benefits related to the mutual fund business as well as cases where Fidelity's affiliates may benefit from or be related to the fund's business.

The Board considered the costs of the services provided by and the profits realized by Fidelity in connection with the operation of the fund and was satisfied that the profitability was not excessive.

**Economies of Scale.** The Board considered whether there have been economies of scale in respect of the management of the Fidelity funds, whether the Fidelity funds (including the fund) have appropriately benefited from any such economies of scale, and whether there is potential for realization of any further economies of scale. The Board considered the extent to which the fund will benefit from economies of scale as assets grow through increased services to the fund, through waivers or reimbursements, or through fee or expense ratio reductions. The Board also noted that in 2013, it and the boards of other Fidelity funds created an ad hoc committee (the Economies of Scale Committee) to analyze whether Fidelity attains economies of scale in respect of the management and servicing of the Fidelity funds, whether the Fidelity funds have appropriately benefited from such economies of scale, and whether there is potential for realization of any further economies of scale.

The Board recognized that the fund's management contract incorporates a "group fee" structure, which provides for lower group fee rates as total group assets increase, and for higher group fee rates as total group assets decrease (with "group assets" defined to include fund assets under FMR's management plus sector fund assets previously under FMR's management and currently managed by Fidelity SelectCo, LLC). FMR calculates the group fee rates based on a tiered asset "breakpoint" schedule that varies based on asset class. The Board considered that the group fee is designed to deliver the benefits of economies of scale to fund shareholders when total Fidelity fund assets increase, even if assets of any particular fund are unchanged or have declined, because some portion of Fidelity's costs are attributable to services provided to all Fidelity funds, and all funds benefit if those costs can be allocated among more assets. The Board concluded that, given the group fee structure, fund shareholders will benefit from lower management fees as group assets increase at the fund complex level, regardless of whether Fidelity achieves any such economies of scale.

The Board concluded, taking into account the analysis of the Economies of Scale Committee, that economies of scale, if any, are being appropriately shared between fund shareholders and Fidelity.

**Additional Information Requested by the Board.** In order to develop fully the factual basis for consideration of the Fidelity funds' Advisory Contracts, the Board requested and received additional information on certain topics, including: (i) fund performance trends and Fidelity's long-term strategies for certain funds; (ii) the various share classes employed by Fidelity and the attributes of each class, together with similar information on the distribution and servicing payments made by Fidelity or the funds to third-party participants in the distribution channels; (iii) fund profitability, and fund performance in relation to fund profitability; (iv) the methodology with respect to evaluating competitive fund data and peer group classifications and fee comparisons; (v) annual fund profitability margins, with particular focus on certain funds with negative margins; (vi) the realization of fall-out benefits in certain Fidelity business units; (vii) economies of scale and the way in which they are shared with fund shareholders;(viii) Fidelity's group fee structures, including the group fee schedule of breakpoints;(ix) the impact of cost containment measures on the funds; and (x) the transfer agent fee structure.

Based on its evaluation of all of the conclusions noted above, and after considering all factors it believed relevant, the Board concluded that the advisory fee structures are fair and reasonable, and that the fund's Advisory Contracts should be renewed.

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FRANKLIN TEMPLETON INVESTMENTS

**Annual Report**
December 31, 2015

# Franklin Templeton Variable Insurance Products Trust

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# Franklin Templeton Variable Insurance Products Trust Annual Report

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*Not part of the annual report. Retain for your records.

# Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

**SUPPLEMENT DATED FEBRUARY 8, 2016**
**TO THE STATEMENT OF ADDITIONAL INFORMATION DATED MAY 1, 2015**
**OF**
**FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST**

The statement of additional information (SAI) is amended as follows:

The section under the heading "**Dealer Compensation**" beginning on page 99 is replaced with the following:

In addition to the payments above, Distributors and/or its affiliates may make the following payments out of its own assets to certain dealers who sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest directly or indirectly in the Trust (VIP Qualifying Dealers):

*Marketing support payments.* Distributors may make payments to VIP Qualifying Dealers out of its own resources. A VIP Qualifying Dealer's marketing support services may include business planning assistance, marketing and advertising, training and ongoing education and support for dealer personnel about the Franklin Templeton funds (including the Trust) and financial planning needs of shareholders of the Franklin Templeton funds or contract owners that allocate contract value indirectly to one or more Franklin Templeton funds, placement on the VIP Qualifying Dealer's list of offered funds, access to sales meetings, sales representatives and management representatives of the dealer, and contract owner assistance in allocating contract value directly or indirectly to the Trust. Distributors compensates VIP Qualifying Dealers differently depending upon, among other factors, whether the VIP Qualifying Dealer is directly selling Franklin Templeton funds, or participating in the offering of variable insurance products that invest directly or indirectly in the Trust, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the VIP Qualifying Dealer. Such compensation may include financial assistance to such dealers that enable Distributors to develop, manage or participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. These payments may vary depending upon the nature of the event. Distributors will, on an annual basis, determine whether to continue such payments. Currently, Distributors does not make marketing support payments in connection with the Trust except under limited circumstances for certain Funds of the Trust offered through a special product. Marketing support payments will not exceed 0.20% of the relevant Fund's or Funds' average daily net assets attributable to an insurance company, on an annual basis.

*Other payments.* From time to time, Distributors, at its expense, may provide additional compensation to VIP Qualifying Dealers which sell or arrange for the direct or indirect sale of shares of Franklin Templeton funds, including the Trust. Such compensation may include financial assistance to VIP Qualifying Dealers that enable Distributors to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These payments may vary depending upon the nature of the event.

Distributors routinely sponsors due diligence meetings for registered representatives during which they receive updates on various Franklin Templeton funds and are afforded the

opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in Franklin Templeton funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by Distributors.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as FINRA. Distributors makes payments for events it deems appropriate, subject to Distributors' guidelines and applicable law. Distributors and/or its affiliates may also reimburse VIP Qualifying Dealers and/or their affiliates for certain costs associated with obtaining voting instructions from contract owners and the solicitation process in connection with Trust-sponsored proxy statements.

You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and any services provided. Additional disclosure may be included in the insurance contract prospectus.

*Please keep this supplement with your statement of additional information for future reference.*

# Franklin Small Cap Value VIP Fund

This annual report for Franklin Small Cap Value VIP Fund covers the fiscal year ended December 31, 2015.

## Class 2 Performance Summary as of December 31, 2015

Average annual total return of Class 2 shares* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

| Periods ended 12/31/15 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| Average Annual Total Return | -7.39% | +7.65% | +6.24% |

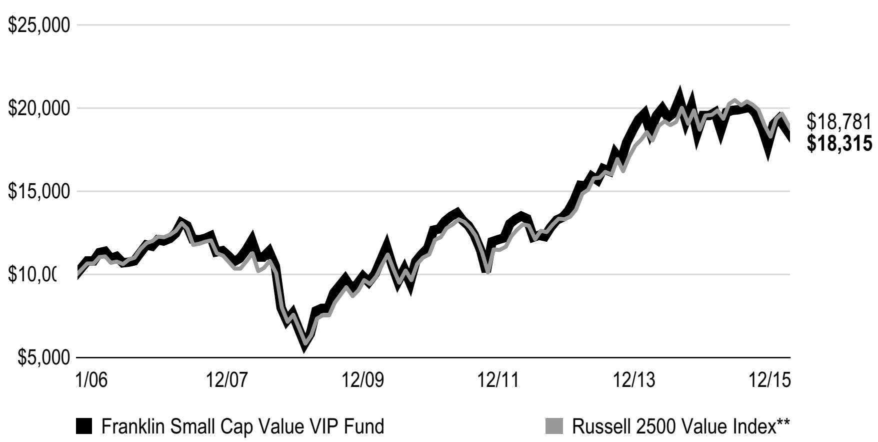
*The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does* ***not*** *include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

### Total Return Index Comparison for a Hypothetical $10,000 Investment (1/1/06–12/31/15)

The graph below shows the change in value of a hypothetical $10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance* is compared to the performance of the Russell 2500™ Value 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 total return. Under normal market conditions, the Fund invests at least 80% of its net assets in investments of small capitalization companies. For this Fund, small capitalization companies are those with market capitalizations under $3.5 billion at the time of purchase. The Fund generally invests in equity securities of companies that the manager believes are undervalued and have the potential for capital appreciation.

## Fund Risks

All investments involve risks, including possible loss of principal. The Fund's investments in smaller company stocks carry special risks as such stocks have historically exhibited greater price volatility than large-company stocks, particularly over the short term. Additionally, smaller companies often have relatively small revenues, limited product lines and a small market share. In addition, the Fund may invest up to 25% of its total assets in foreign securities, which involve special risks, including currency fluctuations and economic and political uncertainty. 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. For comparison, the Fund's benchmark, the Russell 2500™ Value Index, had a -5.49% total return for the same period.[1] Please note the Fund employs a bottom-up stock selection process, and the managers invest in securities without regard to benchmark comparisons.

## Economic and Market Overview

The U.S. economy grew moderately during the 12 months under review amid healthy consumer spending. After starting 2015 with modest growth, the economy strengthened in the second quarter but moderated in the third and fourth quarters as exports slowed and state and local governments reduced their spending. Manufacturing activities expanded for most of the period but contracted toward period-end. Non-manufacturing activities, however, expanded throughout the 12-month period, contributing to new jobs and helping drive down the unemployment rate to 5.0% from October through period-end, the lowest level in more than seven years.[2] The housing market improved at period-end as existing and new home sales increased and home prices rose despite slightly higher mortgage rates. Retail sales grew modestly, led by automobile and auto component sales. Annual inflation, as measured by the Consumer Price Index, remained subdued largely due to low energy prices.

After maintaining its target interest rate at a range of 0%–0.25% for seven years to support the U.S. economy's recovery, the Federal Reserve (Fed) raised its target range for the federal funds rate to 0.25%–0.50% at its December meeting. Policymakers cited the labor market's considerable improvement and were reasonably confident that inflation would move back to the Fed's 2.0% medium-term objective. The Fed indicated that its process of normalizing interest rates would be data dependent and would likely be gradual. Furthermore, the Fed raised its 2016 U.S. economic growth forecast and lowered its unemployment rate projection.

U.S. stock markets experienced sell-offs at times during the year, resulting from investor concerns about the timing of the Fed's interest rate increases, slower global economic growth, geopolitical tensions in certain regions and a plunge in crude oil prices. Investors generally remained confident, however, as the Fed maintained an accommodative monetary policy stance despite the rate increase, the eurozone economy improved and China implemented more stimulus measures to support its economy. Despite periods of volatility, the broad U.S. stock market, as measured by the Standard & Poor's® 500 Index, generated a modest positive total return for 2015.[3] The energy and materials sectors were among the worst performers, while consumer discretionary, health care, consumer staples and information technology outperformed.

## Investment Strategy

We generally invest in stocks that we believe are undervalued and have the potential for capital appreciation. We consider a stock price a "value" when it trades at less than the price at which we believe it would trade if the market reflected all factors relating to the company's worth. Accordingly, we invest in companies that we believe have, for example, stock prices that are low relative to current or historical or future earnings, book value, cash flow or sales; recent sharp price declines but the potential for good long-term earnings prospects; and valuable

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.
2. Source: Bureau of Labor Statistics.
3. Please see Index Descriptions following the Fund Summaries.

intangibles not reflected in the stock price. Companies in which we may invest include those that may be considered out of favor, such as companies attempting to recover from bankruptcy, business setbacks, adverse events or cyclical downturns, or that may be considered potential takeover targets.

## Manager's Discussion

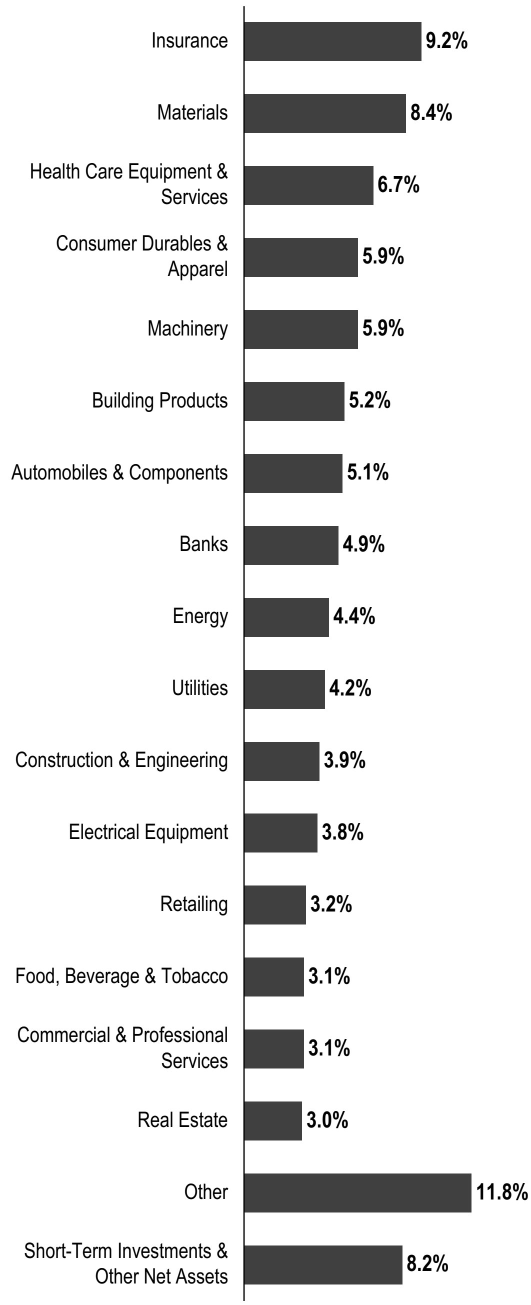
During the reporting period, contributors to absolute Fund performance included StanCorp Financial Group, The Pep Boys – Manny, Moe & Jack and Gerresheimer. StanCorp Financial Group, an insurance provider and asset manager, received a cash takeover offer from Meiji Yasuda Life Insurance at a premium. The Pep Boys, an automobile sales and services provider, received cash takeover offers from Bridgestone and investor, Carl Icahn, which helped increase the company's share price. We liquidated the position by the end of the period. Gerresheimer, a health-care-focused glass and plastics products manufacturer, benefited from strategic moves intended to improve the company's long-term return profile. Specifically, the company sold its low-margin glass tubing business and acquired Centor, a leading, high-margin, U.S.-based manufacturer of plastic vials.

Detractors from absolute Fund performance included Axiall, Unit Corp. and The Men's Wearhouse. Axiall, a chemical and building products manufacturer, was negatively affected by weaker-than expected end-market pricing due to industry-wide chlor-alkali capacity expansions and still relatively weak demand. The company replaced its chief executive officer and is implementing cost-cutting measures to offset weakness while simultaneously exploring alternatives for its building products business. Shares of Unit Corp., an onshore provider of drilling rigs, experienced a negative impact from a sharp drop in oil prices that began in mid-2014, resulting in lower demand for its equipment. The Men's Wearhouse, a men's clothing retailer, reported weaker-than-expected results from its recently acquired Jos. A. Bank business, as a change to a less promotional-driven model disrupted sales. We exited the position during the period.

During the period, we initiated several positions including LTC Properties, a real estate investment trust; The Laclede Group, a natural gas service provider; IDACORP, an energy operator and provider; Crocs, a footwear designer; and BRP Inc., a manufacturer of personal watercraft and all-terrain vehicles; among others. We also added to existing holdings including Everbank Financial, a provider of commercial and retail banking services; Drew Industries, a manufacturer and supplier of home and recreational vehicle components; and the aforementioned Gerresheimer; among others.

**Portfolio Breakdown**

Based on Total Net Assets as of 12/31/15



We eliminated several positions including Group 1 Automotive, Cabot., Apogee Enterprises, Lincoln Electric Holdings and Rowan Companies, among others. We reduced our positions in StanCorp Financial, Thor Industries and RPM International, among others.

Thank you for your participation in Franklin Small Cap Value VIP Fund. We look forward to serving your future investment needs.

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2015, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

**Top 10 Holdings**
12/31/15

| **Company**<br>***Sector/Industry*** | **% of Total Net Assets** |
|---|---|
| AAR Corp.<br>*Aerospace & Defense* | 2.6% |
| Maple Leaf Foods Inc. (Canada)<br>*Food, Beverage & Tobacco* | 2.6% |
| LTC Properties Inc.<br>*Real Estate* | 2.5% |
| STERIS PLC<br>*Health Care Equipment & Services* | 2.5% |
| The Laclede Group Inc.<br>*Utilities* | 2.2% |
| Teleflex Inc.<br>*Health Care Equipment & Services* | 2.2% |
| Carlisle Cos. Inc.<br>*Industrial Conglomerates* | 2.2% |
| Universal Forest Products Inc.<br>*Building Products* | 2.2% |
| Gerresheimer AG (Germany)<br>*Pharmaceuticals, Biotechnology & Life Sciences* | 2.1% |
| Aspen Insurance Holdings Ltd.<br>*Insurance* | 2.1% |

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments.

# Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract level.

- Transaction expenses can include sales charges (loads) on purchases, redemption fees, surrender fees, transfer fees and premium taxes.
- Ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses.

*The expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract level. While the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.*

The table shows Fund-level ongoing expenses and can help you understand these expenses and compare them with those of other mutual funds offered through the Contract. The table assumes a $1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

## Actual Fund Expenses

The first line (Actual) of the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   *If an account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6.*
2. Multiply the result by the number under the heading "Fund-Level Expenses Incurred During Period."
   *If Fund-Level Expenses Incurred During Period were $7.50, then 8.6 × $7.50 = $64.50.*

In this illustration, the estimated expenses incurred this period at the Fund level are $64.50.

## Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical "Ending Account Value" is based on the Fund's actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Fund-Level Expenses Incurred During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

| Class 2 | Beginning Account Value 7/1/15 | Ending Account Value 12/31/15 | Fund-Level Expenses Incurred During Period* 7/1/15–12/31/15 |
|---|---|---|---|
| Actual | $1,000 | $ 912.80 | $4.29 |
| Hypothetical (5% return before expenses) | $1,000 | $1,020.72 | $4.53 |

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund's Class 2 shares (0.89%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

# Financial Highlights

## Franklin Small Cap Value VIP Fund

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 1** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $22.81 | $24.54 | $18.58 | $15.82 | $16.55 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.21 | 0.19 | 0.19 | 0.29[c] | 0.16 |
| Net realized and unrealized gains (losses) | (1.53) | 0.06 | 6.45 | 2.64 | (0.74) |
| Total from investment operations | (1.32) | 0.25 | 6.64 | 2.93 | (0.58) |
| Less distributions from: | | | | | |
| Net investment income | (0.20) | (0.20) | (0.32) | (0.17) | (0.15) |
| Net realized gains | (3.17) | (1.78) | (0.36) | — | — |
| Total distributions | (3.37) | (1.98) | (0.68) | (0.17) | (0.15) |
| Net asset value, end of year | $18.12 | $22.81 | $24.54 | $18.58 | $15.82 |
| Total return[d] | (7.18)% | 0.88% | 36.50% | 18.75% | (3.53)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 0.65% | 0.63% | 0.63% | 0.67% | 0.66% |
| Expenses net of waiver and payments by affiliates | 0.64%[e] | 0.63%[e,f] | 0.63% | 0.67% | 0.66% |
| Net investment income | 1.04% | 0.82% | 0.90% | 1.70%[c] | 1.02% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $45,897 | $57,843 | $62,408 | $40,133 | $39,374 |
| Portfolio turnover rate | 27.05% | 19.45% | 10.44% | 5.84% | 14.39% |

[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 $0.10 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 1.10%.

[d]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.

[e]Benefit of expense reduction rounds to less than 0.01%.

[f]Benefit of waiver and payments by affiliates and expense reduction rounds to less than 0.01%.

## Franklin Small Cap Value VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Class 2** | | | | | |
| **Per share operating performance**<br>(for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $22.32 | $24.07 | $18.23 | $15.53 | $16.25 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.16 | 0.13 | 0.14 | 0.24[c] | 0.12 |
| Net realized and unrealized gains (losses) | (1.49) | 0.05 | 6.34 | 2.59 | (0.73) |
| Total from investment operations | (1.33) | 0.18 | 6.48 | 2.83 | (0.61) |
| Less distributions from: | | | | | |
| Net investment income | (0.14) | (0.15) | (0.28) | (0.13) | (0.11) |
| Net realized gains | (3.17) | (1.78) | (0.36) | — | — |
| Total distributions | (3.31) | (1.93) | (0.64) | (0.13) | (0.11) |
| Net asset value, end of year | $17.68 | $22.32 | $24.07 | $18.23 | $15.53 |
| Total return[d] | (7.39)% | 0.57% | 36.24% | 18.39% | (3.76)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 0.90% | 0.88% | 0.88% | 0.92% | 0.91% |
| Expenses net of waiver and payments by affiliates | 0.89%[e] | 0.88%[e,f] | 0.88% | 0.92% | 0.91% |
| Net investment income | 0.79% | 0.57% | 0.65% | 1.45%[c] | 0.77% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $1,172,173 | $1,445,325 | $1,606,802 | $1,286,573 | $1,211,168 |
| Portfolio turnover rate | 27.05% | 19.45% | 10.44% | 5.84% | 14.39% |

[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 $0.10 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 0.85%.

[d]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.

[e]Benefit of expense reduction rounds to less than 0.01%.

[f]Benefit of waiver and payments by affiliates and expense reduction rounds to less than 0.01%.

## Franklin Small Cap Value VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 4** | | | | | |
| **Per share operating performance**<br>(for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $22.63 | $24.37 | $18.44 | $15.71 | $16.44 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.14 | 0.11 | 0.12 | 0.22[c] | 0.11 |
| Net realized and unrealized gains (losses) | (1.52) | 0.05 | 6.42 | 2.63 | (0.75) |
| Total from investment operations | (1.38) | 0.16 | 6.54 | 2.85 | (0.64) |
| Less distributions from: | | | | | |
| Net investment income | (0.12) | (0.12) | (0.25) | (0.12) | (0.09) |
| Net realized gains | (3.17) | (1.78) | (0.36) | — | — |
| Total distributions | (3.29) | (1.90) | (0.61) | (0.12) | (0.09) |
| Net asset value, end of year | $17.96 | $22.63 | $24.37 | $18.44 | $15.71 |
| Total return[d] | (7.52)% | 0.48% | 36.12% | 18.27% | (3.87)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 1.00% | 0.98% | 0.98% | 1.02% | 1.01% |
| Expenses net of waiver and payments by affiliates | 0.99%[e] | 0.98%[e,f] | 0.98% | 1.02% | 1.01% |
| Net investment income | 0.69% | 0.47% | 0.55% | 1.35%[c] | 0.67% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $26,128 | $30,452 | $35,936 | $32,424 | $34,284 |
| Portfolio turnover rate | 27.05% | 19.45% | 10.44% | 5.84% | 14.39% |

[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 $0.10 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 0.75%.

[d]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.

[e]Benefit of expense reduction rounds to less than 0.01%.

[f]Benefit of waiver and payments by affiliates and expense reduction rounds to less than 0.01%.

# Statement of Investments, December 31, 2015

## Franklin Small Cap Value VIP Fund

| | Shares | Value |
|---|---|---|
| **Common Stocks 91.2%** | | |
| **Aerospace & Defense 2.9%** | | |
| AAR Corp. | 1,235,700 | $ 32,486,553 |
| [a] Esterline Technologies Corp. | 43,200 | 3,499,200 |
| | | 35,985,753 |
| **Automobiles & Components 5.1%** | | |
| Drew Industries Inc. | 375,400 | 22,858,106 |
| Gentex Corp. | 889,900 | 14,247,299 |
| Thor Industries Inc. | 280,800 | 15,766,920 |
| Winnebago Industries Inc. | 525,300 | 10,453,470 |
| | | 63,325,795 |
| **Banks 4.9%** | | |
| Chemical Financial Corp. | 427,554 | 14,652,276 |
| Columbia Banking System Inc. | 189,200 | 6,150,892 |
| EverBank Financial Corp. | 1,514,700 | 24,204,906 |
| Lakeland Financial Corp. | 160,400 | 7,477,848 |
| Peoples Bancorp Inc. | 257,000 | 4,841,880 |
| TrustCo Bank Corp. NY | 684,300 | 4,201,602 |
| | | 61,529,404 |
| **Building Products 5.2%** | | |
| [a] Gibraltar Industries Inc. | 707,300 | 17,993,712 |
| Griffon Corp. | 251,100 | 4,469,580 |
| Simpson Manufacturing Co. Inc. | 433,400 | 14,800,610 |
| Universal Forest Products Inc. | 399,800 | 27,334,326 |
| | | 64,598,228 |
| **Commercial & Professional Services 3.1%** | | |
| [a] Huron Consulting Group Inc. | 171,300 | 10,175,220 |
| McGrath RentCorp | 615,018 | 15,492,303 |
| MSA Safety Inc. | 284,113 | 12,350,392 |
| | | 38,017,915 |
| **Construction & Engineering 3.9%** | | |
| EMCOR Group Inc. | 479,300 | 23,025,572 |
| Granite Construction Inc. | 593,200 | 25,454,212 |
| | | 48,479,784 |
| **Consumer Durables & Apparel 5.9%** | | |
| [a] BRP Inc. (Canada) | 824,200 | 11,844,933 |
| Brunswick Corp. | 120,200 | 6,071,302 |
| [a] Crocs Inc. | 1,362,100 | 13,947,904 |
| [a] Helen of Troy Ltd. | 21,800 | 2,054,650 |
| Hooker Furniture Corp. | 445,000 | 11,231,800 |
| La-Z-Boy Inc. | 757,900 | 18,507,918 |
| [a] M/I Homes Inc. | 435,900 | 9,554,928 |
| | | 73,213,435 |
| **Electrical Equipment 3.8%** | | |
| EnerSys | 254,210 | 14,217,965 |
| Franklin Electric Co. Inc. | 286,164 | 7,735,013 |
| Regal Beloit Corp. | 432,700 | 25,321,604 |
| | | 47,274,582 |

## Franklin Small Cap Value VIP Fund (continued)

| | Shares | Value |
|---|---|---|
| **Common Stocks** (continued) | | |
| **Energy 3.8%** | | |
| Bristow Group Inc. | 413,000 | $ 10,696,700 |
| Energen Corp. | 220,000 | 9,017,800 |
| [a] Helix Energy Solutions Group Inc. | 495,600 | 2,606,856 |
| Hunting PLC (United Kingdom) | 1,669,700 | 7,518,521 |
| [a] Oil States International Inc. | 301,800 | 8,224,050 |
| [a] Unit Corp. | 808,800 | 9,867,360 |
| | | 47,931,287 |
| **Food, Beverage & Tobacco 3.1%** | | |
| AGT Food and Ingredients Inc. (Canada) | 37,800 | 928,809 |
| GrainCorp Ltd. (Australia) | 408,300 | 2,566,964 |
| [a] Landec Corp. | 269,100 | 3,183,453 |
| Maple Leaf Foods Inc. (Canada) | 1,861,000 | 31,965,127 |
| | | 38,644,353 |
| **Health Care Equipment & Services 6.7%** | | |
| Hill-Rom Holdings Inc. | 344,000 | 16,532,640 |
| Invacare Corp. | 487,200 | 8,472,408 |
| STERIS PLC | 410,900 | 30,957,206 |
| Teleflex Inc. | 211,800 | 27,841,110 |
| | | 83,803,364 |
| **Industrial Conglomerates 2.2%** | | |
| Carlisle Cos. Inc. | 308,900 | 27,396,341 |
| **Insurance 9.2%** | | |
| Arthur J. Gallagher & Co. | 168,200 | 6,886,108 |
| Aspen Insurance Holdings Ltd. | 538,700 | 26,019,210 |
| Endurance Specialty Holdings Ltd. | 116,300 | 7,442,037 |
| The Hanover Insurance Group Inc. | 207,247 | 16,857,471 |
| Old Republic International Corp. | 1,075,900 | 20,044,017 |
| StanCorp Financial Group Inc. | 194,500 | 22,149,660 |
| Validus Holdings Ltd. | 317,800 | 14,710,962 |
| | | 114,109,465 |
| **Machinery 5.9%** | | |
| Astec Industries Inc. | 566,600 | 23,060,620 |
| Hillenbrand Inc. | 365,500 | 10,829,765 |
| Kennametal Inc. | 35,300 | 677,760 |
| [b] Lindsay Corp. | 132,800 | 9,614,720 |
| Mueller Industries Inc. | 712,200 | 19,300,620 |
| [a] Wabash National Corp. | 581,700 | 6,881,511 |
| Watts Water Technologies Inc., A | 55,000 | 2,731,850 |
| | | 73,096,846 |
| **Materials 8.4%** | | |
| A. Schulman Inc. | 394,866 | 12,098,694 |
| Allegheny Technologies Inc. | 10,500 | 118,125 |
| AptarGroup Inc. | 65,000 | 4,722,250 |
| Axiall Corp. | 1,225,400 | 18,871,160 |
| Carpenter Technology Corp. | 236,200 | 7,149,774 |
| H.B. Fuller Co. | 494,940 | 18,050,462 |
| Minerals Technologies Inc. | 148,700 | 6,819,382 |

## Franklin Small Cap Value VIP Fund (continued)

| | Shares | Value |
|---|---|---|
| **Common Stocks** (continued) | | |
| **Materials** (continued) | | |
| RPM International Inc. | 147,900 | $ 6,516,474 |
| Sensient Technologies Corp. | 377,500 | 23,714,550 |
| Stepan Co. | 126,700 | 6,295,723 |
| | | 104,356,594 |
| **Pharmaceuticals, Biotechnology & Life Sciences 2.1%** | | |
| Gerresheimer AG (Germany) | 336,000 | 26,347,906 |
| **Real Estate 3.0%** | | |
| Brandywine Realty Trust | 480,900 | 6,569,094 |
| LTC Properties Inc. | 722,000 | 31,147,080 |
| | | 37,716,174 |
| **Retailing 3.2%** | | |
| Caleres Inc. | 378,500 | 10,151,370 |
| The Cato Corp., A | 366,200 | 13,483,484 |
| [a] Genesco Inc. | 188,408 | 10,707,227 |
| [a] West Marine Inc. | 610,700 | 5,184,843 |
| | | 39,526,924 |
| **Semiconductors & Semiconductor Equipment 2.0%** | | |
| Cohu Inc. | 736,000 | 8,883,520 |
| MKS Instruments Inc. | 369,600 | 13,305,600 |
| [a] Photronics Inc. | 207,900 | 2,588,355 |
| | | 24,777,475 |
| **Software & Services 0.5%** | | |
| Mentor Graphics Corp. | 341,300 | 6,286,746 |
| **Technology Hardware & Equipment 2.1%** | | |
| Ingram Micro Inc., A | 507,100 | 15,405,698 |
| [a] Rofin-Sinar Technologies Inc. | 388,900 | 10,414,742 |
| | | 25,820,440 |
| **Utilities 4.2%** | | |
| Connecticut Water Service Inc. | 15,400 | 585,354 |
| IDACORP Inc. | 353,589 | 24,044,052 |
| The Laclede Group Inc. | 469,100 | 27,869,230 |
| | | 52,498,636 |
| **Total Common Stocks (Cost $935,236,525)** | | 1,134,737,447 |
| | **Principal Amount** | |
| **Corporate Bonds (Cost $9,065,344) 0.6%** | | |
| **Energy 0.6%** | | |
| Unit Corp., senior sub. note, 6.625%, 5/15/21 | $ 9,632,000 | 6,983,200 |
| **Total Investments before Short Term Investments (Cost $944,301,869)** | | 1,141,720,647 |

## Franklin Small Cap Value VIP Fund (continued)

| | Shares | Value |
|---|---|---|
| **Short Term Investments 8.7%** | | |
| **Money Market Funds (Cost $103,357,618) 8.3%** | | |
| [a,c] Institutional Fiduciary Trust Money Market Portfolio | 103,357,618 | $ 103,357,618 |
| | **Principal Amount** | |
| [d] **Investments from Cash Collateral Received for Loaned Securities 0.4%** | | |
| **Repurchase Agreements 0.4%** | | |
| [e] Joint Repurchase Agreement, 0.34%, 1/04/16 (Maturity Value $1,154,177) Daiwa Capital Markets America Inc. Collateralized by [f]U.S. Treasury Bill, 2/18/16 - 8/18/16; U.S. Treasury Bond, 3.125% - 7.50%, 11/15/16 - 8/15/44; U.S. Treasury Bond, Index Linked, 0.75% - 3.875%, 1/15/26 - 2/15/45; U.S. Treasury Note, 0.875% - 4.875%, 8/15/16 - 12/31/21; and U.S. Treasury Note, Index Linked, 0.125% - 0.25%, 4/15/20 - 1/15/25 (valued at $1,177,216) | $ 1,154,133 | 1,154,133 |
| [e] Joint Repurchase Agreement, 0.28%, 1/04/16 (Maturity Value $1,154,169) HSBC Securities (USA) Inc. Collateralized by [f]U.S. Government Agency Securities, 3/23/16 - 7/15/32; U.S. Government Agency Securities, Strips, 1/15/16 - 7/15/37; U.S. Treasury Bond, 3.75%, 11/15/43; and U.S. Treasury Note, 1.375% - 1.75%, 9/30/18 - 9/30/22 (valued at $1,177,219) | 1,154,133 | 1,154,133 |
| [e] Joint Repurchase Agreement, 0.32%, 1/04/16 (Maturity Value $242,942) J.P. Morgan Securities LLC Collateralized by [f]U.S. Treasury Bill, 4/28/16; and U.S. Treasury Note, 1.375% - 2.00%, 4/30/20 - 2/15/25 (valued at $247,794) | 242,933 | 242,933 |
| [e] Joint Repurchase Agreement, 0.31%, 1/04/16 (Maturity Value $1,154,173) Nomura Securities International Inc. Collateralized by [f]U.S. Treasury Bill, 2/25/16; U.S. Treasury Note, 0.268% - 0.875%, 10/31/16 - 10/15/18; and U.S. Treasury Strips, 2/15/16 - 5/15/27 (valued at $1,177,216) | 1,154,133 | 1,154,133 |
| [e] Joint Repurchase Agreement, 0.30%, 1/04/16 (Maturity Value $1,154,171) RBS Securities Inc. Collateralized by U.S. Treasury Bond, 2.75%, 11/15/23; and U.S. Treasury Note, 0.289% - 3.25%, 7/31/16 - 4/30/17 (valued at $1,177,221) | 1,154,133 | 1,154,133 |
| **Total Investments from Cash Collateral Received for Loaned Securities (Cost $4,859,465)** | | 4,859,465 |
| **Total Investments (Cost $1,052,518,952) 100.5%** | | 1,249,937,730 |
| **Other Assets, less Liabilities (0.5)%** | | (5,739,963) |
| **Net Assets 100.0%** | | $ 1,244,197,767 |

[a]Non-income producing.
[b]A portion or all of the security is on loan at December 31, 2015. See Note 1(d).
[c]See Note 3(e) regarding investments in affiliated management investment companies.
[d]See Note 1(d) regarding securities on loan.
[e]See Note 1(c) regarding joint repurchase agreement.
[f]The security is traded on a discount basis with no stated coupon rate.

# Financial Statements

### Statement of Assets and Liabilities
December 31, 2015

| | Franklin Small Cap Value VIP Fund |
|---|---|
| Assets: | |
| Investments in securities: | |
| Cost - Unaffiliated issuers | $ 944,301,869 |
| Cost - Non-controlled affiliates (Note 3e) | 103,357,618 |
| Cost - Repurchase agreements | 4,859,465 |
| Total cost of investments | $1,052,518,952 |
| Value - Unaffiliated issuers | $1,141,720,647 |
| Value - Non-controlled affiliates (Note 3e) | 103,357,618 |
| Value - Repurchase agreements | 4,859,465 |
| Total value of investments (Includes securities loaned in the amount of $4,706,000) | 1,249,937,730 |
| Receivables: | |
| Investment securities sold | 1,414,007 |
| Capital shares sold | 575,232 |
| Dividends and interest | 1,045,332 |
| Other assets | 116 |
| Total assets | 1,252,972,417 |
| Liabilities: | |
| Payables: | |
| Investment securities purchased | 193,804 |
| Capital shares redeemed | 2,299,000 |
| Management fees | 674,439 |
| Distribution fees | 524,269 |
| Payable upon return of securities loaned | 4,859,465 |
| Accrued expenses and other liabilities | 223,673 |
| Total liabilities | 8,774,650 |
| Net assets, at value | $1,244,197,767 |
| Net assets consist of: | |
| Paid-in capital | $ 840,278,287 |
| Undistributed net investment income | 11,124,717 |
| Net unrealized appreciation (depreciation) | 197,418,395 |
| Accumulated net realized gain (loss) | 195,376,368 |
| Net assets, at value | $1,244,197,767 |

**Statement of Assets and Liabilities** (continued)
December 31, 2015

| | Franklin Small Cap Value VIP Fund |
|---|---|
| **Class 1:** | |
| Net assets, at value | $ 45,896,801 |
| Shares outstanding | 2,533,427 |
| Net asset value and maximum offering price per share | $ 18.12 |
| **Class 2:** | |
| Net assets, at value | $1,172,172,706 |
| Shares outstanding | 66,311,554 |
| Net asset value and maximum offering price per share | $ 17.68 |
| **Class 4:** | |
| Net assets, at value | $ 26,128,260 |
| Shares outstanding | 1,454,470 |
| Net asset value and maximum offering price per share | $ 17.96 |

**Statement of Operations**
for the year ended December 31, 2015

| | Franklin Small Cap Value VIP Fund |
|---|---|
| Investment income: | |
| Dividends | $ 22,339,947 |
| Interest | 582,465 |
| Income from securities loaned | 650,973 |
| Total investment income | 23,573,385 |
| Expenses: | |
| Management fees (Note 3a) | 8,738,085 |
| Distribution fees: (Note 3c) | |
| Class 2 | 3,304,321 |
| Class 4 | 100,745 |
| Custodian fees (Note 4) | 19,595 |
| Reports to shareholders | 223,911 |
| Professional fees | 54,678 |
| Trustees' fees and expenses | 6,236 |
| Other | 23,570 |
| Total expenses | 12,471,141 |
| Expense reductions (Note 4) | (20) |
| Expenses waived/paid by affiliates (Note 3e) | (94,235) |
| Net expenses | 12,376,886 |
| Net investment income | 11,196,499 |
| Realized and unrealized gains (losses): | |
| Net realized gain (loss) from: | |
| Investments | 196,023,885 |
| Foreign currency transactions | (65,349) |
| Net realized gain (loss) | 195,958,536 |
| Net change in unrealized appreciation (depreciation) on: | |
| Investments | (310,285,399) |
| Translation of other assets and liabilities denominated in foreign currencies | (383) |
| Net change in unrealized appreciation (depreciation) | (310,285,782) |
| Net realized and unrealized gain (loss) | (114,327,246) |
| Net increase (decrease) in net assets resulting from operations | $(103,130,747) |

## Statements of Changes in Net Assets

| | Franklin Small Cap Value VIP Fund | |
|---|---|---|
| | Year Ended December 31, | |
| | 2015 | 2014 |
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income | $ 11,196,499 | $ 9,166,921 |
| Net realized gain (loss) | 195,958,536 | 204,970,194 |
| Net change in unrealized appreciation (depreciation) | (310,285,782) | (206,772,254) |
| Net increase (decrease) in net assets resulting from operations | (103,130,747) | 7,364,861 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class 1 | (483,179) | (493,372) |
| Class 2 | (8,399,662) | (9,349,846) |
| Class 4 | (155,331) | (160,210) |
| Net realized gains: | | |
| Class 1 | (7,665,840) | (4,292,308) |
| Class 2 | (193,180,034) | (112,743,662) |
| Class 4 | (4,250,502) | (2,435,910) |
| Total distributions to shareholders | (214,134,548) | (129,475,308) |
| Capital share transactions: (Note 2) | | |
| Class 1 | (165,713) | (206,770) |
| Class 2 | 25,699,762 | (46,032,420) |
| Class 4 | 2,309,001 | (3,176,134) |
| Total capital share transactions | 27,843,050 | (49,415,324) |
| Net increase (decrease) in net assets | (289,422,245) | (171,525,771) |
| Net assets: | | |
| Beginning of year | 1,533,620,012 | 1,705,145,783 |
| End of year | $1,244,197,767 | $1,533,620,012 |
| Undistributed net investment income included in net assets: | | |
| End of year | $ 11,124,717 | $ 8,474,380 |

# Notes to Financial Statements

## Franklin Small Cap Value VIP Fund

### 1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Small Cap Value VIP Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers three classes of shares: Class 1, Class 2 and Class 4. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

**a. Financial Instrument Valuation**

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of 4 p.m. Eastern time whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

Investments in open-end mutual funds are valued at the closing NAV. Repurchase agreements are valued at cost, which approximates fair value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

## Franklin Small Cap Value VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

**a. Financial Instrument Valuation** *(continued)*

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

**b. Foreign Currency Translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

**c. Joint Repurchase Agreement**

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events of default and maintenance of collateral for repurchase agreements. In the event of default by either the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and

**Franklin Small Cap Value VIP Fund** (continued)

apply the proceeds towards the repurchase price and any other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at year end, as indicated in the Statement of Investments, had been entered into on December 31, 2015.

**d. Securities Lending**

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

Securities lending transactions are accounted for as secured borrowing transactions. The securities out on loan represent the collateral pledged by the Fund, and the cash collateral received for the loaned securities represents the amount borrowed by the Fund. At December 31, 2015, the Fund's secured borrowing transactions were as follows:

| | |
|---|---|
| **Securities lending transactions[a]:** | |
| Equity Investments[b] | $4,859,465 |

[a]The agreements open at period end can be terminated at any time.

[b]Gross amount of recognized liabilities for securities lending transactions is included in payable upon return of securities loaned in the Statement of Assets and Liabilities.

**e. Income and Deferred Taxes**

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2015, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

**f. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income recorded on the ex-dividend date except for certain dividends from foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect

## Franklin Small Cap Value VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

**f. Security Transactions, Investment Income, Expenses and Distributions** *(continued)*

their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

**g. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**h. Guarantees and Indemnifications**

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

### 2. Shares of Beneficial Interest

At December 31, 2015, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Shares | Amount | Shares | Amount |
| **Class 1 Shares:** | | | | |
| Shares sold | 97,924 | $ 2,017,340 | 175,851 | $ 4,068,553 |
| Shares issued in reinvestment of distributions | 407,044 | 8,149,019 | 206,102 | 4,785,680 |
| Shares redeemed | (507,751) | (10,332,072) | (388,575) | (9,061,003) |
| Net increase (decrease) | (2,783) | $ (165,713) | (6,622) | $ (206,770) |
| **Class 2 Shares:** | | | | |
| Shares sold | 3,551,318 | $ 71,764,155 | 5,020,152 | $ 113,569,546 |
| Shares issued in reinvestment of distributions | 10,305,710 | 201,579,696 | 5,364,390 | 122,093,507 |
| Shares redeemed | (12,288,306) | (247,644,089) | (12,408,353) | (281,695,473) |
| Net increase (decrease) | 1,568,722 | $ 25,699,762 | (2,023,811) | $ (46,032,420) |
| **Class 4 Shares:** | | | | |
| Shares sold | 220,435 | $ 4,535,105 | 176,245 | $ 3,946,345 |
| Shares issued in reinvestment of distributions | 221,510 | 4,405,833 | 112,435 | 2,596,120 |
| Shares redeemed | (332,844) | (6,631,937) | (418,040) | (9,718,599) |
| Net increase (decrease) | 109,101 | $ 2,309,001 | (129,360) | $ (3,176,134) |

## Franklin Small Cap Value VIP Fund (continued)

### 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 directors of the following subsidiaries:

| Subsidiary | Affiliation |
|---|---|
| Franklin Advisory Services, LLC (Advisory Services) | 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 Advisory Services based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets |
|---|---|
| 0.750% | Up to and including $200 million |
| 0.635% | Over $200 million, up to and including $700 million |
| 0.600% | Over $700 million, up to and including $1.2 billion |
| 0.575% | Over $1.2 billion, up to and including $1.3 billion |
| 0.475% | In excess of $1.3 billion |

#### b. Administrative Fees

Under an agreement with Advisory Services, FT Services provides administrative services to the Fund. The fee is paid by Advisory Services based on the Fund's average daily net assets, and is not an additional expense of the Fund.

#### c. Distribution Fees

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.35% per year of its average daily net assets of each class. The Board has agreed to limit the current rate to 0.25% per year for Class 2. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

#### d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

#### e. Investments in Affiliated Management Investment Companies

The Fund invests in an affiliated management investment company for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment company, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

## Franklin Small Cap Value VIP Fund (continued)

### 3. Transactions With Affiliates (continued)

**e. Investments in Affiliated Management Investment Companies** *(continued)*

| | Number of Shares Held at Beginning of Year | Gross Additions | Gross Reductions | Number of Shares Held at End of Year | Value at End of Year | Investment Income | Realized Gain (Loss) | % of Affiliated Fund Shares Outstanding Held at End of Year |
|---|---|---|---|---|---|---|---|---|
| **Non-Controlled Affiliates** | | | | | | | | |
| Institutional Fiduciary Trust Money Market Portfolio | 43,920,522 | 326,265,559 | (266,828,463) | 103,357,618 | $103,357,618 | $ — | $ — | 0.53% |

**f. Interfund Transactions**

The Fund engaged in purchases and sales of investments with funds or other accounts that have a common investment manager (or affiliated investment managers), directors, trustees, or officers. These transactions complied with Rule 17a-7 under the 1940 Act. During the year ended December 31, 2015, the purchase and sale transactions aggregated $7,083,143 and $0, respectively.

### 4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2015, the custodian fees were reduced as noted in the Statement of Operations.

### 5. Income Taxes

The tax character of distributions paid during the years ended December 31, 2015 and 2014, was as follows:

| | 2015 | 2014 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $ 11,870,655 | $ 16,187,412 |
| Long term capital gain | 202,263,893 | 113,287,896 |
| | $214,134,548 | $129,475,308 |

At December 31, 2015, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

| | |
|---|---|
| Cost of investments | $1,053,781,552 |
| Unrealized appreciation | $ 301,451,689 |
| Unrealized depreciation | (105,295,511) |
| Net unrealized appreciation (depreciation) | $ 196,156,178 |
| Undistributed ordinary income | $ 11,124,878 |
| Undistributed long term capital gains | 196,638,969 |
| Distributable earnings | $ 207,763,847 |

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatment of passive foreign investment company shares and wash sales.

**Franklin Small Cap Value VIP Fund** (continued)

### 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2015, aggregated $357,243,332 and $590,985,549, respectively.

### 7. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matured on February 12, 2016. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 12, 2016, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 10, 2017, for a total of $2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. Effective February 12, 2016, the annual commitment fee is 0.15%. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2015, the Fund did not use the Global Credit Facility.

### 8. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of December 31, 2015, in valuing the Fund's assets carried at fair value, is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments in Securities: | | | | |
| Equity Investments[a] | $1,134,737,447 | $ — | $ — | $1,134,737,447 |
| Corporate Bonds | — | 6,983,200 | — | 6,983,200 |
| Short Term Investments | 103,357,618 | 4,859,465 | — | 108,217,083 |
| Total Investments in Securities | $1,238,095,065 | $11,842,665 | $ — | $1,249,937,730 |

[a]For detailed categories, see the accompanying Statement of Investments.

**Franklin Small Cap Value VIP Fund** (continued)

### 9. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

# Report of Independent Registered Public Accounting Firm

## Franklin Small Cap Value VIP Fund

### To the Board of Trustees and Shareholders of Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Small Cap Value VIP Fund (the "Fund") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 16, 2016

# Tax Information (unaudited)

### Franklin Small Cap Value VIP Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than $202,263,893 as a long term capital gain dividend for the fiscal year ended December 31, 2015.

Under Section 854(b)(1)(A) of the Code, the Fund hereby reports 100% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2015.

# Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

**Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity between one month and three months and are investment-grade rated, U.S. dollar denominated, fixed rate and nonconvertible.

**Barclays U.S. Aggregate Bond Index** is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

**Barclays U.S. Government Index: Intermediate Component** is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

**Bloomberg Commodity Index** comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

**Citigroup World Government Bond Index** is a market capitalization-weighted index consisting of investment-grade world government bond markets.

**Consumer Price Index (CPI)** is a commonly used measure of the inflation rate.

**Credit Suisse (CS) High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

**FTSE® EPRA®/NAREIT® Developed Index** is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

**J.P. Morgan (JPM) Global Government Bond Index (GGBI)** tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

**Lipper Multi-Sector Income Funds Classification Average** is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/15, there were 286 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/15, there were 71 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/15, there were 55 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP High Yield Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and tend to invest in lower grade debt issues. For the 12-month period ended 12/31/15, there were 111 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**MSCI All Country World Index (ACWI)** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

**MSCI Emerging Markets (EM) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

**MSCI Europe, Australasia, Far East (EAFE) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

**MSCI World Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

**Russell 1000® Growth Index** is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Index** is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

**Russell 2500™ Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

**Russell 2500 ™ Value Index** is market capitalization weighted and measures performance of those Russell 2500 ™ Index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 3000® Growth Index** is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000® Index** is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

**Russell Midcap® Growth Index** is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Midcap® Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

**Standard & Poor's® 500 Index (S&P 500®)** is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

**Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

# Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupation during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

## Independent Board Members

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Harris J. Ashton (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 1988 | 147 | Bar-S Foods (meat packing company) (1981-2010). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Mary C. Choksi (1950)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2014 | 123 | Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006). |

**Principal Occupation During at Least the Past 5 Years:**
Senior Advisor, Strategic Investment Group (investment management group) (August 2015-present); director of various companies; and **formerly,** Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Edith E. Holiday (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Director or Trustee of various companies and trusts; and **formerly,** Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department (1988-1989).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **J. Michael Luttig (1954)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2009 | 147 | Boeing Capital Corporation (aircraft financing) (2006-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

## Independent Board Members (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Frank A. Olson (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1998-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; and **formerly,** Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); and Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June – December 1987).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Larry D. Thompson (1945)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2007 | 147 | The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly,** Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **John B. Wilson (1959)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Lead Independent Trustee | Trustee since 2007 and Lead Independent Trustee since 2008 | 123 | None |

**Principal Occupation During at Least the Past 5 Years:**
President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly,** Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

## Interested Board Members and Officers

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Gregory E. Johnson (1961)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2013 | 164 | None |

**Principal Occupation During at Least the Past 5 Years:**
Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Rupert H. Johnson, Jr. (1940)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chairman of the Board and Trustee | Chairman of the Board since 2013 and Trustee since 1988 | 147 | None |

**Principal Occupation During at Least the Past 5 Years:**
Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Alison E. Baur (1964)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Laura F. Fergerson (1962)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chief Executive Officer – Finance and Administration | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Gaston Gardey (1967)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Treasurer, Chief Financial Officer and Chief Accounting Officer | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Aliya S. Gordon (1973)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Steven J. Gray (1955)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Selena L. Holmes (1965)**<br>100 Fountain Parkway<br>St. Petersburg, FL 33716-1205 | Vice President – AML Compliance | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Edward B. Jamieson (1948)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | President and Chief Executive Officer – Investment Management | Since 2010 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Kimberly H. Novotny (1972)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Robert C. Rosselot (1960)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Chief Compliance Officer | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

| | | | | |
|---|---|---|---|---|
| **Karen L. Skidmore (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President and Secretary | Since 2006 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|---|---|---|---|
| **Navid Tofigh (1972)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since November 2015 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Craig S. Tyle (1960)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2005 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Lori A. Weber (1964)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2011 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective April 30, 2015, Sam Ginn ceased to be a trustee of the Trust.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.**

**The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) 321-8563 or their insurance companies to request the SAI.**

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# Shareholder Information

### Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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FRANKLIN TEMPLETON INVESTMENTS

**Annual Report**
**Franklin Templeton**
**Variable Insurance Products Trust**

**Investment Managers**
Franklin Advisers, Inc.
Franklin Advisory Services, LLC
Franklin Mutual Advisers, LLC
Franklin Templeton Institutional, LLC
Templeton Asset Management Ltd.
Templeton Global Advisors Limited
Templeton Investment Counsel, LLC

**Fund Administrator**
Franklin Templeton Services, LLC

**Distributor**
Franklin Templeton Distributors, Inc.

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

Annual Report
December 31, 2015

FRANKLIN TEMPLETON
INVESTMENTS

# Franklin Templeton
# Variable Insurance Products Trust

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# Franklin Templeton Variable Insurance Products Trust Annual Report

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*Not part of the annual report. Retain for your records.

**Not FDIC Insured | May Lose Value | No Bank Guarantee**

# Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

**SUPPLEMENT DATED FEBRUARY 8, 2016**
**TO THE STATEMENT OF ADDITIONAL INFORMATION DATED MAY 1, 2015**
**OF**
**FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST**

The statement of additional information (SAI) is amended as follows:

The section under the heading "**Dealer Compensation**" beginning on page 99 is replaced with the following:

In addition to the payments above, Distributors and/or its affiliates may make the following payments out of its own assets to certain dealers who sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest directly or indirectly in the Trust (VIP Qualifying Dealers):

*Marketing support payments.* Distributors may make payments to VIP Qualifying Dealers out of its own resources. A VIP Qualifying Dealer's marketing support services may include business planning assistance, marketing and advertising, training and ongoing education and support for dealer personnel about the Franklin Templeton funds (including the Trust) and financial planning needs of shareholders of the Franklin Templeton funds or contract owners that allocate contract value indirectly to one or more Franklin Templeton funds, placement on the VIP Qualifying Dealer's list of offered funds, access to sales meetings, sales representatives and management representatives of the dealer, and contract owner assistance in allocating contract value directly or indirectly to the Trust. Distributors compensates VIP Qualifying Dealers differently depending upon, among other factors, whether the VIP Qualifying Dealer is directly selling Franklin Templeton funds, or participating in the offering of variable insurance products that invest directly or indirectly in the Trust, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the VIP Qualifying Dealer. Such compensation may include financial assistance to such dealers that enable Distributors to develop, manage or participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. These payments may vary depending upon the nature of the event. Distributors will, on an annual basis, determine whether to continue such payments. Currently, Distributors does not make marketing support payments in connection with the Trust except under limited circumstances for certain Funds of the Trust offered through a special product. Marketing support payments will not exceed 0.20% of the relevant Fund's or Funds' average daily net assets attributable to an insurance company, on an annual basis.

*Other payments.* From time to time, Distributors, at its expense, may provide additional compensation to VIP Qualifying Dealers which sell or arrange for the direct or indirect sale of shares of Franklin Templeton funds, including the Trust. Such compensation may include financial assistance to VIP Qualifying Dealers that enable Distributors to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These payments may vary depending upon the nature of the event.

Distributors routinely sponsors due diligence meetings for registered representatives during which they receive updates on various Franklin Templeton funds and are afforded the

opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in Franklin Templeton funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by Distributors.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as FINRA. Distributors makes payments for events it deems appropriate, subject to Distributors' guidelines and applicable law. Distributors and/or its affiliates may also reimburse VIP Qualifying Dealers and/or their affiliates for certain costs associated with obtaining voting instructions from contract owners and the solicitation process in connection with Trust-sponsored proxy statements.

You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and any services provided. Additional disclosure may be included in the insurance contract prospectus.

*Please keep this supplement with your statement of additional information for future reference.*

# Franklin Small-Mid Cap Growth VIP Fund

This annual report for Franklin Small-Mid Cap Growth VIP Fund covers the fiscal year ended December 31, 2015.

## Class 2 Performance Summary as of December 31, 2015

Average annual total return of Class 2 shares* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

| Periods ended 12/31/15 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| Average Annual Total Return | -2.66% | +8.80% | +6.87% |

*The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does* **not** *include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

### Total Return Index Comparison for a Hypothetical $10,000 Investment (1/1/06–12/31/15)

The graph below shows the change in value of a hypothetical $10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance* is compared to the performance of the Russell Midcap® Growth Index and the Standard & Poor's® 500 Index (S&P 500®). 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 growth. Under normal market conditions, the Fund invests at least 80% of its net assets in equity securities of small-capitalization and mid-capitalization companies. For this Fund, small cap companies are those within the market capitalization range of companies in the Russell 2500™ Index at the time of purchase, and midcap companies are those within the market capitalization range of companies in the Russell Midcap® Index at the time of purchase.[1]

## Fund Risks

All investments involve risks, including possible loss of principal. Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Smaller, midsized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. Historically, these securities have experienced more price volatility than larger company stocks, especially over the short term. To the extent the Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, it may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments. From time to time, the trading market for a particular security or type of security in which the Fund invests may become less liquid or even illiquid. 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.

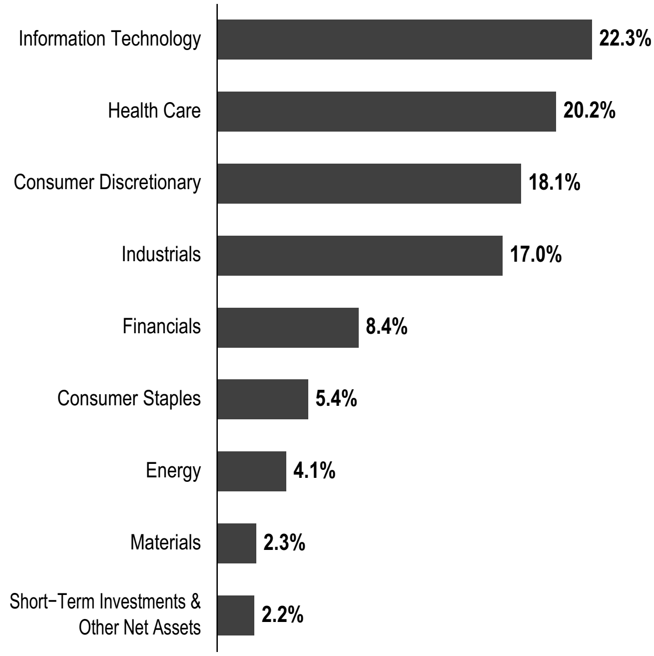
## Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the Fund's narrow benchmark, the Russell Midcap® Growth Index, had a -0.20% total return, and its broad benchmark, the S&P 500, produced a +1.38% total return for the same period.[2]

## Economic and Market Overview

The U.S. economy grew moderately during the 12 months under review amid healthy consumer spending. After starting

**Portfolio Breakdown**
Based on Total Net Assets as of 12/31/15




2015 with modest growth, the economy strengthened in the second quarter but moderated in the third and fourth quarters as exports slowed and state and local governments reduced their spending. Manufacturing activities expanded for most of the period but contracted toward period-end. Non-manufacturing activities, however, expanded throughout the 12-month period, contributing to new jobs and helping drive down the unemployment rate to 5.0% from October through period-end, the lowest level in more than seven years.[3] The housing market improved at period-end as existing and new home sales increased and home prices rose despite slightly higher mortgage rates. Retail sales grew modestly, led by automobile and auto component sales. Annual inflation, as measured by the Consumer Price Index, remained subdued largely due to low energy prices.

After maintaining its target interest rate at a range of 0%–0.25% for seven years to support the U.S. economy's recovery, the Federal Reserve (Fed) raised its target range for the federal funds rate to 0.25%–0.50% at its December meeting. Policymakers cited the labor market's considerable improvement and were reasonably confident that inflation would move back to

1. Please see Index Descriptions following the Fund Summaries.
2. 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.
3. Source: Bureau of Labor Statistics.

the Fed's 2.0% medium-term objective. The Fed indicated that its process of normalizing interest rates would be data dependent and would likely be gradual. Furthermore, the Fed raised its 2016 U.S. economic growth forecast and lowered its unemployment rate projection.

U.S. stock markets experienced sell-offs at times during the year, resulting from investor concerns about the timing of the Fed's interest rate increases, slower global economic growth, geopolitical tensions in certain regions and a plunge in crude oil prices. Investors generally remained confident, however, as the Fed maintained an accommodative monetary policy stance despite the rate increase, the eurozone economy improved and China implemented more stimulus measures to support its economy. Despite periods of volatility, the broad U.S. stock market, as measured by the S&P 500, generated a modest positive total return for 2015. The energy and materials sectors were among the worst performers, while consumer discretionary, health care, consumer staples and information technology outperformed.

## Investment Strategy

We use fundamental, bottom-up research to seek companies meeting our criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, we look for companies we believe can produce sustainable earnings and cash flow growth, evaluating the long-term market opportunity and competitive structure of an industry to target leaders and emerging leaders. We define quality companies as those with strong and improving competitive positions in attractive markets. We also believe important attributes of quality are experienced and talented management teams as well as financial strength reflected in the capital structure, gross and operating margins, free cash flow generation and returns on capital employed. Our valuation analysis includes a range of potential outcomes based on an assessment of multiple scenarios. In assessing value, we consider whether security prices fully reflect the balance of the sustainable growth opportunities relative to business and financial risks.

## Manager's Discussion

During the period under review, several sectors represented in the Fund's portfolio delivered positive returns and contributed to absolute performance. Relative to the Russell Midcap Growth® Index, key contributors included stock selection in materials and information technology (IT).

### Top 10 Holdings
12/31/15

| **Company** *Sector/Industry* | **% of Total Net Assets** |
|---|---|
| NXP Semiconductors NV (Netherlands) *Information Technology* | 2.4% |
| Roper Technologies Inc. *Industrials* | 1.9% |
| Constellation Brands Inc., A *Consumer Staples* | 1.8% |
| Intercontinental Exchange Inc. *Financials* | 1.8% |
| Electronic Arts Inc. *Information Technology* | 1.7% |
| AMETEK Inc. *Industrials* | 1.7% |
| Monster Beverage Corp. *Consumer Staples* | 1.7% |
| Signature Bank *Financials* | 1.7% |
| L Brands Inc. *Consumer Discretionary* | 1.5% |
| Towers Watson & Co., A *Industrials* | 1.5% |

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments.

In the materials sector, our holding in specialty materials and chemicals company Cytec Industries contributed to relative returns.[4] Cytec shares surged in July due to an announced acquisition by Belgium-based Solvay at a premium to Cytec's share price. Solvay completed the acquisition in December.

Within IT, video game company Electronic Arts enjoyed some of the largest gains. Under new management, the company experienced improved game quality and expanded margins. It also benefited from excitement about the release of its Star Wars game, which sought to capitalize on the new Star Wars movie.

Other notable contributors included our investments in technology-based specialty pharmaceutical firm Impax Laboratories,[5] clinical-stage specialty biopharmaceutical company Revance Therapeutics,[5] and engineered products and solutions provider Roper Technologies. Impax resolved its manufacturing issues, successfully launched its new Parkinson's disease drug Rytarry and quickly integrated a recent acquisition. Revance announced positive phase II data comparing its injectable botulinum toxin to a placebo and

4. Not held at period-end.
5. Not part of the index.

Allergan's Botox, giving investors a reason to believe its product will have regulatory and commercial success. Roper continued execution on its stated merger and acquisition strategy while generating steady organic revenue and earnings growth, bolstering share performance for the year.

In contrast, key detractors from the Fund's relative performance included stock selection in the consumer discretionary, consumer staples and industrials sectors.

Our position in Dick's Sporting Goods hurt relative performance in the consumer discretionary sector. The sporting goods retailer reported disappointing third-quarter earnings results and lowered its fourth-quarter outlook as in-store traffic slowed and sales of cold-weather apparel and gear were negatively affected by warmer fall temperatures. The company indicated that lower sales levels will impact near-term profit margins and necessitate more promotional selling.

Within consumer staples, our holding in fresh and refrigerated pet food manufacturer and distributor Freshpet was a major dectractor.[4,5] Management's underappreciation of the slower-than-forecast growth in company-owned refrigerated display units derailed our original thesis regarding the sustainability of a robust, long-term growth rate.

In the industrials sector, our positions in ultra-low-cost carrier Spirit Airlines,[4] geospatial information product and service provider DigitalGlobe[5] and global freight railroad operator Genesee & Wyoming hindered performance. Spirit Airlines shares declined when the company's fares came under pressure as American Airlines and Southwest Airlines added capacity in some of their core markets. The commercial side of DigitalGlobe's business has been struggling recently, while the defense side has been experiencing stable growth. The commercial side has been trying to expand into the most troubled markets and sectors, such as Russia, energy and agriculture. We remained confident that the company's new, higher resolution capabilities can drive acceleration in growth later in 2016. Low natural gas and iron ore prices affected Genesee & Wyoming's shipment volume.

Thank you for your participation in Franklin Small-Mid Cap Growth VIP Fund. We look forward to serving your future investment needs.

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2015, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

# Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract level.

- Transaction expenses can include sales charges (loads) on purchases, redemption fees, surrender fees, transfer fees and premium taxes.
- Ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses.

*The expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract level. While the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.*

The table shows Fund-level ongoing expenses and can help you understand these expenses and compare them with those of other mutual funds offered through the Contract. The table assumes a $1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

## Actual Fund Expenses

The first line (Actual) of the table provides actual account values and expenses. The “Ending Account Value” is derived from the Fund’s actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   *If an account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6.*
2. Multiply the result by the number under the heading “Fund-Level Expenses Incurred During Period.”
   *If Fund-Level Expenses Incurred During Period were $7.50, then 8.6 × $7.50 = $64.50.*

In this illustration, the estimated expenses incurred this period at the Fund level are $64.50.

## Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical “Ending Account Value” is based on the Fund’s actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund’s actual return. The figure under the heading “Fund-Level Expenses Incurred During Period” shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

| Class 2 | Beginning Account Value 7/1/15 | Ending Account Value 12/31/15 | Fund-Level Expenses Incurred During Period* 7/1/15–12/31/15 |
|---|---|---|---|
| Actual | $1,000 | $ 907.20 | $5.14 |
| Hypothetical (5% return before expenses) | $1,000 | $1,019.81 | $5.45 |

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund’s Class 2 shares (1.07%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

# Financial Highlights

## Franklin Small-Mid Cap Growth VIP Fund

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 1** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $24.95 | $28.38 | $21.87 | $21.19 | $22.21 |
| Income from investment operations[a]: | | | | | |
| Net investment income (loss)[b] | —[c,d] | (0.07) | (0.09) | (0.01)[e] | (0.05) |
| Net realized and unrealized gains (losses) | (0.03) | 2.04 | 8.19 | 2.27 | (0.97) |
| Total from investment operations | (0.03) | 1.97 | 8.10 | 2.26 | (1.02) |
| Less distributions from net realized gains | (5.83) | (5.40) | (1.59) | (1.58) | — |
| Net asset value, end of year | $19.09 | $24.95 | $28.38 | $21.87 | $21.19 |
| Total return[f] | (2.44)% | 7.78% | 38.50% | 11.12% | (4.59)% |
| **Ratios to average net assets** | | | | | |
| Expenses | 0.81%[g] | 0.80%[g] | 0.80%[h] | 0.80% | 0.79% |
| Net investment income (loss) | 0.01%[d] | (0.29)% | (0.35)% | (0.03)%[e] | (0.21)% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $87,866 | $99,803 | $98,020 | $75,977 | $76,384 |
| Portfolio turnover rate | 37.85% | 48.73% | 42.77% | 41.44% | 45.00% |

[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]Amount rounds to less than $0.01 per share.

[d]Net investment income per share includes approximately $0.05 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 (0.24)%.

[e]Net investment income per share includes approximately $0.03 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 (0.16)%.

[f]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.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[h]Benefit of expense reduction rounds to less than 0.01%.

## Franklin Small-Mid Cap Growth VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 2** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $23.56 | $27.16 | $21.04 | $20.49 | $21.54 |
| Income from investment operations[a]: | | | | | |
| Net investment income (loss)[b] | (0.05)[c] | (0.13) | (0.14) | (0.06)[d] | (0.10) |
| Net realized and unrealized gains (losses) | 0.01 | 1.93 | 7.85 | 2.19 | (0.95) |
| Total from investment operations | (0.04) | 1.80 | 7.71 | 2.13 | (1.05) |
| Less distributions from net realized gains | (5.83) | (5.40) | (1.59) | (1.58) | — |
| Net asset value, end of year | $17.69 | $23.56 | $27.16 | $21.04 | $20.49 |
| Total return[e] | (2.66)% | 7.47% | 38.15% | 10.85% | (4.87)% |
| **Ratios to average net assets** | | | | | |
| Expenses | 1.06%[f] | 1.05%[f] | 1.05%[g] | 1.05% | 1.04% |
| Net investment income (loss) | (0.24)%[c] | (0.54)% | (0.60)% | (0.28)%[d] | (0.46)% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $478,649 | $582,772 | $660,806 | $670,193 | $717,086 |
| Portfolio turnover rate | 37.85% | 48.73% | 42.77% | 41.44% | 45.00% |

[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 $0.05 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 (0.49)%.

[d]Net investment income per share includes approximately $0.03 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 (0.41)%.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

## Franklin Small-Mid Cap Growth VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 4** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $24.14 | $27.72 | $21.47 | $20.90 | $21.98 |
| Income from investment operations[a]: | | | | | |
| Net investment income (loss)[b] | (0.07)[c] | (0.16) | (0.17) | (0.09)[d] | (0.12) |
| Net realized and unrealized gains (losses) | (0.01) | 1.98 | 8.01 | 2.24 | (0.96) |
| Total from investment operations | (0.08) | 1.82 | 7.84 | 2.15 | (1.08) |
| Less distributions from net realized gains | (5.83) | (5.40) | (1.59) | (1.58) | — |
| Net asset value, end of year | $18.23 | $24.14 | $27.72 | $21.47 | $20.90 |
| Total return[e] | (2.77)% | 7.39% | 37.99% | 10.79% | (4.91)% |
| **Ratios to average net assets** | | | | | |
| Expenses | 1.16%[f] | 1.15%[f] | 1.15%[g] | 1.15% | 1.14% |
| Net investment income (loss) | (0.34)%[c] | (0.64)% | (0.70)% | (0.38)%[d] | (0.56)% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $15,105 | $16,384 | $19,132 | $12,000 | $12,664 |
| Portfolio turnover rate | 37.85% | 48.73% | 42.77% | 41.44% | 45.00% |

[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 $0.05 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 (0.59)%.

[d]Net investment income per share includes approximately $0.03 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 (0.51)%.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

# Statement of Investments, December 31, 2015

## Franklin Small-Mid Cap Growth VIP Fund

| | Shares | Value |
|---|---|---|
| **Common Stocks 97.6%** | | |
| **Consumer Discretionary 17.9%** | | |
| [a,b] 2U Inc. | 170,700 | $ 4,776,186 |
| Advance Auto Parts Inc. | 21,200 | 3,190,811 |
| BorgWarner Inc. | 98,900 | 4,275,447 |
| [a] Buffalo Wild Wings Inc. | 27,100 | 4,326,515 |
| [a,b] Charter Communications Inc., A | 29,900 | 5,474,690 |
| [a] Chipotle Mexican Grill Inc. | 4,500 | 2,159,325 |
| Dick's Sporting Goods Inc. | 142,600 | 5,040,910 |
| [a] Dollar Tree Inc. | 87,700 | 6,772,194 |
| Expedia Inc. | 29,116 | 3,619,119 |
| [a] Global Eagle Entertainment Inc. | 299,100 | 2,952,117 |
| [a] Grand Canyon Education Inc. | 110,500 | 4,433,260 |
| Hanesbrands Inc. | 224,000 | 6,592,320 |
| Harman International Industries Inc. | 52,000 | 4,898,920 |
| [a] IMAX Corp. (Canada) | 100,400 | 3,568,216 |
| [a] Jarden Corp. | 109,950 | 6,280,344 |
| L Brands Inc. | 91,300 | 8,748,366 |
| Marriott International Inc., A | 62,800 | 4,210,112 |
| [b] Nordstrom Inc. | 102,200 | 5,090,582 |
| Polaris Industries Inc. | 40,300 | 3,463,785 |
| Tractor Supply Co. | 60,100 | 5,138,550 |
| [a] Under Armour Inc., A | 72,176 | 5,818,107 |
| [a,b] Zoe's Kitchen Inc. | 105,300 | 2,946,294 |
| | | 103,776,170 |
| **Consumer Staples 5.4%** | | |
| Constellation Brands Inc., A | 73,200 | 10,426,608 |
| [a] Monster Beverage Corp. | 66,200 | 9,861,152 |
| [a] TreeHouse Foods Inc. | 65,600 | 5,146,976 |
| [a] WhiteWave Foods Co., A | 150,200 | 5,844,282 |
| | | 31,279,018 |
| **Energy 4.1%** | | |
| Cabot Oil & Gas Corp., A | 277,800 | 4,914,282 |
| [a] Concho Resources Inc. | 62,200 | 5,775,892 |
| [a] Diamondback Energy Inc. | 41,000 | 2,742,900 |
| EQT Corp. | 69,700 | 3,633,461 |
| [a] Matador Resources Co. | 140,900 | 2,785,593 |
| Superior Energy Services Inc. | 301,100 | 4,055,817 |
| | | 23,907,945 |
| **Financials 8.4%** | | |
| [a] Affiliated Managers Group Inc. | 42,800 | 6,837,728 |
| Arthur J. Gallagher & Co. | 105,200 | 4,306,888 |
| [a] CBRE Group Inc. | 100,000 | 3,458,000 |
| Equinix Inc. | 26,325 | 7,960,680 |
| Intercontinental Exchange Inc. | 40,408 | 10,354,954 |
| Lazard Ltd., A | 143,400 | 6,454,434 |
| [a] Signature Bank | 63,300 | 9,708,321 |
| | | 49,081,005 |
| **Health Care 20.2%** | | |
| [a] Akorn Inc. | 154,400 | 5,760,664 |

## Franklin Small-Mid Cap Growth VIP Fund (continued)

| | Shares | Value |
|---|---|---|
| **Common Stocks** (continued) | | |
| **Health Care** (continued) | | |
| [a] Anacor Pharmaceuticals Inc. | 12,911 | $ 1,458,556 |
| [a] BioMarin Pharmaceutical Inc. | 28,200 | 2,954,232 |
| [a] Bluebird Bio Inc. | 8,253 | 530,007 |
| [a] Celldex Therapeutics Inc. | 137,000 | 2,148,160 |
| [a] Cerner Corp. | 71,200 | 4,284,104 |
| [a,b] Chiasma Inc. | 52,200 | 1,021,554 |
| The Cooper Cos. Inc. | 48,200 | 6,468,440 |
| [a] DaVita HealthCare Partners Inc. | 79,400 | 5,534,974 |
| DENTSPLY International Inc. | 75,100 | 4,569,835 |
| [a] DexCom Inc. | 50,200 | 4,111,380 |
| [a] Edwards Lifesciences Corp. | 94,200 | 7,439,916 |
| [a] Envision Healthcare Holdings Inc. | 181,400 | 4,710,958 |
| [a,b] Heron Therapeutics Inc. | 83,742 | 2,235,911 |
| [a] Hologic Inc. | 195,600 | 7,567,764 |
| [a] Impax Laboratories Inc. | 114,100 | 4,878,916 |
| [a] Incyte Corp. | 35,800 | 3,882,510 |
| [a] Insulet Corp. | 60,985 | 2,305,843 |
| [a] Mallinckrodt PLC | 79,000 | 5,895,770 |
| [a] Mettler-Toledo International Inc. | 18,600 | 6,307,818 |
| [a,b,c] NantKwest Inc. | 19,100 | 297,903 |
| [a] Nevro Corp. | 71,900 | 4,853,969 |
| [a,b] Penumbra Inc. | 19,400 | 1,043,914 |
| Perrigo Co. PLC | 57,485 | 8,318,080 |
| [a] Pfenex Inc. | 159,200 | 1,970,896 |
| [a] Quintiles Transnational Holdings Inc. | 124,200 | 8,527,572 |
| [a] Revance Therapeutics Inc. | 109,200 | 3,730,272 |
| St. Jude Medical Inc. | 76,200 | 4,706,874 |
| | | 117,516,792 |
| **Industrials 17.0%** | | |
| Acuity Brands Inc. | 16,600 | 3,881,080 |
| [a] The Advisory Board Co. | 108,600 | 5,387,646 |
| Allegiant Travel Co. | 12,492 | 2,096,533 |
| AMETEK Inc. | 186,100 | 9,973,099 |
| B/E Aerospace Inc. | 118,600 | 5,025,082 |
| [a] DigitalGlobe Inc. | 357,800 | 5,603,148 |
| Dun & Bradstreet Corp. | 44,500 | 4,624,885 |
| [a] Genesee & Wyoming Inc. | 112,200 | 6,024,018 |
| [a] HD Supply Holdings Inc. | 208,700 | 6,267,261 |
| Hexcel Corp. | 133,200 | 6,187,140 |
| [a] IHS Inc., A | 60,500 | 7,165,015 |
| J.B. Hunt Transport Services Inc. | 46,000 | 3,374,560 |
| Robert Half International Inc. | 153,500 | 7,235,990 |
| Roper Technologies Inc. | 59,370 | 11,267,832 |
| [a] Sensata Technologies Holding NV | 68,400 | 3,150,504 |
| Towers Watson & Co., A | 66,400 | 8,529,744 |
| [a] Verisk Analytics Inc. | 40,000 | 3,075,200 |
| | | 98,868,737 |
| **Information Technology 22.3%** | | |
| [a] Alliance Data Systems Corp. | 9,900 | 2,738,043 |
| [a] ANSYS Inc. | 41,300 | 3,820,250 |

## Franklin Small-Mid Cap Growth VIP Fund (continued)

| | Shares | Value |
|---|---|---|
| **Common Stocks** (continued) | | |
| **Information Technology** (continued) | | |
| [a] Bottomline Technologies Inc. | 103,900 | $ 3,088,947 |
| Cognex Corp. | 176,900 | 5,973,913 |
| [a] CoStar Group Inc. | 39,100 | 8,081,579 |
| CSRA Inc. | 202,400 | 6,072,000 |
| [a] Demandware Inc. | 48,500 | 2,617,545 |
| [a] Electronic Arts Inc. | 146,300 | 10,053,736 |
| Fidelity National Information Services Inc. | 77,200 | 4,678,320 |
| [a] FleetCor Technologies Inc. | 43,400 | 6,203,162 |
| [a] GoDaddy Inc., A | 118,300 | 3,792,698 |
| Intersil Corp., A | 383,800 | 4,897,288 |
| Lam Research Corp. | 41,300 | 3,280,046 |
| [a] LinkedIn Corp., A | 30,100 | 6,774,908 |
| [a] Lumentum Holdings Inc. | 154,180 | 3,395,044 |
| [a] NXP Semiconductors NV (Netherlands) | 166,968 | 14,067,054 |
| [a] Palo Alto Networks Inc. | 31,700 | 5,583,638 |
| [a] Pandora Media Inc. | 129,200 | 1,732,572 |
| [a] Red Hat Inc. | 78,700 | 6,517,147 |
| [a] ServiceNow Inc. | 65,500 | 5,669,680 |
| [a] Twitter Inc. | 87,400 | 2,022,436 |
| [a] Vantiv Inc., A | 117,500 | 5,571,850 |
| [a] VeriFone Systems Inc. | 146,700 | 4,110,534 |
| [a] ViaSat Inc. | 103,000 | 6,284,030 |
| [a] Workday Inc. | 34,100 | 2,717,088 |
| | | 129,743,508 |
| **Materials 2.3%** | | |
| [a] Axalta Coating Systems Ltd. | 271,200 | 7,227,480 |
| Martin Marietta Materials Inc. | 44,600 | 6,091,468 |
| | | 13,318,948 |
| **Total Common Stocks (Cost $429,293,238)** | | 567,492,123 |
| **Preferred Stocks 0.2%** | | |
| **Consumer Discretionary 0.2%** | | |
| [a,d] DraftKings Inc., pfd., D | 115,528 | 311,110 |
| [a,d] DraftKings Inc., pfd., D-1 | 284,105 | 1,088,891 |
| **Total Preferred Stocks (Cost $2,800,003)** | | 1,400,001 |
| **Total Investments before Short Term Investments (Cost $432,093,241)** | | 568,892,124 |
| **Short Term Investments 5.7%** | | |
| **Money Market Funds (Cost $13,251,918) 2.3%** | | |
| [a,e] Institutional Fiduciary Trust Money Market Portfolio | 13,251,918 | 13,251,918 |
| [f] **Investments from Cash Collateral Received for Loaned Securities (Cost $19,891,250) 3.4%** | | |
| **Money Market Funds 3.4%** | | |
| [a,e] Institutional Fiduciary Trust Money Market Portfolio | 19,891,250 | 19,891,250 |
| **Total Investments (Cost $465,236,409) 103.5%** | | 602,035,292 |
| **Other Assets, less Liabilities (3.5)%** | | (20,414,947) |
| **Net Assets 100.0%** | | $ 581,620,345 |

## Franklin Small-Mid Cap Growth VIP Fund (continued)

[a]Non-income producing.

[b]A portion or all of the security is on loan at December 31, 2015. See Note 1(c).

[c]Security has been deemed illiquid because it may not be able to be sold within seven days. At December 31, 2015, the aggregate value of this security was $297,903, representing 0.05% of net assets.

[d]See Note 7 regarding restricted securities.

[e]See Note 3(e) regarding investments in affiliated management investment companies.

[f]See Note 1(c) regarding securities on loan.

# Financial Statements

## Statement of Assets and Liabilities
December 31, 2015

| | Franklin Small-Mid Cap Growth VIP Fund |
|---|---|
| Assets: | |
| Investments in securities: | |
| Cost - Unaffiliated issuers | $432,093,241 |
| Cost - Non-controlled affiliates (Note 3e) | 33,143,168 |
| Total cost of investments | $465,236,409 |
| Value - Unaffiliated issuers | $568,892,124 |
| Value - Non-controlled affiliates (Note 3e) | 33,143,168 |
| Total value of investments (includes securities loaned in the amount of $19,166,493) | 602,035,292 |
| Receivables: | |
| Investment securities sold | 949,570 |
| Capital shares sold | 14,331 |
| Dividends and interest | 126,968 |
| Other assets | 54 |
| Total assets | 603,126,215 |
| Liabilities: | |
| Payables: | |
| Investment securities purchased | 516,731 |
| Capital shares redeemed | 324,566 |
| Management fees | 390,031 |
| Distribution fees | 215,053 |
| Payable upon return of securities loaned | 19,891,250 |
| Accrued expenses and other liabilities | 168,239 |
| Total liabilities | 21,505,870 |
| Net assets, at value | $581,620,345 |
| Net assets consist of: | |
| Paid-in capital | $382,821,806 |
| Undistributed net investment income (loss) | — |
| Net unrealized appreciation (depreciation) | 136,798,883 |
| Accumulated net realized gain (loss) | 61,999,656 |
| Net assets, at value | $581,620,345 |
| **Class 1:** | |
| Net assets, at value | $ 87,866,270 |
| Shares outstanding | 4,602,577 |
| Net asset value and maximum offering price per share | $ 19.09 |
| **Class 2:** | |
| Net assets, at value | $478,648,974 |
| Shares outstanding | 27,059,947 |
| Net asset value and maximum offering price per share | $ 17.69 |
| **Class 4:** | |
| Net assets, at value | $ 15,105,101 |
| Shares outstanding | 828,728 |
| Net asset value and maximum offering price per share | $ 18.23 |

**Statement of Operations**
for the year ended December 31, 2015

| | Franklin Small-Mid Cap Growth VIP Fund |
|---|---|
| Investment income: | |
| Dividends | $ 4,883,373 |
| Income from securities loaned | 629,765 |
| Total investment income | 5,513,138 |
| Expenses: | |
| Management fees (Note 3a) | 5,225,416 |
| Distribution fees: (Note 3c) | |
| Class 2 | 1,396,406 |
| Class 4 | 58,556 |
| Custodian fees (Note 4) | 6,354 |
| Reports to shareholders | 199,032 |
| Professional fees | 42,722 |
| Trustees' fees and expenses | 2,979 |
| Other | 12,848 |
| Total expenses | 6,944,313 |
| Expenses waived/paid by affiliates (Note 3e) | (27,332) |
| Net expenses | 6,916,981 |
| Net investment income (loss) | (1,403,843) |
| Realized and unrealized gains (losses): | |
| Net realized gain (loss) from Investments | 63,022,161 |
| Net change in unrealized appreciation (depreciation) on investments | (74,279,798) |
| Net realized and unrealized gain (loss) | (11,257,637) |
| Net increase (decrease) in net assets resulting from operations | $(12,661,480) |

## Statements of Changes in Net Assets

| | Franklin Small-Mid Cap Growth VIP Fund | |
|---|---|---|
| | Year Ended December 31, | |
| | 2015 | 2014 |
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income (loss) | $ (1,403,843) | $ (3,724,526) |
| Net realized gain (loss) | 63,022,161 | 165,568,522 |
| Net change in unrealized appreciation (depreciation) | (74,279,798) | (110,422,791) |
| Net increase (decrease) in net assets resulting from operations | (12,661,480) | 51,421,205 |
| Distributions to shareholders from: | | |
| Net realized gains: | | |
| Class 1 | (22,509,343) | (18,164,400) |
| Class 2 | (135,758,632) | (120,447,127) |
| Class 4 | (4,098,814) | (3,536,394) |
| Total distributions to shareholders | (162,366,789) | (142,147,921) |
| Capital share transactions: (Note 2) | | |
| Class 1 | 12,480,207 | 12,658,981 |
| Class 2 | 41,958,103 | (469,072) |
| Class 4 | 3,251,391 | (462,764) |
| Total capital share transactions | 57,689,701 | 11,727,145 |
| Net increase (decrease) in net assets | (117,338,568) | (78,999,571) |
| Net assets: | | |
| Beginning of year | 698,958,913 | 777,958,484 |
| End of year | $ 581,620,345 | $ 698,958,913 |
| Undistributed net investment income (loss) included in net assets: | | |
| End of year | $ — | $ 3,992 |

# Notes to Financial Statements

## Franklin Small-Mid Cap Growth VIP Fund

### 1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Small-Mid Cap Growth VIP Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. At December 31, 2015, 40.40% of the Fund's shares were held through one insurance company. Investment activities of these insurance company separate accounts could have a material impact on the Fund. The Fund offers three classes of shares: Class 1, Class 2 and Class 4. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

**a. Financial Instrument Valuation**

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of 4 p.m. Eastern time whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Investments in open-end mutual funds are valued at the closing NAV.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of

## Franklin Small-Mid Cap Growth VIP Fund (continued)

the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

**b. Foreign Currency Translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

**c. Securities Lending**

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

Securities lending transactions are accounted for as secured borrowing transactions. The securities out on loan represent the collateral pledged by the Fund, and the cash collateral received for the loaned securities represents the amount borrowed by the Fund. At December 31, 2015, the Fund's secured borrowing transactions were as follows:

| | |
|---|---|
| **Securities lending transactions**[a] | |
| Equity investments[b] | $19,891,250 |

[a]The agreements open at year end can be terminated at any time.

[b]Gross amount of recognized liabilities for securities lending transactions is included in payable upon return of securities loaned in the Statement of Assets and Liabilities.

## Franklin Small-Mid Cap Growth VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

**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, 2015, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

**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 foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund.

Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

**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.

**Franklin Small-Mid Cap Growth VIP Fund** (continued)

## 2. Shares of Beneficial Interest

At December 31, 2015, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Shares | Amount | Shares | Amount |
| **Class 1 Shares:** | | | | |
| Shares sold | 195,710 | $ 4,581,670 | 274,487 | $ 7,229,775 |
| Shares issued in reinvestment of distributions | 1,062,262 | 22,509,343 | 759,699 | 18,164,400 |
| Shares redeemed | (655,587) | (14,610,806) | (487,310) | (12,735,194) |
| Net increase (decrease) | 602,385 | $ 12,480,207 | 546,876 | $ 12,658,981 |
| **Class 2 Shares:** | | | | |
| Shares sold | 1,198,268 | $ 26,202,656 | 897,666 | $ 22,309,519 |
| Shares issued in reinvestment of distributions | 6,905,322 | 135,758,632 | 5,327,162 | 120,447,127 |
| Shares redeemed | (5,776,970) | (120,003,185) | (5,821,755) | (143,225,718) |
| Net increase (decrease) | 2,326,620 | $ 41,958,103 | 403,073 | $ (469,072) |
| **Class 4 Shares:** | | | | |
| Shares sold | 239,982 | $ 5,202,958 | 67,020 | $ 1,726,663 |
| Shares issued in reinvestment of distributions | 202,211 | 4,098,814 | 152,628 | 3,536,394 |
| Shares redeemed | (292,263) | (6,050,381) | (231,062) | (5,725,821) |
| Net increase (decrease) | 149,930 | $ 3,251,391 | (11,414) | $ (462,764) |

## 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 directors of the following subsidiaries:

| Subsidiary | Affiliation |
|---|---|
| Franklin Advisers, Inc. (Advisers) | 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 |

## Franklin Small-Mid Cap Growth VIP Fund (continued)

### 3. Transactions With Affiliates (continued)

**a. Management Fees**

The Fund pays an investment management fee to Advisers based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets |
|---|---|
| 0.800% | Up to and including $500 million |
| 0.700% | Over $500 million, up to and including $1 billion |
| 0.650% | Over $1 billion, up to and including $1.5 billion |
| 0.600% | Over $1.5 billion, up to and including $6.5 billion |
| 0.575% | Over $6.5 billion, up to and including $11.5 billion |
| 0.550% | Over $11.5 billion, up to and including $16.5 billion |
| 0.540% | Over $16.5 billion, up to and including $19 billion |
| 0.530% | Over $19 billion, up to and including $21.5 billion |
| 0.520% | In excess of $21.5 billion |

**b. Administrative Fees**

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**c. Distribution Fees**

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.35%, per year of its average daily net assets of each class. The Board has agreed to limit the current rate to 0.25% per year for Class 2. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

**d. Transfer Agent Fees**

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

**e. Investments in Affiliated Management Investment Companies**

The Fund invests in an affiliated management investment company for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment company, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

| | Number of Shares Held at Beginning of Year | Gross Additions | Gross Reductions | Number of Shares Held at End of Year | Value at End of Year | Investment Income | Realized Gain (Loss) | % of Affiliated Fund Shares Outstanding Held at End of Year |
|---|---|---|---|---|---|---|---|---|
| **Non-Controlled Affiliates** | | | | | | | | |
| Institutional Fiduciary Trust Money Market Portfolio . . . . . . . . . . . . . . . . . . . . . . | 12,577,150 | 309,811,290 | (289,245,272) | 33,143,168 | $33,143,168 | $ — | $ — | 0.17% |

## Franklin Small-Mid Cap Growth VIP Fund (continued)

**f. Interfund Transactions**

The Fund engaged in purchases and sales of investments with funds or other accounts that have a common investment manager (or affiliated investment managers), directors, trustees, or officers. These transactions complied with Rule 17a-7 under the 1940 Act. During the year ended December 31, 2015, the purchase and sale transactions aggregated $516,731 and $1,690,052, respectively.

### 4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2015, there were no credits earned.

### 5. Income Taxes

The tax character of distributions paid during the years ended December 31, 2015 and 2014, was as follows:

| | 2015 | 2014 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $ 11,955,020 | $ 16,670,971 |
| Long term capital gain | 150,411,769 | 125,476,950 |
| | $162,366,789 | $142,147,921 |

At December 31, 2015, the cost of investments, net unrealized appreciation (depreciation) and undistributed long term capital gains for income tax purposes were as follows:

| | |
|---|---|
| Cost of investments | $466,000,210 |
| Unrealized appreciation | $169,237,961 |
| Unrealized depreciation | (33,202,879) |
| Net unrealized appreciation (depreciation) | $136,035,082 |
| Distributable earnings – undistributed long term capital gains | $ 62,763,457 |

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of wash sales.

### 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2015, aggregated $249,107,439 and $361,218,142, respectively.

### 7. Restricted Securities

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

## Franklin Small-Mid Cap Growth VIP Fund (continued)

### 7. Restricted Securities (continued)

At December 31, 2015, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

| Shares | Issuer | Acquisition Date | Cost | Value |
|---|---|---|---|---|
| 115,528 | DraftKings Inc., pfd., D | 8/07/15 | $ 622,222 | $ 311,110 |
| 284,105 | DraftKings Inc., pfd., D-1 | 8/07/15 | 2,177,781 | 1,088,891 |
| | **Total Restricted Securities** (Value is 0.24% of Net Assets) | | $2,800,003 | $1,400,001 |

### 8. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matured on February 12, 2016. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 12, 2016, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 10, 2017, for a total of $2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. Effective February 12, 2016, the annual commitment fee is 0.15%. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2015, the Fund did not use the Global Credit Facility.

### 9. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

### Franklin Small-Mid Cap Growth VIP Fund (continued)

A summary of inputs used as of December 31, 2015, in valuing the Fund's assets carried at fair value, is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments in Securities: | | | | |
| Equity Investments:[a] | | | | |
| Consumer Discretionary | $103,776,170 | $ — | $1,400,001 | $105,176,171 |
| Health Care | 117,218,889 | — | 297,903 | 117,516,792 |
| Other Equity Investments[b] | 346,199,161 | — | — | 346,199,161 |
| Short Term Investments | 33,143,168 | — | — | 33,143,168 |
| Total Investments in Securities | $600,337,388 | $ — | $1,697,904 | $602,035,292 |

[a] Includes common and preferred stocks as well as other equity investments.
[b] For detailed categories, see the accompanying Statement of Investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the end of the year.

### 10. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

# Report of Independent Registered Public Accounting Firm

## Franklin Small-Mid Cap Growth VIP Fund

### To the Board of Trustees and Shareholders of Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Small-Mid Cap Growth VIP Fund (the “Fund”) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 16, 2016

# Tax Information (unaudited)

## Franklin Small-Mid Cap Growth VIP Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than $150,411,769 as a long term capital gain dividend for the fiscal year ended December 31, 2015.

Under Section 854(b)(1)(A) of the Code, the Fund hereby reports 33.54% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2015.

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# Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

**Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity between one month and three months and are investment-grade rated, U.S. dollar denominated, fixed rate and nonconvertible.

**Barclays U.S. Aggregate Bond Index** is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

**Barclays U.S. Government Index: Intermediate Component** is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

**Bloomberg Commodity Index** comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

**Citigroup World Government Bond Index** is a market capitalization-weighted index consisting of investment-grade world government bond markets.

**Consumer Price Index (CPI)** is a commonly used measure of the inflation rate.

**Credit Suisse (CS) High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

**FTSE® EPRA®/NAREIT® Developed Index** is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

**J.P. Morgan (JPM) Global Government Bond Index (GGBI)** tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

**Lipper Multi-Sector Income Funds Classification Average** is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/15, there were 286 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/15, there were 71 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/15, there were 55 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP High Yield Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and tend to invest in lower grade debt issues. For the 12-month period ended 12/31/15, there were 111 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**MSCI All Country World Index (ACWI)** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

**MSCI Emerging Markets (EM) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

**MSCI Europe, Australasia, Far East (EAFE) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

**MSCI World Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

**Russell 1000® Growth Index** is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Index** is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

**Russell 2500™ Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

**Russell 2500 ™ Value Index** is market capitalization weighted and measures performance of those Russell 2500 ™ Index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 3000® Growth Index** is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000® Index** is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

**Russell Midcap® Growth Index** is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Midcap® Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

**Standard & Poor's® 500 Index (S&P 500®)** is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

**Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

# Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupation during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

## Independent Board Members

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Harris J. Ashton (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 1988 | 147 | Bar-S Foods (meat packing company) (1981-2010). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Mary C. Choksi (1950)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2014 | 123 | Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006). |

**Principal Occupation During at Least the Past 5 Years:**
Senior Advisor, Strategic Investment Group (investment management group) (August 2015-present); director of various companies; and **formerly,** Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Edith E. Holiday (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Director or Trustee of various companies and trusts; and **formerly,** Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department (1988-1989).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **J. Michael Luttig (1954)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2009 | 147 | Boeing Capital Corporation (aircraft financing) (2006-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

## Independent Board Members (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Frank A. Olson (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1998-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; and **formerly,** Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); and Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June – December 1987).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Larry D. Thompson (1945)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2007 | 147 | The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly,** Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **John B. Wilson (1959)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Lead Independent Trustee | Trustee since 2007 and Lead Independent Trustee since 2008 | 123 | None |

**Principal Occupation During at Least the Past 5 Years:**
President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly,** Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

## Interested Board Members and Officers

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Gregory E. Johnson (1961)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2013 | 164 | None |

**Principal Occupation During at Least the Past 5 Years:**
Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Rupert H. Johnson, Jr. (1940)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chairman of the Board and Trustee | Chairman of the Board since 2013 and Trustee since 1988 | 147 | None |

**Principal Occupation During at Least the Past 5 Years:**
Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Alison E. Baur (1964)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Laura F. Fergerson (1962)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chief Executive Officer – Finance and Administration | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Gaston Gardey (1967)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Treasurer, Chief Financial Officer and Chief Accounting Officer | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Aliya S. Gordon (1973)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Steven J. Gray (1955)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Selena L. Holmes (1965)**<br>100 Fountain Parkway<br>St. Petersburg, FL 33716-1205 | Vice President – AML Compliance | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Edward B. Jamieson (1948)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | President and Chief Executive Officer – Investment Management | Since 2010 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Kimberly H. Novotny (1972)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Robert C. Rosselot (1960)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Chief Compliance Officer | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Karen L. Skidmore (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President and Secretary | Since 2006 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Navid Tofigh (1972)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since November 2015 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Craig S. Tyle (1960)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2005 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Lori A. Weber (1964)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2011 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective April 30, 2015, Sam Ginn ceased to be a trustee of the Trust.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.**

**The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) 321-8563 or their insurance companies to request the SAI.**

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# Shareholder Information

## Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

## Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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FRANKLIN TEMPLETON INVESTMENTS

**Annual Report**
**Franklin Templeton**
**Variable Insurance Products Trust**

**Investment Managers**
Franklin Advisers, Inc.
Franklin Advisory Services, LLC
Franklin Mutual Advisers, LLC
Franklin Templeton Institutional, LLC
Templeton Asset Management Ltd.
Templeton Global Advisors Limited
Templeton Investment Counsel, LLC

**Fund Administrator**
Franklin Templeton Services, LLC

**Distributor**
Franklin Templeton Distributors, Inc.

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

# Goldman Sachs Variable Insurance Trust

# Goldman Sachs Mid Cap Value Fund

Annual Report
December 31, 2015

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# Principal Investment Strategies and Risks

**This is not a complete list of risks that may affect the Fund. For additional information concerning the risks applicable to the Fund, please see the Fund's Prospectuses.**

**Shares of the Goldman Sachs Variable Insurance Trust — Goldman Sachs Mid Cap Value Fund are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you realize with respect to your investments. Ask your representative for more complete information. Please consider the Fund's objective, risks and charges and expenses, and read the Prospectus carefully before investing. The Prospectus contains this and other information about the Fund.**

**The Goldman Sachs Mid Cap Value Fund** invests primarily in mid-capitalization U.S. equity investments. The Fund's equity investments are subject to **market risk**, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. The securities of **mid- and small-capitalization companies** involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements. **Different investment styles** (*e.g.,* "value") tend to shift in and out of favor, and at times the Fund may underperform other funds that invest in similar asset classes.

**INVESTMENT OBJECTIVE**

The Fund seeks long-term capital appreciation.

# Portfolio Management Discussion and Analysis

*Below, the Goldman Sachs Value Portfolio Management Team discusses the Goldman Sachs Variable Insurance Trust — Goldman Sachs Mid Cap Value Fund's (the "Fund") performance and positioning for the 12-month period ended December 31, 2015 (the "Reporting Period").*

### *How did the Fund perform during the Reporting Period?*

During the Reporting Period, the Fund's Institutional and Service Shares generated average annual total returns of -9.24% and -9.52%, respectively. These returns compare to the -4.78% average annual total return of the Fund's benchmark, the Russell Midcap® Value Index (with dividends reinvested) (the "Russell Index"), during the same time period.

### *What economic and market factors most influenced the equity markets as a whole during the Reporting Period?*

Representing the U.S. equity market, the S&P 500® Index gained 1.38% during the Reporting Period. Central bank policy, a commodity price sell-off, geopolitical tensions, and China and global economic growth concerns were the key themes impacting U.S. equities throughout 2015.

As evidence of a U.S. economic and labor market recovery mounted, market expectations of a Federal Reserve ("Fed") interest rate hike increased. The monetary policy divergence with the European Central Bank and the Bank of Japan, which each eased policy during the calendar year, resulted in relative U.S. dollar strength. This paradoxically hurt U.S. equity performance despite improving domestic economic fundamentals. Also, geopolitical tensions intensified in the summer of 2015, as negotiations between Greece and its creditors unraveled, and the probability of a Greek exit, popularly known in the media as "Grexit," from the euro increased. "Grexit" risk subsequently declined with an agreement in July 2015. However, concerns then escalated around China's economic weakness, exacerbated by a surprise devaluation of its renminbi in August 2015, which further shook market confidence. U.S. equities sold off in the ensuing sharp global equity correction.

After holding the targeted federal funds rate steady in September and October 2015 in light of these external macroeconomic and geopolitical risks, the Fed voted unanimously for a 25 basis point hike in December 2015, a move largely expected by markets. (A basis point is 1/100th of a percentage point.) The fairly dovish language in the Fed's announcement, which emphasized "gradual" adjustments to policy going forward, helped to somewhat assuage the markets.

Oil and commodity prices were "lower for longer" in 2015, as the supply glut took longer than expected to correct and demand concerns arose. Brent crude oil and West Texas Intermediate ("WTI") crude oil prices began 2015 at $57 and $53 per barrel, respectively, already well below 2014 highs of more than $100 per barrel. Both Brent and WTI crude oil prices ended 2015 still lower at approximately $37 per barrel. The U.S. consumer benefited from savings at the gas pump and consumer spending rose, particularly in areas typically associated with lower gas prices, such as autos and restaurants. However, this did not fully offset the negative impact on the U.S. energy industry and industrials companies. As a result, energy was the worst performing sector in the S&P 500 Index by a wide margin during the Reporting Period, followed by materials, utilities and industrials. Conversely, more consumer-oriented sectors, including consumer discretionary, health care, information technology and consumer staples were the best performing sectors in the S&P 500 Index during the Reporting Period.

Within the U.S. equity market, there was significant disparity in performance not only among sectors but also among the various capitalization and style segments. Large-cap stocks, as measured by the Russell 1000® Index, posted modestly positive returns, while mid-cap stocks and small-cap stocks, as measured by the Russell Midcap® Index and Russell 2000® Index, respectively, generated negative returns. Large-cap stocks were most successful relative to small-cap stocks in the consumer discretionary sector. From a style perspective, growth-oriented stocks significantly outpaced value-oriented stocks across the capitalization spectrum. Growth outperformed relative to value during the Reporting Period primarily due to stronger performance of the growth-oriented information technology sector. (All as measured by the Russell Investments indices.)

### *What key factors were responsible for the Fund's performance during the Reporting Period?*

The Fund underperformed the Russell Index on a relative basis. Stock selection had the greatest effect on the Fund's performance relative to the Russell Index during the Reporting Period.

### *Which equity market sectors most significantly affected Fund performance?*

Detracting from the Fund's relative results most was stock selection in the financials, consumer discretionary, financials and utilities sectors. Such detractors were only partially offset by effective stock selection in the energy and materials sectors, which helped the Fund's performance relative to the Russell Index. Having an overweighted allocation to consumer staples, which was the second-best performing sector in the Russell Index during the Reporting Period, also boosted the Fund's relative results.

### *Which stocks detracted significantly from the Fund's performance during the Reporting Period?*

Detracting from the Fund's results relative to its benchmark index were positions in oil and natural gas exploration and production company Southwestern Energy, loan management, servicing and asset recovery company Navient and global clothing and accessories retailer Gap.

During the Reporting Period, Southwestern Energy's underperformance was driven primarily by weak natural gas prices, which declined more than 20% in 2015. While we remained positive on its management team's commitment to disciplined growth, we moderated the size of the Fund's position in Southwestern Energy in favor of other opportunities that, in our view, have a more favorable risk/reward profile.

Following weak second calendar quarter results reported in July 2015, shares of Navient came under additional pressure after the company disclosed it received a letter from the Consumer Financial Protection Bureau ("CFPB") stating it may take legal action over Navient's student loan practices. Shares of Navient came under additional pressure due to concerns around a potential downgrade of the company's asset-backed securities by ratings agencies. While we did not believe, at the end of the Reporting Period, these issues posed a material risk to Navient's operations in isolation, we moderated the size of the Fund's position in favor of other opportunities which, in our view, have a more favorable risk/reward profile.

During the Reporting Period, Gap's performance was driven by disappointing earnings results, induced by weaker than expected same-store sales comparisons and gross margins, foreign exchange headwinds resulting from a stronger U.S. dollar, and an increase in promotional expense due to a port strike that caused product delays and thus excess inventory. At the end of the Reporting Period, we remained constructive on the company's new Chief Executive Officer and the changes he is implementing to improve the Gap brand, although we acknowledge a turnaround will take time. We also remained encouraged by what we see as the company's long-term growth potential given its international expansion opportunities as well as its strong e-commerce platform. Gap's management team is focused on modeling the Gap brand's organization on Old Navy's successful sourcing, merchandising and marketing model. The company plans to take these robust processes and implement them at Gap and Banana Republic, another retailer owned by Gap. We believe these initiatives could yield significant margin improvements and shorter lead times. Additionally, we believe Gap could benefit from an improving consumer spending environment, increasing demand for denim products and large declines in cotton prices, which make up a significant portion of the company's cost structure.

### *What were some of the Fund's best-performing individual stocks?*

The Fund benefited most relative to the Russell Index from positions in Maxim Integrated Products, Fortune Brands Home & Security and Tyson Foods.

Shares of semiconductor company Maxim Integrated Products performed well throughout the Reporting Period, as its management continued to deliver on its restructuring initiatives, which contributed to the company's earnings beat, driven by operational cost reductions. Additionally, its shares rose in October 2015 after news of a potential merger. At the end of the Reporting Period, we believed that Maxim Integrated Products was one of the most attractive opportunities in the semiconductor industry, regardless of whether it is acquired, and we were encouraged by its management team's commitment to shareholder-friendly actions.

Fortune Brands Home & Security performed well, as the company continued to build on its industry-leading position in the U.S. home products market, benefiting from an improving U.S. housing market that increased demand for the company's products. At the end of the Reporting Period, we continued to believe the company has a strong business model that is positioned well to continue to benefit from a strong U.S. housing market. We also think the company has a strong management team with the ability to increase share buybacks or participate in a merger or acquisition.

Tyson Foods' shares rose throughout the Reporting Period as a result of executing on its strategy to diversify away from traditional fresh meat sales through its acquisition of Hillshire Brands. The acquisition provided a differentiated product stream while also providing a boost to profitability. Tyson Foods' shares also reacted positively to delivering strong fourth fiscal quarter results, along with an increase to its 2016 guidance and in its dividend. At the end of the Reporting Period, we believed Tyson Foods remained attractively valued relative to peers. We also believed the company remained a high quality business that generates strong cash flow, and we had confidence that its management would continue to allocate capital to maximize shareholder value.

***How did the Fund use derivatives and similar instruments during the Reporting Period?***

During the Reporting Period, we did not use derivatives as part of an active management strategy.

***Did the Fund make any significant purchases or sales during the Reporting Period?***

We initiated a Fund position in Citizens Financial Group, a consumer and commercial banking company. We believe its management can improve the bank's operational efficiency through its cost-savings program and are encouraged by its asset sensitivity to higher interest rates. Overall, we are encouraged by its management team's commitment to creating shareholder value and believe that Citizens Financial Group is attractively valued relative to its peer group.

We established a Fund position in Ralph Lauren at what we considered to be an attractive entry point after the company missed first quarter 2015 earnings estimates, largely due to foreign exchange headwinds and increased investments. We believe Ralph Lauren can benefit from strong growth trends in international markets, supported by store growth, as the company strengthens its store distribution around the world. In addition, we believe its margins became depressed after two years of investments, and we see room for operating margin expansion during the next few years. Overall, we believe Ralph Lauren is a strong brand that offers an attractive risk/reward profile, and we remained encouraged by its management's commitment to return capital to shareholders.

We exited the Fund's position in Fifth Third Bancorp during the Reporting Period. While we maintain a favorable view of the company, we opted to use the proceeds for positions within the financials sector that we felt had better risk-adjusted return potential.

We sold the Fund's position in Cigna, a global health service organization. Cigna's stock rose after the company reported better than expected first calendar quarter earnings and its management raised earnings guidance for 2015. Its shares continued to rise through much of the second quarter of 2015 on news flow of merger and acquisitions activity and industry consolidation amongst domestic health care maintenance organizations. Strict to our sell discipline, however, as the stock's valuations appreciated and reached our price target, we exited the position and transitioned capital into higher conviction names.

***Were there any notable changes in the Fund's weightings during the Reporting Period?***

In constructing the Fund's portfolio, we focus on picking stocks rather than on making industry or sector bets. We seek to outpace the benchmark index by overweighting stocks that we expect to outperform and underweighting those that we think may lag. Consequently, changes in its sector weights are generally the direct result of individual stock selection or of stock appreciation or depreciation. That said, during the Reporting Period, the Fund's exposure to financials, health care and materials increased compared to the Russell Index. The Fund's allocations compared to the benchmark index in consumer discretionary, consumer staples and telecommunication services decreased.

***How was the Fund positioned relative to its benchmark index at the end of the Reporting Period?***

At the end of December 2015, the Fund had overweighted positions relative to the Russell Index in the consumer discretionary, consumer staples and information technology sectors. On the same date, the Fund had an underweighted position compared to the Russell Index in utilities and was rather neutrally weighted to the Russell Index in energy, health care, industrials, materials and financials. The Fund had no exposure to telecommunication services at the end of the Reporting Period.

***Were there any changes to the Fund's portfolio management team during the Reporting Period?***

Effective February 18, 2015, Andrew Braun no longer serves as Co-Chief Investment Officer of the U.S. Value Equity Team or as a lead portfolio manager of the Mid Cap Value strategy. Andrew will, however, retain his sector coverage responsibilities for the Large and Mid Cap Value strategies.

With Andrew's shift in responsibilities, Timothy Ryan, Vice President, began sharing lead portfolio management responsibility for our Mid Cap Value strategy with Dolores Bamford, Managing Director, who co-lead the strategy until her retirement. Tim will retain his sector coverage responsibilities for the Large, Mid, Small and SMID Cap Value portfolios and will continue to share lead portfolio management responsibility for our Real Estate Securities strategy with Nora Creedon, Managing Director. Tim joined the U.S. Value Equity Team in 2010 and has 19 years of experience in the industry.

Upon Dolores' retirement, Sung Cho, Vice President, assumed co-lead portfolio manager responsibilities for the Mid Cap Value strategy, along with Tim Ryan. Sung joined the U.S. Value Equity Team in 2008 and has 12 years of industry experience. Sung retained his research responsibilities for the telecommunications and consumer discretionary sectors in both the Large and Mid Cap Value strategies as well as for technology in Mid Cap Value.

Sean Gallagher, Managing Director and Head of the U.S. Value Equity Team, will continue in his role as Chief Investment Officer of the U.S. Value Equity Team. Sean has 22 years of investing experience and has been the head of the U.S. Value Equity Team and Co-Chief Investment Officer since 2009. He joined Goldman Sachs in 2000, was named managing director in 2005 and partner in 2008. As he has in the past, Sean will continue to work closely with his team, including 15 portfolio managers and more than 10 research analysts, to ensure the seamless management of our shareholders' portfolios.

Effective September 1, 2015, Dolores Bamford retired from the firm. She left to pursue a Master of Divinity degree from the Gordon-Conwell Theological Seminary. Dolores had research responsibilities for energy in the Mid Cap Value strategy and served as co-lead portfolio manager, along with Tim Ryan.

### *What is the Fund's tactical view and strategy for the months ahead?*

At the end of the Reporting Period, we believe positive, but below average, returns for global equities in 2016 in light of modest economic growth forecasts and rising valuations in some areas of the market. However, in our view, equities still looked more attractive than other asset classes in a persistently low-return environment.

After dipping in 2015, we believe global economic growth to increase modestly in 2016, which we think will be enough to sustain corporate profitability and allow stock prices to move higher. In our view, central banks are likely to remain accommodative given still-fragile global economic growth, which we also see as helpful for equity markets. Even in the U.S., where Fed policy has moved toward normalization, we do not expect to see much negative impact from what are likely to be gradual interest rate increases given continued strength in the housing and labor markets. However, the strong U.S. dollar may well remain a headwind for U.S. multi-nationals.

While the macro outlook remains benign, U.S. credit and equities reflect some typical late-cycle signs, such as more shareholder-friendly actions, an increase in merger and acquisition activity and a pick-up in leverage, all of which tend to coincide with an environment lacking top-line growth. Higher equity valuations are also consistent with late-cycle indicators. In part due to years of ultra-low interest rates, U.S. equity market valuations have risen toward fair value, in our opinion, with some areas looking particularly vulnerable if companies cannot deliver growth.

One common theme across the developed markets is that we believe domestically-focused companies in the major regions could benefit from increasing domestic consumption while being more insulated from currency volatility. In the U.S., we expect that the strong dollar could continue to be a headwind for many globally-exposed companies but believe the consumer remains healthy.

We also believe that some extraordinary dynamics in the U.S. equity market in 2015 have set up investment opportunities for 2016. The extremely narrow trading breadth of the market hit a 30-year low. For example, just ten stocks accounted for approximately 40% of the total positive contribution to the S&P 500 Index return. Also, as mentioned earlier, value stocks notably underperformed growth stocks. We expect some broadening of the market and reversal of these trends in 2016, as investors focus on the risk of high-priced stocks as well as on the relative attractiveness of the hundreds of stocks trading below the market multiple.

Regardless of market direction, our fundamental, bottom-up stock selection continues to drive our process, rather than headlines or sentiment. We maintain high conviction in the companies the Fund owns and believe they have the potential to outperform relative to the broader market regardless of economic growth conditions. We continue to focus on undervalued companies that we believe have comparatively greater control of their own destiny, such as innovators with differentiated products, companies with low cost structures or companies that have been investing in their own businesses and may be poised to gain market share. We maintain our discipline in identifying companies with what we believe to be strong or improving balance sheets, led by quality management teams and trading at discounted valuations. We remain focused on the long-term performance of the Fund.

# Index Definitions

The Russell Midcap Value® Index is an unmanaged index of common stock prices that measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The Index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The Russell 2000® Index (with dividends reinvested) is an unmanaged index of common stock prices that measures the performance of the 2000 smallest companies in the Russell 3000® Index. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The S&P 500® Index (with dividends reinvested) is the Standard & Poor's 500 Composite Index of 500 stocks, an unmanaged index of common stock prices. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. It is not possible to invest directly in an index.

The Russell 1000® Index 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. It is not possible to invest directly in an index.

# Mid Cap Value Fund

*as of December 31, 2015*

## STANDARDIZED TOTAL RETURNS[1]

| For the period ended 12/31/15 | One Year | Five Years | Ten Years | Since Inception | Inception Date |
|---|---|---|---|---|---|
| Institutional | -9.24% | 8.72% | 6.67% | 8.41% | 5/01/98 |
| Service | -9.52 | 8.44 | N/A | 6.16 | 1/09/06 |

[1] **The Standardized Total Returns are average annual total returns as of the most recent calendar quarter-end. They assume reinvestment of all distributions at net asset value ("NAV"). Because Institutional Shares and Service Shares do not involve a sales charge, such a charge is not applied to their Standardized Total Returns.**

**Total return figures in the above chart represent past performance and do not indicate future results, which will vary. The investment return and principal value of an investment will fluctuate and, therefore, 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 total return figures in the above chart. Please visit www.GSAMFUNDS.com to obtain the most recent month-end returns.** Performance reflects fee waivers and/or expense limitations in effect during the periods shown. In their absence, performance would be reduced.

## EXPENSE RATIOS[2]

| | Net Expense Ratio (Current) | Gross Expense Ratio (Before Waivers) |
|---|---|---|
| Institutional | 0.83% | 0.87% |
| Service | 1.08 | 1.12 |

[2] The expense ratios of the Fund, both current (net of any fee waivers or expense limitations) and before waivers (gross of any fee waivers or expense limitations) are as set forth above according to the most recent publicly available Prospectus for the Fund and may differ from the expense ratios disclosed in the Financial Highlights in this report. Pursuant to a contractual arrangement, the Fund's waivers and/or expense limitations will remain in place through at least April 30, 2016 and prior to such date the Investment Adviser may not terminate the arrangements without the approval of the Fund's Board of Trustees. If these arrangements are discontinued in the future, the expense ratios may change without shareholder approval.

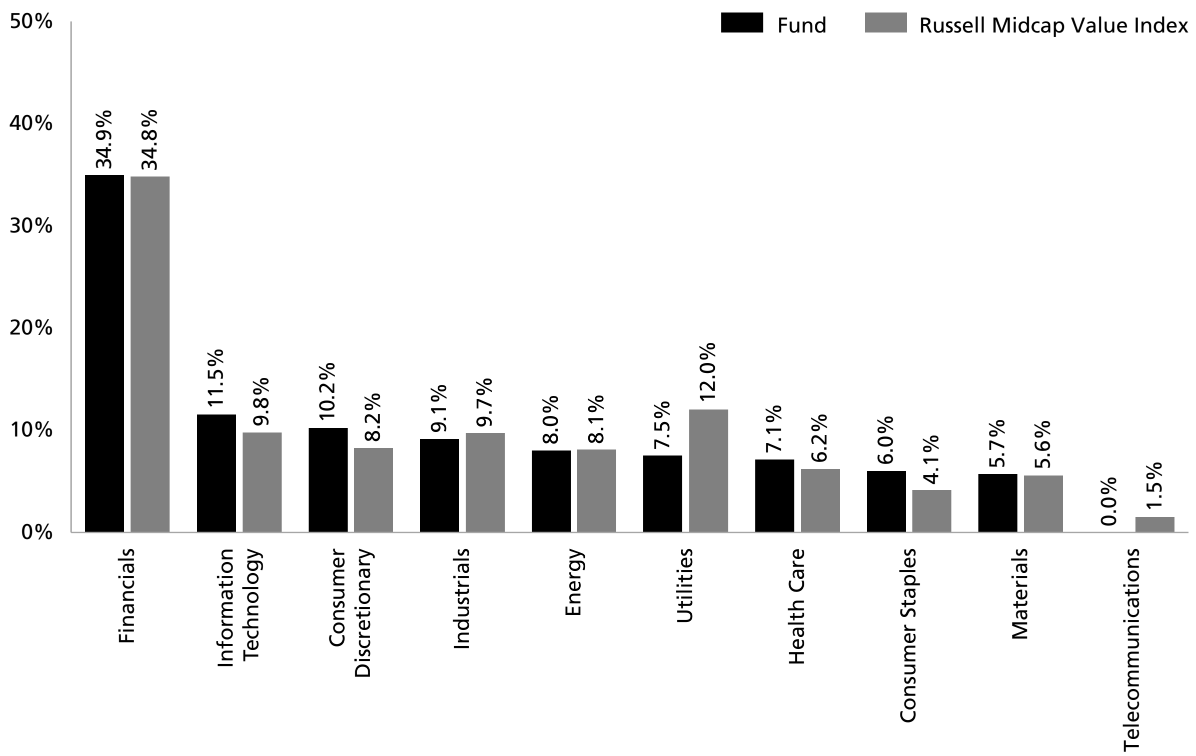
## TOP TEN HOLDINGS AS OF 12/31/15[3]

| Holding | % of Net Assets | Line of Business |
|---|---|---|
| Citizens Financial Group, Inc. | 2.5% | Banks |
| Lincoln National Corp. | 2.4 | Insurance |
| Raymond James Financial, Inc. | 2.1 | Diversified Financials |
| Sempra Energy | 1.9 | Utilities |
| Ralph Lauren Corp. | 1.9 | Consumer Durables & Apparel |
| Huntington Bancshares, Inc. | 1.9 | Banks |
| FirstEnergy Corp. | 1.9 | Utilities |
| Brixmor Property Group, Inc. | 1.8 | Real Estate Investment Trust |
| Brocade Communications Systems, Inc. | 1.7 | Technology Hardware & Equipment |
| Prologis, Inc. | 1.7 | Real Estate Investment Trust |

[3] The top 10 holdings may not be representative of the Fund's future investments.

## FUND vs. BENCHMARK SECTOR ALLOCATIONS[4]

**As of December 31, 2015**




[4] The Fund is actively managed and, as such, its composition may differ over time. Consequently, the Fund's overall sector allocations may differ from percentages contained in the graph above. The graph categorizes investments using Global Industry Classification Standard ("GICS"), however, the sector classifications used by the portfolio management team may differ from GICS. The percentage shown for each investment category reflects the value of investments in that category as a percentage of market value. The graph depicts the Fund's investments but may not represent the Fund's market exposure due to the exclusion of certain derivatives, if any, as listed in the Additional Investment Information section of the Schedule of Investments.

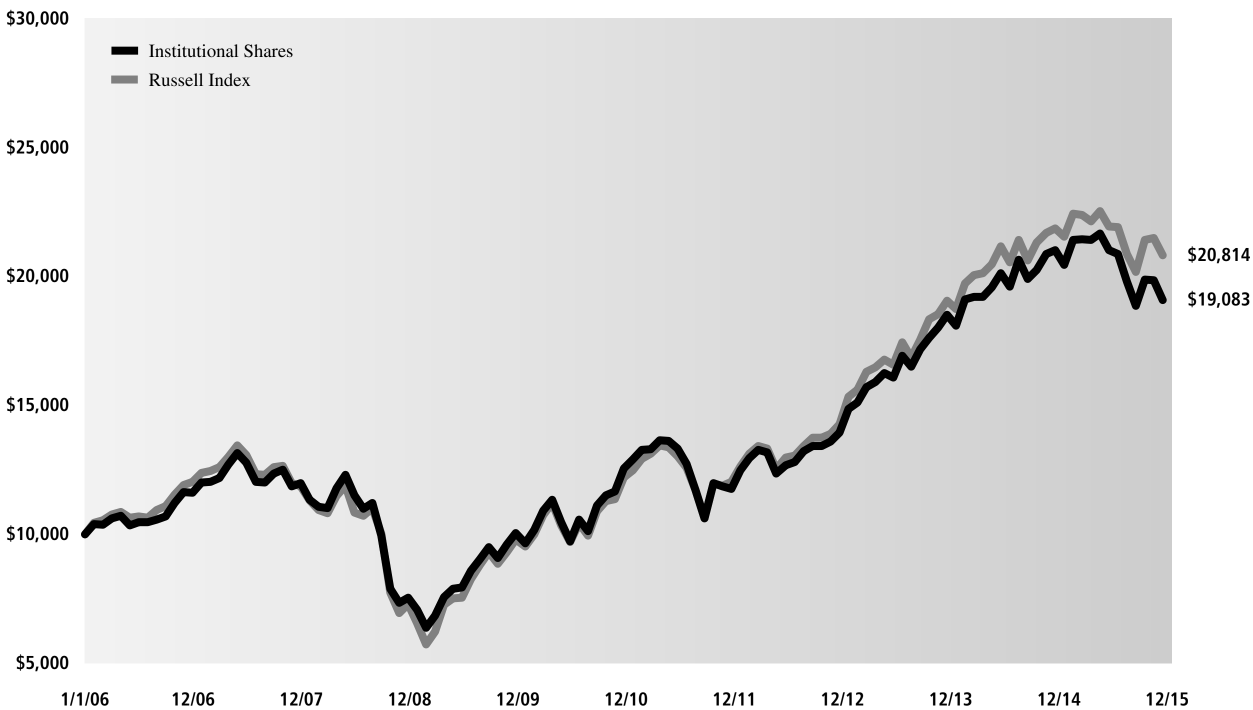
# Performance Summary

*December 31, 2015*

The following graph shows the value, as of December 31, 2015, of a $10,000 investment made on January 1, 2006 in the Institutional Shares at NAV. For comparative purposes, the performance of the Fund's benchmark, the Russell Index (with distributions reinvested), is shown. This performance data represents past performance and should not be considered indicative of future performance, which will fluctuate with changes in market conditions. These performance fluctuations will cause an investor's shares, when redeemed, to be worth more or less than their original cost. Performance reflects Fund level expenses but does not reflect fees and expenses associated with any variable annuity contract or variable life insurance policy that uses the Fund as an investment option for any contract or policy. Had performance reflected all of those fees and expenses, performance would have been reduced. Performance reflects applicable fee waivers and/or expense limitations in effect during the periods shown, and in their absence, performance would be reduced. Performance of Service Shares will vary from Institutional Shares due to differences in class specific fees. In addition to the Investment Adviser's decisions regarding issuer/industry investment selection and allocation, other factors may affect Fund performance. These factors include, but are not limited to, Fund operating fees and expenses, portfolio turnover, and subscription and redemption cash flows affecting the Fund.

**Mid Cap Value Fund's 10 Year Performance**

**Performance of a $10,000 investment, with distributions reinvested, from January 1, 2006 through December 31, 2015.**




| Average Annual Total Return through December 31, 2015 | One Year | Five Years | Ten Years | Since Inception |
|---|---|---|---|---|
| **Institutional (Commenced May 1, 1998)** | -9.24% | 8.72% | 6.67% | 8.41% |
| **Service (Commenced January 9, 2006)** | -9.52% | 8.44% | N/A | 6.16% |

# Schedule of Investments

*December 31, 2015*

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – 96.7%** | | |
| **Banks – 9.2%** | | |
| 779,221 | Citizens Financial Group, Inc. | $ 20,407,798 |
| 288,709 | First Horizon National Corp. | 4,192,054 |
| 1,380,586 | Huntington Bancshares, Inc. | 15,269,281 |
| 457,330 | KeyCorp | 6,032,183 |
| 105,004 | M&T Bank Corp. | 12,724,385 |
| 128,012 | PacWest Bancorp | 5,517,317 |
| 355,619 | Zions Bancorporation | 9,708,399 |
| | | 73,851,417 |
| **Capital Goods – 5.7%** | | |
| 158,973 | Armstrong World Industries, Inc.* | 7,269,835 |
| 207,380 | Fortune Brands Home & Security, Inc. | 11,509,590 |
| 25,968 | Hubbell, Inc. | 2,623,807 |
| 208,815 | Ingersoll-Rand PLC | 11,545,381 |
| 174,741 | Textron, Inc. | 7,340,870 |
| 136,828 | Triumph Group, Inc. | 5,438,913 |
| | | 45,728,396 |
| **Consumer Durables & Apparel – 2.6%** | | |
| 27,925 | Mohawk Industries, Inc.* | 5,288,716 |
| 137,819 | Ralph Lauren Corp. | 15,364,062 |
| | | 20,652,778 |
| **Consumer Services – 1.1%** | | |
| 383,734 | MGM Resorts International* | 8,718,437 |
| **Diversified Financials – 4.7%** | | |
| 23,666 | Affiliated Managers Group, Inc.* | 3,780,880 |
| 219,003 | Navient Corp. | 2,507,584 |
| 289,226 | Raymond James Financial, Inc. | 16,766,431 |
| 1,382,995 | SLM Corp.* | 9,017,128 |
| 160,641 | Voya Financial, Inc. | 5,929,259 |
| | | 38,001,282 |
| **Energy – 7.8%** | | |
| 449,532 | Antero Resources Corp.* | 9,799,798 |
| 125,975 | Concho Resources, Inc.* | 11,698,038 |
| 203,067 | Continental Resources, Inc.* | 4,666,480 |
| 283,274 | Gulfport Energy Corp.* | 6,960,042 |
| 164,483 | Newfield Exploration Co.* | 5,355,566 |
| 281,486 | Noble Energy, Inc. | 9,269,334 |
| 90,899 | Pioneer Natural Resources Co. | 11,396,917 |
| 185,252 | Southwestern Energy Co.* | 1,317,142 |
| 16,920 | Tesoro Corp. | 1,782,860 |
| | | 62,246,177 |
| **Food & Staples Retailing – 1.4%** | | |
| 337,311 | Whole Foods Market, Inc. | 11,299,919 |
| **Food, Beverage & Tobacco – 3.3%** | | |
| 261,015 | ConAgra Foods, Inc. | 11,004,392 |
| 84,806 | Mead Johnson Nutrition Co. | 6,695,434 |
| 166,860 | Tyson Foods, Inc. Class A | 8,898,644 |
| | | 26,598,470 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Health Care Equipment & Services – 4.2%** | | |
| 54,361 | Cardinal Health, Inc. | $ 4,852,806 |
| 164,132 | Envision Healthcare Holdings, Inc.* | 4,262,508 |
| 91,511 | Laboratory Corp. of America Holdings* | 11,314,420 |
| 128,306 | Zimmer Biomet Holdings, Inc. | 13,162,913 |
| | | 33,592,647 |
| **Household & Personal Products – 1.0%** | | |
| 102,516 | Edgewell Personal Care Co. | 8,034,179 |
| **Insurance – 8.5%** | | |
| 193,211 | Arthur J. Gallagher & Co. | 7,910,058 |
| 66,775 | Everest Re Group Ltd. | 12,225,835 |
| 784,346 | Genworth Financial, Inc. Class A* | 2,925,611 |
| 380,803 | Lincoln National Corp. | 19,139,159 |
| 190,617 | Principal Financial Group, Inc. | 8,573,953 |
| 187,010 | W.R. Berkley Corp. | 10,238,797 |
| 172,947 | XL Group PLC | 6,776,063 |
| | | 67,789,476 |
| **Materials – 5.6%** | | |
| 257,382 | Axalta Coating Systems Ltd.* | 6,859,230 |
| 163,212 | Celanese Corp. Series A | 10,989,064 |
| 188,986 | CF Industries Holdings, Inc. | 7,712,519 |
| 59,504 | Martin Marietta Materials, Inc. | 8,127,056 |
| 170,411 | Packaging Corp. of America | 10,744,414 |
| | | 44,432,283 |
| **Media – 2.4%** | | |
| 202,791 | Discovery Communications, Inc. Class A* | 5,410,464 |
| 147,520 | Liberty Media Corp. Series C* | 5,617,561 |
| 141,365 | Scripps Networks Interactive, Inc. Class A | 7,804,762 |
| | | 18,832,787 |
| **Pharmaceuticals, Biotechnology & Life Sciences – 2.6%** | | |
| 127,316 | Baxalta, Inc. | 4,969,143 |
| 192,339 | Endo International PLC* | 11,774,994 |
| 80,650 | Mylan NV* | 4,360,746 |
| | | 21,104,883 |
| **Real Estate Investment Trust – 11.3%** | | |
| 555,107 | Brixmor Property Group, Inc. | 14,332,863 |
| 585,548 | DDR Corp. | 9,860,628 |
| 63,385 | Federal Realty Investment Trust | 9,260,549 |
| 70,284 | Mid-America Apartment Communities, Inc. | 6,382,490 |
| 307,977 | Prologis, Inc. | 13,218,373 |
| 426,934 | RLJ Lodging Trust | 9,234,582 |
| 550,432 | Starwood Property Trust, Inc. | 11,316,882 |
| 145,088 | Ventas, Inc. | 8,187,316 |
| 89,317 | Vornado Realty Trust | 8,928,127 |
| | | 90,721,810 |

 The accompanying notes are an integral part of these financial statements.

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Retailing – 3.9%** | | |
| 225,099 | Sally Beauty Holdings, Inc.* | $ 6,278,011 |
| 510,340 | Staples, Inc. | 4,832,920 |
| 374,995 | The Gap, Inc. | 9,262,376 |
| 176,709 | Urban Outfitters, Inc.* | 4,020,130 |
| 115,769 | Williams-Sonoma, Inc. | 6,762,067 |
| | | 31,155,504 |
| **Semiconductors & Semiconductor Equipment – 2.0%** | | |
| 150,826 | Intersil Corp. Class A | 1,924,540 |
| 263,661 | Maxim Integrated Products, Inc. | 10,019,118 |
| 93,255 | Xilinx, Inc. | 4,380,187 |
| | | 16,323,845 |
| **Software & Services – 6.4%** | | |
| 185,102 | Fidelity National Information Services, Inc. | 11,217,181 |
| 429,958 | First Data Corp. Class A* | 6,887,927 |
| 96,580 | IAC/InterActiveCorp | 5,799,629 |
| 202,106 | Pandora Media, Inc.* | 2,710,242 |
| 430,180 | Symantec Corp. | 9,033,780 |
| 152,809 | VMware, Inc. Class A* | 8,644,405 |
| 74,955 | WEX, Inc.* | 6,626,022 |
| | | 50,919,186 |
| **Technology Hardware & Equipment – 2.7%** | | |
| 1,492,719 | Brocade Communications Systems, Inc. | 13,703,160 |
| 39,719 | F5 Networks, Inc.* | 3,851,154 |
| 722,997 | Viavi Solutions, Inc.* | 4,403,052 |
| | | 21,957,366 |
| **Transportation – 3.1%** | | |
| 782,189 | Hertz Global Holdings, Inc.* | 11,130,549 |
| 72,605 | Kirby Corp.* | 3,820,475 |
| 170,565 | United Continental Holdings, Inc.* | 9,773,375 |
| | | 24,724,399 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Utilities – 7.2%** | | |
| 122,119 | Ameren Corp. | $ 5,279,204 |
| 480,369 | FirstEnergy Corp. | 15,242,108 |
| 174,405 | NRG Energy, Inc. | 2,052,747 |
| 190,490 | PG&E Corp. | 10,132,163 |
| 159,476 | SCANA Corp. | 9,646,703 |
| 165,338 | Sempra Energy | 15,543,426 |
| | | 57,896,351 |
| **TOTAL INVESTMENTS – 96.7%** (Cost $778,185,229) | | $774,581,592 |
| **OTHER ASSETS IN EXCESS OF LIABILITIES – 3.3%** | | 26,421,951 |
| **NET ASSETS – 100.0%** | | $801,003,543 |

The percentage shown for each investment category reflects the value of investments in that category as a percentage of net assets.

* Non-income producing security.

# Statement of Assets and Liabilities

*December 31, 2015*

| | |
|---|---|
| **Assets:** | |
| Investments, at value (cost $778,185,229) | $774,581,592 |
| Cash | 26,952,896 |
| Receivables: | |
| Dividends | 1,414,520 |
| Investments sold | 1,278,938 |
| Fund shares sold | 695,349 |
| **Total assets** | 804,923,295 |
| **Liabilities:** | |
| Payables: | |
| Investments purchased | 1,942,110 |
| Fund shares redeemed | 1,290,163 |
| Management fees | 529,315 |
| Distribution and Service fees and Transfer Agency fees | 70,601 |
| Accrued expenses | 87,563 |
| **Total liabilities** | 3,919,752 |
| **Net Assets:** | |
| Paid-in capital | 823,758,160 |
| Undistributed net investment income | 3,981,811 |
| Accumulated net realized loss | (23,132,791) |
| Net unrealized loss | (3,603,637) |
| **NET ASSETS** | $801,003,543 |
| Net Assets: | |
| Institutional | $535,458,708 |
| Service | 265,544,835 |
| Total Net Assets | $801,003,543 |
| Shares of beneficial interest outstanding $0.001 par value (unlimited shares authorized): | |
| Institutional | 36,962,078 |
| Service | 18,297,968 |
| Net asset value, offering and redemption price per share: | |
| Institutional | $14.49 |
| Service | 14.51 |

 **The accompanying notes are an integral part of these financial statements.**

# Statement of Operations

*For the Fiscal Year Ended December 31, 2015*

| | |
|---|---|
| **Investment income:** | |
| Dividends | $ 15,082,463 |
| **Expenses:** | |
| Management fees | 7,695,555 |
| Distribution and Service fees — Service Class | 833,195 |
| Transfer Agency fees[(a)] | 192,373 |
| Printing and mailing costs | 180,778 |
| Custody, accounting and administrative services | 89,103 |
| Professional fees | 74,740 |
| Trustee fees | 26,602 |
| Other | 82,179 |
| **Total expenses** | 9,174,525 |
| Less — expense reductions | (309,426) |
| **Net expenses** | 8,865,099 |
| **NET INVESTMENT INCOME** | 6,217,364 |
| **Realized and unrealized gain (loss):** | |
| Net realized gain from investments (including commissions recaptured of $66,610) | 24,622,227 |
| Net change in unrealized loss on investments | (116,718,047) |
| **Net realized and unrealized loss** | (92,095,820) |
| **NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS** | $ (85,878,456) |

(a) Institutional and Service Shares incurred Transfer Agency fees of $125,723 and $66,650, respectively.

# Statement of Changes in Net Assets

| | For the Fiscal Year Ended December 31, 2015 | For the Fiscal Year Ended December 31, 2014 |
|---|---|---|
| **From operations:** | | |
| Net investment income | $ 6,217,364 | $ 5,540,478 |
| Net realized gain | 24,622,227 | 159,883,299 |
| Net change in unrealized loss | (116,718,047) | (37,866,794) |
| **Net increase (decrease) in net assets resulting from operations** | (85,878,456) | 127,556,983 |
| **Distributions to shareholders:** | | |
| From net investment income | | |
| Institutional Shares | (2,359,711) | (6,789,219) |
| Service Shares | (329,903) | (2,691,480) |
| From net realized gains | | |
| Institutional Shares | (42,488,374) | (113,060,264) |
| Service Shares | (21,063,319) | (58,697,537) |
| **Total distributions to shareholders** | (66,241,307) | (181,238,500) |
| **From share transactions:** | | |
| Proceeds from sales of shares | 71,780,808 | 97,834,874 |
| Reinvestment of distributions | 66,241,307 | 181,238,500 |
| Cost of shares redeemed | (239,467,354) | (186,178,999) |
| **Net increase (decrease) in net assets resulting from share transactions** | (101,445,239) | 92,894,375 |
| **TOTAL INCREASE (DECREASE)** | (253,565,002) | 39,212,858 |
| **Net assets:** | | |
| Beginning of year | 1,054,568,545 | 1,015,355,687 |
| End of year | $ 801,003,543 | $1,054,568,545 |
| **Undistributed net investment income** | $ 3,981,811 | $ 493,790 |

 **The accompanying notes are an integral part of these financial statements.**

# Financial Highlights

*Selected Data for a Share Outstanding Throughout Each Year*

| | | Income (loss) from investment operations | | | Distributions to shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year - Share Class | Net asset value, beginning of year | Net investment income[a] | Net realized and unrealized gain (loss) | Total from investment operations | From net investment income | From net realized gains | Total distributions | Net asset value, end of year | Total return[b] | Net assets, end of year (in 000s) | Ratio of net expenses to average net assets | Ratio of total expenses to average net assets | Ratio of net investment income to average net assets | Portfolio turnover rate[c] |
| **FOR THE FISCAL YEARS ENDED DECEMBER 31,** | | | | | | | | | | | | | | |
| 2015 - Institutional | $17.43 | $0.13 | $(1.75) | $(1.62) | $(0.07) | $(1.25) | $(1.32) | $14.49 | (9.24)% | $535,459 | 0.84% | 0.87% | 0.74% | 94% |
| 2015 - Service | 17.45 | 0.08 | (1.75) | (1.67) | (0.02) | (1.25) | (1.27) | 14.51 | (9.52) | 265,545 | 1.09 | 1.12 | 0.48 | 94 |
| 2014 - Institutional | 18.64 | 0.12 | 2.31 | 2.43 | (0.21) | (3.43) | (3.64) | 17.43 | 13.57 | 692,068 | 0.83 | 0.87 | 0.62 | 88 |
| 2014 - Service | 18.66 | 0.07 | 2.31 | 2.38 | (0.16) | (3.43) | (3.59) | 17.45 | 13.29 | 362,501 | 1.08 | 1.12 | 0.38 | 88 |
| 2013 - Institutional | 15.33 | 0.13 | 4.88 | 5.01 | (0.16) | (1.54) | (1.70) | 18.64 | 32.89 | 695,832 | 0.83 | 0.86 | 0.74 | 108 |
| 2013 - Service | 15.35 | 0.09 | 4.88 | 4.97 | (0.12) | (1.54) | (1.66) | 18.66 | 32.56 | 319,524 | 1.08 | 1.11 | 0.51 | 108 |
| 2012 - Institutional | 13.09 | 0.18[d] | 2.24 | 2.42 | (0.18) | — | (0.18) | 15.33 | 18.41 | 601,620 | 0.84 | 0.87 | 1.24[d] | 79 |
| 2012 - Service | 13.11 | 0.15[d] | 2.23 | 2.38 | (0.14) | — | (0.14) | 15.35 | 18.13 | 221,917 | 1.09 | 1.12 | 1.05[d] | 79 |
| 2011 - Institutional | 14.10 | 0.11 | (1.01) | (0.90) | (0.11) | — | (0.11) | 13.09 | (6.38) | 604,797 | 0.85 | 0.86 | 0.81 | 75 |
| 2011 - Service | 14.12 | 0.08 | (1.01) | (0.93) | (0.08) | — | (0.08) | 13.11 | (6.59) | 159,638 | 1.10 | 1.11 | 0.61 | 75 |

(a) Calculated based on the average shares outstanding methodology.
(b) Assumes investment at the net asset value at the beginning of the year, reinvestment of all distributions, and a complete redemption of the investment at the net asset value at the end of the year.
(c) The Fund's portfolio turnover rate is calculated in accordance with regulatory requirements, without regard to transactions involving short term investments. If such transactions were included, the Fund's portfolio turnover rate may be higher.
(d) Reflects income recognized from special dividends which amounted to $0.04 per share and 0.31% of average net assets.

# Notes to Financial Statements

*December 31, 2015*

## 1. ORGANIZATION

Goldman Sachs Variable Insurance Trust (the "Trust" or "VIT") is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Trust includes the Goldman Sachs Mid Cap Value Fund (the "Fund"). The Fund is a diversified portfolio under the Act offering two classes of shares — Institutional and Service Shares. Shares of the Trust are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies.

Goldman Sachs Asset Management, L.P. ("GSAM"), an affiliate of Goldman, Sachs & Co. ("Goldman Sachs"), serves as investment adviser to the Fund pursuant to a management agreement (the "Agreement") with the Trust.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and require management to make estimates and assumptions that may affect the reported amounts and disclosures. Actual results may differ from those estimates and assumptions.

A. Investment Valuation — The Fund's valuation policy is to value investments at fair value.

B. Investment Income and Investments — Investment income includes interest income and dividend income, net of any foreign withholding taxes, less any amounts reclaimable. Interest income is accrued daily and adjusted for amortization of premiums and accretion of discounts. Dividend income is recognized on ex-dividend date or, for certain foreign securities, as soon as such information is obtained subsequent to the ex-dividend date. Investment transactions are reflected on trade date. Realized gains and losses are calculated using identified cost. Investment transactions are recorded on the following business day for daily net asset value ("NAV") calculations. Any foreign capital gains tax is accrued daily based upon net unrealized gains, and is payable upon sale of such investments. Distributions received from the Fund's investments in United States ("U.S.") real estate investment trusts ("REITs") may be characterized as ordinary income, net capital gain or a return of capital. A return of capital is recorded by the Fund as a reduction to the cost basis of the REIT.

C. Class Allocations and Expenses — Investment income, realized and unrealized gain (loss), and non-class specific expenses of the Fund are allocated daily based upon the proportion of net assets of each class. Non-class specific expenses directly incurred by a Fund are charged to that Fund, while such expenses incurred by the Trust are allocated across the applicable Funds on a straight-line and/or pro-rata basis depending upon the nature of the expenses. Class specific expenses, where applicable, are borne by the respective share classes and include Distribution and Service and Transfer Agency fees.

D. Federal Taxes and Distributions to Shareholders — It is the Fund's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies (mutual funds) and to distribute each year substantially all of its investment company taxable income and capital gains to its shareholders. Accordingly, the Fund is not required to make any provisions for the payment of federal income tax. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gains distributions, if any, are declared and paid annually.

Net capital losses are carried forward to future fiscal years and may be used to the extent allowed by the Code to offset any future capital gains. Losses that are carried forward will retain their character as either short-term or long-term capital losses. Utilization of capital loss carryforwards will reduce the requirement of future capital gains distributions.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules, which may differ from GAAP. The source of the Fund's distributions may be shown in the accompanying financial statements as either from net investment income, net realized gain or capital. Certain components of the Fund's net assets on the Statement of Assets and Liabilities reflect permanent GAAP/tax differences based on the appropriate tax character.

E. Commission Recapture — GSAM, on behalf of certain Funds, may direct portfolio trades, subject to seeking best execution, to various brokers who have agreed to rebate a portion of the commissions generated. Such rebates are made directly to a Fund as cash payments and are included in net realized gain (loss) from investments on the Statement of Operations.

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 to valuation techniques used to measure fair value. The 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). The levels used for classifying investments are not necessarily an indication of the risk associated with investing in these investments. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 — Quoted prices in markets that are not active or financial instruments for which significant inputs are observable (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly;
Level 3 — Prices or valuations that require significant unobservable inputs (including GSAM's assumptions in determining fair value measurement).

Changes in valuation techniques may result in transfers into or out of an assigned level within the hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value hierarchy resulting from such changes are deemed to have occurred as of the beginning of the reporting period.

The Board of Trustees ("Trustees") has approved Valuation Procedures that govern the valuation of the portfolio investments held by the Fund, including investments for which market quotations are not readily available. The Trustees have delegated to GSAM day-to-day responsibility for implementing and maintaining internal controls and procedures related to the valuation of the Fund's portfolio investments. To assess the continuing appropriateness of pricing sources and methodologies, GSAM regularly performs price verification procedures and issues challenges as necessary to third party pricing vendors or brokers, and any differences are reviewed in accordance with the Valuation Procedures.

**A. Level 1 and Level 2 Fair Value Investments** — The valuation techniques and significant inputs used in determining the fair values for investments classified as Level 1 and Level 2 are as follows:

**Equity Securities** — Equity securities traded on a U.S. securities exchange or the NASDAQ system, or those located on certain foreign exchanges, including but not limited to the Americas, are valued daily at their last sale price or official closing price on the principal exchange or system on which they are traded. If there is no sale or official closing price or such price is believed by GSAM to not represent fair value, equity securities are valued at the last bid price for long positions and at the last ask price for short positions. To the extent these investments are actively traded, they are classified as Level 1 of the fair value hierarchy, otherwise they are generally classified as Level 2.

Unlisted equity securities for which market quotations are available are valued at the last sale price on the valuation date, or if no sale occurs, at the last bid price. Securities traded on certain foreign securities exchanges are valued daily at fair value determined by an independent fair value service (if available) under Valuation Procedures approved by the Trustees and consistent with applicable regulatory guidance. The independent fair value service takes into account multiple factors including, but not limited to, movements in the securities markets, certain depositary receipts, futures contracts and foreign currency exchange rates that have occurred subsequent to the close of the foreign securities exchange. These investments are generally classified as Level 2 of the fair value hierarchy.

**B. Level 3 Fair Value Investments** — To the extent that significant inputs to valuation models and other alternative pricing sources are unobservable, or if quotations are not readily available, or if GSAM believes that such quotations do not accurately reflect fair value, the fair value of the Fund's investments may be determined under Valuation Procedures approved by the Trustees. GSAM, consistent with its procedures and applicable regulatory guidance, may make an adjustment to the most recent valuation prices of either domestic or foreign securities in light of significant events to reflect what it believes to be the fair value of

# Notes to Financial Statements (continued)

*December 31, 2015*

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

the securities at the time of determining a Fund's NAV. Significant events which could affect a large number of securities in a particular market may include, but are not limited to: significant fluctuations in U.S. or foreign markets; market dislocations; market disruptions; or unscheduled market closings. Significant events which could also affect a single issuer may include, but are not limited to: corporate actions such as reorganizations, mergers and buy-outs; ratings downgrades; and bankruptcies.

**C. Fair Value Hierarchy** — The following is a summary of the Fund's investments classified in the fair value hierarchy as of December 31, 2015:

| Investment Type | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Common Stock and/or Other Equity Investments[(a)] | | | |
| North America | $774,581,592 | $— | $— |

(a) Amounts are disclosed by continent to highlight the impact of time zone differences between local market close and the calculation of NAV. Security valuations are based on the principal exchange or system on which they are traded, which may differ from country of domicile.

For further information regarding security characteristics, see the Schedule of Investments.

## 4. AGREEMENTS AND AFFILIATED TRANSACTIONS

**A. Management Agreement** — Under the Agreement, GSAM manages the Fund, subject to the general supervision of the Trustees.

As compensation for the services rendered pursuant to the Agreement, the assumption of the expenses related thereto and administration of the Fund's business affairs, including providing facilities, GSAM is entitled to a management fee, accrued daily and paid monthly, equal to an annual percentage rate of the Fund's average daily net assets.

For the fiscal year ended December 31, 2015, contractual and effective net management fees with GSAM were at the following rates:

| Contractual Management Rate | | | | | |
|---|---|---|---|---|---|
| First $2 billion | Next $3 billion | Next $3 billion | Over $8 billion | Effective Rate | Effective Net Management Rate^ |
| 0.80% | 0.72% | 0.68% | 0.67% | 0.80% | 0.77%* |

^ Effective Net Management Rate includes the impact of management fee waivers of affiliated underlying funds, if any.
* GSAM agreed to waive a portion of its management fee in order to achieve a net management rate, as defined in the Fund's most recent prospectus. This waiver will be effective through at least April 30, 2016 and prior to such date GSAM may not terminate the arrangement without approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM waived $288,577 of its management fee.

**B. Distribution and Service Plan** — The Trust, on behalf of the Service Shares of the Fund, has adopted a Distribution and Service Plan (the "Plan"). Under the Plan, Goldman Sachs, which serves as distributor (the "Distributor"), is entitled to a fee accrued daily and paid monthly, for distribution services and personal and account maintenance services, which may then be paid by Goldman Sachs to authorized dealers, equal to, on an annual basis, 0.25% of the Fund's average daily net assets attributable to Service Shares.

**C. Transfer Agency Agreement** — Goldman Sachs also serves as the transfer agent of the Fund for a fee pursuant to the Transfer Agency Agreement. The fees charged for such transfer agency services are accrued daily and paid monthly at an annual rate of 0.02% of the average daily net assets of Institutional and Service Shares.

**D. Other Expense Agreements and Affiliated Transactions** — GSAM has agreed to limit certain "Other Expenses" of the Fund (excluding acquired fund fees and expenses, transfer agency fees and expenses, taxes, interest, brokerage fees, shareholder meeting, litigation, indemnification and extraordinary expenses) to the extent such expenses exceed, on an annual basis, a

## 4. AGREEMENTS AND AFFILIATED TRANSACTIONS (continued)

percentage rate of the average daily net assets of the Fund. Such Other Expense reimbursements, if any, are accrued daily and paid monthly. In addition, the Fund is not obligated to reimburse GSAM for prior fiscal year expense reimbursements, if any. The Other Expense limitation as an annual percentage rate of average daily net assets for the Fund is 0.054%. The Other Expense limitation will remain in place through at least April 30, 2016, and prior to such date GSAM may not terminate the arrangement without the approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM did not reimburse to the Fund. In addition, the Fund has entered into certain offset arrangements with the custodian and the transfer agent, which may result in a reduction of the Fund's expenses and are received irrespective of the application of the "Other Expense" limitation described above. For the fiscal year ended December 31, 2015, custody fee credits were $20,849.

**E. Line of Credit Facility** — As of December 31, 2015, the Fund participated in a $1,205,000,000 committed, unsecured revolving line of credit facility (the "facility") together with other funds of the Trust and certain registered investment companies having management agreements with GSAM or its affiliates ("Other Borrowers"). Pursuant to the terms of the facility, the Fund and Other Borrowers could increase the credit amount by up to an additional $115,000,000, for a total of up to $1,320,000,000. This facility is to be used for temporary emergency purposes, or to allow for an orderly liquidation of securities to meet redemption requests. The interest rate on borrowings is based on the federal funds rate. The facility also requires a fee to be paid by the Fund based on the amount of the commitment that has not been utilized. For the fiscal year ended December 31, 2015, the Fund did not have any borrowings under the facility.

**F. Other Transactions with Affiliates** — For the fiscal year ended December 31, 2015, Goldman Sachs earned $42,686 in brokerage commissions from portfolio transactions.

## 5. PORTFOLIO SECURITIES TRANSACTIONS

The cost of purchases and proceeds from sales and maturities of long-term securities for the fiscal year ended December 31, 2015, were $875,607,048 and $1,025,258,585, respectively.

## 6. TAX INFORMATION

The tax character of distributions paid during the fiscal years ended December 31, 2014 and December 31, 2015, was as follows:

| | 2014 | 2015 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $ 65,381,467 | $19,814,139 |
| Net long-term capital gains | 115,857,033 | 46,427,168 |
| Total taxable distributions | $181,238,500 | $66,241,307 |

As of December 31, 2015, the components of accumulated earnings (losses) on a tax-basis were as follows:

| | |
|---|---|
| Undistributed ordinary income — net | $ 3,516,192 |
| Undistributed long-term capital gains | 235,384 |
| Total undistributed earnings | $ 3,751,576 |
| Timing differences (Post October Loss Deferral, and certain REIT Adjustments) | (13,981,487) |
| Unrealized losses — net | (12,524,706) |
| Total accumulated losses — net | $(22,754,617) |

# Notes to Financial Statements (continued)

*December 31, 2015*

## 6. TAX INFORMATION (continued)

As of December 31, 2015, the Fund's aggregate security unrealized gains and losses based on cost for U.S. federal income tax purposes were as follows:

| | |
|---|---|
| Tax cost | $787,106,298 |
| Gross unrealized gain | 63,209,073 |
| Gross unrealized loss | (75,733,779) |
| Net unrealized security loss | $ (12,524,706) |

The difference between GAAP-basis and tax-basis unrealized gains (losses) is attributable primarily to wash sales and differences in the tax treatment of real estate investment trust investments.

In order to present certain components of the Fund's capital accounts on a tax-basis, the Fund has reclassified $39,729 from undistributed net investment income to accumulated net realized gain (loss). This reclassification has no impact on the net asset value of the Fund and results primarily from differences in the tax treatment of real estate investment trust investments.

GSAM has reviewed the Fund's tax positions for all open tax years (the current and prior three years, as applicable) and has concluded that no provision for income tax is required in the Fund's financial statements. Such open tax years remain subject to examination and adjustment by tax authorities.

## 7. OTHER RISKS

The Fund's risks include, but are not limited to, the following:

Large Shareholder Transactions Risk — The Fund may experience adverse effects when certain large shareholders, such as other funds, participating insurance companies, accounts and Goldman Sachs affiliates, purchase or redeem large amounts of shares of the Fund. Such large shareholder redemptions may cause the Fund to sell portfolio securities at times when it would not otherwise do so, which may negatively impact the Fund's NAV and liquidity. These transactions may also accelerate the realization of taxable income to shareholders if such sales of investments resulted in gains, and may also increase transaction costs. In addition, a large redemption could result in the Fund's current expenses being allocated over a smaller asset base, leading to an increase in the Fund's expense ratio. Similarly, large Fund share purchases may adversely affect the Fund's performance to the extent that the Fund is delayed in investing new cash and is required to maintain a larger cash position than it ordinarily would.

Liquidity Risk — The Fund may make investments that are illiquid or that may become less liquid in response to market developments or adverse investor perceptions. Illiquid investments may be more difficult to value. Liquidity risk may also refer to the risk that a Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. To meet redemption requests, the Fund may be forced to sell investments at an unfavorable time and/or under unfavorable conditions.

Market and Credit Risks — In the normal course of business, the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk). Additionally, the Fund may also be exposed to credit risk in the event that an issuer or guarantor fails to perform or that an institution or entity with which the Fund has unsettled or open transactions defaults.

## 8. INDEMNIFICATIONS

Under the Trust's organizational documents, its Trustees, officers, employees and agents are indemnified, to the extent permitted by the Act and state law, against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the course of business, the Fund enters into contracts 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. However, GSAM believes the risk of loss under these arrangements to be remote.

## 9. SUBSEQUENT EVENTS

Subsequent events after the Statement of Assets and Liabilities date have been evaluated through the date the financial statements were issued. GSAM has concluded that there is no impact requiring adjustment or disclosure in the financial statements.

## 10. SUMMARY OF SHARE TRANSACTIONS

Share activity is as follows:

| | For the Fiscal Year Ended December 31, 2015 | | For the Fiscal Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars |
| **Institutional Shares** | | | | |
| Shares sold | 1,719,609 | $ 28,721,424 | 1,715,321 | $ 33,575,125 |
| Reinvestment of distributions | 3,114,450 | 44,848,085 | 7,070,766 | 119,849,483 |
| Shares redeemed | (7,566,438) | (128,872,863) | (6,423,243) | (125,120,050) |
| | (2,732,379) | (55,303,354) | 2,362,844 | 28,304,558 |
| **Service Shares** | | | | |
| Shares sold | 2,499,549 | 43,059,384 | 3,196,021 | 64,259,749 |
| Reinvestment of distributions | 1,482,552 | 21,393,222 | 3,617,502 | 61,389,017 |
| Shares redeemed | (6,456,250) | (110,594,491) | (3,169,219) | (61,058,949) |
| | (2,474,149) | (46,141,885) | 3,644,304 | 64,589,817 |
| **NET INCREASE (DECREASE)** | (5,206,528) | $(101,445,239) | 6,007,148 | $ 92,894,375 |

# Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of
Goldman Sachs Variable Insurance Trust — Goldman Sachs Mid Cap Value Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Goldman Sachs Mid Cap Value Fund (the "Fund"), a Fund of Goldman Sachs Variable Insurance Trust, at December 31, 2015 and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and the application of alternative auditing procedures where confirmation of securities purchased had not been received, provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 17, 2016

## Fund Expenses — Six Month Period Ended December 31, 2015 (Unaudited)

As a shareholder of Institutional or Service Shares of the Fund, you incur ongoing costs, including management fees, distribution and service (12b-1) fees (with respect to Service Shares) and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Institutional Shares and Service Shares of the Fund and to compare these costs with the 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 from July 1, 2015 through December 31, 2015, which represents a period of 184 days of a 365 day year.

*Actual Expenses* — The first line under each share class 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 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" to estimate the expenses you paid on your account during this period.

*Hypothetical Example for Comparison Purposes* — The second line under each share class in the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual net 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 Funds 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 only. As a shareholder of the Fund you do not incur any transaction costs, such as sales charges, redemption fees, or exchange fees, but shareholders of other funds may incur such costs. The second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds whose shareholders may incur transaction costs.

| Share Class | Beginning Account Value 07/01/15 | Ending Account Value 12/31/15 | Expenses Paid for the 6 Months Ended 12/31/15* |
|---|---|---|---|
| **Institutional** | | | |
| Actual | $1,000 | $ 908.10 | $4.09 |
| Hypothetical 5% return | 1,000 | 1,020.92+ | 4.33 |
| **Service** | | | |
| Actual | 1,000 | 906.30 | 5.29 |
| Hypothetical 5% return | 1,000 | 1,019.66+ | 5.60 |

* Expenses are calculated using the Fund's annualized net expense ratio for each class, which represents the ongoing expenses as a percentage of net assets for the six months ended December 31, 2015. Expenses are calculated by multiplying the annualized net expense ratio by the average account value for the period; then multiplying the result by the number of days in the most recent fiscal half year; and then dividing that result by the number of days in the fiscal year. The annualized net expense ratios for the period were 0.85% and 1.10% for Institutional and Service Shares, respectively.

+ Hypothetical expenses are based on the Fund's actual annualized net expense ratios and an assumed rate of return of 5% per year before expenses.

# Trustees and Officers (Unaudited)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Ashok N. Bakhru**<br>Age: 73 | Chairman of the Board of Trustees | Since 1996 (Trustee since 1991) | Mr. Bakhru is retired. He was formerly Director, Apollo Investment Corporation (a business development company) (2008-2013); President, ABN Associates (a management and financial consulting firm) (1994-1996 and 1998-2012); Trustee, Scholarship America (1998-2005); Trustee, Institute for Higher Education Policy (2003-2008); Director, Private Equity Investors — III and IV (1998-2007), and Equity-Linked Investors II (April 2002-2007).<br>Chairman of the Board of Trustees — Goldman Sachs Fund Complex. | 139 | None |
| **Kathryn A. Cassidy**<br>Age: 61 | Trustee | Since 2015 | Ms. Cassidy is retired. Formerly, she was Advisor to the Chairman (May 2014-December 2014); and Senior Vice President and Treasurer (2008-2014), General Electric Company & General Electric Capital Corporation (technology and financial services companies).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **John P. Coblentz, Jr.**<br>Age: 74 | Trustee | Since 2003 | Mr. Coblentz is retired. Formerly, he was Partner, Deloitte & Touche LLP (a professional services firm) (1975-2003); Director, Emerging Markets Group, Ltd. (2004-2006); and Director, Elderhostel, Inc. (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Diana M. Daniels**<br>Age: 66 | Trustee | Since 2007 | Ms. Daniels is retired. Formerly, she was Vice President, General Counsel and Secretary, The Washington Post Company (1991-2006). Ms. Daniels is a Trustee Emeritus and serves as a Presidential Councillor of Cornell University (2013-Present); Member, Advisory Board, Psychology Without Borders (international humanitarian aid organization) (2007-Present), and former Member of the Legal Advisory Board, New York Stock Exchange (2003-2006) and of the Corporate Advisory Board, Standish Mellon Management Advisors (2006-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Joseph P. LoRusso**<br>Age: 58 | Trustee | Since 2010 | Mr. LoRusso is retired. Formerly, he was President, Fidelity Investments Institutional Services Co. ("FIIS") (2002-2008); Director, FIIS (2002-2008); Director, Fidelity Investments Institutional Operations Company (2003-2007); Executive Officer, Fidelity Distributors Corporation (2007-2008).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Herbert J. Markley**<br>Age: 65 | Trustee | Since 2013 | Mr. Markley is retired. Formerly, he was Executive Vice President, Deere & Company (an agricultural and construction equipment manufacturer) (2007-2009); and President, Agricultural Division, Deere & Company (2001-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Jessica Palmer**<br>Age: 66 | Trustee | Since 2007 | Ms. Palmer is retired. She is Director, Emerson Center for the Arts and Culture (2011-Present); and was formerly a Consultant, Citigroup Human Resources Department (2007-2008); Managing Director, Citigroup Corporate and Investment Banking (previously, Salomon Smith Barney/ Salomon Brothers) (1984-2006). Ms. Palmer was a Member of the Board of Trustees of Indian Mountain School (private elementary and secondary school) (2004-2009).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

# Trustees and Officers (Unaudited) (continued)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Richard P. Strubel**<br>Age: 76 | Trustee | Since 1987 | Mr. Strubel is retired. Formerly, he served as Chairman of the Board of Trustees, Northern Funds (a family of retail and institutional mutual funds managed by Northern Trust Investments, Inc.) (2008-2014) and Trustee (1982-2014); Director, Cardean Learning Group (provider of educational services via the internet) (2003-2008); and Director, Gildan Activewear Inc. (a clothing marketing and manufacturing company) (2000-2014). He serves as Trustee Emeritus, The University of Chicago (1987-Present).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Roy W. Templin**<br>Age: 55 | Trustee | Since 2013 | Mr. Templin is retired. He is Chairman of the Board of Directors, Con-Way Incorporated (2014-Present); and was formerly Executive Vice President and Chief Financial Officer, Whirlpool Corporation (an appliance manufacturer and marketer) (2004-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Con-Way Incorporated (a transportation, logistics and supply-chain management services company) |
| **Gregory G. Weaver**<br>Age: 64 | Trustee | Since 2015 | Mr. Weaver is retired. He is Director, Verizon Communications Inc. (2015-Present); and was formerly Chairman and Chief Executive Officer, Deloitte & Touche LLP (a professional services firm) (2001-2005 and 2012-2014); and Member of the Board of Directors, Deloitte & Touche LLP (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Verizon Communications Inc. |

# Trustees and Officers (Unaudited) (continued)
## Interested Trustees*

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **James A. McNamara**<br>Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present); Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). | 138 | None |
| **Alan A. Shuch**<br>Age: 66 | Trustee | Since 1990 | Advisory Director — GSAM (May 1999-Present); Consultant to GSAM (December 1994-May 1999); and Limited Partner, Goldman Sachs (December 1994-May 1999).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

* *These persons are considered to be "Interested Trustees" because they hold positions with Goldman Sachs and own securities issued by The Goldman Sachs Group, Inc. Each Interested Trustee holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

[1] *Each Trustee may be contacted by writing to the Trustee, c/o Goldman Sachs, 200 West Street, New York, New York, 10282, Attn: Caroline Kraus. Information is provided as of December 31, 2015.*

[2] *Each Trustee holds office for an indefinite term until the earliest of: (a) the election of his or her successor; (b) the date the Trustee resigns or is removed by the Board of Trustees or shareholders, in accordance with the Trust's Declaration of Trust; (c) December 31st of the year in which the Trustee turns 74 years of age, subject to waiver by a majority of the Trustees (in accordance with the current resolutions of the Board of Trustees, which may be changed by the Trustees without shareholder vote); or (d) the termination of the Trust. By resolution of the Board of Trustees determining that an extension of service would be beneficial to the Trust, the retirement age has been extended with respect to Richard P. Strubel.*

[3] *The Goldman Sachs Fund Complex includes the Trust and Goldman Sachs Trust ("GST"). As of December 31, 2015, the Trust consisted of 14 portfolios and GST consisted of 100 portfolios (91 of which offered shares to the public). The Goldman Sachs Fund Complex also includes, with respect to Messrs. Bakhru, Coblentz and Strubel, Goldman Sachs Trust II ("GSTII"), Goldman Sachs BDC, Inc. ("GSBDC"), Goldman Sachs MLP Income Opportunities Fund ("GSMLP"), Goldman Sachs MLP and Energy Renaissance Fund ("GSMER") and Goldman Sachs ETF Trust ("GSETF"), and with respect to Mr. McNamara, GSTII, GSMLP, GSMER and GSETF. GSTII consisted of eight portfolios (six of which offered shares to the public). GSBDC, GSMLP and GSMER each consisted of one portfolio. GSETF consisted of 14 portfolios (three of which offered shares to the public).*

[4] *This column includes only directorships of companies required to report to the Securities and Exchange Commission under the Securities Exchange Act of 1934 (i.e., "public companies") or other investment companies registered under the Act.*

Additional information about the Trustees is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States of America): 1-800-526-7384.

# Trustees and Officers (Unaudited) (continued)
# Officers of the Trust*

| Name, Address and Age[1] | Position(s) Held With the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years |
|---|---|---|---|
| **James A. McNamara**<br>200 West Street<br>New York, NY 10282<br>Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present); Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). |
| **Caroline L. Kraus**<br>200 West Street<br>New York, NY 10282<br>Age: 38 | Secretary | Since 2012 | Vice President, Goldman Sachs (August 2006-Present); Associate General Counsel, Goldman Sachs (2012-Present); Assistant General Counsel, Goldman Sachs (August 2006-December 2011); and Associate, Weil, Gotshal & Manges, LLP (2002-2006).<br>Secretary — Goldman Sachs Fund Complex (August 2012-Present); and Assistant Secretary — Goldman Sachs Fund Complex (June 2012-August 2012). |
| **Scott M. McHugh**<br>200 West Street<br>New York, NY 10282<br>Age: 44 | Principal Financial Officer, Senior Vice President and Treasurer | Since 2009 (Principal Financial Officer since 2013) | Vice President, Goldman Sachs (February 2007-Present); Assistant Treasurer of certain mutual funds administered by DWS Scudder (2005-2007); and Director (2005-2007), Vice President (2000-2005), and Assistant Vice President (1998-2000); Deutsche Asset Management or its predecessor (1998-2007).<br>Principal Financial Officer — Goldman Sachs Fund Complex (November 2013-Present);<br>Treasurer — Goldman Sachs Fund Complex (October 2009-Present);<br>Senior Vice President — Goldman Sachs Fund Complex (November 2009-Present); and Assistant Treasurer — Goldman Sachs Fund Complex (May 2007-October 2009). |

* *Represents a partial list of officers of the Trust. Additional information about all the officers is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States): 1-800-526-7384.*

[1] *Information is provided as of December 31, 2015.*

[2] *Officers hold office at the pleasure of the Board of Trustees or until their successors are duly elected and qualified. Each officer holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

## Goldman Sachs Variable Insurance Trust — Tax Information (Unaudited)

For the year ended December 31, 2015, 46.11% of the dividends paid from net investment company taxable income by the Mid Cap Value Fund qualify for the dividends received deduction available to corporations.

Pursuant to Section 852 of the Internal Revenue Code, the Mid Cap Value Fund designates $46,427,168 or, if different, the maximum amount allowable, as capital gain dividends paid during the fiscal year ended December 31, 2015.

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GOLDMAN, SACHS & CO.
Distributor and Transfer Agent

GOLDMAN SACHS ASSET MANAGEMENT, L.P.
Investment Adviser
200 West Street, New York
New York 10282

Visit our web site at www.GSAMFUNDS.com to obtain the most recent month-end returns.

The reports concerning the Fund included in this shareholder report may contain certain forward-looking statements about the factors that may affect the performance of the Fund in the future. These statements are based on Fund management's predictions and expectations concerning certain future events and their expected impact on the Fund, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the Fund. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.

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 proxies relating to portfolio securities for the 12-month period ended December 31 is available (i) without charge, upon request by calling 1-800-621-2550; and (ii) on the Securities and Exchange Commission ("SEC") web site at *http://www.sec.gov.*

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Qs are available on the SEC's web site at http://www.sec.gov within 60 days after the Fund's first and third fiscal quarters. The Fund's Form N-Qs may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may also be obtained by calling 1-800-SEC-0330. Form N-Qs may be obtained upon request and without charge by calling 1-800-621-2550.

The website links provided are for your convenience only and are not an endorsement or recommendation by GSAM of any of these websites or the products or services offered. GSAM is not responsible for the accuracy and validity of the content of these websites.

Fund holdings and allocations shown are as of December 31, 2015 and may not be representative of future investments. Fund holdings should not be relied on in making investment decisions and should not be construed as research or investment advice regarding particular securities. Current and future holdings are subject to risk.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital international Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Goldman Sachs. Neither MSCI, S&P nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

**Shares of the Goldman Sachs VIT Funds are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you may realize with respect to your investments. Ask your representative for more complete information. Please consider a fund's objectives, risks and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.**

**This material is not authorized for distribution to prospective investors unless preceded or accompanied by a current Prospectus or summary prospectus, if applicable. Investors should consider a Fund's objective, risks, and charges and expenses, and read the summary prospectus, if available, and/or the Prospectus carefully before investing or sending money. The summary prospectus, if available, and the Prospectus contain this and other information about a Fund and may be obtained from your Authorized Institution or from Goldman, Sachs & Co. by calling 1-800-621-2550.**

This report is prepared for the general information of contract owners and is not an offer of shares of the Goldman Sachs Variable Insurance Trust: Goldman Sachs Mid Cap Value Fund.


VITMCVAR-16/29859-TEMPL-02/2016

# Goldman Sachs Variable Insurance Trust

## Goldman Sachs
## Small Cap Equity Insights Fund

Annual Report
December 31, 2015

Goldman Sachs

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# Principal Investment Strategies and Risks

**This is not a complete list of risks that may affect the Fund. For additional information concerning the risks applicable to the Fund, please see the Fund's Prospectuses.**

**Shares of the Goldman Sachs Variable Insurance Trust — Goldman Sachs Small Cap Equity Insights Fund are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you realize with respect to your investments. Ask your representative for more complete information. Please consider the Fund's objective, risks and charges and expenses, and read the Prospectus carefully before investing. The Prospectus contains this and other information about the Fund.**

**The Goldman Sachs Small Cap Equity Insights Fund** invests primarily in a broadly diversified portfolio of equity investments in small-capitalization U.S. issuers, including foreign issuers traded in the United States. The Fund's equity investments will be subject to **market risk**, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. The securities of **mid- and small-capitalization companies** involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements. The Investment Adviser's **use of quantitative models** to execute the Fund's investment strategy may fail to produce the intended result. **Different investment styles** (e.g., "quantitative") tend to shift in and out of favor, and at times the Fund may underperform other funds that invest in similar asset classes. The Fund may have a **high rate of portfolio turnover**, which involves correspondingly greater expenses which must be borne by the Fund, and is also likely to result in short-term capital gains taxable to shareholders.

**INVESTMENT OBJECTIVE**

The Fund seeks long-term growth of capital.

# Portfolio Management Discussion and Analysis

*Below, the Goldman Sachs Quantitative Investment Strategies Team discusses the Goldman Sachs Variable Insurance Trust — Goldman Sachs Small Cap Equity Insights Fund's (the "Fund") performance and positioning for the 12-month period ended December 31, 2015 (the "Reporting Period").*

### *How did the Fund perform during the Reporting Period?*

During the Reporting Period, the Fund's Institutional and Service Shares generated average annual total returns of -2.13% and -2.49%, respectively. These returns compare to the -4.41% average annual total return of the Fund's benchmark, the Russell 2000® Index (with dividends reinvested) (the "Russell Index") during the same time period.

### *What economic and market factors most influenced the equity markets as a whole during the Reporting Period?*

Representing the U.S. equity market, the S&P 500® Index gained 1.38% during the Reporting Period. Central bank policy, a commodity price sell-off, geopolitical tensions, and China and global economic growth concerns were the key themes impacting U.S. equities throughout 2015.

As evidence of a U.S. economic and labor market recovery mounted, market expectations of a Federal Reserve ("Fed") interest rate hike increased. The monetary policy divergence with the European Central Bank and the Bank of Japan, which each eased policy during the calendar year, resulted in relative U.S. dollar strength. This paradoxically hurt U.S. equity performance despite improving domestic economic fundamentals. Also, geopolitical tensions intensified in the summer of 2015, as negotiations between Greece and its creditors unraveled, and the probability of a Greek exit, popularly known in the media as "Grexit," from the euro increased. "Grexit" risk subsequently declined with an agreement in July 2015. However, concerns then escalated around China's economic weakness, exacerbated by a surprise devaluation of its renminbi in August 2015, which further shook market confidence. U.S. equities sold off in the ensuing sharp global equity correction.

After holding the targeted federal funds rate steady in September and October 2015 in light of these external macroeconomic and geopolitical risks, the Fed voted unanimously for a 25 basis point hike in December 2015, a move largely expected by markets. (A basis point is 1/100th of a percentage point.) The fairly dovish language in the Fed's announcement, which emphasized "gradual" adjustments to policy going forward, helped to somewhat assuage the markets.

Oil and commodity prices were "lower for longer" in 2015, as the supply glut took longer than expected to correct and demand concerns arose. Brent crude oil and West Texas Intermediate ("WTI") crude oil prices began 2015 at $57 and $53 per barrel, respectively, already well below 2014 highs of more than $100 per barrel. Both Brent and WTI crude oil prices ended 2015 still lower at approximately $37 per barrel. The U.S. consumer benefited from savings at the gas pump and consumer spending rose, particularly in areas typically associated with lower gas prices, such as autos and restaurants. However, this did not fully offset the negative impact on the U.S. energy industry and industrials companies. As a result, energy was the worst performing sector in the S&P 500 Index by a wide margin during the Reporting Period, followed by materials, utilities and industrials. Conversely, more consumer-oriented sectors, including consumer discretionary, health care, information technology and consumer staples were the best performing sectors in the S&P 500 Index during the Reporting Period.

Within the U.S. equity market, there was significant disparity in performance not only among sectors but also among the various capitalization and style segments. Large-cap stocks, as measured by the Russell 1000® Index, posted modestly positive returns, while mid-cap stocks and small-cap stocks, as measured by the Russell Midcap® Index and Russell 2000® Index, respectively, generated negative returns. Large-cap stocks were most successful relative to small-cap stocks in the consumer discretionary sector. From a style perspective, growth-oriented stocks significantly outpaced value-oriented stocks across the capitalization spectrum. Growth outperformed relative to value during the Reporting Period primarily due to stronger performance of the growth-oriented information technology sector. (All as measured by the Russell Investments indices.)

### *What key factors were responsible for the Fund's performance during the Reporting Period?*

While the Fund's absolute returns disappointed, the Fund outperformed the Russell Index on a relative basis during the Reporting Period. During the Reporting Period, stock selection driven by our quantitative model and four of its six investment themes contributed positively to relative returns.

### *What impact did the Fund's investment themes have on performance during the Reporting Period?*

As expected, and in keeping with our investment approach, our quantitative model and its six investment themes — Valuation, Profitability, Quality, Management, Momentum and Sentiment—had the greatest impact on relative performance. We use these themes to take a long-term view of market patterns and look for inefficiencies, selecting stocks for the Fund and overweighting or underweighting the ones chosen by the model. Over time and by design, the performance of any one of the model's investment themes tends to have a low correlation with the model's other themes, demonstrating the diversification benefit of the Fund's theme-driven quantitative model. The variance in performance supports our research indicating that the diversification provided by the Fund's different investment themes is a significant investment advantage over the long term, even though the Fund may experience underperformance in the short term. Of course, diversification does not protect an investor from market risk nor does it ensure a profit.

During the Reporting Period, four of our six investment themes contributed positively to the Fund's relative performance. The Sentiment theme contributed most positively to relative performance, followed by Momentum, Quality and Profitability. The Sentiment theme reflects selected investment views and decisions of individuals and financial intermediaries. The Momentum theme seeks to predict drifts in stock prices caused by delayed investor reaction to company-specific information and information about related companies. The Quality theme assesses both firm and financial quality. The Profitability theme assesses whether a company is earning more than its cost of capital.

The Fund's Valuation theme detracted from the Fund's relative performance. Valuation attempts to capture potential mispricings of securities, typically by comparing a measure of the company's intrinsic value to its market value.

The Management theme had a rather neutral effect on the Fund's relative performance during the Reporting Period. The Management theme assesses the characteristics, policies and strategic decisions of company management.

### *How did the Fund's sector and industry allocations affect relative performance?*

In constructing the Fund's portfolio, we focus on picking stocks rather than making industry or sector bets. Consequently, the Fund is similar to its benchmark, the Russell Index, in terms of its sector allocation and style. We manage the Fund's industry and sector exposure by including industry factors in our risk model and by explicitly penalizing industry and sector deviations from the benchmark index in optimization. Sector weights or changes in weights generally do not have a meaningful impact on relative performance.

### *Did stock selection help or hurt Fund performance during the Reporting Period?*

We seek to outpace the Russell Index by overweighting stocks that we expect to outperform and underweighting those that we think may lag. We also build positions based on our thematic views. For example, the Fund aims to hold a basket of stocks with more favorable Momentum characteristics than the benchmark index. During the Reporting Period, stock selection overall contributed positively to the Fund's relative performance.

Security selection in the industrials, energy and health care sectors contributed most positively to the Fund's relative returns. Stock selection in utilities was the only sector to detract from the Fund's results relative to the Russell Index during the Reporting Period.

### *Which individual stock positions contributed the most to the Fund's relative returns during the Reporting Period?*

The Fund benefited most from overweight positions in biopharmaceutical company Dyax and biotechnology companies Ligand Pharmaceuticals and Repligen. We chose to overweight Dyax because of our positive views on Sentiment and Profitability. Our positive views on Value and Profitability led us to overweight Ligand Pharmaceuticals. The Fund was overweight Repligen due to our positive views on Quality and Sentiment.

### *Which individual positions detracted from the Fund's results during the Reporting Period?*

Detracting most from the Fund's results relative to its benchmark index were overweight positions in utilities company Talen Energy, biopharmaceuticals company AMAG Pharmaceuticals and commercial printer Quad/Graphics. The Fund was overweight Talen Energy due to our positive views on Momentum and Quality. Our positive views on Value and Sentiment led us to overweight AMAG Pharmaceuticals. We chose to overweight Quad/Graphics because of our positive views on Value and Management.

***How did the Fund use derivatives during the Reporting Period?***

During the Reporting Period, we did not use derivatives as part of an active management strategy to add value to the Fund's results. However, we used equity index futures contracts, on an opportunistic basis, to equitize the Fund's excess cash holdings. In other words, we put the Fund's excess cash holdings to work by using them as collateral for the purchase of stock futures.

***Did you make any enhancements to your quantitative models during the Reporting Period?***

We continuously look for ways to improve our investment process. We made no significant changes to our quantitative models during the first quarter of 2015. In the second quarter of 2015, we made a number of enhancements across a variety of investment themes. First, we made two enhancements to our Sentiment theme. The first enhancement was in the U.S., Europe and Japan investment regions, where we introduced a signal that uses the credit default swap ("CDS") spread of a company as an early indicator of potential stock price swings. We use data on single-name CDS spreads for more than 300 companies on a daily basis to arrive at our views. The second enhancement was in the U.S. investment region, where we introduced a signal that uses stock options data of a company as a potential indicator of stock mispricing. Due to fewer restrictions on leverage and short-selling, options markets typically incorporate information more efficiently than equity markets. Due to the broad availability of options data on U.S. equities, we can form views on the majority of stocks in our investment universe using this signal.

We also enhanced our Profitability theme in the U.S. by introducing a signal that analyzes web traffic data of companies to provide an insight into future revenues. We analyzed this information for more than 1,700 stocks in the U.S., spanning across various sectors.

Additionally, we expanded the scope of signals within our global linkages theme. We extended an economic linkage signal, which analyzes patent data, from the U.S. and Japan to Europe. We analyzed more than 3.5 million patents globally to establish the economic linkages between companies in various industries. We believe these linkages help predict price movements across similar companies more accurately.

We made no significant changes to our quantitative models during the third quarter of 2015. During the fourth quarter of 2015, we made a number of enhancements across a variety of investment themes. We enhanced our Management theme in the U.S., Europe and Emerging Markets investment regions by expanding the scope of an existing signal that looks at managements' personal transactions in the stock of their respective company. Corporate executives purchasing or selling shares can potentially signal their conviction in the company's stock when assessed under the right circumstances. We obtain and analyze this information through regulatory filings for more than 7,500 companies globally. We expanded the scope of two signals within our Global Linkages theme. We extended a signal, which analyzes patent data to identify economically linked companies, to all investment regions. We now analyze about 40 million patents from various patent offices for more than 3,000 companies globally to establish the economic linkages between stocks of various industries. We also extended a signal that establishes economic linkages between companies in the automotive supply chain from Japan to the U.S. and Europe investment regions. We take a differentiated, region-specific approach and analyze the potential relationships between the stock returns of suppliers and manufacturers multiple levels down the supply chain. Lastly, we extended a signal within our Profitability theme from the U.S. to the Emerging Markets and Japan investment regions. The signal analyzes web traffic data, which we believe can potentially forecast corporate revenue growth. We analyze this information for about 4,000 companies spanning across various sectors.

***What was the Fund's sector positioning relative to its benchmark index at the end of the Reporting Period?***

As of December 31, 2015, the Fund was overweight the industrials, consumer discretionary, materials and energy sectors relative to the Russell Index. The Fund was underweight utilities, consumer staples, financials and information technology and was rather neutrally weighted in health care and telecommunication services compared to the benchmark index on the same date.

***Were there any changes to the Fund's portfolio management team during the Reporting Period?***

During the Reporting Period, one Vice President left the Equity Alpha team. Quantitative Investment Strategies employs a globally integrated team of more than 90 professionals, with an additional 90-plus professionals dedicated to trading, information technology and development of analytical tools.

### *What is your strategy going forward for the Fund?*

Looking ahead, we continue to believe that less expensive stocks should outpace more expensive stocks, and stocks with good momentum are likely to outperform those with poor momentum. We intend to maintain our focus on seeking companies about which fundamental research analysts are becoming more positive as well as profitable companies with sustainable earnings and a track record of using their capital to enhance shareholder value. As such, we anticipate remaining fully invested with long-term performance likely to be the result of stock selection rather than sector or capitalization allocations.

We stand behind our investment philosophy that sound economic investment principles, coupled with a disciplined quantitative approach, can provide strong, uncorrelated returns over the long term. Our research agenda is robust, and we continue to enhance our existing models, add new proprietary forecasting signals and improve our trading execution as we seek to provide the most value to our shareholders.

### *Changes to the Fund's Portfolio Management Team after the Reporting Period*

After the close of the Reporting Period, on February 5, 2016, Ron Hua, Chief Investment Officer of Equity Alpha Strategies for the Quantitative Investment Strategies ("QIS") Team, announced his intention to retire from Goldman Sachs Asset Management, L.P. ("GSAM"). As such, effective that date, Mr. Hua no longer had portfolio management responsibilities for the Fund. Effective February 5, 2016, joining Fund portfolio managers Len Ioffe, Osman Ali and Dennis Walsh is Armen Avanessians, the Chief Investment Officer of GSAM's QIS Team, overseeing research, portfolio management and implementation for all QIS investment strategies globally. As always, the Quantitative Investment Strategies platform is organized into a series of specialist portfolio management teams that focus on generating and implementing investment ideas within their area of expertise. Investment decisions are made by these portfolio management teams, rather than by one portfolio manager or committee. Ultimate accountability for the Fund resides with the senior portfolio managers dedicated to each Team strategy, who oversee their respective research, portfolio management and implementation processes.

# Index Definitions

The Russell 2000® Index (with dividends reinvested) is an unmanaged index of common stock prices that measures the performance of the 2000 smallest companies in the Russell 3000® Index. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The S&P 500® Index (with dividends reinvested) is the Standard & Poor's 500 Composite Index of 500 stocks, an unmanaged index of common stock prices. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. It is not possible to invest directly in an index.

The Russell 1000® Index 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. It is not possible to invest directly in an index.

# Small Cap Equity Insights Fund

*as of December 31, 2015*

## STANDARDIZED TOTAL RETURNS[1]

| For the period ended 12/31/15 | One Year | Five Years | Ten Years | Since Inception | Inception Date |
|---|---|---|---|---|---|
| Institutional | -2.13% | 10.02% | 5.18% | 6.09% | 2/13/98 |
| Service | -2.49 | 9.73 | N/A | 6.02 | 8/31/07 |

[1] **The Standardized Total Returns are average annual total returns as of the most recent calendar quarter-end. They assume reinvestment of all distributions at net asset value ("NAV"). Because Institutional Shares and Service Shares do not involve a sales charge, such a charge is not applied to their Standardized Total Returns.**

**Total return figures in the above chart represent past performance and do not indicate future results, which will vary. The investment return and principal value of an investment will fluctuate and, therefore, 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 total return figures in the above chart. Please visit www.GSAMFUNDS.com to obtain the most recent month-end returns.** Performance reflects fee waivers and/or expense limitations in effect during the periods shown. In their absence, performance would be reduced.

## EXPENSE RATIOS[2]

| | Net Expense Ratio (Current) | Gross Expense Ratio (Before Waivers) |
|---|---|---|
| Institutional | 0.83% | 1.04% |
| Service | 1.08 | 1.29 |

[2] The expense ratios of the Fund, both current (net of any fee waivers or expense limitations) and before waivers (gross of any fee waivers or expense limitations) are as set forth above according to the most recent publicly available Prospectus for the Fund and may differ from the expense ratios disclosed in the Financial Highlights in this report. Pursuant to a contractual arrangement, the Fund's waivers and/or expense limitations will remain in place through at least April 30, 2016 and prior to such date the Investment Adviser may not terminate the arrangements without the approval of the Fund's Board of Trustees. If these arrangements are discontinued in the future, the expense ratios may change without shareholder approval.

## TOP TEN HOLDINGS AS OF 12/31/15[3,4]

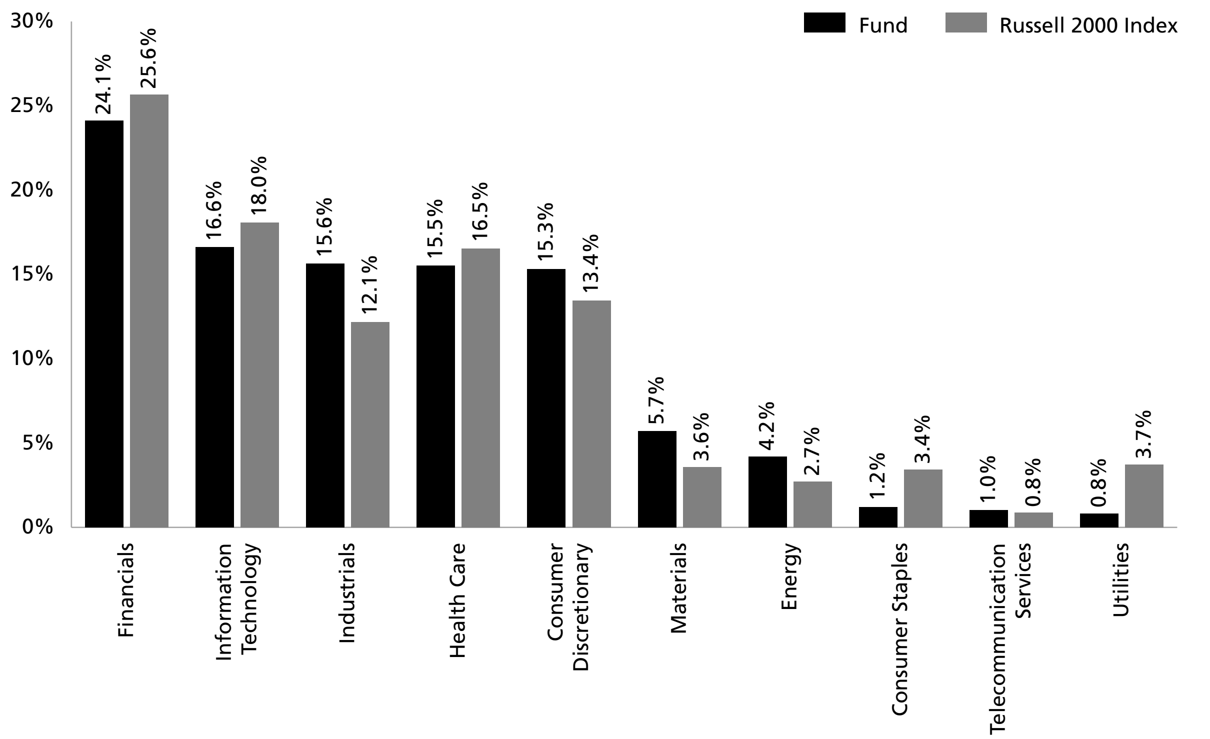
| Holding | % of Net Assets | Line of Business |
|---|---|---|
| CubeSmart. | 1.0% | Real Estate Investment Trust |
| Berry Plastics Group, Inc. | 0.9 | Materials |
| Anacor Pharmaceuticals, Inc. | 0.9 | Pharmaceuticals, Biotechnology & Life Sciences |
| CyrusOne, Inc. | 0.8 | Real Estate Investment Trust |
| West Pharmaceutical Services, Inc. | 0.8 | Health Care Equipment & Services |
| EMCOR Group, Inc. | 0.8 | Capital Goods |
| PS Business Parks, Inc. | 0.8 | Real Estate Investment Trust |
| Sonic Corp. | 0.8 | Consumer Services |
| Cepheid, Inc. | 0.8 | Pharmaceuticals, Biotechnology & Life Sciences |
| Mack-Cali Realty Corp. | 0.8 | Real Estate Investment Trust |

[3] The top 10 holdings may not be representative of the Fund's future investments.

[4] The Fund's overall top ten holdings differ from the table above due to the exclusion of the Goldman Sachs Financial Square Money Market Fund (a securities lending reinvestment vehicle) which represents 2.4% of the Fund's net assets as of 12/31/2015.

**FUND VS. BENCHMARK SECTOR ALLOCATIONS[5]**

**As of December 31, 2015**




[5] The Fund is actively managed and, as such, its composition may differ over time. Consequently, the Fund's overall sector allocations may differ from percentages contained in the graph above. The graph categorizes investments using Global Industry Classification Standard ("GICS"), however, the sector classifications used by the portfolio management team may differ from GICS. The percentage shown for each investment category reflects the value of investments in that category as a percentage of total market value (excluding investments in the securities lending reinvestment vehicle, if any). Underlying sector allocations of Exchange Traded Funds and Investment Companies held by the Fund are not reflected in the graph above. Investments in the securities lending reinvestment vehicle represented 2.4% of the Fund's net assets at December 31, 2015. The graph depicts the Fund's investments but may not represent the Fund's market exposure due to the exclusion of certain derivatives, if any, as listed in the Additional Investment Information section of the Schedule of Investments.

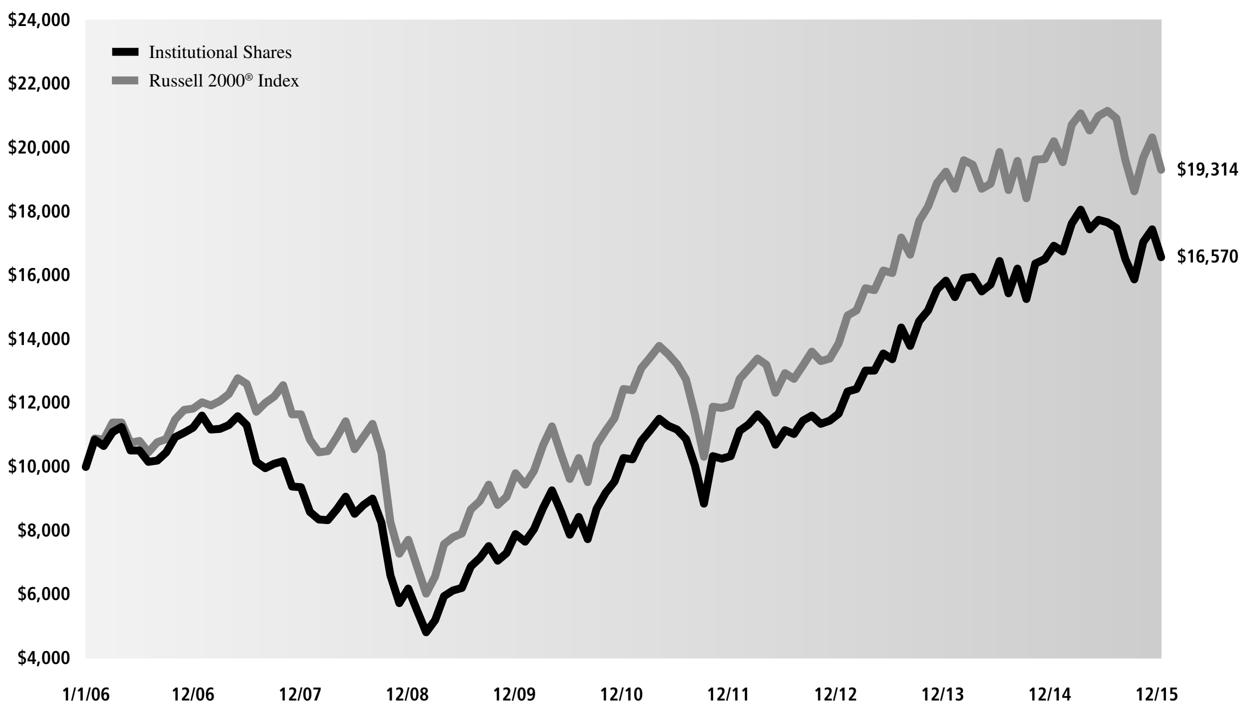
# Performance Summary

*December 31, 2015*

The following graph shows the value, as of December 31, 2015, of a $10,000 investment made on January 1, 2006 in Institutional Shares at NAV. For comparative purposes, the performance of the Fund's benchmark, the Russell 2000® Index (with distributions reinvested), is shown. This performance data represents past performance and should not be considered indicative of future performance, which will fluctuate with changes in market conditions. These performance fluctuations will cause an investor's shares, when redeemed, to be worth more or less than their original cost. Performance reflects Fund level expenses but does not reflect fees and expenses associated with any variable annuity contract or variable life insurance policy that uses the Fund as an investment option for any contract or policy. Had performance reflected all of those fees and expenses, performance would have been reduced. Performance reflects applicable fee waivers and/or expense limitations in effect during the periods shown, and in their absence, performance would be reduced. Performance of Service Shares will vary from Institutional Shares due to differences in class specific fees. In addition to the Investment Adviser's decisions regarding issuer/industry investment selection and allocation, other factors may affect Fund performance. These factors include, but are not limited to, Fund operating fees and expenses, portfolio turnover, and subscription and redemption cash flows affecting the Fund.

**Small Cap Equity Insights Fund's 10 Year Performance**

**Performance of a $10,000 investment, with distributions reinvested, from January 1, 2006 through December 31, 2015.**




| Average Annual Total Return through December 31, 2015 | One Year | Five Years | Ten Years | Since Inception |
|---|---|---|---|---|
| **Institutional (Commenced February 13, 1998)** | -2.13% | 10.02% | 5.18% | 6.09% |
| **Service (Commenced August 31, 2007)** | -2.49% | 9.73% | N/A | 6.02% |

# Schedule of Investments

*December 31, 2015*

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – 97.5%** | | |
| **Automobiles & Components – 1.5%** | | |
| 16,841 | Cooper Tire & Rubber Co. | $ 637,432 |
| 35,658 | Modine Manufacturing Co.* | 322,705 |
| 13,506 | Tower International, Inc. | 385,866 |
| | | 1,346,003 |
| **Banks – 7.3%** | | |
| 1,437 | 1st Source Corp. | 44,360 |
| 1,335 | Banner Corp. | 61,223 |
| 11,098 | BofI Holding, Inc.*(a) | 233,613 |
| 57,299 | Brookline Bancorp, Inc.(b) | 658,938 |
| 24,226 | Central Pacific Financial Corp. | 533,457 |
| 3,717 | Columbia Banking System, Inc. | 120,840 |
| 41,315 | CVB Financial Corp. | 699,050 |
| 28,072 | Dime Community Bancshares, Inc. | 490,979 |
| 12,383 | FCB Financial Holdings, Inc. Class A* | 443,188 |
| 797 | First Citizens BancShares, Inc. Class A | 205,761 |
| 16,019 | First Interstate Bancsystem, Inc. Class A | 465,672 |
| 31,888 | First Midwest Bancorp, Inc. | 587,696 |
| 1,778 | Flagstar Bancorp, Inc.* | 41,090 |
| 6,808 | Hanmi Financial Corp. | 161,486 |
| 2,916 | Northfield Bancorp, Inc. | 46,423 |
| 41,915 | OFG Bancorp(a) | 306,818 |
| 15,609 | Oritani Financial Corp. | 257,548 |
| 13,648 | PrivateBancorp, Inc. | 559,841 |
| 40,767 | Umpqua Holdings Corp. | 648,195 |
| 8,204 | United Community Banks, Inc. | 159,896 |
| 3,107 | Washington Federal, Inc. | 74,040 |
| | | 6,800,114 |
| **Capital Goods – 10.2%** | | |
| 27,208 | Aegion Corp.* | 525,387 |
| 6,659 | Altra Industrial Motion Corp. | 167,008 |
| 1,872 | American Woodmark Corp.* | 149,723 |
| 5,291 | Apogee Enterprises, Inc. | 230,211 |
| 1,703 | Applied Industrial Technologies, Inc. | 68,954 |
| 16,792 | Barnes Group, Inc. | 594,269 |
| 3,271 | Beacon Roofing Supply, Inc.* | 134,700 |
| 17,032 | Comfort Systems USA, Inc. | 484,049 |
| 6,921 | Continental Building Products, Inc.* | 120,841 |
| 33,864 | DigitalGlobe, Inc.* | 530,310 |
| 6,629 | Ducommun, Inc.* | 107,522 |
| 15,747 | EMCOR Group, Inc. | 756,486 |
| 916 | ESCO Technologies, Inc. | 33,104 |
| 32,084 | Federal Signal Corp. | 508,531 |
| 35,793 | General Cable Corp. | 480,700 |
| 10,213 | Granite Construction, Inc. | 438,240 |
| 9,753 | Hillenbrand, Inc. | 288,981 |
| 7,299 | Hyster-Yale Materials Handling, Inc. | 382,833 |
| 11,891 | John Bean Technologies Corp. | 592,529 |
| 5,240 | Kadant, Inc. | 212,796 |
| 20,835 | LSI Industries, Inc. | 253,979 |
| 9,579 | Miller Industries, Inc. | 208,631 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Capital Goods – (continued)** | | |
| 15,544 | Mueller Industries, Inc. | $ 421,242 |
| 763 | National Presto Industries, Inc. | 63,222 |
| 1,748 | Standex International Corp. | 145,346 |
| 22,864 | Univar, Inc.* | 388,917 |
| 9,579 | Universal Forest Products, Inc. | 654,916 |
| 45,911 | Wabash National Corp.* | 543,127 |
| | | 9,486,554 |
| **Commercial & Professional Services – 4.1%** | | |
| 19,214 | ABM Industries, Inc. | 547,023 |
| 11,013 | CDI Corp. | 74,448 |
| 4,759 | Essendant, Inc. | 154,715 |
| 7,470 | G&K Services, Inc. Class A | 469,863 |
| 8,302 | Heidrick & Struggles International, Inc. | 225,980 |
| 1,018 | Herman Miller, Inc. | 29,217 |
| 13,204 | Insperity, Inc. | 635,773 |
| 34,994 | Kimball International, Inc. Class B | 341,891 |
| 5,023 | Knoll, Inc. | 94,432 |
| 14,714 | Korn/Ferry International | 488,211 |
| 35,826 | Quad/Graphics, Inc. | 333,182 |
| 8,478 | TrueBlue, Inc.* | 218,393 |
| 3,787 | WageWorks, Inc.* | 171,816 |
| | | 3,784,944 |
| **Consumer Durables & Apparel – 2.9%** | | |
| 18,573 | Callaway Golf Co. | 174,958 |
| 6,894 | Cavco Industries, Inc.* | 574,339 |
| 2,729 | CSS Industries, Inc. | 77,449 |
| 22,242 | Ethan Allen Interiors, Inc. | 618,772 |
| 6,162 | G-III Apparel Group Ltd.* | 272,730 |
| 1,074 | Helen of Troy Ltd.* | 101,225 |
| 2,075 | La-Z-Boy, Inc. | 50,672 |
| 4,749 | Smith & Wesson Holding Corp.* | 104,383 |
| 3,785 | Universal Electronics, Inc.* | 194,360 |
| 30,909 | Wolverine World Wide, Inc. | 516,489 |
| | | 2,685,377 |
| **Consumer Services – 6.5%** | | |
| 13,868 | BJ's Restaurants, Inc.* | 602,842 |
| 5,447 | Bloomin' Brands, Inc. | 92,000 |
| 25,447 | Boyd Gaming Corp.* | 505,632 |
| 19,200 | Bridgepoint Education, Inc.* | 146,112 |
| 9,361 | Bright Horizons Family Solutions, Inc.* | 625,315 |
| 2,493 | Capella Education Co. | 115,226 |
| 49,876 | Denny's Corp.* | 490,281 |
| 9,513 | Isle of Capri Casinos, Inc.* | 132,516 |
| 8,970 | Jack in the Box, Inc. | 688,089 |
| 29,727 | K12, Inc.* | 261,598 |
| 10,346 | Papa John's International, Inc. | 578,031 |
| 17,659 | Pinnacle Entertainment, Inc.* | 549,548 |
| 639 | Red Robin Gourmet Burgers, Inc.* | 39,452 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Consumer Services – (continued)** | | |
| 37,050 | Regis Corp.* | $ 524,257 |
| 22,439 | Sonic Corp. | 725,004 |
| | | 6,075,903 |
| **Diversified Financials – 3.1%** | | |
| 6,262 | Associated Capital Group, Inc. Class A* | 190,991 |
| 7,251 | Cash America International, Inc. | 217,167 |
| 1,298 | Cohen & Steers, Inc. | 39,563 |
| 677 | Diamond Hill Investment Group, Inc. | 127,953 |
| 10,148 | Evercore Partners, Inc. Class A | 548,702 |
| 51,266 | EZCORP, Inc. Class A* | 255,817 |
| 6,262 | GAMCO Investors, Inc. Class A | 194,373 |
| 22,224 | Investment Technology Group, Inc. | 378,253 |
| 2,639 | Nelnet, Inc. Class A | 88,591 |
| 1,054 | Piper Jaffray Companies* | 42,582 |
| 6,273 | Stifel Financial Corp.* | 265,724 |
| 32,916 | WisdomTree Investments, Inc.[(a)] | 516,123 |
| | | 2,865,839 |
| **Energy – 4.1%** | | |
| 32,187 | Alon USA Energy, Inc. | 477,655 |
| 4,468 | Contango Oil & Gas Co.* | 28,640 |
| 23,205 | Delek US Holdings, Inc. | 570,843 |
| 63,689 | DHT Holdings, Inc. | 515,244 |
| 14,167 | Gener8 Maritime, Inc.* | 133,878 |
| 9,835 | McDermott International, Inc.* | 32,947 |
| 21,230 | Oil States International, Inc.* | 578,518 |
| 3,193 | Par Pacific Holdings, Inc.* | 75,163 |
| 6,630 | PDC Energy, Inc.* | 353,910 |
| 50,549 | Pioneer Energy Services Corp.* | 109,691 |
| 5,780 | REX American Resources Corp.* | 312,525 |
| 17,465 | Western Refining, Inc. | 622,103 |
| | | 3,811,117 |
| **Food & Staples Retailing – 0.2%** | | |
| 7,253 | SpartanNash Co. | 156,955 |
| **Food, Beverage & Tobacco – 0.7%** | | |
| 5,147 | J&J Snack Foods Corp. | 600,500 |
| 287 | Lancaster Colony Corp. | 33,137 |
| | | 633,637 |
| **Health Care Equipment & Services – 6.9%** | | |
| 1,889 | Amedisys, Inc.* | 74,276 |
| 3,908 | AMN Healthcare Services, Inc.* | 121,343 |
| 440 | Atrion Corp. | 167,728 |
| 11,146 | Cantel Medical Corp. | 692,612 |
| 3,499 | Computer Programs & Systems, Inc. | 174,075 |
| 5,590 | ICU Medical, Inc.* | 630,440 |
| 15,696 | Invacare Corp. | 272,953 |
| 7,651 | Magellan Health, Inc.* | 471,761 |
| 2,562 | MedAssets, Inc.* | 79,268 |
| 1,210 | Medidata Solutions, Inc.* | 59,641 |
| 8,217 | Meridian Bioscience, Inc. | 168,613 |
| 17,738 | Merit Medical Systems, Inc.* | 329,749 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Health Care Equipment & Services – (continued)** | | |
| 1,728 | Molina Healthcare, Inc.* | $ 103,905 |
| 13,855 | Natus Medical, Inc.* | 665,733 |
| 3,341 | Omnicell, Inc.* | 103,838 |
| 4,675 | Orthofix International NV* | 183,307 |
| 954 | PharMerica Corp.* | 33,390 |
| 40,406 | Quality Systems, Inc. | 651,345 |
| 12,561 | Triple-S Management Corp. Class B* | 300,334 |
| 4,146 | WellCare Health Plans, Inc.* | 324,259 |
| 12,591 | West Pharmaceutical Services, Inc. | 758,230 |
| | | 6,366,800 |
| **Household & Personal Products – 0.3%** | | |
| 2,355 | Central Garden & Pet Co. Class A* | 32,028 |
| 2,259 | USANA Health Sciences, Inc.* | 288,587 |
| | | 320,615 |
| **Insurance – 2.1%** | | |
| 24,915 | American Equity Investment Life Holding Co. | 598,707 |
| 11,344 | Argo Group International Holdings Ltd. | 678,825 |
| 36,281 | Maiden Holdings Ltd. | 540,950 |
| 2,237 | Selective Insurance Group, Inc. | 75,118 |
| 1,684 | Stewart Information Services Corp. | 62,864 |
| | | 1,956,464 |
| **Materials – 5.6%** | | |
| 11,222 | A. Schulman, Inc. | 343,842 |
| 24,163 | Berry Plastics Group, Inc.* | 874,217 |
| 18,722 | Carpenter Technology Corp. | 566,715 |
| 4,402 | Commercial Metals Co. | 60,263 |
| 34,314 | Ferroglobe PLC | 368,876 |
| 8,870 | FutureFuel Corp. | 119,745 |
| 4,440 | HB Fuller Co. | 161,927 |
| 23,606 | Headwaters, Inc.* | 398,233 |
| 12,200 | Innophos Holdings, Inc. | 353,556 |
| 6,458 | Kraton Performance Polymers, Inc.* | 107,267 |
| 18,551 | Materion Corp. | 519,428 |
| 855 | Minerals Technologies, Inc. | 39,210 |
| 25,163 | Schnitzer Steel Industries, Inc. Class A | 361,592 |
| 8,729 | Sensient Technologies Corp. | 548,356 |
| 3,340 | Stepan Co. | 165,965 |
| 5,848 | Worthington Industries, Inc. | 176,259 |
| | | 5,165,451 |
| **Media – 0.1%** | | |
| 8,061 | Entercom Communications Corp. Class A* | 90,525 |
| **Pharmaceuticals, Biotechnology & Life Sciences – 8.3%** | | |
| 1,138 | ACADIA Pharmaceuticals, Inc.* | 40,570 |
| 13,044 | AMAG Pharmaceuticals, Inc.* | 393,798 |
| 7,329 | Anacor Pharmaceuticals, Inc.* | 827,957 |
| 84,676 | Array BioPharma, Inc.* | 357,333 |
| 19,726 | Cepheid, Inc.* | 720,591 |

# Schedule of Investments (continued)

*December 31, 2015*

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Pharmaceuticals, Biotechnology & Life Sciences – (continued)** | | |
| 2,266 | Dyax Corp.* | $ 85,247 |
| 3,991 | Dynavax Technologies Corp.* | 96,422 |
| 17,464 | Emergent Biosolutions, Inc.* | 698,735 |
| 35,314 | Halozyme Therapeutics, Inc.* | 611,992 |
| 913 | Impax Laboratories, Inc.* | 39,040 |
| 3,302 | Insys Therapeutics, Inc.*[(a)] | 94,536 |
| 2,986 | Momenta Pharmaceuticals, Inc.* | 44,312 |
| 4,878 | Myriad Genetics, Inc.*[(a)] | 210,534 |
| 2,884 | Neurocrine Biosciences, Inc.* | 163,148 |
| 7,946 | NewLink Genetics Corp.* | 289,155 |
| 71,218 | Orexigen Therapeutics, Inc.*[(a)] | 122,495 |
| 87,665 | PDL BioPharma, Inc.[(a)] | 310,334 |
| 16,050 | Phibro Animal Health Corp. Class A | 483,586 |
| 13,075 | Prestige Brands Holdings, Inc.* | 673,101 |
| 21,086 | Repligen Corp.* | 596,523 |
| 22,091 | Sagent Pharmaceuticals, Inc.* | 351,468 |
| 25,949 | Sciclone Pharmaceuticals, Inc.* | 238,731 |
| 10,520 | Sucampo Pharmaceuticals, Inc. Class A* | 181,891 |
| 5,147 | ZIOPHARM Oncology, Inc.*[(a)] | 42,772 |
| | | 7,674,271 |
| **Real Estate – 0.9%** | | |
| 15,346 | Alexander & Baldwin, Inc. | 541,867 |
| 5,607 | Marcus & Millichap, Inc.* | 163,388 |
| 2,598 | RE/MAX Holdings, Inc. Class A | 96,906 |
| | | 802,161 |
| **Real Estate Investment Trust – 10.1%** | | |
| 34,949 | American Capital Mortgage Investment Corp. | 487,888 |
| 115,864 | Anworth Mortgage Asset Corp. | 504,008 |
| 12,329 | CoreSite Realty Corp. | 699,301 |
| 63,387 | Cousins Properties, Inc. | 597,740 |
| 29,326 | CubeSmart | 897,962 |
| 20,956 | CyrusOne, Inc. | 784,802 |
| 14,398 | DCT Industrial Trust, Inc. | 538,053 |
| 20,996 | DuPont Fabros Technology, Inc. | 667,463 |
| 15,212 | FelCor Lodging Trust, Inc. | 111,048 |
| 30,564 | First Industrial Realty Trust, Inc. | 676,381 |
| 20,827 | Hudson Pacific Properties, Inc. | 586,072 |
| 23,914 | Kite Realty Group Trust | 620,090 |
| 30,311 | Mack-Cali Realty Corp. | 707,762 |
| 8,352 | PS Business Parks, Inc. | 730,215 |
| 6,828 | QTS Realty Trust, Inc. | 308,011 |
| 3,611 | Rouse Properties, Inc.[(a)] | 52,576 |
| 1,377 | Sovran Self Storage, Inc. | 147,766 |
| 27,703 | Western Asset Mortgage Capital Corp.[(a)] | 283,125 |
| | | 9,400,263 |
| **Retailing – 3.9%** | | |
| 8,309 | Asbury Automotive Group, Inc.* | 560,359 |
| 2,899 | Burlington Stores, Inc.* | 124,367 |
| 2,409 | HSN, Inc. | 122,064 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Retailing – (continued)** | | |
| 438 | Monro Muffler Brake, Inc. | $ 29,004 |
| 22,207 | Nutrisystem, Inc. | 480,559 |
| 3,188 | Outerwall, Inc.[(a)] | 116,490 |
| 9,172 | Pier 1 Imports, Inc.[(a)] | 46,685 |
| 8,178 | Pool Corp. | 660,619 |
| 33,983 | Rent-A-Center, Inc. | 508,725 |
| 4,299 | Select Comfort Corp.* | 92,042 |
| 1,050 | Shutterfly, Inc.* | 46,788 |
| 11,646 | Stage Stores, Inc.[(a)] | 106,095 |
| 16,157 | The Cato Corp. Class A | 594,901 |
| 2,509 | The Pep Boys-Manny Moe & Jack* | 46,191 |
| 8,181 | Zumiez, Inc.* | 123,697 |
| | | 3,658,586 |
| **Semiconductors & Semiconductor Equipment – 2.2%** | | |
| 18,469 | Advanced Energy Industries, Inc.* | 521,380 |
| 12,663 | Cabot Microelectronics Corp.* | 554,386 |
| 7,916 | Cirrus Logic, Inc.* | 233,759 |
| 10,796 | Inphi Corp.* | 291,708 |
| 5,736 | Microsemi Corp.* | 186,936 |
| 3,287 | Power Integrations, Inc. | 159,847 |
| 2,455 | Veeco Instruments, Inc.* | 50,475 |
| | | 1,998,491 |
| **Software & Services – 6.3%** | | |
| 528 | Blackbaud, Inc. | 34,774 |
| 19,558 | Blucora, Inc.* | 191,668 |
| 21,415 | Constant Contact, Inc.* | 626,175 |
| 1,318 | Cornerstone OnDemand, Inc.* | 45,511 |
| 2,704 | Cvent, Inc.* | 94,397 |
| 68,547 | EarthLink Holdings Corp. | 509,304 |
| 2,347 | Fleetmatics Group PLC*[(a)] | 119,204 |
| 5,548 | Gigamon, Inc.* | 147,410 |
| 955 | Imperva, Inc.* | 60,461 |
| 1,344 | LogMeIn, Inc.* | 90,182 |
| 10,538 | Manhattan Associates, Inc.* | 697,300 |
| 19,972 | ManTech International Corp. Class A | 603,953 |
| 19,803 | Marchex, Inc. Class B | 77,034 |
| 2,472 | Mentor Graphics Corp. | 45,534 |
| 1,166 | MicroStrategy, Inc. Class A* | 209,052 |
| 11,704 | Monster Worldwide, Inc.* | 67,064 |
| 1,595 | NIC, Inc. | 31,390 |
| 6,656 | Pegasystems, Inc. | 183,040 |
| 22,759 | Progress Software Corp.* | 546,216 |
| 7,763 | QAD, Inc. Class A | 159,297 |
| 8,947 | RingCentral, Inc. Class A* | 210,970 |
| 4,162 | Sykes Enterprises, Inc.* | 128,106 |
| 2,427 | Tyler Technologies, Inc.* | 423,075 |
| 28,131 | Web.com Group, Inc.* | 562,901 |
| | | 5,864,018 |
| **Technology Hardware & Equipment – 7.7%** | | |
| 26,543 | Benchmark Electronics, Inc.* | 548,644 |
| 8,863 | Calix, Inc.* | 69,752 |
| 10,822 | Ciena Corp.* | 223,907 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Technology Hardware & Equipment – (continued)** | | |
| 5,181 | Coherent, Inc.* | $ 337,335 |
| 15,616 | Finisar Corp.* | 227,057 |
| 54,071 | Harmonic, Inc.* | 220,069 |
| 2,980 | II-VI, Inc.* | 55,309 |
| 20,104 | Insight Enterprises, Inc.* | 505,012 |
| 7,475 | Ixia* | 92,914 |
| 26,098 | Kimball Electronics, Inc.* | 286,817 |
| 15,038 | Methode Electronics, Inc. | 478,659 |
| 16,195 | NETGEAR, Inc.* | 678,732 |
| 7,760 | OSI Systems, Inc.* | 688,002 |
| 2,674 | Plantronics, Inc. | 126,801 |
| 3,028 | Plexus Corp.* | 105,738 |
| 35,983 | Polycom, Inc.* | 453,026 |
| 49,165 | QLogic Corp.* | 599,813 |
| 5,805 | ShoreTel, Inc.* | 51,374 |
| 6,805 | SYNNEX Corp. | 611,974 |
| 8,976 | Tech Data Corp.* | 595,827 |
| 35,189 | TTM Technologies, Inc.* | 229,080 |
| | | 7,185,842 |
| **Telecommunication Services – 0.9%** | | |
| 8,539 | General Communication, Inc. Class A* | 168,902 |
| 11,582 | Spok Holdings, Inc. | 212,182 |
| 81,933 | Vonage Holdings Corp.* | 470,295 |
| | | 851,379 |
| **Transportation – 0.9%** | | |
| 10,144 | Air Transport Services Group, Inc.* | 102,251 |
| 6,581 | ArcBest Corp. | 140,768 |
| 13,234 | Atlas Air Worldwide Holdings, Inc.* | 547,094 |
| 1,190 | Hub Group, Inc. Class A* | 39,210 |
| | | 829,323 |
| **Utilities – 0.7%** | | |
| 8,807 | New Jersey Resources Corp. | $ 290,279 |
| 63,048 | Talen Energy Corp.* | 392,789 |
| | | 683,068 |
| **TOTAL INVESTMENTS BEFORE SECURITIES LENDING REINVESTMENT VEHICLE (Cost $91,464,729)** | | $90,493,700 |

| Shares | Distribution Rate | Value |
|---|---|---|
| **Securities Lending Reinvestment Vehicle[c][d] – 2.4%** | | |
| Goldman Sachs Financial Square Money Market Fund — FST Shares | | |
| 2,188,175 | 0.285% | $ 2,188,175 |
| **(Cost $2,188,175)** | | |
| **TOTAL INVESTMENTS – 99.9% (Cost $93,652,904)** | | $92,681,875 |
| **OTHER ASSETS IN EXCESS OF LIABILITIES – 0.1%** | | 76,117 |
| **NET ASSETS – 100.0%** | | $92,757,992 |

The percentage shown for each investment category reflects the value of investments in that category as a percentage of net assets.

* Non-income producing security.

(a) All or a portion of security is on loan.

(b) All or a portion of security is segregated as collateral for initial margin requirements on futures transactions.

(c) Represents an affiliated issuer.

(d) Variable rate security. Interest rate or distribution rate disclosed is that which is in effect on December 31, 2015.

## ADDITIONAL INVESTMENT INFORMATION

FUTURES CONTRACTS — At December 31, 2015, the Fund had the following futures contracts:

| Type | Number of Contracts Long (Short) | Expiration Date | Current Value | Unrealized Gain (Loss) |
|---|---|---|---|---|
| Russell 2000 Mini Index | 13 | March 2016 | $1,470,950 | $3,682 |

# Statement of Assets and Liabilities

*December 31, 2015*

| | |
|---|---|
| **Assets:** | |
| Investments in unaffiliated issuers, at value (cost $91,464,729)[a] | $90,493,700 |
| Investments in affiliated securities lending reinvestment vehicle, at value which equals cost | 2,188,175 |
| Cash | 2,265,036 |
| Receivables: | |
| Dividends | 148,081 |
| Fund shares sold | 4,314 |
| Reimbursement from investment adviser | 1,867 |
| Securities lending income | 1,578 |
| **Total assets** | 95,102,751 |
| **Liabilities:** | |
| Variation margin on certain derivative contracts | 14,940 |
| Payables: | |
| Payable upon return of securities loaned | 2,188,175 |
| Management fees | 56,131 |
| Fund shares redeemed | 16,990 |
| Distribution and Service fees and Transfer Agency fees | 5,813 |
| Accrued expenses | 62,710 |
| **Total liabilities** | 2,344,759 |
| **Net Assets:** | |
| Paid-in capital | 92,666,446 |
| Undistributed net investment income | 501,507 |
| Accumulated net realized gain | 557,386 |
| Net unrealized loss | (967,347) |
| **NET ASSETS** | $92,757,992 |
| Net Assets: | |
| Institutional | $73,270,263 |
| Service | 19,487,729 |
| Total Net Assets | $92,757,992 |
| Shares of beneficial interest outstanding $0.001 par value (unlimited shares authorized): | |
| Institutional | 6,318,303 |
| Service | 1,690,921 |
| Net asset value, offering and redemption price per share: | |
| Institutional | $11.60 |
| Service | 11.52 |

(a) Includes loaned securities having a market value of $2,086,961.

# Statement of Operations

*For the Fiscal Year Ended December 31, 2015*

| | |
|---|---|
| **Investment income:** | |
| Dividends (net of foreign taxes withheld of $1,332) | $ 1,430,646 |
| Securities lending income — affiliated issuer | 28,870 |
| **Total investment income** | 1,459,516 |
| **Expenses:** | |
| Management fees | 780,262 |
| Professional fees | 80,622 |
| Custody, accounting and administrative services | 61,138 |
| Distribution and Service fees — Service Class | 54,399 |
| Printing and mailing costs | 46,159 |
| Trustee fees | 25,511 |
| Transfer Agency fees[(a)] | 20,805 |
| Other | 15,626 |
| **Total expenses** | 1,084,522 |
| Less — expense reductions | (185,798) |
| **Net expenses** | 898,724 |
| **NET INVESTMENT INCOME** | 560,792 |
| **Realized and unrealized gain (loss):** | |
| Net realized gain (loss) from: | |
| Investments | 10,768,311 |
| Futures contracts | (64,608) |
| Net change in unrealized gain (loss) on: | |
| Investments | (12,894,104) |
| Futures contracts | (43,854) |
| **Net realized and unrealized loss** | (2,234,255) |
| **NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS** | $ (1,673,463) |

(a) Institutional and Service Shares incurred Transfer Agency fees of $16,454 and $4,351, respectively.

# Statements of Changes in Net Assets

| | For the Fiscal Year Ended December 31, 2015 | For the Fiscal Year Ended December 31, 2014 |
|---|---|---|
| **From operations:** | | |
| Net investment income | $ 560,792 | $ 543,340 |
| Net realized gain | 10,703,703 | 14,149,077 |
| Net change in unrealized loss | (12,937,958) | (7,791,415) |
| **Net increase (decrease) in net assets resulting from operations** | (1,673,463) | 6,901,002 |
| **Distributions to shareholders:** | | |
| From net investment income | | |
| Institutional Shares | (225,666) | (647,639) |
| Service Shares | (5,881) | (120,277) |
| From net realized gains | | |
| Institutional Shares | (9,544,423) | (12,160,677) |
| Service Shares | (2,555,468) | (3,387,666) |
| **Total distributions to shareholders** | (12,331,438) | (16,316,259) |
| **From share transactions:** | | |
| Proceeds from sales of shares | 17,599,123 | 16,974,960 |
| Reinvestment of distributions | 12,331,438 | 16,316,259 |
| Cost of shares redeemed | (35,954,038) | (35,135,496) |
| **Net decrease in net assets resulting from share transactions** | (6,023,477) | (1,844,277) |
| **TOTAL DECREASE** | (20,028,378) | (11,259,534) |
| **Net assets:** | | |
| Beginning of year | 112,786,370 | 124,045,904 |
| End of year | $ 92,757,992 | $112,786,370 |
| **Undistributed net investment income** | $ 501,507 | $ 164,576 |

 **The accompanying notes are an integral part of these financial statements.**

# Financial Highlights

*Selected Data for a Share Outstanding Throughout Each Year*

| | | Income (loss) from investment operations | | | Distributions to shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year - Share Class | Net asset value, beginning of year | Net investment income[a] | Net realized and unrealized gain (loss) | Total from investment operations | From net investment income | From net realized gains | Total distributions | Net asset value, end of year | Total return[b] | Net assets, end of year (in 000s) | Ratio of net expenses to average net assets | Ratio of total expenses to average net assets | Ratio of net investment income to average net assets | Portfolio turnover rate[c] |
| **FOR THE FISCAL YEARS ENDED DECEMBER 31,** | | | | | | | | | | | | | | |
| 2015 - Institutional | $13.67 | $ 0.08[d] | $(0.37) | $(0.29) | $(0.04) | $(1.74) | $(1.78) | $11.60 | (2.13)% | $73,270 | 0.81% | 0.99% | 0.59%[d] | 124% |
| 2015 - Service | 13.60 | 0.05[d] | (0.39) | (0.34) | —[e] | (1.74) | (1.74) | 11.52 | (2.49) | 19,488 | 1.06 | 1.24 | 0.34[d] | 124 |
| 2014 - Institutional | 15.07 | 0.08 | 0.90 | 0.98 | (0.12) | (2.26) | (2.38) | 13.67 | 6.93 | 89,043 | 0.83 | 1.04 | 0.53 | 119 |
| 2014 - Service | 15.00 | 0.04 | 0.90 | 0.94 | (0.08) | (2.26) | (2.34) | 13.60 | 6.69 | 23,744 | 1.08 | 1.29 | 0.28 | 119 |
| 2013 - Institutional | 12.71 | 0.11 | 4.37 | 4.48 | (0.16) | (1.96) | (2.12) | 15.07 | 35.62 | 98,114 | 0.82 | 0.98 | 0.77 | 152 |
| 2013 - Service | 12.65 | 0.08 | 4.34 | 4.42 | (0.11) | (1.96) | (2.07) | 15.00 | 35.38 | 25,932 | 1.07 | 1.23 | 0.52 | 152 |
| 2012 - Institutional | 11.40 | 0.19[f] | 1.27[g] | 1.46 | (0.15) | — | (0.15) | 12.71 | 12.79[g] | 82,961 | 0.81 | 0.97 | 1.55[f] | 95 |
| 2012 - Service | 11.35 | 0.17[f] | 1.25[g] | 1.42 | (0.12) | — | (0.12) | 12.65 | 12.47[g] | 22,674 | 1.06 | 1.22 | 1.34[f] | 95 |
| 2011 - Institutional | 11.42 | 0.06[h] | 0.02[i] | 0.08 | (0.10) | — | (0.10) | 11.40 | 0.67 | 87,956 | 0.83 | 0.99 | 0.55[h] | 33 |
| 2011 - Service | 11.37 | 0.03[h] | 0.02[i] | 0.05 | (0.07) | — | (0.07) | 11.35 | 0.41 | 22,973 | 1.08 | 1.24 | 0.30[h] | 33 |

(a) Calculated based on the average shares outstanding methodology.
(b) Assumes investment at the net asset value at the beginning of the year, reinvestment of all distributions, and a complete redemption of the investment at the net asset value at the end of the year.
(c) The Fund's portfolio turnover rate is calculated in accordance with regulatory requirements, without regard to transactions involving short term investments and certain derivatives. If such transactions were included, the Fund's portfolio turnover rate may be higher.
(d) Reflects income recognized from special dividends which amounted to $0.02 per share and 0.15% of average net assets.
(e) Amount is less than $0.005 per share.
(f) Reflects income recognized from special dividends which amounted to $0.08 per share and 0.62% of average net assets.
(g) Reflects payment from affiliate relating to certain investment transactions which amounted to $0.08 per share. Excluding such payment, the total return would have been 12.44% and 12.12%, respectively.
(h) Reflects income recognized from special dividends which amounted to $0.02 per share and 0.21% of average net assets.
(i) Reflects an increase of $0.02 due to payments received for class action settlements received this year.

# Notes to Financial Statements

*December 31, 2015*

## 1. ORGANIZATION

Goldman Sachs Variable Insurance Trust (the "Trust" or "VIT") is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Trust includes the Goldman Sachs Small Cap Equity Insights Fund (the "Fund"). The Fund is a diversified portfolio under the Act offering two classes of shares — Institutional and Service Shares. Shares of the Trust are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies.

Goldman Sachs Asset Management, L.P. ("GSAM"), an affiliate of Goldman, Sachs & Co. ("Goldman Sachs"), serves as investment adviser to the Fund pursuant to a management agreement (the "Agreement") with the Trust.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and require management to make estimates and assumptions that may affect the reported amounts and disclosures. Actual results may differ from those estimates and assumptions.

A. Investment Valuation — The Fund's valuation policy is to value investments at fair value.

B. Investment Income and Investments — Investment income includes interest income and dividend income, net of any foreign withholding taxes, less any amounts reclaimable. Interest income is accrued daily and adjusted for amortization of premiums and accretion of discounts. Dividend income is recognized on ex-dividend date or, for certain foreign securities, as soon as such information is obtained subsequent to the ex-dividend date. Investment transactions are reflected on trade date. Realized gains and losses are calculated using identified cost. Investment transactions are recorded on the following business day for daily net asset value ("NAV") calculations. Any foreign capital gains tax is accrued daily based upon net unrealized gains, and is payable upon sale of such investments. Distributions received from the Fund's investments in United States ("U.S.") real estate investment trusts ("REITs") may be characterized as ordinary income, net capital gain or a return of capital. A return of capital is recorded by the Fund as a reduction to the cost basis of the REIT.

For derivative contracts, realized gains and losses are recorded upon settlement of the contract.

C. Class Allocations and Expenses — Investment income, realized and unrealized gain (loss), and non-class specific expenses of the Fund are allocated daily based upon the proportion of net assets of each class. Non-class specific expenses directly incurred by a Fund are charged to that Fund, while such expenses incurred by the Trust are allocated across the applicable Funds on a straight-line and/or pro-rata basis depending upon the nature of the expenses. Class specific expenses, where applicable, are borne by the respective share classes and include Distribution and Service and Transfer Agency fees.

D. Federal Taxes and Distributions to Shareholders — It is the Fund's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies (mutual funds) and to distribute each year substantially all of its investment company taxable income and capital gains to its shareholders. Accordingly, the Fund is not required to make any provisions for the payment of federal income tax. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gains distributions, if any, are declared and paid annually.

Net capital losses are carried forward to future fiscal years and may be used to the extent allowed by the Code to offset any future capital gains. Losses that are carried forward will retain their character as either short-term or long-term capital losses. Utilization of capital loss carryforwards will reduce the requirement of future capital gains distributions.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules, which may differ from GAAP. The source of the Fund's distributions may be shown in the accompanying financial statements as either from net investment income, net realized gain or capital. Certain components of the Fund's net assets on the Statement of Assets and Liabilities reflect permanent GAAP/tax differences based on the appropriate tax character.

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 to valuation techniques used to measure fair value. The 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). The levels used for classifying investments are not necessarily an indication of the risk associated with investing in these investments. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 — Quoted prices in markets that are not active or financial instruments for which significant inputs are observable (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly;
Level 3 — Prices or valuations that require significant unobservable inputs (including GSAM's assumptions in determining fair value measurement).

Changes in valuation techniques may result in transfers into or out of an assigned level within the hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value hierarchy resulting from such changes are deemed to have occurred as of the beginning of the reporting period.

The Board of Trustees ("Trustees") has approved Valuation Procedures that govern the valuation of the portfolio investments held by the Fund, including investments for which market quotations are not readily available. The Trustees have delegated to GSAM day-to-day responsibility for implementing and maintaining internal controls and procedures related to the valuation of the Fund's portfolio investments. To assess the continuing appropriateness of pricing sources and methodologies, GSAM regularly performs price verification procedures and issues challenges as necessary to third party pricing vendors or brokers, and any differences are reviewed in accordance with the Valuation Procedures.

A. Level 1 and Level 2 Fair Value Investments — The valuation techniques and significant inputs used in determining the fair values for investments classified as Level 1 and Level 2 are as follows:

Equity Securities — Equity securities traded on a U.S. securities exchange or the NASDAQ system, or those located on certain foreign exchanges, including but not limited to the Americas, are valued daily at their last sale price or official closing price on the principal exchange or system on which they are traded. If there is no sale or official closing price or such price is believed by GSAM to not represent fair value, equity securities are valued at the last bid price for long positions and at the last ask price for short positions. To the extent these investments are actively traded, they are classified as Level 1 of the fair value hierarchy, otherwise they are generally classified as Level 2.

Unlisted equity securities for which market quotations are available are valued at the last sale price on the valuation date, or if no sale occurs, at the last bid price. These investments are generally classified as Level 2 of the fair value hierarchy.

Money Market Funds — Investments in the Goldman Sachs Financial Square Money Market Fund ("Underlying Fund") are valued at the NAV of the FST Share class on the day of valuation. These investments are generally classified as Level 1 of the fair value hierarchy. For information regarding an Underlying Fund's accounting policies and investment holdings, please see the Underlying Fund's shareholder report.

Derivative Contracts — A derivative is an instrument whose value is derived from underlying assets, indices, reference rates or a combination of these factors. The Fund enters into derivative transactions to hedge against changes in interest rates, securities prices, and/or currency exchange rates, to increase total return, or to gain access to certain markets or attain exposure to other underliers.

Exchange-traded derivatives, including futures and options contracts, are valued at the last sale or settlement price and typically fall within Level 1 of the fair value hierarchy. Over-the-counter ("OTC") and centrally cleared derivatives are valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing

# Notes to Financial Statements (continued)

*December 31, 2015*

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

transactions, broker or dealer quotations, or other alternative pricing sources. Where models are used, the selection of a particular model to value OTC and centrally cleared derivatives depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, voluntary and involuntary prepayment rates, loss severity rates and correlations of such inputs. For OTC and centrally cleared derivatives that trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment. OTC and centrally cleared derivatives are classified within Level 2 of the fair value hierarchy when significant inputs are corroborated by market evidence.

i. Futures Contracts — Futures contracts are contracts to buy or sell a standardized quantity of a specified commodity or security and are valued based on exchanged settlement prices or independent market quotes. Futures contracts are valued at the last settlement price, or in the absence of a sale, the last bid price for long positions and at the last ask price for short positions, at the end of each day on the board of trade or exchange upon which they are traded. Upon entering into a futures contract, the Fund deposits cash or securities in an account on behalf of the broker in an amount sufficient to meet the initial margin requirement. Subsequent payments are made or received by the Fund equal to the daily change in the contract value and are recorded as variation margin receivable or payable with a corresponding offset to unrealized gains or losses.

B. Level 3 Fair Value Investments — To the extent that significant inputs to valuation models and other alternative pricing sources are unobservable, or if quotations are not readily available, or if GSAM believes that such quotations do not accurately reflect fair value, the fair value of the Fund's investments may be determined under Valuation Procedures approved by the Trustees. GSAM, consistent with its procedures and applicable regulatory guidance, may make an adjustment to the most recent valuation prices of either domestic or foreign securities in light of significant events to reflect what it believes to be the fair value of the securities at the time of determining a Fund's NAV. Significant events which could affect a large number of securities in a particular market may include, but are not limited to: significant fluctuations in U.S. or foreign markets; market dislocations; market disruptions; or unscheduled market closings. Significant events which could also affect a single issuer may include, but are not limited to: corporate actions such as reorganizations, mergers and buy-outs; ratings downgrades; and bankruptcies.

C. Fair Value Hierarchy — The following is a summary of the Fund's investments and derivatives classified in the fair value hierarchy as of December 31, 2015:

| Investment Type | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Common Stock and/or Other Equity Investments[(a)] | | | |
| North America | $90,493,700 | $— | $— |
| Securities Lending Reinvestment Vehicle | 2,188,175 | — | — |
| **Total** | $92,681,875 | $— | $— |
| **Derivative Type** | | | |
| **Assets[(b)]** | | | |
| Futures Contracts | $ 3,682 | $— | $— |

(a) Amounts are disclosed by continent to highlight the impact of time zone differences between local market close and the calculation of NAV. Security valuations are based on the principal exchange or system on which they are traded, which may differ from country of domicile.
(b) Amount shown represents unrealized gain (loss) at fiscal year end.

For further information regarding security characteristics, see the Schedule of Investments.

## 4. INVESTMENTS IN DERIVATIVES

The following table sets forth, by certain risk types, the gross value of derivative contracts as of December 31, 2015. These instruments were used as part of the Fund's investment strategies and to obtain and/or manage exposure related to the risks below. The values in the table below exclude the effects of cash collateral received or posted pursuant to these derivative contracts, and therefore are not representative of the Fund's net exposure.

| Risk | Statement of Assets and Liabilities | Assets[(a)] |
|---|---|---|
| Equity | Variation margin on certain derivative contracts | $3,682 |

(a) Includes unrealized gain (loss) on futures contracts described in the Additional Investment Information section of the Schedule of Investments. Only current day's variation margin is reported within the Statement of Assets and Liabilities.

The following table sets forth, by certain risk types, the Fund's gains (losses) related to these derivatives and their indicative volumes for the fiscal year ended December 31, 2015. These gains (losses) should be considered in the context that these derivative contracts may have been executed to create investment opportunities and/or economically hedge certain investments, and accordingly, certain gains (losses) on such derivative contracts may offset certain (losses) gains attributable to investments. These gains (losses) are included in "Net realized gain (loss)" or "Net change in unrealized gain (loss)" on the Statement of Operations:

| Risk | Statement of Operations | Net Realized Gain (Loss) | Net Change in Unrealized Gain (Loss) | Average Number of Contracts[(a)] |
|---|---|---|---|---|
| Equity | Net realized gain (loss) from futures contracts/Net change in unrealized gain (loss) on futures contracts | $(64,608) | $(43,854) | 10 |

(a) Average number of contracts is based on the average of month end balances for the fiscal year ended December 31, 2015.

## 5. AGREEMENTS AND AFFILIATED TRANSACTIONS

**A. Management Agreement** — Under the Agreement, GSAM manages the Fund, subject to the general supervision of the Trustees.

As compensation for the services rendered pursuant to the Agreement, the assumption of the expenses related thereto and administration of the Fund's business affairs, including providing facilities, GSAM is entitled to a management fee, accrued daily and paid monthly, equal to an annual percentage rate of the Fund's average daily net assets.

For the fiscal year ended December 31, 2015, contractual and effective net management fees with GSAM were at the following rates:

| Contractual Management Rate | | | | | |
|---|---|---|---|---|---|
| First $2 billion | Next $3 billion | Next $3 billion | Over $8 billion | Effective Rate | Effective Net Management Rate^ |
| 0.75% | 0.68% | 0.65% | 0.64% | 0.75% | 0.70%* |

^ Effective Net Management Rate includes the impact of management fee waivers of affiliated underlying funds, if any.

* GSAM agreed to waive a portion of its management fee in order to achieve a net management rate, as defined in the Fund's most recent prospectus. This waiver will be effective through at least April 30, 2016, and prior to such date GSAM may not terminate the arrangement without approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM waived $52,019 of its management fee.

**B. Distribution and Service Plan** — The Trust, on behalf of the Service Shares of the Fund, has adopted a Distribution and Service Plan (the "Plan"). Under the Plan, Goldman Sachs, which serves as distributor (the "Distributor"), is entitled to a fee accrued daily and paid monthly, for distribution services and personal and account maintenance services, which may then be paid by Goldman Sachs to authorized dealers, equal to, on an annual basis, 0.25% of the Fund's average daily net assets attributable to Service Shares.

# Notes to Financial Statements (continued)

*December 31, 2015*

## 5. AGREEMENTS AND AFFILIATED TRANSACTIONS (continued)

**C. Transfer Agency Agreement** — Goldman Sachs also serves as the transfer agent of the Fund for a fee pursuant to the Transfer Agency Agreement. The fees charged for such transfer agency services are accrued daily and paid monthly at an annual rate of 0.02% of the average daily net assets of Institutional and Service Shares.

**D. Other Expense Agreements and Affiliated Transactions** — GSAM has agreed to limit certain "Other Expenses" of the Fund (excluding acquired fund fees and expenses, transfer agency fees and expenses, taxes, interest, brokerage fees, shareholder meeting, litigation, indemnification, and extraordinary expenses) to the extent such expenses exceed, on an annual basis, a percentage rate of the average daily net assets of the Fund. Such Other Expense reimbursements, if any, are accrued daily and paid monthly. In addition, the Fund is not obligated to reimburse GSAM for prior fiscal year expense reimbursements, if any. The Other Expense limitation as an annual percentage rate of average daily net assets for the Fund is 0.094%. The Other Expense limitation will remain in place through at least April 30, 2016, and prior to such date GSAM may not terminate the arrangement without the approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM reimbursed $131,296 to the Fund. In addition, the Fund has entered into certain offset arrangements with the custodian and the transfer agent, which may result in a reduction of the Fund's expenses and are received irrespective of the application of the "Other Expense" limitation described above. For the fiscal year ended December 31, 2015, custody fee credits were $2,483.

**E. Line of Credit Facility** — As of December 31, 2015, the Fund participated in a $1,205,000,000 committed, unsecured revolving line of credit facility (the "facility") together with other funds of the Trust and certain registered investment companies having management agreements with GSAM or its affiliates ("Other Borrowers"). Pursuant to the terms of the facility, the Fund and Other Borrowers could increase the credit amount by up to an additional $115,000,000, for a total of up to $1,320,000,000. This facility is to be used for temporary emergency purposes, or to allow for an orderly liquidation of securities to meet redemption requests. The interest rate on borrowings is based on the federal funds rate. The facility also requires a fee to be paid by the Fund based on the amount of the commitment that has not been utilized. For the fiscal year ended December 31, 2015, the Fund did not have any borrowings under the facility.

**F. Other Transactions with Affiliates** — For the fiscal year ended December 31, 2015, Goldman Sachs earned $284 in brokerage commissions from portfolio transactions, including futures transactions executed with Goldman Sachs as the Futures Commission Merchant, on behalf of the Fund.

## 6. PORTFOLIO SECURITIES TRANSACTIONS

The cost of purchases and proceeds from sales and maturities of long-term securities for the fiscal year ended December 31, 2015, were $125,014,702 and $139,757,832, respectively.

## 7. SECURITIES LENDING

Pursuant to exemptive relief granted by the Securities and Exchange Commission ("SEC") and the terms and conditions contained therein, the Fund may lend its securities through a securities lending agent, Goldman Sachs Agency Lending ("GSAL"), a wholly-owned subsidiary of Goldman Sachs, to certain qualified borrowers including Goldman Sachs and affiliates. In accordance with the Fund's securities lending procedures, the Fund receives cash collateral at least equal to the market value of the securities on loan. The market value of the loaned securities is determined at the close of business of the Fund, at their last sale price or official closing price on the principal exchange or system on which they are traded, and any additional required collateral is delivered to the Fund on the next business day. As with other extensions of credit, the Fund may experience delay in the recovery of its securities or incur a loss should the borrower of the securities breach its agreement with the Fund or become insolvent at a time when the collateral is insufficient to cover the cost of repurchasing securities on loan. Dividend income received from securities on loan may not be

## 7. SECURITIES LENDING (continued)

subject to withholding taxes and therefore withholding taxes paid may differ from the amounts listed in the Statement of Operations. Loans of securities are terminable at any time and as such 1) the remaining contractual maturities of the outstanding securities lending transactions are considered to be overnight and continuous and 2) the borrower, after notice, is required to return borrowed securities within the standard time period for settlement of securities transactions.

The Fund invests the cash collateral received in connection with securities lending transactions in the Goldman Sachs Financial Square Money Market Fund ("Money Market Fund"), an affiliated series of the Trust. The Money Market Fund is registered under the Act as an open end investment company, is subject to Rule 2a-7 under the Act, and is managed by GSAM, for which GSAM may receive an investment advisory fee of up to 0.205% on an annualized basis of the average daily net assets of the Money Market Fund.

In the event of a default by a borrower with respect to any loan, GSAL will exercise any and all remedies provided under the applicable borrower agreement to make the Fund whole. These remedies include purchasing replacement securities by applying the collateral held from the defaulting broker against the purchase cost of the replacement securities. If, despite such efforts by GSAL to exercise these remedies, the Fund sustains losses as a result of a borrower's default, GSAL indemnifies the Funds by purchasing replacement securities at GSAL's expense, or paying the Funds an amount equal to the market value of the replacement securities, subject to an exclusion for any shortfalls resulting from a loss of value in the cash collateral pool due to reinvestment risk and a requirement that the Fund agrees to assign rights to the collateral to GSAL for purpose of using the collateral to cover purchase of replacement securities as more fully described in the Securities Lending Agency Agreement. The Fund's loaned securities were all subject to enforceable Securities Lending Agreements and the value of the collateral is at least equal to the value of the cash received. The value of loaned securities and cash collateral at period end are disclosed in the Fund's Statement of Assets and Liabilities.

Both the Fund and GSAL received compensation relating to the lending of the Fund's securities. The amounts earned by the Fund for the fiscal year ended December 31, 2015, are reported under Investment Income on the Statement of Operations.

The table below details securities lending activity with affiliates of Goldman Sachs:

**For the fiscal year ended December 31, 2015**

| Earnings of GSAL Relating to Securities Loaned | Amounts Received by the Fund from Lending to Goldman Sachs | Amounts Payable to Goldman Sachs Upon Return of Securities Loaned as of December 31, 2015 |
|---|---|---|
| $3,160 | $8,367 | $456,175 |

The following table provides information about the Fund's investment in the Money Market Fund for the fiscal year ended December 31, 2015:

| Market Value 12/31/14 | Purchases at Cost | Proceeds from Sales | Market Value 12/31/15 |
|---|---|---|---|
| $6,925,868 | $32,639,364 | $(37,377,057) | $2,188,175 |

# Notes to Financial Statements (continued)

*December 31, 2015*

## 8. TAX INFORMATION

The tax character of distributions paid during the fiscal years ended December 31, 2014 and December 31, 2015, was as follows:

| | 2014 | 2015 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $ 6,700,936 | $ 3,114,694 |
| Net long-term capital gains | 9,615,323 | 9,216,744 |
| Total taxable distributions | $16,316,259 | $12,331,438 |

As of December 31, 2015, the components of accumulated earnings (losses) on a tax-basis were as follows:

| | |
|---|---|
| Undistributed ordinary income — net | $ 453,833 |
| Undistributed long-term capital gains | 1,036,313 |
| Total undistributed earnings | $ 1,490,146 |
| Timing differences (Post October Loss Deferral/§ 857(b)(9) Deferred Dividend) | $ (311,690) |
| Unrealized gains (losses) — net | (1,086,910) |
| Total accumulated earnings (losses) — net | $ 91,546 |

As of December 31, 2015, the Fund's aggregate security unrealized gains and losses based on cost for U.S. federal income tax purposes were as follows:

| | |
|---|---|
| Tax cost | $ 93,768,785 |
| Gross unrealized gain | 9,831,404 |
| Gross unrealized loss | (10,918,314) |
| Net unrealized security loss | $ (1,086,910) |

The difference between GAAP-basis and tax-basis unrealized gains (losses) is attributable primarily to wash sales, net mark to market gains (losses) on regulated futures contracts and differences in the tax treatment of underlying fund investments.

In order to present certain components of the Fund's capital accounts on a tax-basis, the Fund has reclassified $7,686 from accumulated net realized gain (loss) to undistributed net investment income. This reclassification has no impact on the NAV of the Fund and results primarily from differences in the tax treatment of passive foreign investment company investments, real estate investment trust investments and underlying fund investments.

GSAM has reviewed the Fund's tax positions for all open tax years (the current and prior three years, as applicable) and has concluded that no provision for income tax is required in the Fund's financial statements. Such open tax years remain subject to examination and adjustment by tax authorities.

## 9. OTHER RISKS

The Fund's risks include, but are not limited to, the following:

Large Shareholder Transactions Risk — The Fund may experience adverse effects when certain large shareholders, such as other funds, participating insurance companies, accounts and Goldman Sachs affiliates, purchase or redeem large amounts of shares of the Fund. Such large shareholder redemptions may cause the Fund to sell portfolio securities at times when it would not otherwise do so, which may negatively impact the Fund's NAV and liquidity. These transactions may also accelerate the realization of taxable income to shareholders if such sales of investments resulted in gains, and may also increase transaction costs. In addition, a large redemption could result in the Fund's current expenses being allocated over a smaller asset base, leading to an increase in the Fund's expense ratio. Similarly, large Fund share purchases may adversely affect the Fund's performance to the extent that the Fund is delayed in investing new cash and is required to maintain a larger cash position than it ordinarily would.

Liquidity Risk — The Fund may make investments that are illiquid or that may become less liquid in response to market developments or adverse investor perceptions. Illiquid investments may be more difficult to value. Liquidity risk may also refer to the risk that a Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. To meet redemption requests, the Fund may be forced to sell investments at an unfavorable time and/or under unfavorable conditions.

Market and Credit Risks — In the normal course of business, the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk). Additionally, the Fund may also be exposed to credit risk in the event that an issuer or guarantor fails to perform or that an institution or entity with which the Fund has unsettled or open transactions defaults.

## 10. INDEMNIFICATIONS

Under the Trust's organizational documents, its Trustees, officers, employees and agents are indemnified, to the extent permitted by the Act and state law, against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the course of business, the Fund enters into contracts 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. However, GSAM believes the risk of loss under these arrangements to be remote.

## 11. SUBSEQUENT EVENTS

Subsequent events after the Statement of Assets and Liabilities date have been evaluated through the date the financial statements were issued. GSAM has concluded that there is no impact requiring adjustment or disclosure in the financial statements.

# Notes to Financial Statements (continued)

*December 31, 2015*

## 12. SUMMARY OF SHARE TRANSACTIONS

Share activity is as follows:

| | For the Fiscal Year Ended December 31, 2015 | | For the Fiscal Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars |
| **Institutional Shares** | | | | |
| Shares sold | 1,203,429 | $ 17,154,427 | 1,123,938 | $ 16,714,665 |
| Reinvestment of distributions | 842,249 | 9,770,089 | 960,144 | 12,808,316 |
| Shares redeemed | (2,240,010) | (31,614,902) | (2,080,842) | (31,192,672) |
| | (194,332) | (4,690,386) | 3,240 | (1,669,691) |
| **Service Shares** | | | | |
| Shares sold | 32,525 | 444,696 | 16,602 | 260,295 |
| Reinvestment of distributions | 222,147 | 2,561,349 | 264,351 | 3,507,943 |
| Shares redeemed | (310,170) | (4,339,136) | (263,368) | (3,942,824) |
| | (55,498) | (1,333,091) | 17,585 | (174,586) |
| **NET INCREASE (DECREASE)** | (249,830) | $ (6,023,477) | 20,825 | $ (1,844,277) |

# Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of
Goldman Sachs Variable Insurance Trust — Goldman Sachs Small Cap Equity Insights Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Goldman Sachs Small Cap Equity Insights Fund (the "Fund"), a fund of Goldman Sachs Variable Insurance Trust, at December 31, 2015, and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent of the underlying fund and the application of alternative auditing procedures where confirmation of securities purchased had not been received, provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 17, 2016

## Fund Expenses — Six Month Period Ended December 31, 2015 (Unaudited)

As a shareholder of Institutional or Service Shares of the Fund, you incur ongoing costs, including management fees, distribution and service (12b-1) fees (with respect to Service Shares) and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Institutional Shares and Service Shares of the Fund and to compare these costs with the 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 from July 1, 2015 through December 31, 2015, which represents a period of 184 days of a 365 day year.

*Actual Expenses* — The first line under each share class 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 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" to estimate the expenses you paid on your account during this period.

*Hypothetical Example for Comparison Purposes* — The second line under each share class in the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual net 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 only. As a shareholder of the Fund you do not incur any transaction costs, such as sales charges, redemption fees, or exchange fees, but shareholders of other funds may incur such costs. The second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds whose shareholders may incur transaction costs.

| Share Class | Beginning Account Value 07/01/15 | Ending Account Value 12/31/15 | Expenses Paid for the 6 Months Ended 12/31/15* |
|---|---|---|---|
| **Institutional** | | | |
| Actual | $1,000 | $ 938.20 | $3.96 |
| Hypothetical 5% return | 1,000 | 1,021.12+ | 4.13 |
| **Service** | | | |
| Actual | 1,000 | 936.50 | 5.17 |
| Hypothetical 5% return | 1,000 | 1,019.86+ | 5.40 |

* Expenses are calculated using the Fund's annualized net expense ratio for each class, which represents the ongoing expenses as a percentage of net assets for the six months ended December 31, 2015. Expenses are calculated by multiplying the annualized net expense ratio by the average account value for the period; then multiplying the result by the number of days in the most recent fiscal half year; and then dividing that result by the number of days in the fiscal year. The annualized net expense ratios for the period were 0.81% and 1.06% for the Institutional and Service Shares, respectively.

+ Hypothetical expenses are based on the Fund's actual annualized net expense ratios and an assumed rate of return of 5% per year before expenses.

# Trustees and Officers (Unaudited)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Ashok N. Bakhru**<br>Age: 73 | Chairman of the Board of Trustees | Since 1996 (Trustee since 1991) | Mr. Bakhru is retired. He was formerly Director, Apollo Investment Corporation (a business development company) (2008-2013); President, ABN Associates (a management and financial consulting firm) (1994-1996 and 1998-2012); Trustee, Scholarship America (1998-2005); Trustee, Institute for Higher Education Policy (2003-2008); Director, Private Equity Investors — III and IV (1998-2007), and Equity-Linked Investors II (April 2002-2007).<br>Chairman of the Board of Trustees — Goldman Sachs Fund Complex. | 139 | None |
| **Kathryn A. Cassidy**<br>Age: 61 | Trustee | Since 2015 | Ms. Cassidy is retired. Formerly, she was Advisor to the Chairman (May 2014-December 2014); and Senior Vice President and Treasurer (2008-2014), General Electric Company & General Electric Capital Corporation (technology and financial services companies).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **John P. Coblentz, Jr.**<br>Age: 74 | Trustee | Since 2003 | Mr. Coblentz is retired. Formerly, he was Partner, Deloitte & Touche LLP (a professional services firm) (1975-2003); Director, Emerging Markets Group, Ltd. (2004-2006); and Director, Elderhostel, Inc. (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Diana M. Daniels**<br>Age: 66 | Trustee | Since 2007 | Ms. Daniels is retired. Formerly, she was Vice President, General Counsel and Secretary, The Washington Post Company (1991-2006). Ms. Daniels is a Trustee Emeritus and serves as a Presidential Councillor of Cornell University (2013-Present); Member, Advisory Board, Psychology Without Borders (international humanitarian aid organization) (2007-Present), and former Member of the Legal Advisory Board, New York Stock Exchange (2003-2006) and of the Corporate Advisory Board, Standish Mellon Management Advisors (2006-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Joseph P. LoRusso**<br>Age: 58 | Trustee | Since 2010 | Mr. LoRusso is retired. Formerly, he was President, Fidelity Investments Institutional Services Co. (“FIIS”) (2002-2008); Director, FIIS (2002-2008); Director, Fidelity Investments Institutional Operations Company (2003-2007); Executive Officer, Fidelity Distributors Corporation (2007-2008).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Herbert J. Markley**<br>Age: 65 | Trustee | Since 2013 | Mr. Markley is retired. Formerly, he was Executive Vice President, Deere & Company (an agricultural and construction equipment manufacturer) (2007-2009); and President, Agricultural Division, Deere & Company (2001-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Jessica Palmer**<br>Age: 66 | Trustee | Since 2007 | Ms. Palmer is retired. She is Director, Emerson Center for the Arts and Culture (2011-Present); and was formerly a Consultant, Citigroup Human Resources Department (2007-2008); Managing Director, Citigroup Corporate and Investment Banking (previously, Salomon Smith Barney/ Salomon Brothers) (1984-2006). Ms. Palmer was a Member of the Board of Trustees of Indian Mountain School (private elementary and secondary school) (2004-2009).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

# Trustees and Officers (Unaudited) (continued)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Richard P. Strubel**<br>Age: 76 | Trustee | Since 1987 | Mr. Strubel is retired. Formerly, he served as Chairman of the Board of Trustees, Northern Funds (a family of retail and institutional mutual funds managed by Northern Trust Investments, Inc.) (2008-2014) and Trustee (1982-2014); Director, Cardean Learning Group (provider of educational services via the internet) (2003-2008); and Director, Gildan Activewear Inc. (a clothing marketing and manufacturing company) (2000-2014). He serves as Trustee Emeritus, The University of Chicago (1987-Present).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Roy W. Templin**<br>Age: 55 | Trustee | Since 2013 | Mr. Templin is retired. He is Chairman of the Board of Directors, Con-Way Incorporated (2014-Present); and was formerly Executive Vice President and Chief Financial Officer, Whirlpool Corporation (an appliance manufacturer and marketer) (2004-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Con-Way Incorporated (a transportation, logistics and supply-chain management services company) |
| **Gregory G. Weaver**<br>Age: 64 | Trustee | Since 2015 | Mr. Weaver is retired. He is Director, Verizon Communications Inc. (2015-Present); and was formerly Chairman and Chief Executive Officer, Deloitte & Touche LLP (a professional services firm) (2001-2005 and 2012-2014); and Member of the Board of Directors, Deloitte & Touche LLP (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Verizon Communications Inc. |

# Trustees and Officers (Unaudited) (continued)
## Interested Trustees*

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **James A. McNamara**<br>Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present);<br>Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and<br>Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). | 138 | None |
| **Alan A. Shuch**<br>Age: 66 | Trustee | Since 1990 | Advisory Director — GSAM (May 1999-Present); Consultant to GSAM (December 1994-May 1999); and Limited Partner, Goldman Sachs (December 1994-May 1999).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

* *These persons are considered to be "Interested Trustees" because they hold positions with Goldman Sachs and own securities issued by The Goldman Sachs Group, Inc. Each Interested Trustee holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

1 *Each Trustee may be contacted by writing to the Trustee, c/o Goldman Sachs, 200 West Street, New York, New York, 10282, Attn: Caroline Kraus. Information is provided as of December 31, 2015.*

2 *Each Trustee holds office for an indefinite term until the earliest of: (a) the election of his or her successor; (b) the date the Trustee resigns or is removed by the Board of Trustees or shareholders, in accordance with the Trust's Declaration of Trust; (c) December 31st of the year in which the Trustee turns 74 years of age, subject to waiver by a majority of the Trustees (in accordance with the current resolutions of the Board of Trustees, which may be changed by the Trustees without shareholder vote); or (d) the termination of the Trust. By resolution of the Board of Trustees determining that an extension of service would be beneficial to the Trust, the retirement age has been extended with respect to Richard P. Strubel.*

3 *The Goldman Sachs Fund Complex includes the Trust and Goldman Sachs Trust ("GST"). As of December 31, 2015, the Trust consisted of 14 portfolios and GST consisted of 100 portfolios (91 of which offered shares to the public). The Goldman Sachs Fund Complex also includes, with respect to Messrs. Bakhru, Coblentz and Strubel, Goldman Sachs Trust II ("GSTII"), Goldman Sachs BDC, Inc. ("GSBDC"), Goldman Sachs MLP Income Opportunities Fund ("GSMLP"), Goldman Sachs MLP and Energy Renaissance Fund ("GSMER") and Goldman Sachs ETF Trust ("GSETF"), and with respect to Mr. McNamara, GSTII, GSMLP, GSMER and GSETF. GSTII consisted of eight portfolios (six of which offered shares to the public). GSBDC, GSMLP and GSMER each consisted of one portfolio. GSETF consisted of 14 portfolios (three of which offered shares to the public).*

4 *This column includes only directorships of companies required to report to the Securities and Exchange Commission under the Securities Exchange Act of 1934 (i.e., "public companies") or other investment companies registered under the Act.*

Additional information about the Trustees is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States of America): 1-800-526-7384.

# Trustees and Officers (Unaudited) (continued)
# Officers of the Trust*

| Name, Address and Age[1] | Position(s) Held With the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years |
|---|---|---|---|
| **James A. McNamara**<br>200 West Street<br>New York, NY 10282<br>Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present); Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). |
| **Caroline L. Kraus**<br>200 West Street<br>New York, NY 10282<br>Age: 38 | Secretary | Since 2012 | Vice President, Goldman Sachs (August 2006-Present); Associate General Counsel, Goldman Sachs (2012-Present); Assistant General Counsel, Goldman Sachs (August 2006-December 2011); and Associate, Weil, Gotshal & Manges, LLP (2002-2006).<br>Secretary — Goldman Sachs Fund Complex (August 2012-Present); and Assistant Secretary — Goldman Sachs Fund Complex (June 2012-August 2012). |
| **Scott M. McHugh**<br>200 West Street<br>New York, NY 10282<br>Age: 44 | Principal Financial Officer, Senior Vice President and Treasurer | Since 2009 (Principal Financial Officer since 2013) | Vice President, Goldman Sachs (February 2007-Present); Assistant Treasurer of certain mutual funds administered by DWS Scudder (2005-2007); and Director (2005-2007), Vice President (2000-2005), and Assistant Vice President (1998-2000); Deutsche Asset Management or its predecessor (1998-2007).<br>Principal Financial Officer — Goldman Sachs Fund Complex (November 2013-Present);<br>Treasurer — Goldman Sachs Fund Complex (October 2009-Present);<br>Senior Vice President — Goldman Sachs Fund Complex (November 2009-Present); and Assistant Treasurer — Goldman Sachs Fund Complex (May 2007-October 2009). |

* *Represents a partial list of officers of the Trust. Additional information about all the officers is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States): 1-800-526-7384.*

[1] *Information is provided as of December 31, 2015.*

[2] *Officers hold office at the pleasure of the Board of Trustees or until their successors are duly elected and qualified. Each officer holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

## Goldman Sachs Variable Insurance Trust — Tax Information (Unaudited)

For the year ended December 31, 2015, 23.38% of the dividends paid from net investment company taxable income by the Small Cap Equity Insights Fund qualify for the dividends received deduction available to corporations.

Pursuant to Section 852 of the Internal Revenue Code, the Small Cap Equity Insights Fund designates $9,216,744 or, if different, the maximum amount allowable, as capital gain dividends paid during the fiscal year ended December 31, 2015.

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GOLDMAN, SACHS & CO.
Distributor and Transfer Agent

GOLDMAN SACHS ASSET MANAGEMENT, L.P.
Investment Adviser
200 West Street, New York
New York 10282

Visit our web site at www.GSAMFUNDS.com to obtain the most recent month-end returns.

The reports concerning the Fund included in this shareholder report may contain certain forward-looking statements about the factors that may affect the performance of the Fund in the future. These statements are based on Fund management's predictions and expectations concerning certain future events and their expected impact on the Fund, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the Fund. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.

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 proxies relating to portfolio securities for the 12-month period ended December 31, 2015 is available (i) without charge, upon request by calling 1-800-621-2550; and (ii) on the Securities and Exchange Commission ("SEC") web site at *http://www.sec.gov*.

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Qs are available on the SEC's web site at http://www.sec.gov within 60 days after the Fund's first and third fiscal quarters. The Fund's Form N-Qs may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may also be obtained by calling 1-800-SEC-0330. Form N-Qs may be obtained upon request and without charge by calling 1-800-621-2550.

The website links provided are for your convenience only and are not an endorsement or recommendation by GSAM of any of these websites or the products or services offered. GSAM is not responsible for the accuracy and validity of the content of these websites.

Fund holdings and allocations shown are as of December 31, 2015 and may not be representative of future investments. Fund holdings should not be relied on in making investment decisions and should not be construed as research or investment advice regarding particular securities. Current and future holdings are subject to risk.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Goldman Sachs. Neither MSCI, S&P nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

**Shares of the Goldman Sachs VIT Funds are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you may realize with respect to your investments. Ask your representative for more complete information. Please consider a fund's objectives, risks and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.**

**This material is not authorized for distribution to prospective investors unless preceded or accompanied by a current Prospectus or summary prospectus, if applicable. Investors should consider a Fund's objective, risks, and charges and expenses, and read the summary prospectus, if available, and/or the Prospectus carefully before investing or sending money. The summary prospectus, if available, and the Prospectus contain this and other information about a Fund and may be obtained from your Authorized Institution or from Goldman, Sachs & Co. by calling 1-800-621-2550.**

This report is prepared for the general information of contract owners and is not an offer of shares of the Goldman Sachs Variable Insurance Trust: Goldman Sachs Small Cap Equity Insights Fund.



VITSCAR-16/29863-TEMPL-02/2016/9.5K

# Goldman Sachs Variable Insurance Trust

## Goldman Sachs Strategic Growth Fund

Annual Report
December 31, 2015

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# Principal Investment Strategies and Risks

**This is not a complete list of risks that may affect the Fund. For additional information concerning the risks applicable to the Fund, please see the Fund's Prospectuses.**

**Shares of the Goldman Sachs Variable Insurance Trust — Goldman Sachs Strategic Growth Fund are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you realize with respect to your investments. Ask your representative for more complete information. Please consider the Fund's objective, risks and charges and expenses, and read the Prospectus carefully before investing. The Prospectus contains this and other information about the Fund.**

**The Goldman Sachs Strategic Growth Fund** invests primarily in U.S. equity investments. The Fund's equity investments are subject to **market risk**, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. **Different investment styles** (*e.g.*, "growth") tend to shift in and out of favor, and at times the Fund may underperform other funds that invest in similar asset classes.

**INVESTMENT OBJECTIVE**

The Fund seeks long-term growth of capital.

# Portfolio Management Discussion and Analysis

*Below, the Goldman Sachs Growth Portfolio Management Team discusses the Goldman Sachs Variable Insurance Trust — Goldman Sachs Strategic Growth Fund's (the "Fund") performance and positioning for the 12-month period ended December 31, 2015 (the "Reporting Period").*

***How did the Fund perform during the Reporting Period?***

During the Reporting Period, the Fund's Institutional and Service Shares generated average annual total returns of 3.40% and 3.14%, respectively. These returns compare to the 5.67% average annual total return of the Fund's benchmark, the Russell 1000® Growth Index (with dividends reinvested) (the "Russell Index"), during the same time period.

***What economic and market factors most influenced the equity markets as a whole during the Reporting Period?***

Representing the U.S. equity market, the S&P 500® Index gained 1.38% during the Reporting Period. Central bank policy, commodity price sell-off, geopolitical tensions, and China and global economic growth concerns were the key themes impacting U.S. equities throughout 2015.

As evidence of a U.S. economic and labor market recovery mounted, market expectations of a Federal Reserve ("Fed") interest rate hike increased. The monetary policy divergence with the European Central Bank and the Bank of Japan, which each eased policy during the calendar year, resulted in relative U.S. dollar strength. This paradoxically hurt U.S. equity performance despite improving domestic economic fundamentals. Also, geopolitical tensions intensified in the summer of 2015, as negotiations between Greece and its creditors unraveled, and the probability of a Greek exit, popularly known in the media as "Grexit," from the euro increased. "Grexit" risk subsequently declined with an agreement in July 2015. However, concerns then escalated around China's economic weakness, exacerbated by a surprise devaluation of its renminbi in August 2015, which further shook market confidence. U.S. equities sold off in the ensuing sharp global equity correction.

After holding the targeted federal funds rate steady in September and October 2015 in light of these external macroeconomic and geopolitical risks, the Fed voted unanimously for a 25 basis point hike in December 2015, a move largely expected by markets. (A basis point is 1/100th of a percentage point.) The fairly dovish language in the Fed's announcement, which emphasized "gradual" adjustments to policy going forward, helped to somewhat assuage the markets.

Oil and commodity prices were "lower for longer" in 2015, as the supply glut took longer than expected to correct and demand concerns arose. Brent crude oil and West Texas Intermediate ("WTI") crude oil prices began 2015 at $57 and $53 per barrel, respectively, already well below 2014 highs of more than $100 per barrel. Both Brent and WTI crude oil prices ended 2015 still lower at approximately $37 per barrel. The U.S. consumer benefited from savings at the gas pump and consumer spending rose, particularly in areas typically associated with lower gas prices, such as autos and restaurants. However, this did not fully offset the negative impact on the U.S. energy industry and industrials companies. As a result, energy was the worst performing sector in the S&P 500 Index by a wide margin during the Reporting Period, followed by materials, utilities and industrials. Conversely, more consumer-oriented sectors, including consumer discretionary, health care, information technology and consumer staples were the best performing sectors in the S&P 500 Index during the Reporting Period.

Within the U.S. equity market, there was significant disparity in performance not only among sectors but also among the various capitalization and style segments. Large-cap stocks, as measured by the Russell 1000® Index, posted modestly positive returns, while mid-cap stocks and small-cap stocks, as measured by the Russell Midcap® Index and Russell 2000® Index, respectively, generated negative returns. Large-cap stocks were most successful relative to small-cap stocks in the consumer discretionary sector. From a style perspective, growth-oriented stocks significantly outpaced value-oriented stocks across the capitalization spectrum. Growth outperformed relative to value during the Reporting Period primarily due to stronger performance of the growth-oriented information technology sector. (All as measured by the Russell Investments indices.)

***What key factors were responsible for the Fund's performance during the Reporting Period?***

The Fund's underperformance relative to the Russell Index during the Reporting Period can be attributed primarily to stock selection overall. Sector allocation contributed positively, albeit modestly, to relative results.

### *Which equity market sectors most significantly affected Fund performance?*

Detracting most from the Fund's relative results during the Reporting Period was stock selection in the consumer staples and health care sectors. Having an overweighted allocation to energy, which was the worst performing sector in the Russell Index during the Reporting Period, also hurt. Partially offsetting such detractors was effective stock selection in the consumer discretionary and information technology sectors. Having an underweighted exposure to industrials, which significantly lagged the Russell Index during the Reporting Period, added value as well.

### *Which stocks detracted significantly from the Fund's performance during the Reporting Period?*

Detracting from the Fund's results relative to its benchmark index were positions in global apparel company PVH, transportation holding company Kansas City Southern and apparel and accessories designer Kate Spade.

During the Reporting Period, PVH released third quarter 2015 results with earnings stronger ahead of market estimates even amidst a challenging macroeconomic environment. However, weakness in the U.S. retail industry, including high promotions and currency headwinds, pressured what is otherwise a high quality company, in our view. Despite these concerns, which we see as short term in nature, we believe PVH remains a leading franchise with dominant market share, strong pricing power and solid fundamentals. Particularly, established brand names Tommy Hilfiger and Calvin Klein have demonstrated international strength and have been a key source of growth. In our view, PVH was, at the end of the Reporting Period, highly undervalued relative to its peers. We remained optimistic on the company's significant free cash flow generation ability, quality of management and return potential.

Kansas City Southern most recently reported third quarter 2015 earnings that were largely in-line with analysts' consensus estimates but lowered its outlook on automobile carload volume expectations, which caused its shares to decline. Like other railroads, Kansas City Southern faced currency hurdles and challenges regarding industry-wide volume growth given weaker macroeconomic activity. Despite such headwinds, which we see as transitory, the company maintained high organic growth relative to its peers. At the end of the Reporting Period, we believed there were significant improvement opportunities for Kansas City Southern in terms of service quality, cost efficiency and operations that may drive meaningful margin expansion. We maintained conviction in the company's strong volume growth drivers, specifically noting Mexico's new auto plants and above-average pricing in contract negotiations in the near term. In our view, Kansas City Southern remains a high quality growth business with a favorable market structure, high barriers to entry and improving fundamental trends, as we move into 2016.

Kate Spade, a new purchase for the Fund during the Reporting Period, reported first and second quarter 2015 earnings that were disappointing overall. Although revenues topped expectations in the first calendar quarter, sales growth was light. However, toward the end of 2015, the company released encouraging third calendar quarter earnings, which highlighted a significant surpassing of same-store sales growth expectations. Despite the company's weakness during the Reporting Period, we believe its strong underlying fundamentals remained intact at the end of the Reporting Period and that its catalysts for growth were unchanged. In our view, wholesale expansion, merchandising initiatives and the company's strategic partnership with Exclusive Brands could potentially fuel revenue growth and support what we consider to be the company's attractive valuation.

### *What were some of the Fund's best-performing individual stocks?*

The Fund benefited relative to the Russell Index from positions in e-commerce discretionary retailer Amazon.com, data center real estate investment trust ("REIT") Equinix and television show and movie Internet subscription service Netflix.

Amazon.com was the top contributor to the Fund's relative results during the Reporting Period. The company ended 2015 reporting strong third calendar quarter results. Amazon.com's core retail business and its cloud computing business Amazon Web Services ("AWS") exceeded exceptionally high market expectations as seen in its strong performance and in AWS' operating margins. At the end of the Reporting Period, we believed the accelerating progress of the high-margin AWS business may well be a key driver of Amazon.com's overall profitability going forward. In our view, Amazon.com is well positioned for further growth given its dominant market share and expansionary efforts worldwide.

Equinix reported strong first, second and third quarter 2015 earnings, and as a result, raised guidance across key metrics for a third time. Most notably, revenue and earnings saw significant growth on a year-over-year basis. Additionally, operating leverage returned to the business after a period of systems investment and international expansion. At the end of the Reporting Period, Equinix continued, in our view, to present an enduringly favorable outlook, as pricing has been net positive in the low churn rate, or customer turnover, environment. Going forward, we believe Equinix may be able to further benefit should its recurring revenue business model and demand environment remain steady and its integration of recent acquisitions unlock significant synergies.

Netflix was a top contributor to the Fund's performance during the Reporting Period. In April 2015, the company reported first quarter 2015 earnings that exceeded market expectations on both earnings per share and key subscription metrics. The company's second and third calendar quarter earnings were largely in line with market expectations and were received favorably by investors. New user additions thrived, seemingly due to improving content availability and increasing success of Netflix original series offerings. In our view, sentiment around subscriber growth and pricing showed signs of improvement and reflected Netflix's ability to execute and deliver unique, high quality content. At the end of the Reporting Period, we continued to have conviction in the strength of Netflix's franchise and believed the company's international expansion initiatives and secular tailwinds could be key drivers of future growth.

Given each of these holdings' strong performance during the Reporting Period, we opted to trim the Fund's position in each to invest in other ideas with what we believed to have better risk/reward opportunities.

### *How did the Fund use derivatives and similar instruments during the Reporting Period?*

During the Reporting Period, we did not use derivatives as part of an active management strategy.

### *Did the Fund make any significant purchases or sales during the Reporting Period?*

Among the purchases initiated during the Reporting Period, we initiated a Fund position in global payment solutions company MasterCard. We believe recent macroeconomic trends are supportive of financial services and that MasterCard could be a key beneficiary. In particular, the company has deep exposure to emerging markets, where consumer card spending has seen some recovery and is supported by promotional government efforts. Given what we see as a favorable industry backdrop, a high quality business franchise and an attractive valuation for MasterCard, we opted to take advantage of what we viewed as a favorable risk/reward opportunity.

We established a Fund position in fast-food franchise McDonald's. We believe improving sales and reductions in costs should lead to earnings upside and margin expansion potential. We further think that McDonald's reduction in capital expenditures and further refranchising could lead to improving return on invested capital and free up additional capital to repurchase stock. At the end of the Reporting Period, McDonald's remained, in our view, a high quality franchise with a proficient management team and attractive opportunities to drive top-line growth and earnings.

We sold the Fund's position in computer hardware and storage company EMC during the Reporting Period. While we continue to like the company, near-term volatility around its acquisition by Dell and long-term issues driven by a backlog of orders led us to use the proceeds of the sale toward other opportunities where we believe the risk/reward balance is more compelling.

We exited the Fund's position in generic and specialty pharmaceuticals company Mylan. Shares of Mylan had detracted from the Fund's performance during the third quarter of 2015, driven by potential acquirer Teva's announcement that it was withdrawing its bid on the company to pursue other merger and acquisition opportunities in the consolidated health care space. While we still believe Mylan is a fundamentally strong company that possesses its own value-creation strategies, our conviction was tested due to the lack of near-term upside and growth visibility. As such, we decided to sell out of the Fund's position to pursue other names with what we considered to be more attractive risk/reward profiles.

### *Were there any notable changes in the Fund's weightings during the Reporting Period?*

In constructing the Fund's portfolio, we focus on picking stocks rather than on making industry or sector bets. We seek to outpace the benchmark index by overweighting stocks that we expect to outperform and underweighting those that we think may lag. Consequently, changes in its sector weights are generally the direct result of individual stock selection or of stock appreciation or depreciation. That said, during the Reporting Period, the Fund's exposure to energy increased compared to the Russell Index. The Fund's allocation to cash also increased during the Reporting Period. The Fund's allocations compared to the benchmark index in consumer discretionary, consumer staples and information technology decreased.

### *How was the Fund positioned relative to its benchmark index at the end of the Reporting Period?*

At the end of December 2015, the Fund had overweighted positions relative to the Russell Index in the financials and consumer discretionary sectors. On the same date, the Fund had underweighted positions compared to the Russell Index in industrials and materials and was rather neutrally weighted to the Russell Index in consumer staples, energy, health care and information technology. The Fund had no exposure to the utilities and telecommunication services sectors at the end of the Reporting Period.

***What is the Fund's tactical view and strategy for the months ahead?***

At the end of the Reporting Period, we believe positive, but below average, returns for global equities in 2016 in light of modest economic growth forecasts and rising valuations in some areas of the market. However, in our view, equities still looked more attractive than other asset classes in a persistently low-return environment.

After dipping in 2015, we expect global economic growth to increase modestly in 2016, which we think will be enough to sustain corporate profitability and allow stock prices to move higher. In our view, central banks are likely to remain accommodative given still-fragile global economic growth, which we also see as helpful for equity markets. Even in the U.S., where Fed policy has moved toward normalization, we do not expect to see much negative impact from what are likely to be gradual interest rate increases given continued strength in the housing and labor markets. However, the strong U.S. dollar may well remain a headwind for U.S. multi-nationals.

While the macro outlook remains benign, U.S. credit and equities reflect some typical late-cycle signs, such as more shareholder-friendly actions, an increase in merger and acquisition activity and a pick-up in leverage, all of which tend to coincide with an environment lacking top-line growth. Higher equity valuations are also consistent with late-cycle indicators. In part due to years of ultra-low interest rates, U.S. equity market valuations have risen toward fair value, in our opinion, with some areas looking particularly vulnerable if companies cannot deliver growth.

One common theme across the developed markets is that we believe domestically-focused companies in the major regions could benefit from increasing domestic consumption while being more insulated from currency volatility. In the U.S., we expect that the strong dollar could continue to be a headwind for many globally-exposed companies but believe the consumer remains healthy.

We also believe that some extraordinary dynamics in the U.S. equity market in 2015 have set up investment opportunities for 2016. The extremely narrow breadth of the market hit a 30-year low. For example, just ten stocks accounted for approximately 40% of the total positive contribution to the S&P 500 Index return. Also, as mentioned earlier, value stocks notably underperformed growth stocks. We expect some broadening of the market and reversal of these trends in 2016, as investors focus on the risk of high-priced stocks as well as on the relative attractiveness of the hundreds of stocks trading below the market multiple.

Regardless of market direction, we remain committed to our core philosophy and process. We intend to maintain a long-term time horizon, rather than forecast the next quarter. We intend to continue to favor high quality growth businesses over breathtaking concepts. We intend to invest when we consider valuations to be attractive, rather than following the trend. These core beliefs have guided our team during the past 30 years; we believe they hold the answer for the next 30.

As always, we maintain our focus on seeking companies that we believe will generate long-term growth in today's ever-changing market conditions.

# Index Definitions

The Russell 1000® Growth Index (with dividends reinvested) is an unmanaged market capitalization weighted index of the 1000 largest U.S. companies with higher price-to-book ratios and higher forecasted growth values. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The Russell 2000® Index (with dividends reinvested) is an unmanaged index of common stock prices that measures the performance of the 2000 smallest companies in the Russell 3000® Index. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The S&P 500® Index (with dividends reinvested) is the Standard & Poor's 500 Composite Index of 500 stocks, an unmanaged index of common stock prices. The figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. It is not possible to invest directly in an index.

The Russell 1000® Index 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. It is not possible to invest directly in an index.

# Strategic Growth Fund

*as of December 31, 2015*

## STANDARDIZED TOTAL RETURNS[1]

| For the period ended 12/31/15 | One Year | Five Years | Ten Years | Since Inception | Inception Date |
|---|---|---|---|---|---|
| Institutional | 3.40% | 12.67% | 7.54% | 5.25% | 4/30/98 |
| Service | 3.14 | 12.39 | N/A | 6.98 | 1/09/06 |

[1] **The Standardized Total Returns are average annual total returns as of the most recent calendar quarter-end. They assume reinvestment of all distributions at net asset value ("NAV"). Because Institutional Shares and Service Shares do not involve a sales charge, such a charge is not applied to their Standardized Total Returns.**

**Total return figures in the above chart represent past performance and do not indicate future results, which will vary. The investment return and principal value of an investment will fluctuate and, therefore, 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 total return figures in the above chart. Please visit www.GSAMFUNDS.com to obtain the most recent month-end returns.** Performance reflects fee waivers and/or expense limitations in effect during the periods shown. In their absence, performance would be reduced.

## EXPENSE RATIOS[2]

| | Net Expense Ratio (Current) | Gross Expense Ratio (Before Waivers) |
|---|---|---|
| Institutional | 0.78% | 0.82% |
| Service | 1.03 | 1.07 |

[2] The expense ratios of the Fund, both current (net of any fee waivers or expense limitations) and before waivers (gross of any fee waivers or expense limitations) are as set forth above according to the most recent publicly available Prospectuses for the Fund and may differ from the expense ratios disclosed in the Financial Highlights in this report. Pursuant to a contractual arrangement, the Fund's waivers and/or expense limitations will remain in place through at least April 30, 2016 and prior to such date the Investment Adviser may not terminate the arrangements without the approval of the Fund's Board of Trustees. If these arrangements are discontinued in the future, the expense ratios may change without shareholder approval.

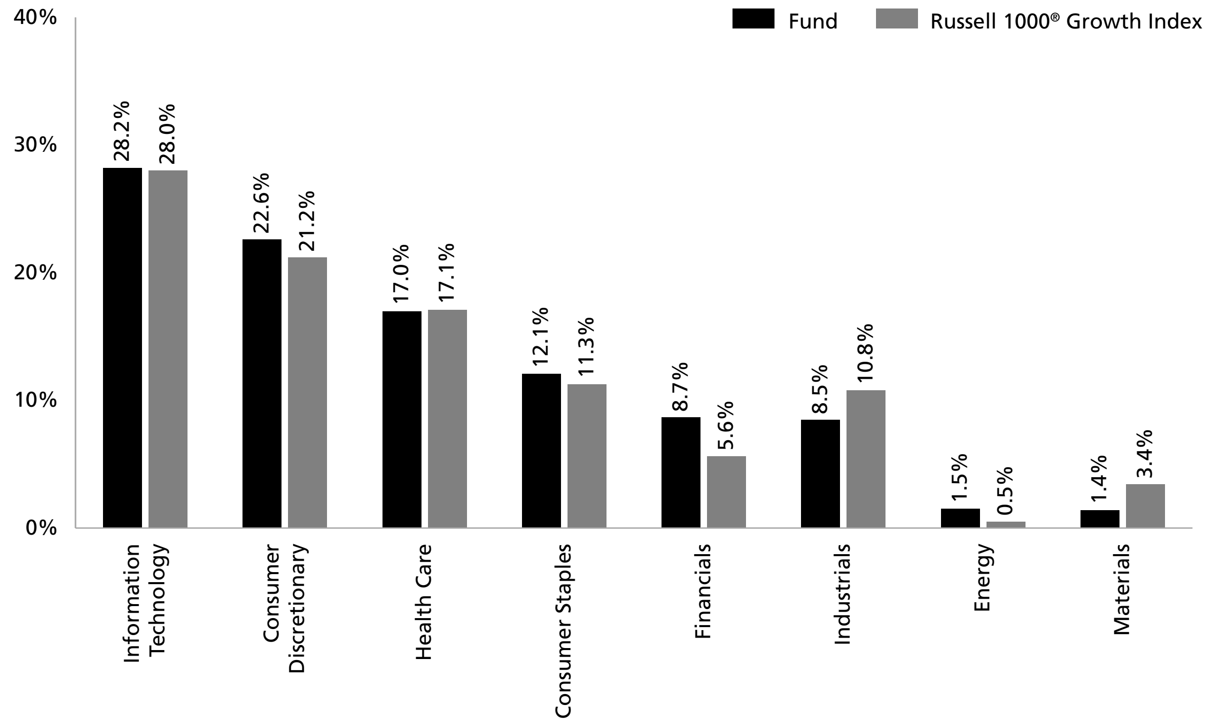
## TOP TEN HOLDINGS AS OF 12/31/15[3]

| Holding | % of Net Assets | Line of Business |
|---|---|---|
| Apple, Inc. | 6.4% | Technology Hardware & Equipment |
| Amazon.com, Inc. | 3.5 | Retailing |
| Alphabet, Inc. Class A | 3.2 | Software & Services |
| Facebook, Inc. Class A | 3.3 | Software & Services |
| Equinix, Inc. (REIT) | 2.7 | Real Estate Investment Trusts |
| Costco Wholesale Corp. | 2.7 | Food & Staples Retailing |
| Alphabet, Inc. Class C | 2.5 | Software & Services |
| Mastercard, Inc. Class A | 2.3 | Software & Services |
| American Tower Corp. (REIT) | 2.3 | Real Estate Investment Trusts |
| The Coca-Cola Co. | 2.2 | Food, Beverage & Tobacco |

[3] The top 10 holdings may not be representative of the Fund's future investments.

## FUND vs. BENCHMARK SECTOR ALLOCATIONS[4]

**As of December 31, 2015**




[4] The Fund is actively managed and, as such, its composition may differ over time. Consequently, the Fund's overall sector allocations may differ from percentages contained in the graph above. The graph categorizes investments using Global Industry Classification Standard ("GICS"), however, the sector classifications used by the portfolio management team may differ from GICS. The percentage shown for each investment category reflects the value of investments in that category as a percentage of market value. The graph depicts the Fund's investments but may not represent the Fund's market exposure due to the exclusion of certain derivatives, if any, as listed in the Additional Investment Information section of the Schedule of Investments.

# Performance Summary

*December 31, 2015*

The following graph shows the value, as of December 31, 2015, of a $10,000 investment made on January 1, 2006 in the Institutional Shares at NAV. For comparative purposes, the performance of the Fund's benchmark, the Russell Index (with distributions reinvested), is shown. This performance data represents past performance and should not be considered indicative of future performance, which will fluctuate with changes in market conditions. These performance fluctuations will cause an investor's shares, when redeemed, to be worth more or less than their original cost. Performance reflects Fund level expenses but does not reflect fees and expenses associated with any variable annuity contract or variable life insurance policy that uses the Fund as an investment option for any contract or policy. Had performance reflected all of those fees and expenses, performance would have been reduced. Performance reflects applicable fee waivers and/or expense limitations in effect during the periods shown, and in their absence, performance would be reduced. Performance of Service Shares will vary from Institutional Shares due to differences in class specific fees. In addition to the Investment Adviser's decisions regarding issuer/industry investment selection and allocation, other factors may affect Fund performance. These factors include, but are not limited to, Fund operating fees and expenses, portfolio turnover, and subscription and redemption cash flows affecting the Fund.

**Strategic Growth Fund's 10 Year Performance**

**Performance of a $10,000 investment, with distributions reinvested, from January 1, 2006 through December 31, 2015.**


| Average Annual Total Return through December 31, 2015 | One Year | Five Years | Ten Years | Since Inception |
|---|---|---|---|---|
| **Institutional (Commenced April 30, 1998)** | 3.40% | 12.67% | 7.54% | 5.25% |
| **Service (Commenced January 9, 2006)** | 3.14% | 12.39% | N/A | 6.98% |

# Schedule of Investments

*December 31, 2015*

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – 98.3%** | | |
| **Automobiles & Components – 1.1%** | | |
| 58,604 | BorgWarner, Inc. | $ 2,533,451 |
| 30,904 | Delphi Automotive PLC | 2,649,400 |
| | | 5,182,851 |
| **Banks – 1.1%** | | |
| 75,424 | First Republic Bank | 4,982,509 |
| **Capital Goods – 7.6%** | | |
| 58,151 | Danaher Corp. | 5,401,065 |
| 94,083 | Fortune Brands Home & Security, Inc. | 5,221,607 |
| 79,911 | Honeywell International, Inc. | 8,276,382 |
| 88,178 | Ingersoll-Rand PLC | 4,875,362 |
| 53,804 | The Boeing Co. | 7,779,520 |
| 20,653 | W.W. Grainger, Inc. | 4,184,091 |
| | | 35,738,027 |
| **Consumer Durables & Apparel – 3.6%** | | |
| 190,053 | Kate Spade & Co.* | 3,377,242 |
| 146,606 | NIKE, Inc. Class B | 9,162,875 |
| 56,123 | PVH Corp. | 4,133,459 |
| | | 16,673,576 |
| **Consumer Services – 5.4%** | | |
| 75,145 | McDonald's Corp. | 8,877,630 |
| 170,576 | Starbucks Corp. | 10,239,677 |
| 88,732 | Yum! Brands, Inc. | 6,481,873 |
| | | 25,599,180 |
| **Diversified Financials – 2.4%** | | |
| 38,537 | American Express Co. | 2,680,248 |
| 22,187 | Intercontinental Exchange, Inc. | 5,685,641 |
| 473,379 | SLM Corp.* | 3,086,431 |
| | | 11,452,320 |
| **Energy – 1.4%** | | |
| 60,954 | Anadarko Petroleum Corp. | 2,961,146 |
| 111,230 | Halliburton Co. | 3,786,269 |
| | | 6,747,415 |
| **Food & Staples Retailing – 5.6%** | | |
| 79,981 | Costco Wholesale Corp. | 12,916,931 |
| 87,337 | Walgreens Boots Alliance, Inc. | 7,437,182 |
| 182,099 | Whole Foods Market, Inc. | 6,100,317 |
| | | 26,454,430 |
| **Food, Beverage & Tobacco – 5.4%** | | |
| 33,706 | Brown-Forman Corp. Class B | 3,346,332 |
| 44,868 | McCormick & Co., Inc. | 3,838,906 |
| 61,921 | Philip Morris International, Inc. | 5,443,475 |
| 54,057 | Reynolds American, Inc. | 2,494,730 |
| 242,024 | The Coca-Cola Co. | 10,397,351 |
| | | 25,520,794 |
| **Health Care Equipment & Services – 6.5%** | | |
| 220,148 | Abbott Laboratories | 9,886,847 |
| 30,466 | Aetna, Inc. | 3,293,984 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Health Care Equipment & Services – (continued)** | | |
| 98,268 | Cerner Corp.* | $ 5,912,786 |
| 33,811 | McKesson Corp. | 6,668,543 |
| 52,017 | Stryker Corp. | 4,834,460 |
| | | 30,596,620 |
| **Household & Personal Products – 0.9%** | | |
| 60,493 | Colgate-Palmolive Co. | 4,030,044 |
| **Materials – 1.4%** | | |
| 28,159 | Ashland, Inc. | 2,891,929 |
| 143,239 | Axalta Coating Systems Ltd.* | 3,817,320 |
| | | 6,709,249 |
| **Media – 1.2%** | | |
| 102,844 | Comcast Corp. Class A | 5,803,487 |
| **Pharmaceuticals, Biotechnology & Life Sciences – 10.2%** | | |
| 71,031 | Agilent Technologies, Inc. | 2,969,806 |
| 26,764 | Alexion Pharmaceuticals, Inc.* | 5,105,233 |
| 29,071 | Allergan PLC* | 9,084,688 |
| 26,557 | Biogen, Inc.* | 8,135,737 |
| 62,925 | Gilead Sciences, Inc. | 6,367,381 |
| 21,647 | Illumina, Inc.* | 4,155,033 |
| 12,905 | Shire PLC ADR | 2,645,525 |
| 50,692 | Vertex Pharmaceuticals, Inc.* | 6,378,574 |
| 63,262 | Zoetis, Inc. | 3,031,515 |
| | | 47,873,492 |
| **Real Estate Investment Trusts – 5.0%** | | |
| 110,629 | American Tower Corp. (REIT) | 10,725,482 |
| 42,801 | Equinix, Inc. (REIT) | 12,943,022 |
| | | 23,668,504 |
| **Retailing – 10.9%** | | |
| 24,400 | Amazon.com, Inc.* | 16,491,716 |
| 66,273 | L Brands, Inc. | 6,350,279 |
| 64,412 | Netflix, Inc.* | 7,367,444 |
| 69,095 | The Home Depot, Inc. | 9,137,814 |
| 7,288 | The Priceline Group, Inc.* | 9,291,836 |
| 32,161 | Tractor Supply Co. | 2,749,765 |
| | | 51,388,854 |
| **Semiconductors & Semiconductor Equipment – 1.3%** | | |
| 73,108 | NXP Semiconductors NV* | 6,159,349 |
| **Software & Services – 20.1%** | | |
| 19,177 | Alphabet, Inc. Class A* | 14,919,898 |
| 15,766 | Alphabet, Inc. Class C* | 11,964,502 |
| 149,384 | Facebook, Inc. Class A* | 15,634,529 |
| 30,801 | FleetCor Technologies, Inc.* | 4,402,387 |
| 62,001 | Intuit, Inc. | 5,983,097 |
| 31,756 | LinkedIn Corp. Class A* | 7,147,641 |
| 110,593 | Mastercard, Inc. Class A | 10,767,334 |
| 138,926 | Microsoft Corp. | 7,707,614 |
| 173,703 | Oracle Corp. | 6,345,371 |

| Shares | Description | Value |
|---|---|---|
| **Common Stocks – (continued)** | | |
| **Software & Services – (continued)** | | |
| 172,080 | Sabre Corp. | $ 4,813,078 |
| 55,879 | ServiceNow, Inc.* | 4,836,886 |
| | | 94,522,337 |
| **Technology Hardware & Equipment – 6.4%** | | |
| 285,898 | Apple, Inc. | 30,093,623 |
| **Transportation – 0.8%** | | |
| 49,943 | Kansas City Southern | 3,729,244 |
| **TOTAL INVESTMENTS – 98.3% (Cost $366,385,311)** | | $462,925,905 |
| **OTHER ASSETS IN EXCESS OF LIABILITIES – 1.7%** | | 7,840,486 |
| **NET ASSETS – 100.0%** | | $470,766,391 |

The percentage shown for each investment category reflects the value of investments in that category as a percentage of net assets.

* Non-income producing security.

**Investment Abbreviations:**
ADR—American Depositary Receipt
REIT—Real Estate Investment Trust

# Statement of Assets and Liabilities

*December 31, 2015*

| | |
|---|---|
| **Assets:** | |
| Investments, at value (cost $366,385,311) | $462,925,905 |
| Cash | 9,838,480 |
| Receivables: | |
| Dividends | 226,739 |
| Fund shares sold | 45,696 |
| **Total assets** | 473,036,820 |
| **Liabilities:** | |
| Payables: | |
| Fund shares redeemed | 1,808,231 |
| Management fees | 294,429 |
| Distribution and Service fees and Transfer Agency fees | 88,482 |
| Accrued expenses | 79,287 |
| **Total liabilities** | 2,270,429 |
| **Net Assets:** | |
| Paid-in capital | 375,186,769 |
| Undistributed net investment income | 1,207,418 |
| Accumulated net realized loss | (2,168,390) |
| Net unrealized gain | 96,540,594 |
| **NET ASSETS** | $470,766,391 |
| Net Assets: | |
| Institutional | $109,800,787 |
| Service | 360,965,604 |
| Total Net Assets | $470,766,391 |
| Shares of beneficial interest outstanding $0.001 par value (unlimited shares authorized): | |
| Institutional | 7,029,997 |
| Service | 23,160,326 |
| Net asset value, offering and redemption price per share: | |
| Institutional | $15.62 |
| Service | 15.59 |

 **The accompanying notes are an integral part of these financial statements.**

# Statement of Operations

*For the Fiscal Year Ended December 31, 2015*

| | |
|---|---|
| **Investment income:** | |
| Dividends | $ 6,613,904 |
| **Expenses:** | |
| Management fees | 3,737,136 |
| Distribution and Service fees — Service Class | 957,537 |
| Transfer Agency fees[(a)] | 99,649 |
| Printing and mailing costs | 89,831 |
| Professional fees | 77,053 |
| Custody, accounting and administrative services | 60,545 |
| Trustee fees | 26,901 |
| Other | 44,889 |
| **Total expenses** | 5,093,541 |
| Less — expense reductions | (207,507) |
| **Net expenses** | 4,886,034 |
| **NET INVESTMENT INCOME** | 1,727,870 |
| **Realized and unrealized gain (loss):** | |
| Net realized gain from investments (including commissions recaptured of $16,645) | 18,938,378 |
| Net change in unrealized loss on investments | (8,924,679) |
| **Net realized and unrealized gain** | 10,013,699 |
| **NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS** | $11,741,569 |

(a) Institutional and Service Shares incurred Transfer Agency fees of $23,052 and $76,597, respectively.

# Statements of Changes in Net Assets

| | For the Fiscal Year Ended December 31, 2015 | For the Fiscal Year Ended December 31, 2014 |
|---|---|---|
| **From operations:** | | |
| Net investment income | $ 1,727,870 | $ 907,718 |
| Net realized gain | 18,938,378 | 81,439,469 |
| Net change in unrealized loss | (8,924,679) | (18,833,285) |
| **Net increase in net assets resulting from operations** | 11,741,569 | 63,513,902 |
| **Distributions to shareholders:** | | |
| From net investment income | | |
| Institutional Shares | (396,858) | (434,364) |
| Service Shares | (411,298) | (456,398) |
| From net realized gains | | |
| Institutional Shares | (6,765,013) | (22,539,042) |
| Service Shares | (23,357,665) | (73,827,385) |
| **Total distributions to shareholders** | (30,930,834) | (97,257,189) |
| **From share transactions:** | | |
| Proceeds from sales of shares | 105,471,558 | 20,904,256 |
| Reinvestment of distributions | 30,930,834 | 97,257,189 |
| Cost of shares redeemed | (161,127,801) | (83,176,257) |
| **Net increase (decrease) in net assets resulting from share transactions** | (24,725,409) | 34,985,188 |
| **TOTAL INCREASE (DECREASE)** | (43,914,674) | 1,241,901 |
| **Net assets:** | | |
| Beginning of year | 514,681,065 | 513,439,164 |
| End of year | $ 470,766,391 | $514,681,065 |
| **Undistributed net investment income** | $ 1,207,418 | $ 297,250 |

 The accompanying notes are an integral part of these financial statements.

# Financial Highlights

*Selected Data for a Share Outstanding Throughout Each Year*

| | | Income (loss) from investment operations | | | Distributions to shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year - Share Class | Net asset value, beginning of year | Net investment income[a] | Net realized and unrealized gain (loss) | Total from investment operations | From net investment income | From net realized gains | Total distributions | Net asset value, end of year | Total return[b] | Net assets, end of year (in 000s) | Ratio of net expenses to average net assets | Ratio of total expenses to average net assets | Ratio of net investment income to average net assets | Portfolio turnover rate[c] |
| **FOR THE FISCAL YEARS ENDED DECEMBER 31,** | | | | | | | | | | | | | | |
| 2015 - Institutional | $16.16 | $0.09[d] | $ 0.46 | $ 0.55 | $(0.06) | $(1.03) | $(1.09) | $15.62 | 3.40% | $109,801 | 0.79% | 0.83% | 0.55%[d] | 56% |
| 2015 - Service | 16.13 | 0.05[d] | 0.46 | 0.51 | (0.02) | (1.03) | (1.05) | 15.59 | 3.14 | 360,966 | 1.04 | 1.08 | 0.29[d] | 56 |
| 2014 - Institutional | 17.64 | 0.07 | 2.24 | 2.31 | (0.07) | (3.72) | (3.79) | 16.16 | 13.64 | 119,934 | 0.79 | 0.81 | 0.37 | 48 |
| 2014 - Service | 17.61 | 0.02 | 2.24 | 2.26 | (0.02) | (3.72) | (3.74) | 16.13 | 13.38 | 394,747 | 1.04 | 1.08 | 0.12 | 48 |
| 2013 - Institutional | 13.86 | 0.06 | 4.42 | 4.48 | (0.07) | (0.63) | (0.70) | 17.64 | 32.42 | 122,220 | 0.80 | 0.84 | 0.35 | 66 |
| 2013 - Service | 13.85 | 0.02 | 4.40 | 4.42 | (0.03) | (0.63) | (0.66) | 17.61 | 32.00 | 391,219 | 1.05 | 1.09 | 0.10 | 66 |
| 2012 - Institutional | 11.64 | 0.10[e] | 2.21 | 2.31 | (0.09) | — | (0.09) | 13.86 | 19.83 | 106,119 | 0.80 | 0.84 | 0.79[e] | 42 |
| 2012 - Service | 11.63 | 0.07[e] | 2.21 | 2.28 | (0.06) | — | (0.06) | 13.85 | 19.57 | 304,065 | 1.05 | 1.09 | 0.56[e] | 42 |
| 2011 - Institutional | 12.01 | 0.06 | (0.37) | (0.31) | (0.06) | — | (0.06) | 11.64 | (2.62) | 102,018 | 0.83 | 0.85 | 0.47 | 35 |
| 2011 - Service | 12.00 | 0.03 | (0.37) | (0.34) | (0.03) | — | (0.03) | 11.63 | (2.86) | 246,208 | 1.08 | 1.10 | 0.23 | 35 |

(a) Calculated based on the average shares outstanding methodology.
(b) Assumes investment at the net asset value at the beginning of the year, reinvestment of all distributions, and a complete redemption of the investment at the net asset value at the end of the year.
(c) The Fund's portfolio turnover rate is calculated in accordance with regulatory requirements, without regard to transactions involving short term investments. If such transactions were included, the Fund's portfolio turnover rate may be higher.
(d) Reflects income recognized from special dividends which amounted to $0.03 per share and 0.20% of average net assets.
(e) Reflects income recognized from special dividends which amounted to $0.04 per share and 0.27% of average net assets.

# Notes to Financial Statements

*December 31, 2015*

## 1. ORGANIZATION

Goldman Sachs Variable Insurance Trust (the "Trust" or "VIT") is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Trust includes the Goldman Sachs Strategic Growth Fund (the "Fund"). The Fund is a diversified portfolio under the Act offering two classes of shares — Institutional and Service Shares. Shares of the Trust are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies.

Goldman Sachs Asset Management, L.P. ("GSAM"), an affiliate of Goldman, Sachs & Co. ("Goldman Sachs"), serves as investment adviser to the Fund pursuant to a management agreement (the "Agreement") with the Trust.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and require management to make estimates and assumptions that may affect the reported amounts and disclosures. Actual results may differ from those estimates and assumptions.

A. Investment Valuation — The Fund's valuation policy is to value investments at fair value.

B. Investment Income and Investments — Investment income includes interest income and dividend income, net of any foreign withholding taxes, less any amounts reclaimable. Interest income is accrued daily and adjusted for amortization of premiums and accretion of discounts. Dividend income is recognized on ex-dividend date or, for certain foreign securities, as soon as such information is obtained subsequent to the ex-dividend date. Investment transactions are reflected on trade date. Realized gains and losses are calculated using identified cost. Investment transactions are recorded on the following business day for daily net asset value ("NAV") calculations. Any foreign capital gains tax is accrued daily based upon net unrealized gains, and is payable upon sale of such investments. Distributions received from the Fund's investments in United States ("U.S.") real estate investment trusts ("REITs") may be characterized as ordinary income, net capital gain or a return of capital. A return of capital is recorded by the Fund as a reduction to the cost basis of the REIT.

C. Class Allocations and Expenses — Investment income, realized and unrealized gain (loss), and non-class specific expenses of the Fund are allocated daily based upon the proportion of net assets of each class. Non-class specific expenses directly incurred by a Fund are charged to that Fund, while such expenses incurred by the Trust are allocated across the applicable Funds on a straight-line and/or pro-rata basis depending upon the nature of the expenses. Class specific expenses, where applicable, are borne by the respective share classes and include Distribution and Service and Transfer Agency fees.

D. Federal Taxes and Distributions to Shareholders — It is the Fund's policy to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies (mutual funds) and to distribute each year substantially all of its investment company taxable income and capital gains to its shareholders. Accordingly, the Fund is not required to make any provisions for the payment of federal income tax. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gains distributions, if any, are declared and paid annually.

Net capital losses are carried forward to future fiscal years and may be used to the extent allowed by the Code to offset any future capital gains. Losses that are carried forward will retain their character as either short-term or long-term capital losses. Utilization of capital loss carryforwards will reduce the requirement of future capital gains distributions.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules, which may differ from GAAP. The source of the Fund's distributions may be shown in the accompanying financial statements as either from net investment income, net realized gain or capital. Certain components of the Fund's net assets on the Statement of Assets and Liabilities reflect permanent GAAP/tax differences based on the appropriate tax character.

E. Commission Recapture — GSAM, on behalf of certain Funds, may direct portfolio trades, subject to seeking best execution, to various brokers who have agreed to rebate a portion of the commissions generated. Such rebates are made directly to a Fund as cash payments and are included in net realized gain (loss) from investments on the Statement of Operations.

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 to valuation techniques used to measure fair value. The 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). The levels used for classifying investments are not necessarily an indication of the risk associated with investing in these investments. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 — Quoted prices in markets that are not active or financial instruments for which significant inputs are observable (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly;
Level 3 — Prices or valuations that require significant unobservable inputs (including GSAM's assumptions in determining fair value measurement).

Changes in valuation techniques may result in transfers into or out of an assigned level within the hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value hierarchy resulting from such changes are deemed to have occurred as of the beginning of the reporting period.

The Board of Trustees ("Trustees") has approved Valuation Procedures that govern the valuation of the portfolio investments held by the Fund, including investments for which market quotations are not readily available. The Trustees have delegated to GSAM day-to-day responsibility for implementing and maintaining internal controls and procedures related to the valuation of the Fund's portfolio investments. To assess the continuing appropriateness of pricing sources and methodologies, GSAM regularly performs price verification procedures and issues challenges as necessary to third party pricing vendors or brokers, and any differences are reviewed in accordance with the Valuation Procedures.

A. Level 1 and Level 2 Fair Value Investments — The valuation techniques and significant inputs used in determining the fair values for investments classified as Level 1 and Level 2 are as follows:

Equity Securities — Equity securities traded on a U.S. securities exchange or the NASDAQ system, or those located on certain foreign exchanges, including but not limited to the Americas, are valued daily at their last sale price or official closing price on the principal exchange or system on which they are traded. If there is no sale or official closing price or such price is believed by GSAM to not represent fair value, equity securities are valued at the last bid price for long positions and at the last ask price for short positions. To the extent these investments are actively traded, they are classified as Level 1 of the fair value hierarchy, otherwise they are generally classified as Level 2.

Unlisted equity securities for which market quotations are available are valued at the last sale price on the valuation date, or if no sale occurs, at the last bid price. These investments are generally classified as Level 2 of the fair value hierarchy.

B. Level 3 Fair Value Investments — To the extent that significant inputs to valuation models and other alternative pricing sources are unobservable, or if quotations are not readily available, or if GSAM believes that such quotations do not accurately reflect fair value, the fair value of the Fund's investments may be determined under Valuation Procedures approved by the Trustees. GSAM, consistent with its procedures and applicable regulatory guidance, may make an adjustment to the most recent valuation prices of either domestic or foreign securities in light of significant events to reflect what it believes to be the fair value of the securities at the time of determining a Fund's NAV. Significant events which could affect a large number of securities in a particular market may include, but are not limited to: significant fluctuations in U.S. or foreign markets; market dislocations; market disruptions; or unscheduled market closings. Significant events which could also affect a single issuer may include, but are not limited to: corporate actions such as reorganizations, mergers and buy-outs; ratings downgrades; and bankruptcies.

# Notes to Financial Statements (continued)

*December 31, 2015*

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

C. Fair Value Hierarchy — The following is a summary of the Fund's investments classified in the fair value hierarchy as of December 31, 2015:

| Investment Type | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Common Stock and/or Other Equity Investments[(a)] | | | |
| North America | $462,925,905 | $— | $— |

(a) Amounts are disclosed by continent to highlight the impact of time zone differences between local market close and the calculation of NAV. Security valuations are based on the principal exchange or system on which they are traded, which may differ from country of domicile.

For further information regarding security characteristics, see the Schedule of Investments.

## 4. AGREEMENTS AND AFFILIATED TRANSACTIONS

A. Management Agreement — Under the Agreement, GSAM manages the Fund, subject to the general supervision of the Trustees.

As compensation for the services rendered pursuant to the Agreement, the assumption of the expenses related thereto and administration of the Fund's business affairs, including providing facilities, GSAM is entitled to a management fee, accrued daily and paid monthly, equal to an annual percentage rate of the Fund's average daily net assets.

For the fiscal year ended December 31, 2015, contractual and effective net management fees with GSAM were at the following rates:

| Contractual Management Rate | | | | | | |
|---|---|---|---|---|---|---|
| First $1 billion | Next $1 billion | Next $3 billion | Next $3 billion | Over $8 billion | Effective Rate | Effective Net Management Rate^ |
| 0.75% | 0.68% | 0.65% | 0.64% | 0.63% | 0.75% | 0.71%* |

^ Effective Net Management Rate includes the impact of management fee waivers of affiliated underlying funds, if any.

* GSAM agreed to waive a portion of its management fee in order to achieve a net management rate, as defined in the Fund's most recent prospectus. This waiver will be effective through at least April 30, 2016 and prior to such date GSAM may not terminate the arrangement without approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM waived $199,316 of its management fee.

B. Distribution and Service Plan — The Trust, on behalf of the Service Shares of the Fund, has adopted a Distribution and Service Plan (the "Plan"). Under the Plan, Goldman Sachs, which serves as distributor (the "Distributor"), is entitled to a fee accrued daily and paid monthly, for distribution services and personal and account maintenance services, which may then be paid by Goldman Sachs to authorized dealers, equal to, on an annual basis, 0.25% of the Fund's average daily net assets attributable to Service Shares.

C. Transfer Agency Agreement — Goldman Sachs also serves as the transfer agent of the Fund for a fee pursuant to the Transfer Agency Agreement. The fees charged for such transfer agency services are accrued daily and paid monthly at an annual rate of 0.02% of the average daily net assets of Institutional and Service Shares.

D. Other Expense Agreements and Affiliated Transactions — GSAM has agreed to limit certain "Other Expenses" of the Fund (excluding acquired fund fees and expenses, transfer agency fees and expenses, taxes, interest, brokerage fees, shareholder meeting, litigation, indemnification and extraordinary expenses) to the extent such expenses exceed, on an annual basis, a percentage rate of the average daily net assets of the Fund. Such Other Expense reimbursements, if any, are accrued daily and paid monthly. In addition, the Fund is not obligated to reimburse GSAM for prior fiscal year expense reimbursements, if any. The Other Expense limitation as an annual percentage rate of average daily net assets for the Fund is 0.114%. The Other Expense limitation will remain in place through at least April 30, 2016, and prior to such date GSAM may not terminate the arrangement without the

## 4. AGREEMENTS AND AFFILIATED TRANSACTIONS (continued)

approval of the Trustees. For the fiscal year ended December 31, 2015, GSAM did not reimburse to the Fund. In addition, the Fund has entered into certain offset arrangements with the custodian and the transfer agent, which may result in a reduction of the Fund's expenses and are received irrespective of the application of the "Other Expense" limitation described above. For the fiscal year ended December 31, 2015, custody fee credits were $8,191.

E. Line of Credit Facility — As of December 31, 2015, the Fund participated in a $1,205,000,000 committed, unsecured revolving line of credit facility (the "facility") together with other funds of the Trust and certain registered investment companies having management agreements with GSAM or its affiliates ("Other Borrowers"). Pursuant to the terms of the facility, the Fund and Other Borrowers could increase the credit amount by up to an additional $115,000,000, for a total of up to $1,320,000,000. This facility is to be used for temporary emergency purposes, or to allow for an orderly liquidation of securities to meet redemption requests. The interest rate on borrowings is based on the federal funds rate. The facility also requires a fee to be paid by the Fund based on the amount of the commitment that has not been utilized. For the fiscal year ended December 31, 2015, the Fund did not have any borrowings under the facility.

## 5. PORTFOLIO SECURITIES TRANSACTIONS

The cost of purchases and proceeds from sales and maturities of long-term securities for the fiscal year ended December 31, 2015, were $272,283,884 and $331,257,388, respectively.

## 6. TAX INFORMATION

The tax character of distributions paid during the fiscal years ended December 31, 2014 and December 31, 2015, was as follows:

| | 2014 | 2015 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $15,942,732 | $ 808,156 |
| Net long-term capital gains | 81,314,457 | 30,122,678 |
| Total taxable distributions | $97,257,189 | $30,930,834 |

As of December 31, 2015, the components of accumulated earnings (losses) on a tax-basis were as follows:

| | |
|---|---|
| Undistributed ordinary income — net | $ 1,166,533 |
| Undistributed long-term capital gains | 46,394 |
| Total undistributed earnings | $ 1,212,927 |
| Timing differences (Post October Loss Deferral) | (274,792) |
| Unrealized gains — net | 94,641,487 |
| Total accumulated gains net | $95,579,622 |

# Notes to Financial Statements (continued)

*December 31, 2015*

## 6. TAX INFORMATION (continued)

As of December 31, 2015, the Fund's aggregate security unrealized gains and losses based on cost for U.S. federal income tax purposes were as follows:

| | |
|---|---|
| Tax cost | $368,284,418 |
| Gross unrealized gain | 112,262,638 |
| Gross unrealized loss | (17,621,151) |
| Net unrealized security gain | $ 94,641,487 |

The difference between GAAP-basis and tax-basis unrealized gains (losses) is attributable primarily to wash sales, and differences in the tax treatment of underlying fund investments.

In order to present certain components of the Fund's capital accounts on a tax-basis, the Fund has reclassified $9,546 of undistributed net investment income into accumulated net realized gain. These reclassifications have no impact on the NAV of the Fund and result primarily from differences in the tax treatment of underlying fund investments.

GSAM has reviewed the Fund's tax positions for all open tax years (the current and prior three years, as applicable) and has concluded that no provision for income tax is required in the Fund's financial statements. Such open tax years remain subject to examination and adjustment by tax authorities.

## 7. OTHER RISKS

The Fund's risks include, but are not limited to, the following:

**Large Shareholder Transactions Risk** — The Fund may experience adverse effects when certain large shareholders, such as other funds, participating insurance companies, accounts and Goldman Sachs affiliates, purchase or redeem large amounts of shares of the Fund. Such large shareholder redemptions may cause the Fund to sell portfolio securities at times when it would not otherwise do so, which may negatively impact the Fund's NAV and liquidity. These transactions may also accelerate the realization of taxable income to shareholders if such sales of investments resulted in gains, and may also increase transaction costs. In addition, a large redemption could result in the Fund's current expenses being allocated over a smaller asset base, leading to an increase in the Fund's expense ratio. Similarly, large Fund share purchases may adversely affect the Fund's performance to the extent that the Fund is delayed in investing new cash and is required to maintain a larger cash position than it ordinarily would.

**Liquidity Risk** — The Fund may make investments that are illiquid or that may become less liquid in response to market developments or adverse investor perceptions. Illiquid investments may be more difficult to value. Liquidity risk may also refer to the risk that a Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. To meet redemption requests, the Fund may be forced to sell investments at an unfavorable time and/or under unfavorable conditions.

**Market and Credit Risks** — In the normal course of business, the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk). Additionally, the Fund may also be exposed to credit risk in the event that an issuer or guarantor fails to perform or that an institution or entity with which the Fund has unsettled or open transactions defaults.

## 8. INDEMNIFICATIONS

Under the Trust's organizational documents, its Trustees, officers, employees and agents are indemnified, to the extent permitted by the Act and state law, against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure

## 8. INDEMNIFICATIONS (continued)

under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, GSAM believes the risk of loss under these arrangements to be remote.

## 9. SUBSEQUENT EVENTS

Subsequent events after the Statement of Assets and Liabilities date have been evaluated through the date the financial statements were issued. GSAM has concluded that there is no impact requiring adjustment or disclosure in the financial statements.

## 10. SUMMARY OF SHARE TRANSACTIONS

Share activity is as follows:

| | For the Fiscal Year Ended December 31, 2015 | | For the Fiscal Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars |
| **Institutional Shares** | | | | |
| Shares sold | 319,675 | $ 5,242,157 | 355,839 | $ 6,506,630 |
| Reinvestment of distributions | 458,800 | 7,161,871 | 1,456,779 | 22,973,406 |
| Shares redeemed | (1,170,524) | (19,375,952) | (1,319,775) | (24,281,424) |
| | (392,049) | (6,971,924) | 492,843 | 5,198,612 |
| **Service Shares** | | | | |
| Shares sold | 5,956,788 | 100,229,401 | 771,692 | 14,397,626 |
| Reinvestment of distributions | 1,525,608 | 23,768,963 | 4,719,427 | 74,283,783 |
| Shares redeemed | (8,800,386) | (141,751,849) | (3,229,668) | (58,894,833) |
| | (1,317,990) | (17,753,485) | 2,261,451 | 29,786,576 |
| **NET INCREASE (DECREASE)** | (1,710,039) | $ (24,725,409) | 2,754,294 | $ 34,985,188 |

# Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of
Goldman Sachs Variable Insurance Trust — Goldman Sachs Strategic Growth Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Goldman Sachs Strategic Growth Fund (the “Fund”), a fund of Goldman Sachs Variable Insurance Trust, at December 31, 2015 and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and the application of alternative auditing procedures where confirmation of securities purchased had not been received, provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 17, 2016

## Fund Expenses — Six Month Period Ended December 31, 2015 (Unaudited)

As a shareholder of Institutional or Service Shares of the Fund, you incur ongoing costs, including management fees, distribution and service (12b-1) fees (with respect to Service Shares) and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Institutional Shares and Service Shares of the Fund and to compare these costs with the 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 from July 1, 2015 through December 31, 2015, which represents a period of 184 days of a 365 day year.

*Actual Expenses* — The first line under each share class 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 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" to estimate the expenses you paid on your account during this period.

*Hypothetical Example for Comparison Purposes* — The second line under each share class in the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual net 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 only. As a shareholder of the Fund you do not incur any transaction costs, such as sales charges, redemption fees, or exchange fees, but shareholders of other funds may incur such costs. The second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds whose shareholders may incur transaction costs.

| Share Class | Beginning Account Value 07/01/15 | Ending Account Value 12/31/15 | Expenses Paid for the 6 Months Ended 12/31/15* |
|---|---|---|---|
| **Institutional** | | | |
| Actual | $1,000 | $1,007.80 | $4.05 |
| Hypothetical 5% return | 1,000 | 1,021.17+ | 4.08 |
| **Service** | | | |
| Actual | 1,000 | 1,006.50 | 5.31 |
| Hypothetical 5% return | 1,000 | 1,019.91+ | 5.35 |

* Expenses are calculated using the Fund's annualized net expense ratio for each class, which represents the ongoing expenses as a percentage of net assets for the six months ended December 31, 2015. Expenses are calculated by multiplying the annualized net expense ratio by the average account value for the period; then multiplying the result by the number of days in the most recent fiscal half year; and then dividing that result by the number of days in the fiscal year. The annualized net expense ratios for the period were 0.80% and 1.05% for the Institutional and Service Shares, respectively.

\+ Hypothetical expenses are based on the Fund's actual annualized net expense ratios and an assumed rate of return of 5% per year before expenses.

# Trustees and Officers (Unaudited)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Ashok N. Bakhru**<br>Age: 73 | Chairman of the Board of Trustees | Since 1996 (Trustee since 1991) | Mr. Bakhru is retired. He was formerly Director, Apollo Investment Corporation (a business development company) (2008-2013); President, ABN Associates (a management and financial consulting firm) (1994-1996 and 1998-2012); Trustee, Scholarship America (1998-2005); Trustee, Institute for Higher Education Policy (2003-2008); Director, Private Equity Investors — III and IV (1998-2007), and Equity-Linked Investors II (April 2002-2007).<br>Chairman of the Board of Trustees — Goldman Sachs Fund Complex. | 139 | None |
| **Kathryn A. Cassidy**<br>Age: 61 | Trustee | Since 2015 | Ms. Cassidy is retired. Formerly, she was Advisor to the Chairman (May 2014-December 2014); and Senior Vice President and Treasurer (2008-2014), General Electric Company & General Electric Capital Corporation (technology and financial services companies).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **John P. Coblentz, Jr.**<br>Age: 74 | Trustee | Since 2003 | Mr. Coblentz is retired. Formerly, he was Partner, Deloitte & Touche LLP (a professional services firm) (1975-2003); Director, Emerging Markets Group, Ltd. (2004-2006); and Director, Elderhostel, Inc. (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Diana M. Daniels**<br>Age: 66 | Trustee | Since 2007 | Ms. Daniels is retired. Formerly, she was Vice President, General Counsel and Secretary, The Washington Post Company (1991-2006). Ms. Daniels is a Trustee Emeritus and serves as a Presidential Councillor of Cornell University (2013-Present); Member, Advisory Board, Psychology Without Borders (international humanitarian aid organization) (2007-Present), and former Member of the Legal Advisory Board, New York Stock Exchange (2003-2006) and of the Corporate Advisory Board, Standish Mellon Management Advisors (2006-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Joseph P. LoRusso**<br>Age: 58 | Trustee | Since 2010 | Mr. LoRusso is retired. Formerly, he was President, Fidelity Investments Institutional Services Co. ("FIIS") (2002-2008); Director, FIIS (2002-2008); Director, Fidelity Investments Institutional Operations Company (2003-2007); Executive Officer, Fidelity Distributors Corporation (2007-2008).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Herbert J. Markley**<br>Age: 65 | Trustee | Since 2013 | Mr. Markley is retired. Formerly, he was Executive Vice President, Deere & Company (an agricultural and construction equipment manufacturer) (2007-2009); and President, Agricultural Division, Deere & Company (2001-2007).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |
| **Jessica Palmer**<br>Age: 66 | Trustee | Since 2007 | Ms. Palmer is retired. She is Director, Emerson Center for the Arts and Culture (2011-Present); and was formerly a Consultant, Citigroup Human Resources Department (2007-2008); Managing Director, Citigroup Corporate and Investment Banking (previously, Salomon Smith Barney/Salomon Brothers) (1984-2006). Ms. Palmer was a Member of the Board of Trustees of Indian Mountain School (private elementary and secondary school) (2004-2009).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

# Trustees and Officers (Unaudited) (continued)
## Independent Trustees

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **Richard P. Strubel** Age: 76 | Trustee | Since 1987 | Mr. Strubel is retired. Formerly, he served as Chairman of the Board of Trustees, Northern Funds (a family of retail and institutional mutual funds managed by Northern Trust Investments, Inc.) (2008-2014) and Trustee (1982-2014); Director, Cardean Learning Group (provider of educational services via the internet) (2003-2008); and Director, Gildan Activewear Inc. (a clothing marketing and manufacturing company) (2000-2014). He serves as Trustee Emeritus, The University of Chicago (1987-Present).<br>Trustee — Goldman Sachs Fund Complex. | 139 | None |
| **Roy W. Templin** Age: 55 | Trustee | Since 2013 | Mr. Templin is retired. He is Chairman of the Board of Directors, Con-Way Incorporated (2014-Present); and was formerly Executive Vice President and Chief Financial Officer, Whirlpool Corporation (an appliance manufacturer and marketer) (2004-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Con-Way Incorporated (a transportation, logistics and supply-chain management services company) |
| **Gregory G. Weaver** Age: 64 | Trustee | Since 2015 | Mr. Weaver is retired. He is Director, Verizon Communications Inc. (2015-Present); and was formerly Chairman and Chief Executive Officer, Deloitte & Touche LLP (a professional services firm) (2001-2005 and 2012-2014); and Member of the Board of Directors, Deloitte & Touche LLP (2006-2012).<br>Trustee — Goldman Sachs Fund Complex. | 114 | Verizon Communications Inc. |

# Trustees and Officers (Unaudited) (continued)
## Interested Trustees*

| Name, Address and Age[1] | Position(s) Held with the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee[3] | Other Directorships Held by Trustee[4] |
|---|---|---|---|---|---|
| **James A. McNamara** Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present); Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). | 138 | None |
| **Alan A. Shuch** Age: 66 | Trustee | Since 1990 | Advisory Director — GSAM (May 1999-Present); Consultant to GSAM (December 1994-May 1999); and Limited Partner, Goldman Sachs (December 1994-May 1999).<br>Trustee — Goldman Sachs Fund Complex. | 114 | None |

* *These persons are considered to be "Interested Trustees" because they hold positions with Goldman Sachs and own securities issued by The Goldman Sachs Group, Inc. Each Interested Trustee holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

[1] *Each Trustee may be contacted by writing to the Trustee, c/o Goldman Sachs, 200 West Street, New York, New York, 10282, Attn: Caroline Kraus. Information is provided as of December 31, 2015.*

[2] *Each Trustee holds office for an indefinite term until the earliest of: (a) the election of his or her successor; (b) the date the Trustee resigns or is removed by the Board of Trustees or shareholders, in accordance with the Trust's Declaration of Trust; (c) December 31st of the year in which the Trustee turns 74 years of age, subject to waiver by a majority of the Trustees (in accordance with the current resolutions of the Board of Trustees, which may be changed by the Trustees without shareholder vote); or (d) the termination of the Trust. By resolution of the Board of Trustees determining that an extension of service would be beneficial to the Trust, the retirement age has been extended with respect to Richard P. Strubel.*

[3] *The Goldman Sachs Fund Complex includes the Trust and Goldman Sachs Trust ("GST"). As of December 31, 2015, the Trust consisted of 14 portfolios and GST consisted of 100 portfolios (91 of which offered shares to the public). The Goldman Sachs Fund Complex also includes, with respect to Messrs. Bakhru, Coblentz and Strubel, Goldman Sachs Trust II ("GSTII"), Goldman Sachs BDC, Inc. ("GSBDC"), Goldman Sachs MLP Income Opportunities Fund ("GSMLP"), Goldman Sachs MLP and Energy Renaissance Fund ("GSMER") and Goldman Sachs ETF Trust ("GSETF"), and with respect to Mr. McNamara, GSTII, GSMLP, GSMER and GSETF. GSTII consisted of eight portfolios (six of which offered shares to the public). GSBDC, GSMLP and GSMER each consisted of one portfolio. GSETF consisted of 14 portfolios (three of which offered shares to the public).*

[4] *This column includes only directorships of companies required to report to the Securities and Exchange Commission under the Securities Exchange Act of 1934 (i.e., "public companies") or other investment companies registered under the Act.*

Additional information about the Trustees is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States of America): 1-800-526-7384.

# Trustees and Officers (Unaudited) (continued)
## Officers of the Trust*

| Name, Address and Age[1] | Position(s) Held With the Trust | Term of Office and Length of Time Served[2] | Principal Occupation(s) During Past 5 Years |
|---|---|---|---|
| **James A. McNamara**<br>200 West Street<br>New York, NY 10282<br>Age: 53 | President and Trustee | Since 2007 | Managing Director, Goldman Sachs (December 1998-Present); Director of Institutional Fund Sales, GSAM (April 1998-December 2000); and Senior Vice President and Manager, Dreyfus Institutional Service Corporation (January 1993-April 1998).<br>President — Goldman Sachs Fund Complex (November 2007-Present); Senior Vice President — Goldman Sachs Fund Complex (May 2007-November 2007); and Vice President — Goldman Sachs Fund Complex (2001-2007).<br>Trustee — Goldman Sachs Fund Complex (November 2007-Present and December 2002-May 2004). |
| **Caroline L. Kraus**<br>200 West Street<br>New York, NY 10282<br>Age: 38 | Secretary | Since 2012 | Vice President, Goldman Sachs (August 2006-Present); Associate General Counsel, Goldman Sachs (2012-Present); Assistant General Counsel, Goldman Sachs (August 2006-December 2011); and Associate, Weil, Gotshal & Manges, LLP (2002-2006).<br>Secretary — Goldman Sachs Fund Complex (August 2012-Present); and Assistant Secretary — Goldman Sachs Fund Complex (June 2012-August 2012). |
| **Scott M. McHugh**<br>200 West Street<br>New York, NY 10282<br>Age: 44 | Principal Financial Officer, Senior Vice President and Treasurer | Since 2009 (Principal Financial Officer since 2013) | Vice President, Goldman Sachs (February 2007-Present); Assistant Treasurer of certain mutual funds administered by DWS Scudder (2005-2007); and Director (2005-2007), Vice President (2000-2005), and Assistant Vice President (1998-2000); Deutsche Asset Management or its predecessor (1998-2007).<br>Principal Financial Officer — Goldman Sachs Fund Complex (November 2013-Present);<br>Treasurer — Goldman Sachs Fund Complex (October 2009-Present);<br>Senior Vice President — Goldman Sachs Fund Complex (November 2009-Present); and Assistant Treasurer — Goldman Sachs Fund Complex (May 2007-October 2009). |

* *Represents a partial list of officers of the Trust. Additional information about all the officers is available in the Fund's Statement of Additional Information, which can be obtained from Goldman Sachs free of charge by calling this toll-free number (in the United States): 1-800-526-7384.*

[1] *Information is provided as of December 31, 2015.*

[2] *Officers hold office at the pleasure of the Board of Trustees or until their successors are duly elected and qualified. Each officer holds comparable positions with certain other companies of which Goldman Sachs, GSAM or an affiliate thereof is the investment adviser, administrator and/or distributor.*

## Goldman Sachs Variable Insurance Trust — Tax Information (Unaudited)

For the year ended December 31, 2015, 79.77% of the dividends paid from net investment company taxable income by the Strategic Growth Fund qualify for the dividends received deduction available to corporations.

Pursuant to Section 852 of the Internal Revenue Code, the Strategic Growth Fund designates $30,122,678 or, if different, the maximum amount allowable, as capital gain dividends paid during the fiscal year ended December 31, 2015.

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GOLDMAN, SACHS & CO.
Distributor and Transfer Agent

GOLDMAN SACHS ASSET MANAGEMENT, L.P.
Investment Adviser
200 West Street, New York
New York 10282

Visit our web site at www.GSAMFUNDS.com/vit to obtain the most recent month-end returns.

The reports concerning the Fund included in this shareholder report may contain certain forward-looking statements about the factors that may affect the performance of the Fund in the future. These statements are based on Fund management's predictions and expectations concerning certain future events and their expected impact on the Fund, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the Fund. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.

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 proxies relating to portfolio securities for the 12-month period ended December 31 is available (i) without charge, upon request by calling 1-800-621-2550; and (ii) on the Securities and Exchange Commission ("SEC") web site at *http://www.sec.gov.*

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Qs are available on the SEC's web site at http://www.sec.gov within 60 days after the Fund's first and third fiscal quarters. The Fund's Form N-Qs may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may also be obtained by calling 1-800-SEC-0330. Form N-Qs may be obtained upon request and without charge by calling 1-800-621-2550.

The website links provided are for your convenience only and are not an endorsement or recommendation by GSAM of any of these websites or the products or services offered. GSAM is not responsible for the accuracy and validity of the content of these websites.

Fund holdings and allocations shown are as of December 31, 2015 and may not be representative of future investments. Fund holdings should not be relied on in making investment decisions and should not be construed as research or investment advice regarding particular securities. Current and future holdings are subject to risk.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Goldman Sachs. Neither MSCI, S&P nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

**Shares of the Goldman Sachs VIT Funds are offered to separate accounts of participating life insurance companies for the purpose of funding variable annuity contracts and variable life insurance policies. Shares of the Fund are not offered directly to the general public. The variable annuity contracts and variable life insurance policies are described in the separate prospectuses issued by participating insurance companies. You should refer to those prospectuses for information about surrender charges, mortality and expense risk fees and other charges that may be assessed by participating insurance companies under the variable annuity contracts or variable life insurance policies. Such fees or charges, if any, may affect the return you may realize with respect to your investments. Ask your representative for more complete information. Please consider a fund's objectives, risks and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.**

**This material is not authorized for distribution to prospective investors unless preceded or accompanied by a current Prospectus or summary prospectus, if applicable. Investors should consider a Fund's objective, risks, and charges and expenses, and read the summary prospectus, if available, and/or the Prospectus carefully before investing or sending money. The summary prospectus, if available, and the Prospectus contain this and other information about a Fund and may be obtained from your Authorized Institution or from Goldman, Sachs & Co. by calling 1-800-621-2550.**

This report is prepared for the general information of contract owners and is not an offer of shares of the Goldman Sachs Variable Insurance Trust: Goldman Sachs Strategic Growth Fund.



VITGRWAR-16/29864-TEMP-02/2016

ANNUAL REPORT
December 31, 2015

# Janus Aspen Balanced Portfolio

## Janus Aspen Series

**HIGHLIGHTS**

- Portfolio management perspective
- Investment strategy behind your fund
- Portfolio performance, characteristics and holdings

JANUS®

# Table of Contents

# Janus Aspen Balanced Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe a dynamic approach to asset allocation that leverages our bottom-up, fundamental equity and fixed income research will allow us to outperform our benchmark and peers over time. Our integrated equity and fixed income research team seeks an optimal balance of asset class opportunities across market cycles.

Jeremiah Buckley
co-portfolio manager

Marc Pinto
co-portfolio manager

Mayur Saigal
co-portfolio manager

Gibson Smith
co-portfolio manager

Darrell Watters
co-portfolio manager

## PERFORMANCE OVERVIEW

Janus Aspen Balanced Portfolio's Institutional Shares and Service Shares returned 0.62% and 0.41%, respectively, for the 12-month period ended December 31, 2015, compared with 1.25% by the Balanced Index, an internally-calculated benchmark that combines the total returns from the S&P 500 Index (55%) and the Barclays U.S. Aggregate Bond Index (45%). The S&P 500 Index returned 1.38% and the Barclays U.S. Aggregate Bond Index returned 0.55%.

## INVESTMENT ENVIRONMENT

The multi-year equities rally encountered turbulence during 2015. Cooling growth, weak commodities prices, a surging U.S. dollar and a shift in monetary policy were some of the factors investors had to consider.

Mid-year, a dramatic sell-off in Chinese stocks – after an equally dramatic rally – spread to developed markets, including the U.S., with several indices declining by more than 10%. Global volatility was in the minds of Federal Reserve (Fed) officials when they chose to delay raising interest rates at their September meeting. Later, improving U.S. employment data led to a consensus that rates would indeed rise by the end of the year. Monetary policy did provide one surprise when the European Central Bank (ECB) failed to meet expectations in expanding its quantitative easing (QE) program. Markets were also roiled late year by energy prices coming under renewed pressure, bringing back the prospect that global growth may fall short of projections.

These same factors influenced fixed income markets. The expectations of a rate increase sent the yield on the 2-year Treasury above 1%. The yield on the 10-year, however, dipped as inflation data remained muted. Investment-grade corporate spreads widened in the spring and stayed range-bound for much of the remainder of the year. High-yield credits, on the other hand, widened considerably between June and December.

## PERFORMANCE DISCUSSION

The Portfolio, which seeks to provide more consistent returns over time by allocating across the spectrum of fixed income and equity securities, underperformed the Balanced Index, its blended benchmark of the S&P 500 Index (55%) and the Barclays U.S. Aggregate Bond Index (45%). The Portfolio also underperformed its primary benchmark, the S&P 500 Index, but its Institutional Share class outperformed its secondary benchmark, the Barclays U.S. Aggregate Bond Index.

The equity-to-fixed-income allocation ended the period with an equity weighting of roughly 61% and fixed income at around 36%, with the remainder in cash. The Portfolio's equity asset allocation may vary between 35% and 65% depending on market conditions.

The Portfolio's equity sleeve underperformed its benchmark, the S&P 500 Index, for the period. The Portfolio's holdings in industrials and underweight in consumer staples detracted most from relative results. A combination of overweight positioning and security selection within consumer discretionary aided relative returns, as did the Portfolio's underweight to the hard-hit energy sector.

Union Pacific, a railroad operator, was acutely affected by negative sentiment toward the industry. The sour mood was driven, in part, by a slowdown in U.S. industrial production on account of a strong U.S. dollar weighing on exports, and the continued weak pricing environment across a range of commodities.

Enterprise Products Partners saw shares decline on broad pressure within the energy space. This was despite the company issuing earnings in line with consensus estimates. The company announced that its CEO would be stepping down. We exited the position during the reporting period.

The stock of Valeant Pharmaceuticals sold off after politicians criticized the company for high drug prices for some of its products treating cardiac conditions. A short seller also questioned the company's relationship with a specialty pharmacy that distributed some of its drugs. We have exited our position.

Alphabet Inc. (formerly Google) was a top contributor within the equity sleeve. Alphabet benefited from improvements in its mobile search revenue, as well as strong results for YouTube. The firm also announced a significant stock buyback program, providing additional support to its shares. The company's restructuring, which was initiated in the third quarter, has also been well received by investors because it provides greater transparency around the company's different business lines. In addition, we have been encouraged by Alphabet's new CFO's focus on reining in unnecessary spending.

Microsoft was a top stock contributor. The stock has benefited from a re-valuation as investors begin to give the company credit for the growth of its cloud business, which is second only to Amazon, and the potential for Microsoft Office 365. We believe these businesses will go a long way to offset the decline of some of Microsoft's legacy businesses such as traditional desktop software. Progress on expense control and cost reduction has also been favorable for the stock. We continue to believe Microsoft's cloud business and some of its other services are underappreciated by the market.

Nike was another top contributor. The company continues to benefit from growth of its athletic apparel and footwear across the globe. Going forward we believe innovation for both its products and manufacturing processes are long-term tailwinds for Nike. We also believe that investments to create a better omnichannel sales experience position Nike well as more sales migrate online.

Conditions in fixed income markets, in our view, continued to merit defensive positioning. Among the factors that concern us most are company actions indicative of the later stages of a credit cycle and alarmingly low market liquidity. While we aim at maximizing risk-adjusted returns, we believed that it was in our clients' best interest to focus on capital preservation during the year.

The fixed income sleeve of the Portfolio outperformed its benchmark, the Barclays U.S. Aggregate Bond Index. Our out-of-benchmark allocation to high-yield corporate credit contributed most to relative returns. Performance was largely generated by spread carry, a measure of excess income generated by the Portfolio's holdings. Performance was concentrated in the highest tier of the high-yield segment. We believe this "crossover" segment represents some of the most attractive risk-adjusted returns as management teams instill balance sheet discipline with the aim of a credit ratings upgrade. Another out-of-benchmark allocation – preferred equity – also contributed to relative performance.

Detracting from relative performance was our yield curve positioning within mortgage-backed securities (MBS). Rate volatility early in the period impacted MBS performance as mixed economic data and lack of clarity on the timing of the Fed's initial rate hike made it difficult for investors to gauge prepayment risks on these securities. Toward the end of the period, we slightly increased our positioning in MBS. We view this asset class as portfolio ballast, and emphasize generic agency pass-throughs with high coupons, high loan-to-value (LTV), and pre-payment resistant characteristics.

Also detracting from performance was yield curve positioning within Treasurys. The front-end of the Treasury yield curve steepened during the period as the market anticipated an eventual interest rate hike by the Fed. Treasury duration is a tool utilized to adjust the overall duration of the Portfolio in a liquid and cost-effective manner. While lowering Portfolio duration to a level below the benchmark during the year, we raised it to slightly above the benchmark by the end of the period. We view our allocation to intermediate and longer dated Treasurys as a buffer against volatility in risk assets while short-term Treasurys provide liquidity.

Spread carry and security selection within banking contributed to relative performance. The prospect of rising rates caused many to project that banks would soon be able to generating higher operating margins. Our overweight positioning, along with spread carry, in brokerages, asset managers and exchanges aided results for similar reasons. The credit sectors that weighed most on relative performance were independent and midstream energy. After having stabilized during the first half of 2015, global energy prices resumed their downward slide through the end of the period.

Please see the Derivatives Instruments section in the "Notes to Financial Statements" for a discussion of derivatives used by the Portfolio.

## OUTLOOK

While valuations in some large-cap growth companies are higher after the fourth quarter and the Fed is finally raising interest rates, we believe the backdrop for U.S. equities is still positive. While much attention has been paid to the rate hike, we believe it is important to put interest rates into perspective. Rates are still very low from a historical perspective and most economic data, especially U.S. employment levels, indicate that a gradual rate hike is warranted.

Looking across sectors, we continue to see some opportunities to add positions to our portfolio. While the outlook for oil prices remains subdued and we still do not believe it is time to step in and buy energy stocks broadly, we see potential opportunities with select industrial companies that may have been overly punished for their exposure to the energy sector. We also see opportunity within the consumer discretionary sector, where companies are benefiting from improved U.S. consumer spending power at a broad level, and at the company level, select companies are also benefiting from value-creating innovation.

We believe that many of the clouds that hung over fixed income markets in 2015 remain with us. As such, we consider it prudent to maintain a defensive stance within our portfolios. Yes, the Fed removed lingering uncertainty about whether it would raise interest rates, but the timing of future hikes is a matter of debate. It is our view that neither the economic growth nor the four 0.25% increases that the Fed projects such growth merits in 2016 will come to fruition.

While the change in nonfarm payrolls rebounded after subpar late-summer readings, and the unemployment rate, at 5%, is roughly what the Fed considers optimal, the other part of its dual mandate – inflation – remains frustratingly low. We expect the downward pressure exerted on year over year headline data will soon roll off, but more-resilient core data remains well below the central bank's target of 2%.

Company developments, we believe, validate our view that we are in the later stages of the credit cycle. Shareholder-friendly activities continue and balance sheet strength has become more fleeting across a range of sectors, most notably energy. A chief concern is that much of the financial engineering that has occurred is aimed at compensating for lower revenue growth. With economic acceleration remaining elusive and rates still low, we expect management teams to continue to purchase growth, with these acquisitions often financed by debt issuance. We see less room for margin expansion, and with extended balance sheets, suboptimal results may be met with harsh market reaction.

Given this environment, we have minimized our exposure to the riskiest tiers of high-yield credit as we suspect the market may experience an uptick in defaults. Instead, we have focused on high-yield issuers with higher ratings.

By utilizing our Treasury allocation, we ended the period with the Portfolio's duration slightly above that of the benchmark. We believe that our increased exposure to longer dated Treasurys may counteract the volatility we expect risk assets to experience over the coming quarters. At the same time, our exposure to shorter dated Treasurys stands to be a source of liquidity, which may enable us to capitalize on attractive buying opportunities.

Despite the Fed's move away from its zero-interest-rate policy, fixed income markets are no less fraught with risks. The potential price dislocations associated with illiquid markets becomes more of a threat as stretched balance sheets and low growth may lead to earnings misses and investor redemptions. We believe that security avoidance will be a central driver of performance as the asymmetric risk of holding risky credits far outweighs the potential upside.

Thank you for your investment in the Janus Aspen Balanced Portfolio.

# Janus Aspen Balanced Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Top Performers - Holdings

| | Contribution |
|---|---|
| Alphabet, Inc. - Class C | 1.19% |
| NIKE, Inc. - Class B | 0.91% |
| Microsoft Corp. | 0.90% |
| Home Depot, Inc. | 0.65% |
| MasterCard, Inc. - Class A | 0.52% |

### 5 Bottom Performers - Holdings

| | Contribution |
|---|---|
| Union Pacific Corp. | -1.12% |
| Enterprise Products Partners LP | -0.61% |
| Valeant Pharmaceuticals International, Inc. | -0.52% |
| Seagate Technology PLC | -0.47% |
| Endo International PLC | -0.42% |

### 5 Top Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | S&P 500® Index Weighting |
|---|---|---|---|
| Consumer Discretionary | 0.49% | 16.11% | 12.70% |
| Energy | 0.48% | 3.93% | 7.61% |
| Materials | 0.24% | 5.73% | 3.06% |
| Utilities | 0.20% | 0.00% | 3.00% |
| Telecommunication Services | -0.05% | 0.30% | 2.33% |

### 5 Bottom Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | S&P 500® Index Weighting |
|---|---|---|---|
| Industrials | -1.17% | 12.53% | 10.19% |
| Consumer Staples | -0.19% | 4.67% | 9.70% |
| Financials | -0.13% | 14.24% | 16.40% |
| Other** | -0.11% | 1.77% | 0.00% |
| Information Technology | -0.11% | 20.32% | 20.08% |

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

** Not a GICS classified sector.

# Janus Aspen Balanced Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Largest Equity Holdings - (% of Net Assets)

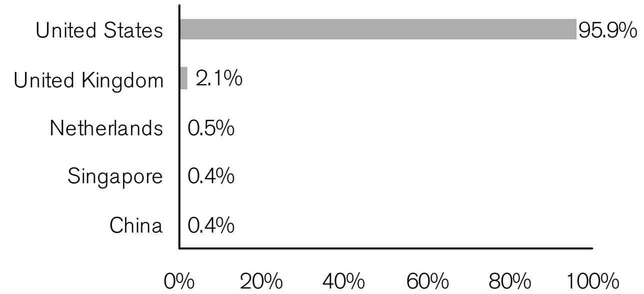
| | |
|---|---|
| MasterCard, Inc. - Class A | |
| Information Technology Services | 3.0% |
| Amgen, Inc. | |
| Biotechnology | 2.9% |
| Microsoft Corp. | |
| Software | 2.9% |
| Allergan PLC | |
| Pharmaceuticals | 2.5% |
| Alphabet, Inc. - Class C | |
| Internet Software & Services | 2.4% |
| | 13.7% |

### Asset Allocation - (% of Net Assets)

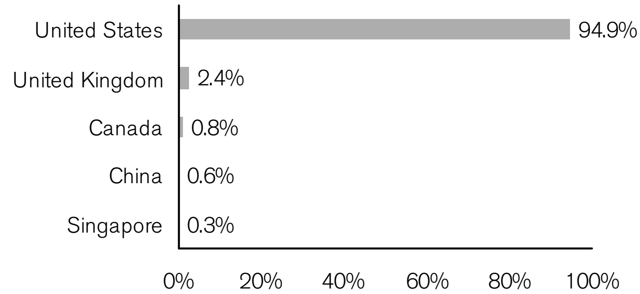
| | |
|---|---|
| Common Stocks | 60.3% |
| Corporate Bonds | 15.8% |
| U.S. Treasury Notes/Bonds | 8.9% |
| Mortgage-Backed Securities | 8.5% |
| Investment Companies | 2.9% |
| Asset-Backed/Commercial Mortgage-Backed Securities | 2.4% |
| Bank Loans and Mezzanine Loans | 0.6% |
| Preferred Stocks | 0.5% |
| Other | 0.1% |
| | 100.0% |

### Top Country Allocations - Long Positions - (% of Investment Securities)

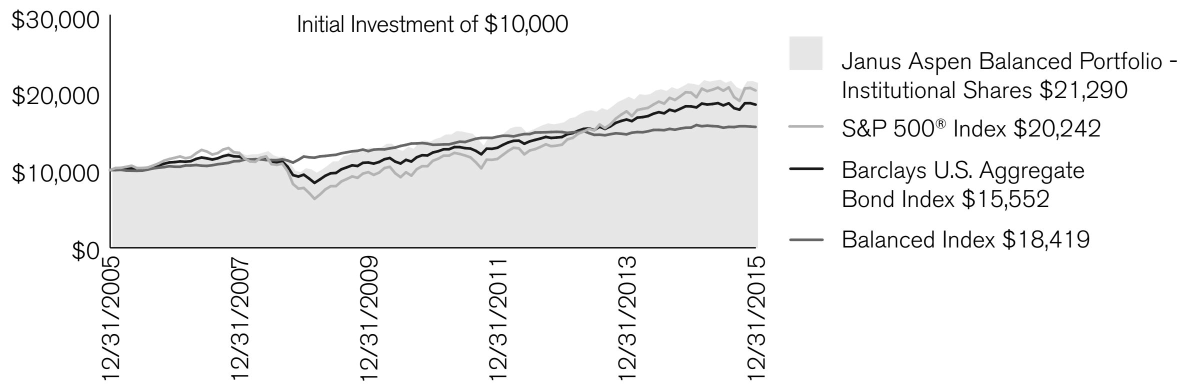
As of December 31, 2015




As of December 31, 2014



# Janus Aspen Balanced Portfolio (unaudited)
## Performance




| Average Annual Total Return - for the periods ended December 31, 2015 | One Year | Five Year | Ten Year | Since Inception* | Expense Ratios - per the May 1, 2015 prospectuses: Total Annual Fund Operating Expenses |
|---|---|---|---|---|---|
| Institutional Shares | 0.62% | 8.66% | 7.85% | 9.82% | 0.58% |
| Service Shares | 0.41% | 8.39% | 7.58% | 9.65% | 0.84% |
| S&P 500® Index | 1.38% | 12.57% | 7.31% | 9.01% | |
| Barclays U.S. Aggregate Bond Index | 0.55% | 3.25% | 4.51% | 5.41% | |
| Balanced Index | 1.25% | 8.48% | 6.30% | 7.65% | |
| Morningstar Quartile - Institutional Shares | 1st | 1st | 1st | 1st | |
| Morningstar Ranking - based on total returns for Moderate Allocation Funds | 98/967 | 79/834 | 13/670 | 12/282 | |

*Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit janus.com/variable-insurance.*

*A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, Portfolio holdings and other details.*

*Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.*

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

Returns shown for Service Shares for periods prior to December 31, 1999 are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.



There is no assurance that the investment process will consistently lead to successful investing.

*See important disclosures on the next page.*

# Janus Aspen Balanced Portfolio (unaudited)
## Performance

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective December 31, 2015, Jeremiah Buckley, Marc Pinto, Mayur Saigal, Gibson Smith and Darrell Watters are Co-Portfolio Managers of the Portfolio.

*The Portfolio's inception date – September 13, 1993

# Janus Aspen Balanced Portfolio (unaudited)
## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of $1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading “Actual” provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the appropriate column for your share class under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading “Hypothetical (5% return before expenses)” provides information about hypothetical account values and hypothetical expenses based upon the Portfolio’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit www.finra.org/fundanalyzer.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio’s prospectuses. Therefore, the hypothetical examples are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

| | Actual | | | Hypothetical (5% return before expenses) | | | |
|---|---|---|---|---|---|---|---|
| | Beginning Account Value (7/1/15) | Ending Account Value (12/31/15) | Expenses Paid During Period (7/1/15 - 12/31/15)† | Beginning Account Value (7/1/15) | Ending Account Value (12/31/15) | Expenses Paid During Period (7/1/15 - 12/31/15)† | Net Annualized Expense Ratio (7/1/15 - 12/31/15) |
| Institutional Shares | $1,000.00 | $999.50 | $2.97 | $1,000.00 | $1,022.23 | $3.01 | 0.59% |
| Service Shares | $1,000.00 | $998.30 | $4.28 | $1,000.00 | $1,020.92 | $4.33 | 0.85% |

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio’s prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | *Shares or Principal Amounts* | *Value* |
|---|---|---|
| Asset-Backed/Commercial Mortgage-Backed Securities – 2.4% | | |
| AmeriCredit Automobile Receivables Trust 2012-4, 3.8200%, 2/10/20 (144A) | $665,000 | $673,086 |
| AmeriCredit Automobile Receivables Trust 2013-4, 3.3100%, 10/8/19 | 523,000 | 531,571 |
| AmeriCredit Automobile Receivables Trust 2015-2, 3.0000%, 6/8/21 | 990,000 | 976,864 |
| Applebee's Funding LLC / IHOP Funding LLC, 4.2770%, 9/5/44 (144A) | 5,890,000 | 5,964,473 |
| Aventura Mall Trust 2013-AVM, 3.7427%, 12/5/32 (144A)‡ | 1,252,000 | 1,227,373 |
| BAMLL Commercial Mortgage Securities Trust 2015-200P, 3.5958%, 4/14/33 (144A)‡ | 1,192,000 | 1,034,781 |
| Banc of America Commercial Mortgage Trust 2006-6, 5.4210%, 10/10/45 | 617,057 | 625,695 |
| Boca Hotel Portfolio Trust 2013-BOCA, 3.3805%, 8/15/26 (144A)‡ | 851,000 | 849,507 |
| CGBAM Commercial Mortgage Trust 2014-HD, 3.3305%, 2/15/31 (144A)‡ | 425,000 | 423,245 |
| CKE Restaurant Holdings, Inc., 4.4740%, 3/20/43 (144A) | 2,759,283 | 2,743,509 |
| COMM 2007-C9 Mortgage Trust, 5.6500%, 12/10/49‡ | 927,000 | 939,027 |
| Commercial Mortgage Trust 2007-GG11, 5.8670%, 12/10/49‡ | 634,573 | 659,204 |
| Core Industrial Trust 2015-TEXW, 3.8487%, 2/10/34 (144A)‡ | 1,268,000 | 1,183,778 |
| DB Master Finance LLC 2015-1, 3.2620%, 2/20/45 (144A) | 963,718 | 953,588 |
| Domino's Pizza Master Issuer LLC, 5.2160%, 1/25/42 (144A) | 1,241,506 | 1,277,052 |
| Domino's Pizza Master Issuer LLC, 3.4840%, 10/25/45 (144A) | 2,641,000 | 2,588,180 |
| Freddie Mac Structured Agency Credit Risk Debt Notes, 2.6210%, 10/25/24‡ | 419,000 | 420,206 |
| Freddie Mac Structured Agency Credit Risk Debt Notes, 2.8710%, 10/25/24‡ | 495,000 | 501,651 |
| Freddie Mac Structured Agency Credit Risk Debt Notes, 2.6216%, 3/25/25‡ | 1,641,000 | 1,636,270 |
| FREMF 2010 K-SCT Mortgage Trust, 2.0000%, 1/25/20 (144A)§ | 1,169,576 | 1,049,014 |
| GAHR Commercial Mortgage Trust 2015-NRF, 3.3822%, 12/15/19 (144A)‡ | 625,000 | 601,172 |
| GS Mortgage Securities Corp. II, 3.4350%, 12/10/27 (144A)‡ | 1,519,000 | 1,450,880 |
| GS Mortgage Securities Corp. Trust 2013-NYC5, 3.6490%, 1/10/30 (144A)‡ | 622,000 | 618,230 |
| Hilton USA Trust 2013-HLT, 4.4533%, 11/5/30 (144A)‡ | 868,000 | 867,658 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2014-FBLU, 2.9305%, 12/15/28 (144A)‡ | 432,000 | 431,996 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2014-FBLU, 3.8305%, 12/15/28 (144A)‡ | 449,000 | 448,936 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2015-COSMO, 2.1305%, 1/15/32 (144A)‡ | 850,000 | 844,156 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2015-COSMO, 4.2805%, 1/15/32 (144A)‡ | 733,000 | 720,870 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2015-SGP, 3.0805%, 7/15/36 (144A)‡ | 386,000 | 385,348 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2015-SGP, 4.8305%, 7/15/36 (144A)‡ | 1,171,000 | 1,170,835 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2015-UES, 3.6210%, 9/5/32 (144A)‡ | 912,000 | 853,296 |
| LB-UBS Commercial Mortgage Trust 2007-C1, 5.4840%, 2/15/40 | 495,000 | 499,970 |
| LB-UBS Commercial Mortgage Trust 2007-C2, 5.4930%, 2/15/40‡ | 555,350 | 568,447 |
| Santander Drive Auto Receivables Trust 2012-6, 2.5200%, 9/17/18 | 608,000 | 610,805 |
| Santander Drive Auto Receivables Trust 2013-4, 4.6700%, 1/15/20 (144A) | 1,837,000 | 1,885,293 |
| Santander Drive Auto Receivables Trust 2013-A, 4.7100%, 1/15/21 (144A) | 979,000 | 1,001,126 |
| Santander Drive Auto Receivables Trust 2015-1, 3.2400%, 4/15/21 | 1,039,000 | 1,036,995 |
| Santander Drive Auto Receivables Trust 2015-4, 3.5300%, 8/16/21 | 1,779,000 | 1,762,795 |
| Starwood Retail Property Trust 2014-STAR, 2.8305%, 11/15/27 (144A)‡ | 589,000 | 585,713 |
| Starwood Retail Property Trust 2014-STAR, 3.5805%, 11/15/27 (144A)‡ | 1,624,000 | 1,600,449 |
| Starwood Retail Property Trust 2014-STAR, 4.4805%, 11/15/27 (144A)‡ | 861,000 | 854,527 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C30, 5.3830%, 12/15/43 | 1,586,086 | 1,638,910 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C31, 5.6600%, 4/15/47‡ | 1,965,597 | 1,963,750 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C33, 5.9524%, 2/15/51‡ | 767,000 | 781,692 |
| Wells Fargo Commercial Mortgage Trust 2014-TISH, 3.0805%, 1/15/27 (144A)‡ | 502,000 | 487,899 |
| Wells Fargo Commercial Mortgage Trust 2014-TISH, 2.5805%, 2/15/27 (144A)‡ | 694,000 | 673,849 |
| Wells Fargo Commercial Mortgage Trust 2014-TISH, 3.5805%, 2/15/27 (144A)‡ | 251,000 | 242,746 |
| Wendy's Funding LLC 2015-1, 3.3710%, 6/15/45 (144A) | 2,919,683 | 2,848,767 |
| Total Asset-Backed/Commercial Mortgage-Backed Securities (cost $54,425,115) | | 53,695,184 |
| Bank Loans and Mezzanine Loans – 0.6% | | |
| Communications – 0.1% | | |
| CCO Safari III LLC, 3.5000%, 1/24/23‡ | 1,890,000 | 1,886,069 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---:|---:|
| Bank Loans and Mezzanine Loans – (continued) | | |
| Communications – (continued) | | |
| Tribune Media Co., 3.7500%, 12/27/20[‡] | $817,523 | $803,984 |
| | | 2,690,053 |
| Consumer Cyclical – 0% | | |
| Staples, Inc., 0%, 4/23/21[(a),‡] | 644,000 | 635,680 |
| Consumer Non-Cyclical – 0.1% | | |
| IMS Health, Inc., 3.5000%, 3/17/21[‡] | 1,309,673 | 1,276,931 |
| Technology – 0.4% | | |
| Avago Technologies Cayman Finance, Ltd., 0%, 11/11/22[(a),‡] | 4,503,000 | 4,449,549 |
| Avago Technologies Cayman, Ltd., 3.7500%, 5/6/21[‡] | 4,757,741 | 4,741,898 |
| | | 9,191,447 |
| Total Bank Loans and Mezzanine Loans (cost $13,871,539) | | 13,794,111 |
| Corporate Bonds – 15.8% | | |
| Asset-Backed Securities – 0.1% | | |
| American Tower Trust I, 1.5510%, 3/15/18 (144A) | 1,845,000 | 1,801,694 |
| Banking – 2.1% | | |
| Ally Financial, Inc., 8.0000%, 12/31/18 | 373,000 | 408,435 |
| Ally Financial, Inc., 4.1250%, 3/30/20 | 2,106,000 | 2,095,470 |
| Ally Financial, Inc., 5.7500%, 11/20/25 | 627,000 | 634,838 |
| American Express Co., 6.8000%, 9/1/66[‡] | 2,133,000 | 2,148,998 |
| Bank of America Corp., 5.7500%, 8/15/16 | 645,000 | 660,810 |
| Bank of America Corp., 8.0000%[µ] | 1,811,000 | 1,842,693 |
| Citigroup, Inc., 4.4500%, 9/29/27 | 3,387,000 | 3,364,575 |
| Citizens Financial Group, Inc., 4.3000%, 12/3/25 | 2,278,000 | 2,289,978 |
| Discover Financial Services, 3.9500%, 11/6/24 | 742,000 | 731,432 |
| Discover Financial Services, 3.7500%, 3/4/25 | 1,582,000 | 1,519,204 |
| Goldman Sachs Capital I, 6.3450%, 2/15/34 | 3,473,000 | 4,063,014 |
| Goldman Sachs Group, Inc., 5.6250%, 1/15/17 | 732,000 | 760,310 |
| Goldman Sachs Group, Inc., 4.2500%, 10/21/25 | 1,850,000 | 1,835,860 |
| Intesa Sanpaolo SpA, 5.0170%, 6/26/24 (144A) | 2,075,000 | 2,041,487 |
| Morgan Stanley, 4.8750%, 11/1/22 | 758,000 | 804,429 |
| Morgan Stanley, 4.3500%, 9/8/26 | 689,000 | 691,252 |
| Morgan Stanley, 5.5500%[µ] | 1,997,000 | 1,997,000 |
| Royal Bank of Scotland Group PLC, 6.1000%, 6/10/23 | 2,814,000 | 3,023,485 |
| Royal Bank of Scotland Group PLC, 6.0000%, 12/19/23 | 2,222,000 | 2,393,127 |
| Royal Bank of Scotland Group PLC, 5.1250%, 5/28/24 | 5,156,000 | 5,223,827 |
| Santander UK PLC, 5.0000%, 11/7/23 (144A) | 4,953,000 | 5,155,830 |
| SVB Financial Group, 5.3750%, 9/15/20 | 1,972,000 | 2,157,453 |
| Synchrony Financial, 3.0000%, 8/15/19 | 2,276,000 | 2,272,841 |
| Wells Fargo & Co., 5.8750%[µ] | 657,000 | 691,493 |
| Zions Bancorporation, 5.8000%[µ] | 496,000 | 474,920 |
| | | 49,282,761 |
| Basic Industry – 0.8% | | |
| Albemarle Corp., 4.1500%, 12/1/24 | 2,736,000 | 2,614,719 |
| Albemarle Corp., 5.4500%, 12/1/44 | 2,121,000 | 2,051,382 |
| Alcoa, Inc., 5.1250%, 10/1/24 | 2,330,000 | 2,120,300 |
| Ashland, Inc., 3.8750%, 4/15/18 | 1,054,000 | 1,075,080 |
| Ashland, Inc., 6.8750%, 5/15/43 | 1,353,000 | 1,285,350 |
| Georgia-Pacific LLC, 3.1630%, 11/15/21 (144A) | 3,271,000 | 3,266,022 |
| Georgia-Pacific LLC, 3.6000%, 3/1/25 (144A) | 1,656,000 | 1,636,302 |
| LyondellBasell Industries NV, 4.6250%, 2/26/55 | 2,387,000 | 1,935,809 |
| Reliance Steel & Aluminum Co., 4.5000%, 4/15/23 | 1,656,000 | 1,541,503 |
| | | 17,526,467 |
| Brokerage – 1.6% | | |
| Ameriprise Financial, Inc., 7.5180%, 6/1/66[‡] | 3,644,000 | 3,562,010 |
| Carlyle Holdings Finance LLC, 3.8750%, 2/1/23 (144A) | 845,000 | 855,750 |
| Charles Schwab Corp., 3.0000%, 3/10/25 | 1,347,000 | 1,324,793 |
| Charles Schwab Corp., 7.0000%[µ] | 1,736,000 | 1,970,360 |
| E*TRADE Financial Corp., 5.3750%, 11/15/22 | 2,179,000 | 2,282,502 |
| E*TRADE Financial Corp., 4.6250%, 9/15/23 | 2,933,000 | 2,980,661 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Corporate Bonds – (continued) | | |
| Brokerage – (continued) | | |
| Intercontinental Exchange, Inc., 3.7500%, 12/1/25 | $1,831,000 | $1,836,035 |
| Lazard Group LLC, 6.8500%, 6/15/17 | 95,000 | 101,148 |
| Lazard Group LLC, 4.2500%, 11/14/20 | 2,197,000 | 2,275,600 |
| Neuberger Berman Group LLC / Neuberger Berman Finance Corp., 5.8750%, 3/15/22 (144A) | 2,158,000 | 2,244,320 |
| Neuberger Berman Group LLC / Neuberger Berman Finance Corp., 4.8750%, 4/15/45 (144A) | 2,318,000 | 1,954,487 |
| Raymond James Financial, Inc., 4.2500%, 4/15/16 | 2,588,000 | 2,607,671 |
| Raymond James Financial, Inc., 5.6250%, 4/1/24 | 4,997,000 | 5,530,435 |
| Stifel Financial Corp., 4.2500%, 7/18/24 | 1,532,000 | 1,522,112 |
| TD Ameritrade Holding Corp., 2.9500%, 4/1/22 | 1,867,000 | 1,849,340 |
| TD Ameritrade Holding Corp., 3.6250%, 4/1/25 | 3,830,000 | 3,875,830 |
| | | 36,773,054 |
| Capital Goods – 1.1% | | |
| Ball Corp., 4.3750%, 12/15/20 | 1,117,000 | 1,134,453 |
| CNH Industrial Capital LLC, 3.6250%, 4/15/18 | 1,201,000 | 1,182,385 |
| Exelis, Inc., 4.2500%, 10/1/16 | 1,549,000 | 1,576,791 |
| Exelis, Inc., 5.5500%, 10/1/21 | 703,000 | 770,909 |
| FLIR Systems, Inc., 3.7500%, 9/1/16 | 1,928,000 | 1,955,833 |
| GE Capital Trust I, 6.3750%, 11/15/67‡ | 2,245,000 | 2,333,397 |
| General Electric Capital Corp., 6.3750%, 11/15/67‡ | 966,000 | 1,008,794 |
| General Electric Co., 4.0000%µ | 987,000 | 987,000 |
| General Electric Co., 4.1000%µ | 3,197,000 | 3,189,007 |
| Hanson, Ltd., 6.1250%, 8/15/16 | 1,758,000 | 1,804,148 |
| Harris Corp., 3.8320%, 4/27/25 | 763,000 | 751,501 |
| Harris Corp., 5.0540%, 4/27/45 | 1,155,000 | 1,130,938 |
| Martin Marietta Materials, Inc., 4.2500%, 7/2/24 | 1,085,000 | 1,064,867 |
| Owens Corning, 4.2000%, 12/1/24 | 793,000 | 771,787 |
| Vulcan Materials Co., 7.0000%, 6/15/18 | 1,301,000 | 1,444,110 |
| Vulcan Materials Co., 7.5000%, 6/15/21 | 735,000 | 856,275 |
| Vulcan Materials Co., 4.5000%, 4/1/25 | 3,394,000 | 3,360,060 |
| | | 25,322,255 |
| Communications – 0.4% | | |
| CCO Safari II LLC, 4.4640%, 7/23/22 (144A) | 1,384,000 | 1,379,170 |
| CCO Safari II LLC, 4.9080%, 7/23/25 (144A) | 4,814,000 | 4,809,316 |
| Nielsen Finance LLC / Nielsen Finance Co., 4.5000%, 10/1/20 | 879,000 | 892,185 |
| SBA Tower Trust, 2.9330%, 12/15/17 (144A) | 1,051,000 | 1,063,429 |
| UBM PLC, 5.7500%, 11/3/20 (144A) | 2,064,000 | 2,205,871 |
| | | 10,349,971 |
| Consumer Cyclical – 1.7% | | |
| 1011778 BC ULC / New Red Finance, Inc., 4.6250%, 1/15/22 (144A) | 2,279,000 | 2,284,697 |
| Brinker International, Inc., 3.8750%, 5/15/23 | 2,745,000 | 2,647,273 |
| CVS Health Corp., 2.8000%, 7/20/20 | 3,403,000 | 3,418,286 |
| CVS Health Corp., 3.5000%, 7/20/22 | 1,910,000 | 1,943,532 |
| CVS Health Corp., 4.7500%, 12/1/22 (144A) | 840,000 | 900,068 |
| CVS Health Corp., 5.0000%, 12/1/24 (144A) | 1,110,000 | 1,200,852 |
| CVS Health Corp., 3.8750%, 7/20/25 | 2,833,000 | 2,891,303 |
| DR Horton, Inc., 4.7500%, 5/15/17 | 674,000 | 693,378 |
| DR Horton, Inc., 3.7500%, 3/1/19 | 1,497,000 | 1,497,000 |
| Ford Motor Credit Co. LLC, 3.9840%, 6/15/16 | 3,039,000 | 3,072,736 |
| General Motors Co., 3.5000%, 10/2/18 | 1,415,000 | 1,429,207 |
| General Motors Co., 4.8750%, 10/2/23 | 7,673,000 | 7,846,863 |
| General Motors Co., 4.0000%, 4/1/25 | 174,000 | 164,843 |
| General Motors Financial Co., Inc., 3.1000%, 1/15/19 | 1,769,000 | 1,766,430 |
| MDC Holdings, Inc., 5.5000%, 1/15/24 | 1,699,000 | 1,715,990 |
| Schaeffler Finance BV, 4.2500%, 5/15/21 (144A) | 668,000 | 662,990 |
| Toll Brothers Finance Corp., 4.0000%, 12/31/18 | 594,000 | 605,880 |
| Toll Brothers Finance Corp., 5.8750%, 2/15/22 | 541,000 | 568,050 |
| Toll Brothers Finance Corp., 4.3750%, 4/15/23 | 310,000 | 300,700 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Corporate Bonds – (continued) | | |
| Consumer Cyclical – (continued) | | |
| Wynn Las Vegas LLC / Wynn Las Vegas Capital Corp., 4.2500%, 5/30/23 (144A) | $820,000 | $701,613 |
| ZF North America Capital, Inc., 4.0000%, 4/29/20 (144A) | 858,000 | 865,079 |
| ZF North America Capital, Inc., 4.5000%, 4/29/22 (144A) | 454,000 | 443,785 |
| ZF North America Capital, Inc., 4.7500%, 4/29/25 (144A) | 872,000 | 830,580 |
| | | 38,451,135 |
| Consumer Non-Cyclical – 1.4% | | |
| Actavis Funding SCS, 3.0000%, 3/12/20 | 2,831,000 | 2,828,749 |
| Actavis Funding SCS, 3.8000%, 3/15/25 | 2,341,000 | 2,329,045 |
| Actavis Funding SCS, 4.5500%, 3/15/35 | 1,544,000 | 1,500,547 |
| Becton Dickinson and Co., 1.8000%, 12/15/17 | 1,872,000 | 1,869,278 |
| Fresenius Medical Care US Finance II, Inc., 5.8750%, 1/31/22 (144A) | 2,507,000 | 2,682,490 |
| HCA, Inc., 3.7500%, 3/15/19 | 1,094,000 | 1,102,205 |
| Kraft Heinz Foods Co., 2.8000%, 7/2/20 (144A) | 1,340,000 | 1,336,535 |
| Kraft Heinz Foods Co., 3.5000%, 7/15/22 (144A) | 1,144,000 | 1,151,888 |
| Laboratory Corp. of America Holdings, 3.2000%, 2/1/22 | 2,144,000 | 2,104,179 |
| Life Technologies Corp., 6.0000%, 3/1/20 | 1,318,000 | 1,461,074 |
| Smithfield Foods, Inc., 5.2500%, 8/1/18 (144A) | 299,000 | 302,738 |
| Thermo Fisher Scientific, Inc., 3.3000%, 2/15/22 | 1,019,000 | 1,016,496 |
| Tyson Foods, Inc., 6.6000%, 4/1/16 | 1,413,000 | 1,431,695 |
| Wm Wrigley Jr Co., 2.4000%, 10/21/18 (144A) | 3,184,000 | 3,192,498 |
| Wm Wrigley Jr Co., 3.3750%, 10/21/20 (144A) | 1,036,000 | 1,056,180 |
| Zimmer Biomet Holdings, Inc., 2.7000%, 4/1/20 | 2,127,000 | 2,100,268 |
| Zimmer Biomet Holdings, Inc., 3.1500%, 4/1/22 | 2,514,000 | 2,471,463 |
| Zimmer Biomet Holdings, Inc., 3.5500%, 4/1/25 | 2,030,000 | 1,972,596 |
| | | 31,909,924 |
| Electric – 0.2% | | |
| IPALCO Enterprises, Inc., 5.0000%, 5/1/18 | 964,000 | 1,009,790 |
| PPL WEM, Ltd. / Western Power Distribution, Ltd., 3.9000%, 5/1/16 (144A) | 1,288,000 | 1,293,143 |
| PPL WEM, Ltd. / Western Power Distribution, Ltd., 5.3750%, 5/1/21 (144A) | 1,777,000 | 1,938,613 |
| | | 4,241,546 |
| Energy – 1.6% | | |
| Chevron Corp., 1.3450%, 11/15/17 | 1,492,000 | 1,487,305 |
| Cimarex Energy Co., 5.8750%, 5/1/22 | 4,278,000 | 4,096,134 |
| Cimarex Energy Co., 4.3750%, 6/1/24 | 4,158,000 | 3,688,770 |
| DCP Midstream Operating LP, 4.9500%, 4/1/22 | 1,369,000 | 1,120,399 |
| DCP Midstream Operating LP, 5.6000%, 4/1/44 | 461,000 | 279,975 |
| Devon Energy Corp., 2.2500%, 12/15/18 | 1,655,000 | 1,510,457 |
| Energy Transfer Partners LP, 4.1500%, 10/1/20 | 1,008,000 | 929,873 |
| EnLink Midstream Partners LP, 4.4000%, 4/1/24 | 1,513,000 | 1,197,990 |
| EnLink Midstream Partners LP, 5.6000%, 4/1/44 | 1,174,000 | 817,685 |
| Helmerich & Payne International Drilling Co., 4.6500%, 3/15/25 | 2,952,000 | 2,953,334 |
| Kinder Morgan Energy Partners LP, 5.0000%, 10/1/21 | 924,000 | 872,148 |
| Kinder Morgan Energy Partners LP, 4.3000%, 5/1/24 | 1,013,000 | 870,990 |
| Kinder Morgan, Inc., 6.5000%, 9/15/20 | 96,000 | 95,578 |
| Kinder Morgan, Inc., 7.7500%, 1/15/32 | 1,141,000 | 1,082,710 |
| Motiva Enterprises LLC, 5.7500%, 1/15/20 (144A) | 1,402,000 | 1,509,277 |
| NGL Energy Partners LP / NGL Energy Finance Corp., 5.1250%, 7/15/19 | 2,003,000 | 1,582,370 |
| Oceaneering International, Inc., 4.6500%, 11/15/24 | 3,431,000 | 2,879,127 |
| Phillips 66 Partners LP, 3.6050%, 2/15/25 | 609,000 | 523,886 |
| Shell International Finance BV, 2.2500%, 11/10/20 | 3,350,000 | 3,300,718 |
| Spectra Energy Partners LP, 4.7500%, 3/15/24 | 2,375,000 | 2,300,608 |
| Targa Resources Partners LP / Targa Resources Partners Finance Corp., 4.1250%, 11/15/19 | 1,778,000 | 1,480,185 |
| Western Gas Partners LP, 5.3750%, 6/1/21 | 3,288,000 | 3,328,054 |
| | | 37,907,573 |
| Finance Companies – 0.6% | | |
| AerCap Ireland Capital, Ltd. / AerCap Global Aviation Trust, 4.6250%, 10/30/20 | 1,807,000 | 1,849,916 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Corporate Bonds – (continued) | | |
| Finance Companies – (continued) | | |
| AerCap Ireland Capital, Ltd. / AerCap Global Aviation Trust, 4.6250%, 7/1/22 | $1,069,000 | $1,081,026 |
| CIT Group, Inc., 4.2500%, 8/15/17 | 4,063,000 | 4,154,417 |
| CIT Group, Inc., 5.5000%, 2/15/19 (144A) | 3,274,000 | 3,421,330 |
| International Lease Finance Corp., 6.7500%, 9/1/16 (144A) | 1,840,000 | 1,890,600 |
| International Lease Finance Corp., 8.7500%, 3/15/17 | 734,000 | 781,710 |
| | | 13,178,999 |
| Financial – 0.4% | | |
| Jones Lang LaSalle, Inc., 4.4000%, 11/15/22 | 2,193,000 | 2,248,566 |
| Kennedy-Wilson, Inc., 5.8750%, 4/1/24 | 2,795,000 | 2,697,175 |
| LeasePlan Corp. NV, 2.5000%, 5/16/18 (144A) | 3,885,000 | 3,826,232 |
| | | 8,771,973 |
| Industrial – 0.1% | | |
| Cintas Corp. No 2, 2.8500%, 6/1/16 | 887,000 | 890,505 |
| Cintas Corp. No 2, 4.3000%, 6/1/21 | 933,000 | 984,956 |
| | | 1,875,461 |
| Insurance – 0.4% | | |
| ACE INA Holdings, Inc., 3.3500%, 5/3/26 | 2,064,000 | 2,057,676 |
| CNO Financial Group, Inc., 4.5000%, 5/30/20 | 520,000 | 530,400 |
| CNO Financial Group, Inc., 5.2500%, 5/30/25 | 1,680,000 | 1,709,400 |
| Primerica, Inc., 4.7500%, 7/15/22 | 3,298,000 | 3,484,380 |
| Voya Financial, Inc., 5.6500%, 5/15/53‡ | 1,347,000 | 1,326,795 |
| | | 9,108,651 |
| Real Estate Investment Trusts (REITs) – 0.7% | | |
| Alexandria Real Estate Equities, Inc., 2.7500%, 1/15/20 | 1,606,000 | 1,578,847 |
| Alexandria Real Estate Equities, Inc., 4.6000%, 4/1/22 | 2,701,000 | 2,802,136 |
| Alexandria Real Estate Equities, Inc., 4.5000%, 7/30/29 | 1,469,000 | 1,436,775 |
| Post Apartment Homes LP, 4.7500%, 10/15/17 | 1,262,000 | 1,312,412 |
| Reckson Operating Partnership LP, 6.0000%, 3/31/16 | 689,000 | 695,426 |
| Retail Opportunity Investments Partnership LP, 5.0000%, 12/15/23 | 415,000 | 423,723 |
| Retail Opportunity Investments Partnership LP, 4.0000%, 12/15/24 | 800,000 | 755,758 |
| Senior Housing Properties Trust, 6.7500%, 4/15/20 | 618,000 | 683,472 |
| Senior Housing Properties Trust, 6.7500%, 12/15/21 | 682,000 | 767,647 |
| SL Green Realty Corp., 5.0000%, 8/15/18 | 1,465,000 | 1,537,223 |
| SL Green Realty Corp., 7.7500%, 3/15/20 | 2,893,000 | 3,376,640 |
| | | 15,370,059 |
| Technology – 2.3% | | |
| Autodesk, Inc., 3.6000%, 12/15/22 | 1,010,000 | 981,095 |
| Cadence Design Systems, Inc., 4.3750%, 10/15/24 | 3,444,000 | 3,419,241 |
| Fidelity National Information Services, Inc., 3.6250%, 10/15/20 | 4,375,000 | 4,431,993 |
| Fidelity National Information Services, Inc., 5.0000%, 3/15/22 | 453,000 | 470,821 |
| Fidelity National Information Services, Inc., 4.5000%, 10/15/22 | 2,185,000 | 2,224,074 |
| Fidelity National Information Services, Inc., 5.0000%, 10/15/25 | 7,477,000 | 7,682,543 |
| Molex Electronic Technologies LLC, 2.8780%, 4/15/20 (144A) | 895,000 | 872,007 |
| Seagate HDD Cayman, 4.7500%, 6/1/23 | 442,000 | 386,874 |
| Seagate HDD Cayman, 4.7500%, 1/1/25 | 6,760,000 | 5,629,072 |
| Seagate HDD Cayman, 4.8750%, 6/1/27 (144A) | 1,913,000 | 1,467,962 |
| Seagate HDD Cayman, 5.7500%, 12/1/34 (144A) | 2,334,000 | 1,633,270 |
| Trimble Navigation, Ltd., 4.7500%, 12/1/24 | 3,800,000 | 3,775,760 |
| TSMC Global, Ltd., 1.6250%, 4/3/18 (144A) | 5,235,000 | 5,130,954 |
| Verisk Analytics, Inc., 4.8750%, 1/15/19 | 1,249,000 | 1,306,440 |
| Verisk Analytics, Inc., 5.8000%, 5/1/21 | 4,650,000 | 5,152,735 |
| Verisk Analytics, Inc., 4.1250%, 9/12/22 | 1,209,000 | 1,218,145 |
| Verisk Analytics, Inc., 4.0000%, 6/15/25 | 3,910,000 | 3,797,791 |
| Verisk Analytics, Inc., 5.5000%, 6/15/45 | 2,113,000 | 2,017,416 |
| | | 51,598,193 |
| Transportation – 0.3% | | |
| Penske Truck Leasing Co. LP / PTL Finance Corp., 2.5000%, 3/15/16 (144A) | 245,000 | 245,424 |
| Penske Truck Leasing Co. LP / PTL Finance Corp., 3.3750%, 3/15/18 (144A) | 2,046,000 | 2,078,323 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

| | Shares or Principal Amounts | Value |
|---|---|---|
| Corporate Bonds – (continued) | | |
| Transportation – (continued) | | |
| Penske Truck Leasing Co. LP / PTL Finance Corp., 2.5000%, 6/15/19 (144A) | $1,341,000 | $1,319,099 |
| Penske Truck Leasing Co. LP / PTL Finance Corp., 4.8750%, 7/11/22 (144A) | 204,000 | 212,179 |
| Penske Truck Leasing Co. LP / PTL Finance Corp., 4.2500%, 1/17/23 (144A) | 1,136,000 | 1,143,035 |
| Southwest Airlines Co., 5.1250%, 3/1/17 | 1,326,000 | 1,378,108 |
| | | 6,376,168 |
| Total Corporate Bonds (cost $365,811,836) | | 359,845,884 |
| Mortgage-Backed Securities – 8.5% | | |
| Fannie Mae Pool: | | |
| 5.5000%, 1/1/25 | 257,063 | 276,912 |
| 4.0000%, 6/1/29 | 419,337 | 448,371 |
| 4.0000%, 9/1/29 | 808,886 | 864,861 |
| 5.0000%, 9/1/29 | 652,566 | 717,730 |
| 3.5000%, 10/1/29 | 113,941 | 119,511 |
| 5.0000%, 1/1/30 | 275,845 | 303,390 |
| 5.5000%, 1/1/33 | 167,259 | 187,992 |
| 4.0000%, 4/1/34 | 918,970 | 990,251 |
| 6.0000%, 10/1/35 | 751,124 | 853,076 |
| 6.0000%, 12/1/35 | 844,047 | 960,351 |
| 6.0000%, 2/1/37 | 141,228 | 162,355 |
| 6.0000%, 9/1/37 | 604,696 | 653,903 |
| 6.0000%, 10/1/38 | 623,694 | 705,132 |
| 7.0000%, 2/1/39 | 222,183 | 256,463 |
| 5.5000%, 12/1/39 | 1,208,387 | 1,347,485 |
| 5.5000%, 3/1/40 | 952,021 | 1,082,559 |
| 5.5000%, 4/1/40 | 2,617,542 | 2,920,182 |
| 4.5000%, 10/1/40 | 259,457 | 281,012 |
| 5.0000%, 10/1/40 | 385,698 | 431,421 |
| 5.0000%, 2/1/41 | 1,885,960 | 2,093,492 |
| 5.5000%, 2/1/41 | 512,078 | 582,300 |
| 5.0000%, 4/1/41 | 456,751 | 502,527 |
| 5.0000%, 5/1/41 | 1,148,750 | 1,268,651 |
| 5.5000%, 5/1/41 | 847,400 | 944,070 |
| 5.5000%, 6/1/41 | 1,390,821 | 1,552,214 |
| 5.5000%, 6/1/41 | 1,152,410 | 1,304,777 |
| 5.0000%, 7/1/41 | 1,016,801 | 1,127,805 |
| 5.5000%, 7/1/41 | 142,504 | 158,777 |
| 4.5000%, 8/1/41 | 864,788 | 936,775 |
| 5.5000%, 12/1/41 | 1,298,671 | 1,455,896 |
| 4.5000%, 1/1/42 | 244,696 | 265,225 |
| 5.5000%, 2/1/42 | 5,106,966 | 5,692,073 |
| 4.0000%, 6/1/42 | 1,522,846 | 1,621,264 |
| 4.5000%, 6/1/42 | 342,384 | 369,433 |
| 3.5000%, 7/1/42 | 997,691 | 1,033,362 |
| 4.0000%, 7/1/42 | 302,428 | 321,952 |
| 4.0000%, 8/1/42 | 705,077 | 750,650 |
| 4.0000%, 9/1/42 | 1,384,967 | 1,474,475 |
| 4.0000%, 9/1/42 | 902,439 | 961,112 |
| 4.0000%, 11/1/42 | 1,045,148 | 1,112,576 |
| 4.0000%, 12/1/42 | 828,195 | 885,303 |
| 3.5000%, 1/1/43 | 1,851,101 | 1,912,743 |
| 3.5000%, 2/1/43 | 4,041,333 | 4,175,393 |
| 3.5000%, 2/1/43 | 3,710,479 | 3,834,158 |
| 4.5000%, 2/1/43 | 4,338,367 | 4,704,836 |
| 4.5000%, 3/1/43 | 1,491,097 | 1,636,248 |
| 4.0000%, 5/1/43 | 2,318,830 | 2,468,480 |
| 4.0000%, 7/1/43 | 3,306,870 | 3,521,269 |
| 4.0000%, 8/1/43 | 2,652,510 | 2,824,784 |
| 4.0000%, 9/1/43 | 657,957 | 700,684 |
| 3.5000%, 1/1/44 | 3,161,334 | 3,288,353 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

| | Shares or Principal Amounts | Value |
|---|---|---|
| Mortgage-Backed Securities – (continued) | | |
| Fannie Mae Pool – (continued) | | |
| 3.5000%, 1/1/44 | $1,429,810 | $1,486,771 |
| 4.0000%, 2/1/44 | 1,730,705 | 1,842,751 |
| 3.5000%, 4/1/44 | 1,675,681 | 1,736,807 |
| 3.5000%, 5/1/44 | 4,854,122 | 5,046,946 |
| 4.5000%, 5/1/44 | 6,291,547 | 6,938,188 |
| 5.5000%, 5/1/44 | 1,118,132 | 1,247,418 |
| 4.0000%, 6/1/44 | 2,195,319 | 2,337,167 |
| 4.0000%, 7/1/44 | 4,264,046 | 4,566,170 |
| 5.0000%, 7/1/44 | 2,522,709 | 2,836,073 |
| 4.0000%, 8/1/44 | 2,699,135 | 2,890,389 |
| 4.0000%, 8/1/44 | 1,023,296 | 1,095,801 |
| 4.5000%, 8/1/44 | 2,770,283 | 3,055,027 |
| 4.5000%, 10/1/44 | 2,124,295 | 2,342,962 |
| 4.5000%, 10/1/44 | 1,198,942 | 1,318,446 |
| 3.5000%, 2/1/45 | 3,298,423 | 3,408,167 |
| 4.5000%, 3/1/45 | 2,207,830 | 2,428,297 |
| 4.5000%, 5/1/45 | 1,737,476 | 1,916,336 |
| 4.5000%, 6/1/45 | 1,063,234 | 1,169,508 |
| 4.0000%, 9/1/45 | 6,163,580 | 6,564,680 |
| 4.5000%, 10/1/45 | 2,183,580 | 2,396,212 |
| | | 125,668,730 |
| Freddie Mac Gold Pool: | | |
| 5.0000%, 1/1/19 | 144,606 | 149,555 |
| 5.5000%, 8/1/19 | 128,157 | 132,726 |
| 5.0000%, 6/1/20 | 242,047 | 256,431 |
| 5.5000%, 12/1/28 | 590,221 | 651,956 |
| 3.5000%, 7/1/29 | 1,026,448 | 1,074,521 |
| 5.5000%, 10/1/36 | 503,571 | 564,262 |
| 6.0000%, 4/1/40 | 2,448,831 | 2,788,341 |
| 4.5000%, 1/1/41 | 649,534 | 705,985 |
| 5.0000%, 5/1/41 | 1,334,760 | 1,486,685 |
| 5.5000%, 5/1/41 | 1,040,791 | 1,151,727 |
| 5.5000%, 8/1/41 | 2,343,938 | 2,672,552 |
| 5.5000%, 8/1/41 | 1,624,400 | 1,833,181 |
| 5.5000%, 9/1/41 | 386,206 | 427,176 |
| 3.5000%, 2/1/44 | 1,289,278 | 1,332,070 |
| 4.5000%, 5/1/44 | 1,314,636 | 1,445,897 |
| 4.0000%, 8/1/44 | 867,912 | 926,406 |
| 4.5000%, 9/1/44 | 4,106,316 | 4,520,440 |
| 4.5000%, 6/1/45 | 1,773,507 | 1,952,583 |
| | | 24,072,494 |
| Ginnie Mae I Pool: | | |
| 5.1000%, 1/15/32 | 909,048 | 1,030,501 |
| 4.9000%, 10/15/34 | 992,394 | 1,094,059 |
| 5.5000%, 9/15/35 | 116,323 | 133,936 |
| 5.5000%, 3/15/36 | 519,805 | 588,012 |
| 5.5000%, 8/15/39 | 2,157,809 | 2,452,954 |
| 5.5000%, 8/15/39 | 704,242 | 797,318 |
| 5.0000%, 10/15/39 | 476,587 | 528,711 |
| 5.5000%, 10/15/39 | 789,472 | 898,678 |
| 5.0000%, 11/15/39 | 777,516 | 860,848 |
| 5.0000%, 1/15/40 | 260,009 | 287,581 |
| 5.0000%, 5/15/40 | 279,174 | 311,145 |
| 5.0000%, 5/15/40 | 95,714 | 106,819 |
| 5.0000%, 7/15/40 | 846,553 | 937,283 |
| 5.0000%, 7/15/40 | 217,116 | 240,299 |
| 5.0000%, 2/15/41 | 864,199 | 956,598 |
| 5.0000%, 4/15/41 | 334,523 | 370,415 |
| 5.0000%, 5/15/41 | 353,875 | 397,181 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Mortgage-Backed Securities – (continued) | | |
| Ginnie Mae I Pool – (continued) | | |
| 4.5000%, 7/15/41 | $700,178 | $756,280 |
| 4.5000%, 7/15/41 | 234,143 | 255,335 |
| 4.5000%, 8/15/41 | 1,970,591 | 2,171,503 |
| 5.0000%, 9/15/41 | 204,536 | 226,525 |
| 5.0000%, 11/15/43 | 1,464,554 | 1,622,405 |
| 4.5000%, 5/15/44 | 942,024 | 1,027,837 |
| 5.0000%, 6/15/44 | 1,438,810 | 1,613,324 |
| 5.0000%, 6/15/44 | 540,005 | 604,356 |
| 4.0000%, 1/15/45 | 4,718,215 | 5,039,329 |
| 4.0000%, 4/15/45 | 691,296 | 744,385 |
| | | 26,053,617 |
| Ginnie Mae II Pool: | | |
| 6.0000%, 11/20/34 | 463,615 | 518,687 |
| 5.5000%, 11/20/37 | 575,996 | 637,743 |
| 6.0000%, 1/20/39 | 197,095 | 220,380 |
| 7.0000%, 5/20/39 | 106,847 | 122,088 |
| 4.5000%, 10/20/41 | 1,365,618 | 1,469,539 |
| 6.0000%, 10/20/41 | 79,018 | 89,567 |
| 6.0000%, 12/20/41 | 238,611 | 269,541 |
| 5.5000%, 1/20/42 | 504,676 | 561,114 |
| 6.0000%, 1/20/42 | 252,683 | 286,227 |
| 6.0000%, 2/20/42 | 213,002 | 241,172 |
| 6.0000%, 3/20/42 | 177,956 | 201,567 |
| 6.0000%, 4/20/42 | 671,980 | 760,981 |
| 3.5000%, 5/20/42 | 472,594 | 495,551 |
| 5.5000%, 5/20/42 | 717,066 | 799,245 |
| 6.0000%, 5/20/42 | 289,964 | 324,273 |
| 5.5000%, 7/20/42 | 944,771 | 1,041,339 |
| 6.0000%, 7/20/42 | 196,521 | 222,112 |
| 6.0000%, 8/20/42 | 219,108 | 248,157 |
| 6.0000%, 9/20/42 | 489,790 | 554,788 |
| 6.0000%, 11/20/42 | 200,554 | 225,926 |
| 6.0000%, 2/20/43 | 269,725 | 304,945 |
| 3.5000%, 9/20/44 | 1,314,391 | 1,378,532 |
| 5.0000%, 12/20/44 | 823,888 | 922,702 |
| 5.0000%, 9/20/45 | 1,992,471 | 2,192,847 |
| 4.0000%, 11/20/45 | 3,958,034 | 4,280,209 |
| | | 18,369,232 |
| Total Mortgage-Backed Securities (cost $194,203,845) | | 194,164,073 |
| U.S. Treasury Notes/Bonds – 8.9% | | |
| 1.0000%, 9/15/18 | 11,886,000 | 11,801,502 |
| 1.3750%, 9/30/18 | 23,940,000 | 24,014,812 |
| 1.2500%, 10/31/18 | 9,339,000 | 9,325,869 |
| 1.6250%, 7/31/19 | 8,059,000 | 8,087,021 |
| 1.7500%, 9/30/19 | 7,337,000 | 7,386,583 |
| 1.5000%, 10/31/19 | 10,714,000 | 10,680,519 |
| 1.6250%, 12/31/19 | 11,275,000 | 11,275,440 |
| 1.3750%, 9/30/20 | 7,137,000 | 7,013,773 |
| 2.1250%, 9/30/21 | 5,986,000 | 6,049,134 |
| 2.1250%, 12/31/21 | 8,344,000 | 8,417,661 |
| 1.7500%, 5/15/23 | 2,480,000 | 2,416,160 |
| 2.5000%, 8/15/23 | 9,140,000 | 9,377,430 |
| 2.7500%, 11/15/23 | 12,736,000 | 13,291,710 |
| 2.5000%, 5/15/24 | 6,665,000 | 6,810,537 |
| 2.0000%, 2/15/25 | 1,156,000 | 1,130,035 |
| 2.0000%, 8/15/25 | 9,970,000 | 9,721,139 |
| 2.2500%, 11/15/25 | 17,055,000 | 17,017,019 |
| 3.7500%, 11/15/43 | 6,729,000 | 7,750,442 |
| 3.6250%, 2/15/44 | 1,822,000 | 2,049,608 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| U.S. Treasury Notes/Bonds – (continued) | | |
| 3.3750%, 5/15/44 | $1,586,000 | $1,702,100 |
| 2.5000%, 2/15/45 | 1,295,000 | 1,161,909 |
| 3.0000%, 5/15/45 | 1,934,000 | 1,925,162 |
| 3.0000%, 11/15/45 | 24,568,000 | 24,494,099 |
| Total U.S. Treasury Notes/Bonds (cost $201,852,511) | | 202,899,664 |
| Common Stocks – 60.3% | | |
| Aerospace & Defense – 3.1% | | |
| Boeing Co. | 285,000 | 41,208,150 |
| Honeywell International, Inc. | 291,755 | 30,217,065 |
| | | 71,425,215 |
| Automobiles – 1.1% | | |
| General Motors Co. | 758,254 | 25,788,219 |
| Beverages – 0.3% | | |
| Diageo PLC | 256,696 | 7,024,396 |
| Biotechnology – 6.1% | | |
| AbbVie, Inc. | 839,530 | 49,733,757 |
| Amgen, Inc. | 410,568 | 66,647,503 |
| Regeneron Pharmaceuticals, Inc.* | 42,027 | 22,815,197 |
| | | 139,196,457 |
| Capital Markets – 2.5% | | |
| Blackstone Group LP | 1,338,042 | 39,124,348 |
| TD Ameritrade Holding Corp. | 530,671 | 18,419,590 |
| | | 57,543,938 |
| Chemicals – 3.2% | | |
| EI du Pont de Nemours & Co. | 482,207 | 32,114,986 |
| LyondellBasell Industries NV - Class A | 473,842 | 41,176,870 |
| | | 73,291,856 |
| Commercial Banks – 2.5% | | |
| JPMorgan Chase & Co. | 313,229 | 20,682,511 |
| US Bancorp | 825,840 | 35,238,593 |
| | | 55,921,104 |
| Consumer Finance – 1.7% | | |
| American Express Co. | 282,490 | 19,647,179 |
| Synchrony Financial* | 623,488 | 18,960,270 |
| | | 38,607,449 |
| Diversified Financial Services – 1.1% | | |
| CME Group, Inc. | 273,765 | 24,803,109 |
| Diversified Telecommunication Services – 0.2% | | |
| Verizon Communications, Inc. | 90,340 | 4,175,515 |
| Food Products – 0.8% | | |
| Hershey Co. | 208,536 | 18,616,009 |
| Health Care Providers & Services – 1.0% | | |
| Aetna, Inc. | 207,960 | 22,484,635 |
| Hotels, Restaurants & Leisure – 1.9% | | |
| Norwegian Cruise Line Holdings, Ltd.* | 340,449 | 19,950,311 |
| Six Flags Entertainment Corp. | 179,300 | 9,850,742 |
| Starbucks Corp. | 220,499 | 13,236,555 |
| | | 43,037,608 |
| Industrial Conglomerates – 1.2% | | |
| 3M Co. | 71,293 | 10,739,578 |
| General Electric Co. | 528,133 | 16,451,343 |
| | | 27,190,921 |
| Information Technology Services – 3.4% | | |
| Automatic Data Processing, Inc. | 126,468 | 10,714,369 |
| MasterCard, Inc. - Class A | 690,969 | 67,282,922 |
| | | 77,997,291 |
| Insurance – 0.9% | | |
| Prudential PLC | 903,990 | 20,400,169 |
| Internet & Catalog Retail – 1.8% | | |
| Ctrip.com International, Ltd. (ADR)* | 167,217 | 7,747,164 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Common Stocks – (continued) | | |
| Internet & Catalog Retail – (continued) | | |
| Priceline Group, Inc.* | 26,247 | $33,463,613 |
| | | 41,210,777 |
| Internet Software & Services – 3.2% | | |
| Alphabet, Inc. - Class C | 72,671 | 55,148,568 |
| Yahoo!, Inc.* | 515,979 | 17,161,462 |
| | | 72,310,030 |
| Leisure Products – 0.5% | | |
| Mattel, Inc. | 430,124 | 11,686,469 |
| Machinery – 0.5% | | |
| Dover Corp. | 179,148 | 10,983,564 |
| Multiline Retail – 1.8% | | |
| Dollar Tree, Inc.* | 528,638 | 40,821,426 |
| Pharmaceuticals – 6.5% | | |
| Allergan PLC* | 184,535 | 57,667,187 |
| Bristol-Myers Squibb Co. | 583,765 | 40,157,194 |
| Eli Lilly & Co. | 337,318 | 28,422,415 |
| Merck & Co., Inc. | 426,779 | 22,542,467 |
| | | 148,789,263 |
| Real Estate Investment Trusts (REITs) – 0.2% | | |
| Outfront Media, Inc. | 247,694 | 5,407,160 |
| Real Estate Management & Development – 1.3% | | |
| CBRE Group, Inc. - Class A* | 646,307 | 22,349,296 |
| Colony American Homes Holdings III LP§ | 639,963 | 6,591,619 |
| | | 28,940,915 |
| Road & Rail – 1.2% | | |
| Union Pacific Corp. | 351,175 | 27,461,885 |
| Software – 3.9% | | |
| Adobe Systems, Inc.* | 230,513 | 21,654,391 |
| Microsoft Corp. | 1,196,704 | 66,393,138 |
| | | 88,047,529 |
| Specialty Retail – 2.0% | | |
| Home Depot, Inc. | 349,555 | 46,228,649 |
| Technology Hardware, Storage & Peripherals – 2.3% | | |
| Apple, Inc. | 484,169 | 50,963,629 |
| Textiles, Apparel & Luxury Goods – 2.4% | | |
| NIKE, Inc. - Class B | 862,164 | 53,885,250 |
| Tobacco – 1.7% | | |
| Altria Group, Inc. | 446,304 | 25,979,356 |
| Philip Morris International, Inc. | 148,068 | 13,016,658 |
| | | 38,996,014 |
| Total Common Stocks (cost $1,139,693,309) | | 1,373,236,451 |
| Preferred Stocks – 0.5% | | |
| Capital Markets – 0.2% | | |
| Morgan Stanley, 6.8750% | 75,000 | 2,081,250 |
| Morgan Stanley, 7.1250% | 74,005 | 2,116,543 |
| Morgan Stanley Capital Trust III, 6.2500% | 12,000 | 305,760 |
| Morgan Stanley Capital Trust IV, 6.2500% | 3,000 | 76,110 |
| Morgan Stanley Capital Trust V, 5.7500% | 1,000 | 25,180 |
| Morgan Stanley Capital Trust VIII, 6.4500% | 5,000 | 126,550 |
| | | 4,731,393 |
| Commercial Banks – 0.2% | | |
| Citigroup Capital XIII, 6.6919% | 50,000 | 1,299,500 |
| Wells Fargo & Co., 6.6250% | 60,425 | 1,736,010 |
| | | 3,035,510 |
| Consumer Finance – 0.1% | | |
| Discover Financial Services, 6.5000% | 92,125 | 2,438,549 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares or Principal Amounts | Value |
|---|---|---|
| Preferred Stocks – (continued) | | |
| Diversified Financial Services – 0% | | |
| General Electric Capital Corp., 4.7000% | 9,000 | $229,230 |
| Total Preferred Stocks (cost $9,808,548) | | 10,434,682 |
| Investment Companies – 2.9% | | |
| Money Markets – 2.9% | | |
| Janus Cash Liquidity Fund LLC, 0.3105%[°°,£] (cost $66,697,739) | 66,697,739 | 66,697,739 |
| Total Investments (total cost $2,046,364,442) – 99.9% | | 2,274,767,788 |
| Cash, Receivables and Other Assets, net of Liabilities – 0.1% | | 1,634,129 |
| Net Assets – 100% | | $2,276,401,917 |

***Summary of Investments by Country - (Long Positions) (unaudited)***

| Country | Value | % of Investment Securities |
|---|---|---|
| United States | $2,182,366,614 | 95.9 % |
| United Kingdom | 48,658,461 | 2.1 |
| Netherlands | 10,057,892 | 0.5 |
| Singapore | 9,191,447 | 0.4 |
| China | 7,747,164 | 0.4 |
| Germany | 7,289,072 | 0.3 |
| Taiwan | 5,130,954 | 0.2 |
| Canada | 2,284,697 | 0.1 |
| Italy | 2,041,487 | 0.1 |
| Total | $2,274,767,788 | 100.0 % |

***Schedule of Foreign Currency Contracts, Open***

| Counterparty/ Currency | Settlement Date | Currency Units Sold | Currency Value | Unrealized Appreciation/ (Depreciation) |
|---|---|---|---|---|
| Bank of America: | | | | |
| British Pound | 1/14/16 | 2,984,000 | $ 4,398,499 | $ 117,460 |
| Credit Suisse International: | | | | |
| British Pound | 2/4/16 | 1,869,000 | 2,755,097 | 19,246 |
| HSBC Securities (USA), Inc.: | | | | |
| British Pound | 1/21/16 | 2,327,000 | 3,430,128 | 98,395 |
| JPMorgan Chase & Co.: | | | | |
| British Pound | 1/14/16 | 1,191,000 | 1,755,567 | 45,948 |
| RBC Capital Markets Corp.: | | | | |
| British Pound | 2/4/16 | 972,000 | 1,432,827 | 8,670 |
| Total | | | $ 13,772,118 | $ 289,719 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Notes to Schedule of Investments and Other Information

| | |
|---|---|
| Balanced Index | An internally-calculated, hypothetical combination of total returns from the S&P 500® Index (55%) and the Barclays U.S. Aggregate Bond Index (45%). |
| Barclays U.S. Aggregate Bond Index | A broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market. |
| S&P 500® Index | Measures broad U.S. equity performance. |
| ADR | American Depositary Receipt |
| LLC | Limited Liability Company |
| LP | Limited Partnership |
| PLC | Public Limited Company |
| ULC | Unlimited Liability Company |

144A Securities sold under Rule 144A of the Securities Act of 1933, as amended, are subject to legal and/or contractual restrictions on resale and may not be publicly sold without registration under the 1933 Act. These securities have been determined to be liquid under guidelines established by the Board of Trustees. The total value of 144A securities as of the year ended December 31, 2015 is $112,548,451, which represents 4.9% of net assets.

* Non-income producing security.

(a) All or a portion of this position has not settled, or is not funded. Upon settlement or funding date, interest rates for unsettled or unfunded amounts will be determined. Interest and dividends will not be accrued until time of settlement or funding.

‡ The interest rate on floating rate notes is based on an index or market interest rates and is subject to change. Rate in the security description is as of December 31, 2015.

ºº Rate shown is the 7-day yield as of December 31, 2015.

µ This variable rate security is a perpetual bond. Perpetual bonds have no contractual maturity date, are not redeemable, and pay an indefinite stream of interest. The coupon rate shown represents the current interest rate.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. Based on the Portfolio's relative ownership, the following securities were considered affiliated companies for all or some portion of the year ended December 31, 2015. Unless otherwise indicated, all information in the table is for the year ended December 31, 2015.

| | *Share Balance at 12/31/14* | *Purchases* | *Sales* | *Share Balance at 12/31/15* | *Dividend Income* | *Value at 12/31/15* |
|---|---|---|---|---|---|---|
| Janus Cash Liquidity Fund LLC | 7,849,944 | 1,146,377,795 | (1,087,530,000) | 66,697,739 | $ 44,156 | $ 66,697,739 |

# Janus Aspen Balanced Portfolio
## Notes to Schedule of Investments and Other Information

§ Schedule of Restricted and Illiquid Securities (as of December 31, 2015)

| | Acquisition Date | Cost | Value | Value as a % of Net Assets |
|---|---|---|---|---|
| Colony American Homes Holdings III LP | 1/30/13 | $ 6,407,653 | $ 6,591,619 | 0.3% |
| FREMF 2010 K-SCT Mortgage Trust, 2.0000%, 1/25/20 | 4/29/13 | 1,042,211 | 1,049,014 | - |
| Total | | $ 7,449,864 | $ 7,640,633 | 0.3% |

The Portfolio has registration rights for certain restricted securities held as of December 31, 2015. The issuer incurs all registration costs.

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2015. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

| | ***Level 1 - Quoted Prices*** | ***Level 2 - Other Significant Observable Inputs*** | ***Level 3 - Significant Unobservable Inputs*** |
|---|---|---|---|
| **Assets** | | | |
| **Investments in Securities:** | | | |
| *Asset-Backed/Commercial Mortgage-Backed Securities* | $ - | $ 53,695,184 | $ - |
| *Bank Loans and Mezzanine Loans* | - | 13,794,111 | - |
| *Corporate Bonds* | - | 359,845,884 | - |
| *Mortgage-Backed Securities* | - | 194,164,073 | - |
| *U.S. Treasury Notes/Bonds* | - | 202,899,664 | - |
| *Common Stocks* | | | |
| Real Estate Management & Development | 22,349,296 | - | 6,591,619 |
| All Other | 1,344,295,536 | - | - |
| *Preferred Stocks* | - | 10,434,682 | - |
| *Investment Companies* | - | 66,697,739 | - |
| Total Investments in Securities | $ 1,366,644,832 | $ 901,531,337 | $ 6,591,619 |
| **Other Financial Instruments(a):** | | | |
| *Forward Currency Contracts* | $ - | $ 289,719 | $ - |
| **Total Assets** | $ 1,366,644,832 | $ 901,821,056 | $ 6,591,619 |

(a) Other financial instruments include forward currency, futures, written options, and swap contracts. Forward currency contracts are reported at their unrealized appreciation/(depreciation) at measurement date, which represents the change in the contract's value from trade date. Futures are reported at their variation margin at measurement date, which represents the amount due to/from the Portfolio at that date. Options and swap contracts are reported at their market value at measurement date.

# Janus Aspen Balanced Portfolio
## Statement of Assets and Liabilities
## December 31, 2015

| | | |
|---|---|---|
| Assets: | | |
| Investments, at cost | $ | 2,046,364,442 |
| Unaffiliated investments, at value | $ | 2,208,070,049 |
| Affiliated investments, at value | | 66,697,739 |
| Cash | | 345,212 |
| Forward currency contracts | | 289,719 |
| Closed foreign currency contracts | | 86,031 |
| Non-interested Trustees' deferred compensation | | 46,068 |
| Receivables: | | |
| Interest | | 5,769,850 |
| Dividends | | 2,216,218 |
| Portfolio shares sold | | 531,462 |
| Foreign tax reclaims | | 34,715 |
| Dividends from affiliates | | 14,246 |
| Other assets | | 21,204 |
| Total Assets | | 2,284,122,513 |
| Liabilities: | | |
| Payables: | | |
| Investments purchased | | 5,098,750 |
| Advisory fees | | 1,163,177 |
| Portfolio shares repurchased | | 844,575 |
| 12b-1 Distribution and shareholder servicing fees | | 423,921 |
| Professional fees | | 51,108 |
| Non-interested Trustees' deferred compensation fees | | 46,068 |
| Portfolio administration fees | | 20,091 |
| Non-interested Trustees' fees and expenses | | 12,617 |
| Custodian fees | | 1,721 |
| Transfer agent fees and expenses | | 1,195 |
| Accrued expenses and other payables | | 57,373 |
| Total Liabilities | | 7,720,596 |
| Net Assets | $ | 2,276,401,917 |
| Net Assets Consist of: | | |
| Capital (par value and paid-in surplus) | $ | 1,999,925,898 |
| Undistributed net investment income/(loss) | | 20,123,919 |
| Undistributed net realized gain/(loss) from investments and foreign currency transactions | | 27,654,917 |
| Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation | | 228,697,183 |
| Total Net Assets | $ | 2,276,401,917 |
| Net Assets - Institutional Shares | $ | 444,472,378 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 14,774,847 |
| Net Asset Value Per Share | $ | 30.08 |
| Net Assets - Service Shares | $ | 1,831,929,539 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 57,961,580 |
| Net Asset Value Per Share | $ | 31.61 |

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Statement of Operations
## For the year ended December 31, 2015

| | | |
|---|---|---|
| Investment Income: | | |
| Dividends | $ | 29,965,066 |
| Interest | | 25,271,976 |
| Dividends from affiliates | | 44,156 |
| Other income | | 109,394 |
| Total Investment Income | | 55,390,592 |
| Expenses: | | |
| Advisory fees | | 11,696,902 |
| 12b-1Distribution and shareholder servicing fees: | | |
| Service Shares | | 4,142,526 |
| Other transfer agent fees and expenses: | | |
| Institutional Shares | | 2,925 |
| Service Shares | | 6,334 |
| Portfolio administration fees | | 196,068 |
| Shareholder reports expense | | 115,709 |
| Professional fees | | 84,076 |
| Non-interested Trustees' fees and expenses | | 52,244 |
| Custodian fees | | 29,769 |
| Registration fees | | 24,263 |
| Other expenses | | 148,431 |
| Total Expenses | | 16,499,247 |
| Net Investment Income/(Loss) | | 38,891,345 |
| Net Realized Gain/(Loss) on Investments: | | |
| Investments and foreign currency transactions | | 25,746,146 |
| Total Net Realized Gain/(Loss) on Investments | | 25,746,146 |
| Change in Unrealized Net Appreciation/Depreciation: | | |
| Investments, foreign currency translations and non-interested Trustees' deferred compensation | | (59,661,731) |
| Total Change in Unrealized Net Appreciation/Depreciation | | (59,661,731) |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | $ | 4,975,760 |

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Statements of Changes in Net Assets

| | | Year ended December 31, 2015 | | Year ended December 31, 2014 |
|---|---|---|---|---|
| Operations: | | | | |
| Net investment income/(loss) | $ | 38,891,345 | $ | 27,486,533 |
| Net realized gain/(loss) on investments | | 25,746,146 | | 69,498,515 |
| Change in unrealized net appreciation/depreciation | | (59,661,731) | | 22,976,994 |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | | 4,975,760 | | 119,962,042 |
| Dividends and Distributions to Shareholders: | | | | |
| Institutional Shares | | (7,464,551) | | (8,234,908) |
| Service Shares | | (23,906,755) | | (15,983,324) |
| Total Dividends from Net Investment Income | | (31,371,306) | | (24,218,232) |
| Distributions from Net Realized Gain from Investment Transactions | | | | |
| Institutional Shares | | (15,890,685) | | (12,417,608) |
| Service Shares | | (54,459,823) | | (25,030,597) |
| Total Distributions from Net Realized Gain from Investment Transactions | | (70,350,508) | | (37,448,205) |
| Net Decrease from Dividends and Distributions to Shareholders | | (101,721,814) | | (61,666,437) |
| Capital Share Transactions: | | | | |
| Institutional Shares | | (11,017,373) | | (17,209,853) |
| Service Shares | | 680,114,575 | | 324,605,555 |
| Net Increase/(Decrease) from Capital Share Transactions | | 669,097,202 | | 307,395,702 |
| Net Increase/(Decrease) in Net Assets | | 572,351,148 | | 365,691,307 |
| Net Assets: | | | | |
| Beginning of period | | 1,704,050,769 | | 1,338,359,462 |
| End of period | $ | 2,276,401,917 | $ | 1,704,050,769 |
| | | | | |
| Undistributed Net Investment Income/(Loss) | $ | 20,123,919 | $ | 11,306,232 |

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Financial Highlights

### Institutional Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $31.43 | $30.26 | $27.17 | $26.62 | $28.30 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | 0.63(1) | 0.62(1) | 0.56 | 1.14 | 0.73 |
| Net realized and unrealized gain/(loss) | (0.41) | 1.92 | 4.67 | 2.30 | (0.22) |
| Total from Investment Operations | 0.22 | 2.54 | 5.23 | 3.44 | 0.51 |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | (0.50) | (0.55) | (0.45) | (0.80) | (0.69) |
| Distributions (from capital gains) | (1.07) | (0.82) | (1.69) | (2.09) | (1.50) |
| Total Dividends and Distributions | (1.57) | (1.37) | (2.14) | (2.89) | (2.19) |
| Net Asset Value, End of Period | $30.08 | $31.43 | $30.26 | $27.17 | $26.62 |
| Total Return* | 0.62% | 8.54% | 20.11% | 13.66% | 1.60% |
| Net Assets, End of Period (in thousands) | $444,472 | $475,807 | $475,100 | $435,689 | $843,446 |
| Average Net Assets for the Period (in thousands) | $467,346 | $472,445 | $455,356 | $509,335 | $906,725 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.58% | 0.58% | 0.58% | 0.60% | 0.57% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.58% | 0.58% | 0.58% | 0.60% | 0.57% |
| Ratio of Net Investment Income/(Loss) | 2.03% | 2.01% | 1.87% | 2.23% | 2.50% |
| Portfolio Turnover Rate | 73% | 87% | 76% | 77% | 108% |

### Service Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $32.97 | $31.72 | $28.42 | $27.74 | $29.42 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | 0.58(1) | 0.57(1) | 0.58 | 0.57 | 0.66 |
| Net realized and unrealized gain/(loss) | (0.42) | 2.00 | 4.82 | 2.94 | (0.20) |
| Total from Investment Operations | 0.16 | 2.57 | 5.40 | 3.51 | 0.46 |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | (0.45) | (0.50) | (0.41) | (0.74) | (0.64) |
| Distributions (from capital gains) | (1.07) | (0.82) | (1.69) | (2.09) | (1.50) |
| Total Dividends and Distributions | (1.52) | (1.32) | (2.10) | (2.83) | (2.14) |
| Net Asset Value, End of Period | $31.61 | $32.97 | $31.72 | $28.42 | $27.74 |
| Total Return* | 0.41% | 8.24% | 19.80% | 13.37% | 1.35% |
| Net Assets, End of Period (in thousands) | $1,831,930 | $1,228,244 | $863,259 | $494,722 | $763,208 |
| Average Net Assets for the Period (in thousands) | $1,645,283 | $1,013,680 | $596,154 | $533,254 | $770,420 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.84% | 0.84% | 0.84% | 0.85% | 0.82% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.84% | 0.84% | 0.84% | 0.85% | 0.82% |
| Ratio of Net Investment Income/(Loss) | 1.79% | 1.77% | 1.62% | 2.00% | 2.25% |
| Portfolio Turnover Rate | 73% | 87% | 76% | 77% | 108% |

* 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.

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio
## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Balanced Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve Portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio invests in a combination of equity securities selected for growth potential and fixed-income securities selected for income potential. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2015 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio did not hold a significant amount of Level 3 securities as of December 31, 2015.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year. The following describes the amounts of transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year.

Financial assets of $22,167,011 were transferred out of Level 2 to Level 1 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the prior fiscal year and no factor was applied at the end of the current period.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf, as well as a portion of general expenses, which may be allocated pro rata to the Portfolio. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Indemnifications**

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

**Foreign Currency Translations**

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

**Dividends and Distributions**

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

**Federal Income Taxes**

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, options on recovery locks, options on security and commodity indices, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the year ended December 31, 2015 is discussed in further detail below. A summary of derivative activity by the Portfolio is reflected in the tables at the end of this section.

The Portfolio may use derivative instruments for hedging purposes (to offset risks associated with an investment, currency exposure, or market conditions), to adjust currency exposure relative to a benchmark index, or for speculative purposes (to earn income and seek to enhance returns). When the Portfolio invests in a derivative for speculative purposes, the Portfolio will be fully exposed to the risks of loss of that derivative, which may sometimes be greater than the derivative's cost. The Portfolio may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. The Portfolio's ability to use derivative instruments may also be limited by tax considerations.

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks.

In pursuit of its investment objective, the Portfolio may seek to use derivatives to increase or decrease exposure to the following market risk factors:

- **Commodity Risk** – the risk related to the change in value of commodities or commodity-linked investments due to changes in the overall market movements, volatility of the underlying benchmark, changes in interest rates, or other factors affecting a particular industry of commodity such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.
- **Counterparty Risk** – the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be unable to honor its financial obligation to the Portfolio.
- **Credit Risk** – the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.
- **Currency Risk** – the risk that changes in the exchange rate between currencies will adversely affect the value (in U.S. dollar terms) of an investment.
- **Equity Risk** – the risk related to the change in value of equity securities as they relate to increases or decreases in the general market.
- **Index Risk** – if the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the Portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.
- **Interest Rate Risk** – the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause the Portfolio's NAV to likewise decrease.
- **Leverage Risk** – the risk associated with certain types of leveraged investments or trading strategies pursuant to which relatively small market movements may result in large changes in the value of an investment. The Portfolio creates leverage by investing in instruments, including derivatives, where the investment loss can exceed the original amount invested. Certain investments or trading strategies, such as short sales, that involve leverage can result in losses that greatly exceed the amount originally invested.
- **Liquidity Risk** – the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs. OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk.

In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital's ability to establish and maintain appropriate systems and trading.

**Forward Foreign Currency Exchange Contracts**
A forward foreign currency exchange contract ("forward currency contract") is an obligation to buy or sell a specified currency at a future date at a negotiated rate (which may be U.S. dollars or a foreign currency). The Portfolio may enter

into forward currency contracts for hedging purposes, including, but not limited to, reducing exposure to changes in foreign currency exchange rates on foreign portfolio holdings and locking in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in or exposed to foreign currencies. The Portfolio may also invest in forward currency contracts for nonhedging purposes such as seeking to enhance returns. The Portfolio is subject to currency risk and counterparty risk in the normal course of pursuing its investment objective through its investments in forward currency contracts.

Forward currency contracts are valued by converting the foreign value to U.S. dollars by using the current spot U.S. dollar exchange rate and/or forward rate for that currency. Exchange and forward rates as of the close of the NYSE shall be used to value the forward currency contracts. The unrealized appreciation/(depreciation) for forward currency contracts is reported in the Statement of Assets and Liabilities as a receivable or payable and in the Statement of Operations for the change in unrealized net appreciation/depreciation (if applicable). The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing a forward currency contract is reported on the Statement of Operations (if applicable).

During the year, the Portfolio entered into forward currency contracts with the obligation to sell foreign currencies in the future at an agreed upon rate in order to decrease exposure to currency risk associated with foreign currency denominated securities held by the Portfolio.

During the year ended December 31, 2015, the average ending monthly currency value amounts on sold forward currency contracts is $12,962,882.

The following table, grouped by derivative type, provides information about the fair value and location of derivatives within the Statement of Assets and Liabilities as of December 31, 2015.

**Fair Value of Derivative Instruments (not accounted for as hedging instruments) as of December 31, 2015**

| | *Currency Contracts* |
|---|---|
| *Asset Derivatives:* | |
| Forward currency contracts | $ 289,719 |

The following tables provide information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the year ended December 31, 2015.

**The effect of Derivative Instruments (not accounted for as hedging instruments) on the Statement of Operations for the year ended December 31, 2015**

*Amount of Realized Gain/(Loss) Recognized on Derivatives*

| *Derivative* | *Currency Contracts* |
|---|---|
| Investments and foreign currency transactions | $ 363,148 |

*Amount of Change in Unrealized Appreciation/Depreciation Recognized on Derivatives*

| *Derivative* | *Currency Contracts* |
|---|---|
| Investments, foreign currency translations and non-interested Trustees' deferred compensation | $ 222,597 |

Please see the Portfolio's Statement of Operations for the Portfolio's "Net Realized and Unrealized Gain/(Loss) on Investments."

### 3. Other Investments and Strategies

**Additional Investment Risk**

The Portfolio may be invested in lower-rated debt securities that have a higher risk of default or loss of value since these securities may be sensitive to economic changes, political changes, or adverse developments specific to the issuer.

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. One or more countries may abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

**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. See the "Offsetting Assets and Liabilities" section of this Note for further details.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

**Loans**

The Portfolio may invest in various commercial loans, including bank loans, bridge loans, debtor-in-possession ("DIP") loans, mezzanine loans, and other fixed and floating rate loans. These loans may be acquired through loan participations and assignments or on a when-issued basis. Commercial loans will comprise no more than 20% of the Portfolio's total assets. Below are descriptions of the types of loans held by the Portfolio as of December 31, 2015.

- **Bank Loans -** Bank loans are obligations of companies or other entities entered into in connection with recapitalizations, acquisitions, and refinancings. The Portfolio's investments in bank loans are generally acquired as a participation interest in, or assignment of, loans originated by a lender or other financial institution. These investments may include institutionally-traded floating and fixed-rate debt securities.

- **Floating Rate Loans –** Floating rate loans are debt securities that have floating interest rates, that adjust periodically, and are tied to a benchmark lending rate, such as London Interbank Offered Rate ("LIBOR"). In other cases, the lending rate could be tied to the prime rate offered by one or more major U.S. banks or the rate paid on large certificates of deposit traded in the secondary markets. If the benchmark lending rate changes, the rate payable to lenders under the loan will change at the next scheduled adjustment date specified in the loan agreement. Floating rate loans are typically issued to companies ("borrowers") in connection with recapitalizations, acquisitions, and refinancings. Floating rate loan investments are generally below investment grade. Senior floating rate loans are secured by specific collateral of a borrower and are senior in the borrower's capital structure. The senior position in the borrower's capital structure generally gives holders of senior loans a claim on certain of the borrower's assets that is senior to subordinated debt and preferred and common stock in the case of a borrower's default. Floating rate loan investments may involve foreign borrowers, and investments may be denominated in foreign currencies. Floating rate loans often involve borrowers whose financial condition is troubled or uncertain and companies that are highly leveraged. The Portfolio may invest in obligations of borrowers who are in bankruptcy proceedings. While the Portfolio generally expects to invest in fully funded term loans, certain of the loans in which the Portfolio may invest include revolving loans, bridge loans, and delayed draw term loans.

  Purchasers of floating rate loans may pay and/or receive certain fees. The Portfolio may receive fees such as covenant waiver fees or prepayment penalty fees. The Portfolio may pay fees such as facility fees. Such fees may affect the Portfolio's return.

- **Mezzanine Loans -** Mezzanine loans are secured by the stock of the company that owns the assets. Mezzanine loans are a hybrid of debt and equity financing that is typically used to fund the expansion of existing companies. A mezzanine loan is composed of debt capital that gives the lender the right to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. Mezzanine loans typically are the most subordinated debt obligation in an issuer's capital structure.

### Mortgage- and Asset-Backed Securities

Mortgage- and asset-backed securities represent interests in "pools" of commercial or residential mortgages or other assets, including consumer loans or receivables. The Portfolio may purchase fixed or variable rate commercial or residential mortgage-backed securities issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or other governmental or government-related entities. Ginnie Mae's guarantees are backed by the full faith and credit of the U.S. Government, which means that the U.S. Government guarantees that the interest and principal will be paid when due. Fannie Mae and Freddie Mac securities are not backed by the full faith and credit of the U.S. Government. In September 2008, the Federal Housing Finance Agency ("FHFA"), an agency of the U.S. Government, placed Fannie Mae and Freddie Mac under conservatorship. Since that time, Fannie Mae and Freddie Mac have received capital support through U.S. Treasury preferred stock purchases, and Treasury and Federal Reserve purchases of their mortgage-backed securities. The FHFA and the U.S. Treasury have imposed strict limits on the size of these entities' mortgage portfolios. The FHFA has the power to cancel any contract entered into by Fannie Mae and Freddie Mac prior to FHFA's appointment as conservator or receiver, including the guarantee obligations of Fannie Mae and Freddie Mac.

The Portfolio may also purchase other mortgage- and asset-backed securities through single- and multi-seller conduits, collateralized debt obligations, structured investment vehicles, and other similar securities. Asset-backed securities may be backed by various consumer obligations, including automobile loans, equipment leases, credit card receivables, or other collateral. In the event the underlying loans are not paid, the securities' issuer could be forced to sell the assets and recognize losses on such assets, which could impact the Portfolio's yield and your return. Unlike traditional debt instruments, payments on these securities include both interest and a partial payment of principal. Mortgage and asset-backed securities are subject to both extension risk, where borrowers pay off their debt obligations more slowly in times of rising interest rates, and prepayment risk, where borrowers pay off their debt obligations sooner than expected in times of declining interest rates. These risks may reduce the Portfolio's returns. In addition, investments in mortgage- and asset backed securities, including those comprised of subprime mortgages, may be subject to a higher degree of credit risk, valuation risk, and liquidity risk than various other types of fixed-income securities. Additionally, although mortgage-backed securities are generally supported by some form of government or private guarantee and/or insurance, there is no assurance that guarantors or insurers will meet their obligations.

### Offsetting Assets and Liabilities

The Portfolio presents gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement with a designated counterparty, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

In order to better define its contractual rights and to secure rights that will help the Portfolio mitigate its counterparty risk, the Portfolio may enter into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between the Portfolio and a counterparty that governs OTC derivatives and forward foreign currency exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, in the event of a default and/or termination event, the Portfolio may offset with each counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. For financial reporting purposes, the Portfolio does not offset certain derivative financial instruments' payables and receivables and related collateral on the Statement of Assets and Liabilities.

The following table presents gross amounts of recognized assets and/or liabilities and the net amounts after deducting collateral that has been pledged by counterparties or has been pledged to counterparties (if applicable). For corresponding information grouped by type of instrument, see either the "Fair Value of Derivative Instruments as of December 31, 2015" table located in Note 2 of these Notes to Financial Statements and/or the Portfolio's Schedule of Investments.

**Offsetting of Financial Assets and Derivative Assets**

| *Counterparty* | *Gross Amounts of Recognized Assets* | *Offsetting Asset or Liability*(a) | *Collateral Pledged*(b) | *Net Amount* |
|---|---|---|---|---|
| Bank of America | $ 117,460 | $ - | $ - | $ 117,460 |
| Credit Suisse International | 19,246 | - | - | 19,246 |
| HSBC Securities (USA), Inc. | 98,395 | - | - | 98,395 |
| JPMorgan Chase & Co. | 45,948 | - | - | 45,948 |
| RBC Capital Markets Corp. | 8,670 | - | - | 8,670 |
| Total | $ 289,719 | $ - | $ - | $ 289,719 |

(a) Represents the amount of assets or liabilities that could be offset with the same counterparty under master netting or similar agreements that management elects not to offset on the Statement of Assets and Liabilities.

(b) Collateral pledged is limited to the net outstanding amount due to/from an individual counterparty. The actual collateral amounts pledged may exceed these amounts and may fluctuate in value.

The Portfolio does not exchange collateral on its forward currency contracts with its counterparties; however, the Portfolio may segregate cash or high-grade securities in an amount at all times equal to or greater than the Portfolio's commitment with respect to these contracts. Such segregated assets, if with the Portfolio's custodian, are denoted on the accompanying Schedule of Investments and are evaluated daily to ensure their market value equals or exceeds the current market value of the Portfolio's corresponding forward currency contracts.

### 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.

### Restricted Security Transactions

Restricted securities held by the Portfolio may not be sold except in exempt transactions or in a public offering registered under the Securities Act of 1933, as amended. The risk of investing in such securities is generally greater than the risk of investing in the securities of widely held, publicly traded companies. Lack of a secondary market and resale restrictions may result in the inability of the Portfolio to sell a security at a fair price and may substantially delay the sale of the security. In addition, these securities may exhibit greater price volatility than securities for which secondary markets exist.

### Sovereign Debt

The Portfolio may invest in U.S. and foreign government debt securities ("sovereign debt"). Investments in U.S. sovereign debt are considered low risk. However, investments in non-U.S. sovereign debt can involve a high degree of risk, including the risk that the governmental entity that controls the repayment of sovereign debt may not be willing or able to repay the principal and/or to pay the interest on its sovereign debt in a timely manner. A sovereign debtor's willingness or ability to satisfy its debt obligation may be affected by various factors, including its cash flow situation, the extent of its foreign currency reserves, the availability of foreign exchange when a payment is due, the relative size of its debt position in relation to its economy as a whole, the sovereign debtor's policy toward international lenders, and local political constraints to which the governmental entity may be subject. Sovereign debtors may also be dependent on expected disbursements from foreign governments, multilateral agencies, and other entities. The failure of a sovereign debtor to implement economic reforms, achieve specified levels of economic performance, or repay principal or interest when due may result in the cancellation of third party commitments to lend funds to the sovereign debtor, which may further impair such debtor's ability or willingness to timely service its debts. The Portfolio may be requested to participate in the rescheduling of such sovereign debt and to extend further loans to governmental entities, which may adversely affect the Portfolio's holdings. In the event of default, there may be limited or no legal remedies for collecting sovereign debt and there may be no bankruptcy proceedings through which the Portfolio may collect all or part of the sovereign debt that a governmental entity has not repaid.

**When-Issued and Delayed Delivery Securities**
The Portfolio may purchase or sell securities on a when-issued or delayed delivery basis. When-issued and delayed delivery securities in which the Portfolio may invest include U.S. Treasury Securities, municipal bonds, bank loans, and other similar instruments. The price of the underlying securities and date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. Losses may arise due to changes in the market value of the securities or from the inability of counterparties to meet the terms of the contract. In connection with such purchases, the Portfolio may hold liquid assets as collateral with the Portfolio's custodian sufficient to cover the purchase price.

## 4. 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 contractual investment advisory fee rate (expressed as an annual rate) is 0.55%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. In addition, Janus Services provides or arranges for the provision of certain other administrative services including, but not limited to, recordkeeping, accounting, order processing, and other shareholder services for the Portfolio. Janus Services is not compensated for its services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). The Portfolio also pays for salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $43,224 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2015. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2015 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2015 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of $317,200 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2015.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2015 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2015, the Portfolio engaged in cross trades amounting to $127,604,144 in purchases and $42,902,477 in sales, resulting in a net realized gain of $451,027. The net realized gain is included in "Investments and foreign currency transactions" within the "Net Realized and Unrealized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

### 5. 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, derivatives, and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

| | | | *Loss Deferrals* | | | *Net Tax* |
|---|---|---|---|---|---|---|
| *Undistributed Ordinary Income* | *Undistributed Long-Term Gains* | *Accumulated Capital Losses* | *Late-Year Ordinary Loss* | *Post-October Capital Loss* | *Other Book to Tax Differences* | *Appreciation/ (Depreciation)* |
| $ 20,153,467 | $ 29,093,502 | $ - | $ - | $ - | $ (41,952) | $227,271,002 |

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2015 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

| *Federal Tax Cost* | *Unrealized Appreciation* | *Unrealized (Depreciation)* | *Net Tax Appreciation/ (Depreciation)* |
|---|---|---|---|
| $ 2,047,496,786 | $250,613,165 | $(23,342,163) | $ 227,271,002 |

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2015*

| *Distributions* | | | |
|---|---|---|---|
| *From Ordinary Income* | *From Long-Term Capital Gains* | *Tax Return of Capital* | *Net Investment Loss* |
| $ 37,052,217 | $ 64,669,597 | $ - | $ - |

*For the year ended December 31, 2014*

| *Distributions* | | | |
|---|---|---|---|
| *From Ordinary Income* | *From Long-Term Capital Gains* | *Tax Return of Capital* | *Net Investment Loss* |
| $ 24,218,232 | $ 37,448,205 | $ - | $ - |

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

| *Increase/(Decrease) to Capital* | *Increase/(Decrease) to Undistributed Net Investment Income/Loss* | *Increase/(Decrease) to Undistributed Net Realized Gain/Loss* |
|---|---|---|
| $ - | $ 1,297,648 | $ (1,297,648) |

## 6. Capital Share Transactions

| | *Year ended December 31, 2015* | | *Year ended December 31, 2014* | |
|---|---|---|---|---|
| | *Shares* | *Amount* | *Shares* | *Amount* |
| Institutional Shares: | | | | |
| Shares sold | 1,101,594 | $ 34,376,815 | 915,113 | $ 28,106,105 |
| Reinvested dividends and distributions | 760,784 | 23,355,236 | 675,377 | 20,652,516 |
| Shares repurchased | (2,228,010) | (68,749,424) | (2,148,096) | (65,968,474) |
| Net Increase/(Decrease) | (365,632) | $ (11,017,373) | (557,606) | $ (17,209,853) |
| Service Shares: | | | | |
| Shares sold | 22,759,501 | $746,923,739 | 12,324,980 | $398,303,471 |
| Reinvested dividends and distributions | 2,428,045 | 78,366,578 | 1,277,515 | 41,013,921 |
| Shares repurchased | (4,476,788) | (145,175,742) | (3,565,814) | (114,711,837) |
| Net Increase/(Decrease) | 20,710,758 | $680,114,575 | 10,036,681 | $324,605,555 |

### 7. Purchases and Sales of Investment Securities

For the year ended December 31, 2015, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

| *Purchases of Securities* | *Proceeds from Sales of Securities* | *Purchases of Long-Term U.S. Government Obligations* | *Proceeds from Sales of Long-Term U.S. Government Obligations* |
|---|---|---|---|
| $1,340,128,770 | $ 749,002,135 | $ 723,752,843 | $ 755,371,449 |

### 8. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2015 and through the date of issuance of the Portfolio's financial statements and determined that there were material events or transactions that would require recognition or disclosure in the Portfolio's financial statements, as discussed below.

Effective May 1, 2016, the Portfolio pays Janus Services a fee at an annual rate of up to 0.05% of the average daily net assets of the Portfolio's Institutional Shares and Service Shares to compensate insurance companies for services provided to contract owners. Any unused portion will be reimbursed back to the respective share class.

# Janus Aspen Balanced Portfolio
## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Balanced Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Balanced Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 12, 2016

# Janus Aspen Balanced Portfolio
## Additional Information (unaudited)

**Proxy Voting Policies and Voting Record**
A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at janus.com/proxyvoting; and (iii) on the SEC's website at http://www.sec.gov. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through janus.com/ proxyvoting and from the SEC's website at http://www.sec.gov.

**Quarterly Portfolio Holdings**
The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at http://www.sec.gov; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

At a meeting held on December 9, 2015, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from either January 1 or February 1, 2016 through January 1 or February 1, 2017, respectively, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

***Nature, Extent and Quality of Services***

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee

for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

***Performance of the Funds***

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by Broadridge Financial Solutions, Inc. ("Broadridge"), an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has been strong: for the 36 months ended September 30, 2015, approximately 70% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2015, approximately 61% of the Funds were in the top two Broadridge quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

***<u>Fixed-Income Funds and Money Market Funds</u>***

- For Janus Flexible Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.
- For Janus High-Yield Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Select Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and INTECH had taken or were taking to improve performance.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and in the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Research Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus International Equity Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile-for the 12 months ended May 31, 2015.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory and subadvisory agreement(s).

***Costs of Services Provided***

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by Broadridge, an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers,

was below the mean management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

The independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 14% below the mean total expenses of their respective Broadridge Expense Group peers and 24% below the mean total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 19% below the mean for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the mean total expenses for its Broadridge Expense Group peers and to mean total expenses for its Broadridge Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees, breakpoints, and expense waivers on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks and other costs that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) the average spread between management fees charged to the Funds and those charged to Janus Capital's institutional accounts is reasonable relative to the average spreads seen in the industry; and (4) by one estimation methodology, the fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to the estimated fee margins in the industry and relative to estimated fee margins of fund managers using Janus Capital as a subadviser.

The Trustees considered the fees for each Fund for its fiscal year ended in 2014, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

***Fixed-Income Funds and Money Market Funds***

- For Janus Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Global Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Multi-Sector Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus has contractually agreed to limit the Fund's expenses.
- For Janus Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group mean due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Global Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.

- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Mid Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Select Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Value Plus Income Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH International Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Core Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for one share class. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Contrarian Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Forty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

- For Janus Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Triton Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Twenty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Venture Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Emerging Markets Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Select Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Technology Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus International Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Allocation Portfolio - Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with the Funds and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the Trustees considered whether Janus Capital and each subadviser receive adequate incentives and resources to manage the Funds effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Fund in relation to the services rendered was reasonable.

The independent fee consultant found that, while assessing the reasonableness of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Funds is reasonable.

The Trustees concluded that the management fees payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services

provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

***Economies of Scale***

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted that their independent fee consultant provided an analysis of economies of scale, which included discussion of analysis from prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, their independent fee consultant concluded that 85% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 80% of the Funds are below their respective expense group averages for contractual management fees. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of some of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

The independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale considered in prior years, and their conflicting results, its analyses could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

***Other Benefits to Janus Capital***

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or Janus Capital, and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2015. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical $10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Balanced Portfolio
## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

**Statement of Operations**

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

**Statements of Changes in Net Assets**

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

**Financial Highlights**

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the total return for the period. The total return may include adjustments in accordance with

generally accepted accounting principles required at the period end for financial reporting purposes. The total return does not include any charges at the separate account level or contract level. As a result, the total return may differ from the total return reflected for individual shareholder transactions. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Balanced Portfolio
## Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2015:

| | |
|---|---|
| Capital Gain Distributions | $64,669,597 |
| Dividends Received Deduction Percentage | 50% |

# Janus Aspen Balanced Portfolio
## Trustees and Officers (unaudited)

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| **Independent Trustees** | | | | | |
| William F. McCalpin<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Chairman<br><br>Trustee | 1/08-Present<br><br>6/02-Present | Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006). | 58 | Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation). |

# Janus Aspen Balanced Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Alan A. Brown<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Trustee | 1/13-Present | Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management). | 58 | Director of MotiveQuest LLC (strategic social market research company) (since 2003), and Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010). |
| William D. Cvengros<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1948 | Trustee | 1/11-Present | Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994). | 58 | Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994). |

# Janus Aspen Balanced Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| James T. Rothe<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1943 | Trustee | 1/97-Present | Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA, SBIC fund focusing on private investment in public equity firms) and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004); and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ. | 58 | Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004- 2014). |
| William D. Stewart<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1944 | Trustee | 9/93-Present | Retired. Formerly, Corporate Vice President and General Manager of MKS Instruments - HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves) and PMFC Division, Andover, MA (manufacturing pressure measurement and flow products) (1976-2012). | 58 | None |

# Janus Aspen Balanced Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Linda S. Wolf<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1947 | Trustee | 12/05-Present | Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005). | 58 | Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014). |
| **Trustee Consultant** | | | | | |
| Raudline Etienne*<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1965 | Consultant | 6/14-Present | Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011). | N/A | Director of Brightwood Capital Advisors, LLC (since 2014). |

* Raudline Etienne was appointed consultant to the Trustees effective June 2, 2014. Shareholders of the Janus Funds are expected to be asked to elect Ms. Etienne as a Trustee at a future shareholder meeting.

# Janus Aspen Balanced 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 |
|---|---|---|---|
| Jeremiah Buckley<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1976 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Balanced Portfolio | 12/15-Present | Portfolio Manager for other Janus accounts and Research Analyst for Janus Capital. |
| Marc Pinto<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1961 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Balanced Portfolio | 5/05-Present | Vice President of Janus Capital and Portfolio Manager for other Janus accounts. |
| Mayur Saigal<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1975 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Balanced Portfolio | 12/15-Present | Portfolio Manager for other Janus accounts and Research Analyst for Janus Capital. |
| Gibson Smith<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1968 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Balanced Portfolio | 5/05-Present | Chief Investment Officer Fixed Income and Executive Vice President of Janus Capital; Director of Perkins Investment Management LLC; and Portfolio Manager for other Janus accounts. Formerly, Executive Vice President of Janus Distributors LLC and Janus Services LLC (2007-2013). |
| Darrell Watters<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1963 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Balanced Portfolio | 12/15-Present | Vice President of Janus Capital and Portfolio Manager for other Janus accounts. |
| Stephanie Grauerholz<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1970 | Chief Legal Counsel and Secretary<br><br>Vice President | 1/06-Present<br><br>3/06-Present | Senior Vice President and Chief Legal Counsel of Janus Capital and Senior Vice President of Janus Services LLC (since 2015). Formerly, Vice President and Assistant General Counsel of Janus Capital, Vice President and Assistant Secretary of Janus Distributors LLC, and Vice President of Janus Services LLC (2007-2015). |

* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Balanced 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 |
|---|---|---|---|
| Bruce L. Koepfgen<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1952 | President and Chief Executive Officer | 7/14-Present | President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013). |
| David R. Kowalski<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer | 6/02-Present | Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation. |
| Jesper Nergaard<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Chief Financial Officer<br><br>Vice President, Treasurer, and Principal Accounting Officer | 3/05-Present<br><br>2/05-Present | Vice President of Janus Capital and Janus Services LLC. |

* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## Janus provides access to a wide range of investment disciplines.

**Alternative**
Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

**Asset Allocation**
Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

**Fixed Income**
Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

**Global & International**
Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

**Growth & Core**
Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

**Mathematical**
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH® (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

**Value**
Our value funds, managed by Perkins® (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.**

JANUS®

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.*



Funds distributed by Janus Distributors LLC

Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

C-0216-108536

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ANNUAL REPORT
December 31, 2015

# Janus Aspen Enterprise Portfolio

Janus Aspen Series

**HIGHLIGHTS**

- Portfolio management perspective
- Investment strategy behind your fund
- Portfolio performance, characteristics and holdings

JANUS®

# Table of Contents

# Janus Aspen Enterprise Portfolio (unaudited)

**PORTFOLIO SNAPSHOT**

We believe that investing in companies with sustainable growth and high return on invested capital can drive consistent returns and allow us to outperform our benchmark and peers over time with moderate risk. We seek to identify mid-cap companies with high-quality management teams that wisely allocate capital to fund and drive growth over time.


Brian Demain
portfolio manager

## PERFORMANCE OVERVIEW

During the 12 months ended December 31, 2015, Janus Aspen Enterprise Portfolio's Institutional Shares and Service Shares returned 4.03% and 3.77%, respectively. Meanwhile, the Portfolio's benchmark, the Russell Midcap Growth Index, returned -0.20%.

## INVESTMENT ENVIRONMENT

Mid-cap growth stocks ended the year with modest losses. A low interest rate environment and signs of a strengthening economy helped lift stocks in the first half of the year. Concerns about slow global economic growth, particularly in emerging markets, and a weakening energy sector led stocks down in the second half of the year. The energy, utilities and materials sectors suffered the steepest losses during the calendar year. The consumer staples and health care sectors were the top performers within the index.

## PERFORMANCE DISCUSSION

The portfolio outperformed its benchmark, the Russell Midcap Growth Index, during the year. Our portfolio tends to emphasize companies that have high returns on invested capital (ROIC), and often have more predictable business models, recurring revenue streams and strong competitive positioning that allows the companies to take market share and experience sustainable, long-term growth, even when the economy is less strong. We believe this focus should help the portfolio outperform when markets are down and the economy is weak, driving relative outperformance over full market cycles. Over the course of the year, our portfolio performed as we would have expected, with much of our relative outperformance coming in the back half of the year when the economic outlook was less certain, markets were more volatile and higher quality stocks returned to favor.

Strong stock selection in the technology and financial sectors were large contributors to relative performance during the year. Within the technology sector, we held a number of companies that put up impressive results that demonstrated the durability of their earnings streams.

Within the financial sector, two stocks, MSCI Inc. and Crown Castle, were large contributors to performance. MSCI was up after an activist investor became involved with the company; urging it to either split its two businesses or make other changes that allow its high-margin index business to become a greater source of profitability for the company. We like the sticky revenue streams associated with its two core businesses, an investment index business and also a risk management and analytics business. Once investment managers are given an index to compare their investment products against, it is very hard to shift away from that index. MSCI's analytics business is also a steady source of revenue, as these tools are increasingly important to the investment process.

Crown Castle International Corp., an owner of wireless communication towers, was another large contributor to performance. Concerns about a slowdown in infrastructure spending by a major wireless carrier had been negatively impacting the stock. However, comments by Crown Castle's management team toward the end of the year helped the market refocus on the company's long-term growth potential, which helped the stock rebound. Over the long term, we think Crown Castle is uniquely positioned to benefit from the increasing demand for data transmission.

Outside the financial sector, Pharmacyclics was one of the Portfolio's top contributors. The stock was up significantly this quarter after it was announced that AbbVie had won a bidding war to acquire the company. The high interest Pharmacyclics received from other companies validated our view that its blood cancer treatments offer significant growth potential.

While pleased with the results of many companies in our portfolio, we did own others that produced disappointing results. Potash Corporation of Saskatchewan was our largest detractor. A weak pricing environment for potash has negatively impacted the company but the stock remains a small holding in our portfolio, as we like the company's position as a low cost producer of potash.

Rexnord was another detractor. The company produces parts involved in process and motion control for manufacturers, mines and aerospace clients. Declining demand from mining customers who use Rexnord machinery to move ore has been a headwind for the company. However, these losses were partially offset by Rexnord's commercial plumbing business, which has benefited from a rebound in commercial construction. We believe Rexnord is positioned for steady growth in both businesses in the months ahead, and is likely to benefit from management's efforts to cut costs and expand operating margins. We also expect Rexnord to generate value through strategic acquisitions as it improves the operations of the companies it acquires.

Wolverine World Wide was another detractor. The company owns and distributes a number of shoe brands and sales for some of its largest brands have admittedly been disappointing this year. However, we have done extensive research on the company and believe its brands still resonate with consumers and have strong competitive positioning.

Please see the Derivative Instruments section in the "Notes to Financial Statements" for a discussion of derivatives used by the Portfolio.

## OUTLOOK

While broad economic growth looks more challenging in the coming months, we still see opportunity in equity markets. We see a great deal of innovation and disruption in today's marketplace, creating a high level of dispersion between what's happening at the macroeconomic level and the individual company level, in our view. This dispersion creates opportunity for stock pickers.

As we move into 2016, one item that will bear watching will be how companies handle rising interest rates. A number of companies that have accessed cheap debt markets in recent years may find it harder to fund their growth initiatives as the cost of capital increases. We think such an environment should favor those companies with more established growth profiles because they can rely on free cash flow, rather than access to cheap debt markets, to carry out their business plans.

Thank you for your investment in Janus Aspen Enterprise Portfolio.

# Janus Aspen Enterprise Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Top Performers - Holdings

| | Contribution |
|---|---|
| MSCI, Inc. | 0.76% |
| Pharmacyclics, Inc. | 0.72% |
| Verisk Analytics, Inc. - Class A | 0.63% |
| Masimo Corp. | 0.56% |
| Crown Castle International Corp. | 0.47% |

### 5 Bottom Performers - Holdings

| | Contribution |
|---|---|
| Potash Corp. of Saskatchewan, Inc. (U.S. Shares) | -0.64% |
| Rexnord Corp. | -0.64% |
| Wolverine World Wide, Inc. | -0.56% |
| Endo International PLC | -0.46% |
| Sensata Technologies Holding NV | -0.43% |

### 5 Top Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | Russell Midcap® Growth Index Weighting |
|---|---|---|---|
| Information Technology | 2.53% | 32.30% | 19.18% |
| Financials | 1.28% | 11.91% | 10.54% |
| Health Care | 1.12% | 17.90% | 13.96% |
| Energy | 0.49% | 1.11% | 2.85% |
| Consumer Discretionary | 0.41% | 9.69% | 24.00% |

### 5 Bottom Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | Russell Midcap® Growth Index Weighting |
|---|---|---|---|
| Consumer Staples | -1.05% | 1.03% | 7.94% |
| Materials | -0.35% | 1.63% | 5.00% |
| Industrials | -0.12% | 21.86% | 15.71% |
| Telecommunication Services | 0.02% | 0.00% | 0.67% |
| Utilities | 0.04% | 0.00% | 0.14% |

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.

# Janus Aspen Enterprise Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Largest Equity Holdings - (% of Net Assets)

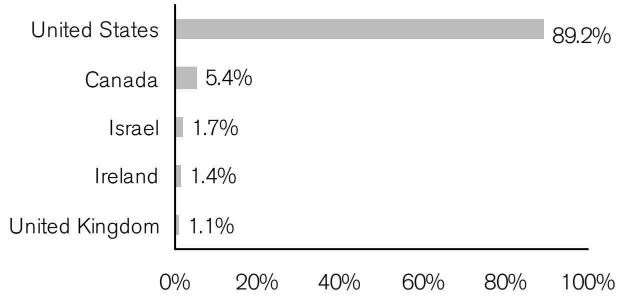
| | |
|---|---|
| Crown Castle International Corp. | |
| Real Estate Investment Trusts (REITs) | 3.6% |
| Sensata Technologies Holding NV | |
| Electrical Equipment | 3.0% |
| Verisk Analytics, Inc. - Class A | |
| Professional Services | 2.7% |
| Lamar Advertising Co. - Class A | |
| Real Estate Investment Trusts (REITs) | 2.3% |
| Varian Medical Systems, Inc. | |
| Health Care Equipment & Supplies | 2.2% |
| | 13.8% |

### Asset Allocation - (% of Net Assets)

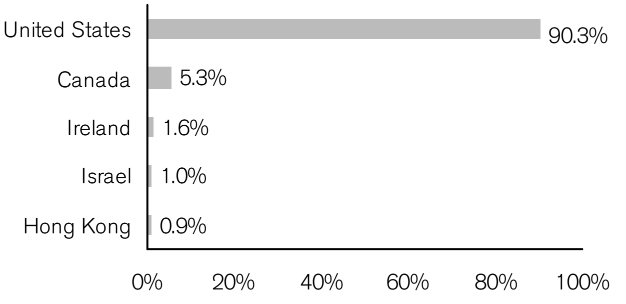
| | |
|---|---|
| Common Stocks | 96.4% |
| Investment Companies | 9.9% |
| Other | (6.3)% |
| | 100.0% |

### Top Country Allocations - Long Positions - (% of Investment Securities)

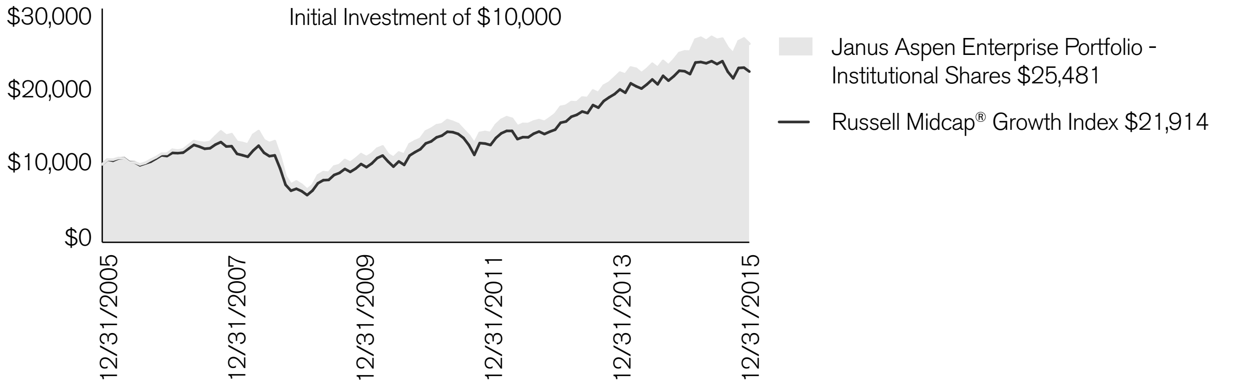
As of December 31, 2015




As of December 31, 2014



# Janus Aspen Enterprise Portfolio (unaudited)
## Performance




| Average Annual Total Return - for the periods ended December 31, 2015 | One Year | Five Year | Ten Year | Since Inception* | Expense Ratios - per the May 1, 2015 prospectuses: Total Annual Fund Operating Expenses |
|---|---|---|---|---|---|
| Institutional Shares | 4.03% | 12.37% | 9.81% | 10.33% | 0.68% |
| Service Shares | 3.77% | 12.09% | 9.53% | 10.05% | 0.93% |
| Russell Midcap® Growth Index | -0.20% | 11.54% | 8.16% | 9.31% | |
| Morningstar Quartile - Institutional Shares | 1st | 1st | 1st | 1st | |
| Morningstar Ranking - based on total returns for Mid-Cap Growth Funds | 82/748 | 72/677 | 43/613 | 35/180 | |

*Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit janus.com/variable-insurance.*

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, Portfolio holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

Returns shown for Service Shares for periods prior to December 31, 1999 are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.



There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

*See important disclosures on the next page.*

# Janus Aspen Enterprise Portfolio (unaudited)
## Performance

See "Useful Information About Your Portfolio Report."

*The Portfolio's inception date – September 13, 1993

# Janus Aspen Enterprise Portfolio (unaudited)
## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of $1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit www.finra.org/fundanalyzer.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

| | Actual | | | Hypothetical (5% return before expenses) | | | |
|---|---|---|---|---|---|---|---|
| | Beginning Account Value (7/1/15) | Ending Account Value (12/31/15) | Expenses Paid During Period (7/1/15 - 12/31/15)† | Beginning Account Value (7/1/15) | Ending Account Value (12/31/15) | Expenses Paid During Period (7/1/15 - 12/31/15)† | Net Annualized Expense Ratio (7/1/15 - 12/31/15) |
| Institutional Shares | $1,000.00 | $980.70 | $3.44 | $1,000.00 | $1,021.73 | $3.52 | 0.69% |
| Service Shares | $1,000.00 | $979.20 | $4.74 | $1,000.00 | $1,020.42 | $4.84 | 0.95% |

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Enterprise Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares | Value |
|---|---|---|
| Common Stocks – 96.4% | | |
| Aerospace & Defense – 3.5% | | |
| HEICO Corp. - Class A | 118,804 | $5,845,157 |
| Precision Castparts Corp. | 38,290 | 8,883,663 |
| Teledyne Technologies, Inc.* | 60,538 | 5,369,721 |
| TransDigm Group, Inc.* | 24,742 | 5,652,310 |
| | | 25,750,851 |
| Air Freight & Logistics – 1.4% | | |
| Expeditors International of Washington, Inc. | 228,262 | 10,294,616 |
| Airlines – 1.5% | | |
| Ryanair Holdings PLC (ADR) | 125,800 | 10,876,668 |
| Biotechnology – 2.4% | | |
| AbbVie, Inc. | 87,753 | 5,198,488 |
| Celgene Corp.* | 66,758 | 7,994,938 |
| Medivation, Inc.* | 96,686 | 4,673,801 |
| | | 17,867,227 |
| Building Products – 0.8% | | |
| AO Smith Corp. | 79,318 | 6,076,552 |
| Capital Markets – 3.2% | | |
| LPL Financial Holdings, Inc.# | 308,488 | 13,157,013 |
| TD Ameritrade Holding Corp. | 294,470 | 10,221,054 |
| | | 23,378,067 |
| Chemicals – 0.6% | | |
| Potash Corp. of Saskatchewan, Inc. (U.S. Shares) | 260,998 | 4,468,286 |
| Commercial Services & Supplies – 2.0% | | |
| Edenred | 267,218 | 5,066,776 |
| Ritchie Bros Auctioneers, Inc. (U.S. Shares)# | 397,907 | 9,593,538 |
| | | 14,660,314 |
| Containers & Packaging – 0.5% | | |
| Sealed Air Corp. | 85,391 | 3,808,439 |
| Diversified Consumer Services – 1.1% | | |
| ServiceMaster Global Holdings, Inc.* | 205,699 | 8,071,629 |
| Diversified Financial Services – 3.4% | | |
| FactSet Research Systems, Inc. | 30,202 | 4,909,939 |
| Markit, Ltd.* | 246,803 | 7,446,046 |
| MSCI, Inc. | 172,420 | 12,436,655 |
| | | 24,792,640 |
| Electrical Equipment – 3.8% | | |
| AMETEK, Inc. | 110,692 | 5,931,984 |
| Sensata Technologies Holding NV* | 483,002 | 22,247,072 |
| | | 28,179,056 |
| Electronic Equipment, Instruments & Components – 6.1% | | |
| Amphenol Corp. - Class A | 229,762 | 12,000,469 |
| Belden, Inc. | 103,973 | 4,957,433 |
| Flextronics International, Ltd.* | 610,556 | 6,844,333 |
| National Instruments Corp. | 293,541 | 8,421,691 |
| TE Connectivity, Ltd. (U.S. Shares) | 201,492 | 13,018,398 |
| | | 45,242,324 |
| Food Products – 1.0% | | |
| Mead Johnson Nutrition Co. | 98,179 | 7,751,232 |
| Health Care Equipment & Supplies – 6.6% | | |
| Boston Scientific Corp.* | 785,983 | 14,493,526 |
| IDEXX Laboratories, Inc.* | 48,804 | 3,558,788 |
| Masimo Corp.* | 106,367 | 4,415,294 |
| Teleflex, Inc. | 77,756 | 10,221,026 |
| Varian Medical Systems, Inc.* | 199,197 | 16,095,118 |
| | | 48,783,752 |
| Health Care Providers & Services – 1.8% | | |
| Henry Schein, Inc.* | 86,519 | 13,686,441 |
| Health Care Technology – 2.6% | | |
| athenahealth, Inc.*,# | 97,316 | 15,664,956 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares | Value |
|---|---|---|
| Common Stocks – (continued) | | |
| Health Care Technology – (continued) | | |
| IMS Health Holdings, Inc.* | 141,728 | $3,609,812 |
| | | 19,274,768 |
| Hotels, Restaurants & Leisure – 2.3% | | |
| Aramark | 129,932 | 4,190,307 |
| Chipotle Mexican Grill, Inc.* | 6,186 | 2,968,352 |
| Dunkin' Brands Group, Inc.# | 239,381 | 10,195,237 |
| | | 17,353,896 |
| Industrial Conglomerates – 1.0% | | |
| Roper Industries, Inc. | 39,652 | 7,525,553 |
| Information Technology Services – 10.4% | | |
| Amdocs, Ltd. (U.S. Shares) | 284,522 | 15,526,365 |
| Broadridge Financial Solutions, Inc. | 208,341 | 11,194,162 |
| Fidelity National Information Services, Inc. | 145,538 | 8,819,603 |
| Gartner, Inc.* | 115,977 | 10,519,114 |
| Global Payments, Inc. | 86,990 | 5,611,725 |
| Jack Henry & Associates, Inc. | 189,929 | 14,825,858 |
| WEX, Inc.* | 113,909 | 10,069,556 |
| | | 76,566,383 |
| Insurance – 1.7% | | |
| Aon PLC | 136,556 | 12,591,829 |
| Internet Software & Services – 1.7% | | |
| Cimpress NV*,# | 89,888 | 7,293,512 |
| CoStar Group, Inc.* | 26,171 | 5,409,284 |
| | | 12,702,796 |
| Leisure Products – 0.5% | | |
| Polaris Industries, Inc. | 41,459 | 3,563,401 |
| Life Sciences Tools & Services – 3.4% | | |
| Bio-Techne Corp. | 50,011 | 4,500,990 |
| Mettler-Toledo International, Inc.* | 15,343 | 5,203,272 |
| PerkinElmer, Inc. | 162,543 | 8,707,428 |
| Waters Corp.* | 51,560 | 6,938,945 |
| | | 25,350,635 |
| Machinery – 2.1% | | |
| Middleby Corp.* | 32,308 | 3,485,064 |
| Rexnord Corp.* | 441,773 | 8,004,927 |
| Wabtec Corp. | 52,505 | 3,734,156 |
| | | 15,224,147 |
| Media – 1.3% | | |
| Omnicom Group, Inc. | 130,771 | 9,894,134 |
| Multiline Retail – 1.0% | | |
| Dollar General Corp. | 51,422 | 3,695,699 |
| Dollar Tree, Inc.* | 52,286 | 4,037,525 |
| | | 7,733,224 |
| Oil, Gas & Consumable Fuels – 0.9% | | |
| World Fuel Services Corp. | 169,350 | 6,513,201 |
| Professional Services – 2.7% | | |
| Verisk Analytics, Inc. - Class A*,† | 256,142 | 19,692,197 |
| Real Estate Investment Trusts (REITs) – 5.9% | | |
| Crown Castle International Corp. | 307,797 | 26,609,051 |
| Lamar Advertising Co. - Class A | 285,346 | 17,115,053 |
| | | 43,724,104 |
| Road & Rail – 0.8% | | |
| Canadian Pacific Railway, Ltd. (U.S. Shares) | 49,264 | 6,286,086 |
| Semiconductor & Semiconductor Equipment – 5.3% | | |
| Atmel Corp. | 839,590 | 7,228,870 |
| KLA-Tencor Corp. | 141,765 | 9,831,403 |
| ON Semiconductor Corp.* | 945,686 | 9,267,723 |
| Xilinx, Inc. | 271,663 | 12,760,011 |
| | | 39,088,007 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares | Value |
|---|---|---|
| Common Stocks – (continued) | | |
| Software – 8.1% | | |
| Atlassian Corp PLC - Class A* | 31,448 | $945,956 |
| Cadence Design Systems, Inc.* | 619,428 | 12,890,297 |
| Constellation Software, Inc. | 25,422 | 10,600,248 |
| Intuit, Inc. | 99,666 | 9,617,769 |
| NICE Systems, Ltd. (ADR) | 227,495 | 13,040,013 |
| SS&C Technologies Holdings, Inc. | 185,679 | 12,676,305 |
| | | 59,770,588 |
| Specialty Retail – 0.3% | | |
| Monro Muffler Brake, Inc. | 30,104 | 1,993,487 |
| Textiles, Apparel & Luxury Goods – 4.1% | | |
| Carter's, Inc. | 89,385 | 7,957,947 |
| Gildan Activewear, Inc. | 420,244 | 11,943,334 |
| Li & Fung, Ltd. | 7,049,720 | 4,793,933 |
| Wolverine World Wide, Inc. | 319,816 | 5,344,125 |
| | | 30,039,339 |
| Trading Companies & Distributors – 0.6% | | |
| Fastenal Co.# | 107,570 | 4,391,007 |
| Total Common Stocks (cost $465,980,128) | | 712,966,876 |
| Investment Companies – 9.9% | | |
| Investments Purchased with Cash Collateral from Securities Lending – 5.8% | | |
| Janus Cash Collateral Fund LLC, 0.3005%∞,£ | 43,430,390 | 43,430,390 |
| Money Markets – 4.1% | | |
| Janus Cash Liquidity Fund LLC, 0.3105%∞,£ | 30,205,955 | 30,205,954 |
| Total Investment Companies (cost $73,636,345) | | 73,636,344 |
| Total Investments (total cost $539,616,473) – 106.3% | | 786,603,220 |
| Liabilities, net of Cash, Receivables and Other Assets – (6.3)% | | (46,963,030) |
| Net Assets – 100% | | $739,640,190 |

### *Summary of Investments by Country - (Long Positions) (unaudited)*

| *Country* | *Value* | *% of Investment Securities* |
|---|---|---|
| United States | $701,542,336 | 89.2 % |
| Canada | 42,891,492 | 5.4 |
| Israel | 13,040,013 | 1.7 |
| Ireland | 10,876,668 | 1.4 |
| United Kingdom | 8,392,002 | 1.1 |
| France | 5,066,776 | 0.6 |
| Hong Kong | 4,793,933 | 0.6 |
| Total | $786,603,220 | 100.0 % |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

## Janus Aspen Enterprise Portfolio
### Schedule of Investments
### December 31, 2015

***Schedule of Foreign Currency Contracts, Open***

| *Counterparty/ Currency* | *Settlement Date* | *Currency Units Sold* | *Currency Value* | *Unrealized Appreciation/ (Depreciation)* |
|---|---|---|---|---|
| Bank of America: | | | | |
| Canadian Dollar | 1/14/16 | 1,214,000 | $ 877,510 | $ 17,486 |
| Euro | 1/14/16 | 2,916,000 | 3,169,290 | 32,140 |
| | | | 4,046,800 | 49,626 |
| Citibank NA: | | | | |
| Canadian Dollar | 1/21/16 | 2,435,000 | 1,760,119 | 31,747 |
| Euro | 1/21/16 | 3,729,000 | 4,053,663 | 30,524 |
| Euro | 1/21/16 | 643,000 | 698,982 | (1,541) |
| | | | 6,512,764 | 60,730 |
| Credit Suisse International: | | | | |
| Euro | 2/4/16 | 460,300 | 500,563 | 2,361 |
| HSBC Securities (USA), Inc.: | | | | |
| Canadian Dollar | 1/21/16 | 2,989,000 | 2,160,574 | 40,731 |
| Euro | 1/21/16 | 1,597,000 | 1,736,042 | 11,492 |
| | | | 3,896,616 | 52,223 |
| JPMorgan Chase & Co.: | | | | |
| Euro | 1/14/16 | 442,000 | 480,393 | 4,590 |
| RBC Capital Markets Corp.: | | | | |
| Canadian Dollar | 2/4/16 | 1,657,000 | 1,197,809 | (7,808) |
| Euro | 2/4/16 | 4,139,000 | 4,501,042 | 21,619 |
| | | | 5,698,851 | 13,811 |
| Total | | | $ 21,135,987 | $ 183,341 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Notes to Schedule of Investments and Other Information

| | |
|---|---|
| Russell Midcap® Growth Index | Measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. |
| ADR | American Depositary Receipt |
| LLC | Limited Liability Company |
| PLC | Public Limited Company |
| U.S. Shares | Securities of foreign companies trading on an American stock exchange. |

* Non-income producing security.

† A portion of this security has been segregated to cover margin or segregation requirements on open futures contracts, forward currency contracts, options contracts, short sales, swap agreements, and/or securities with extended settlement dates, the value of which, as of December 31, 2015, is $18,451,200.

ºº Rate shown is the 7-day yield as of December 31, 2015.

# Loaned security; a portion of the security is on loan at December 31, 2015.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. Based on the Portfolio's relative ownership, the following securities were considered affiliated companies for all or some portion of the year ended December 31, 2015. Unless otherwise indicated, all information in the table is for the year ended December 31, 2015.

| | *Share Balance at 12/31/14* | *Purchases* | *Sales* | *Share Balance at 12/31/15* | *Dividend Income* | *Value at 12/31/15* |
|---|---|---|---|---|---|---|
| Janus Cash Collateral Fund LLC | 22,171,100 | 231,558,738 | (210,299,448) | 43,430,390 | $ 194,990(1) | $ 43,430,390 |
| Janus Cash Liquidity Fund LLC | 22,265,533 | 137,965,421 | (130,025,000) | 30,205,954 | 27,982 | 30,205,954 |
| Total | | | | | $ 222,972 | $ 73,636,344 |

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

# Janus Aspen Enterprise Portfolio
## Notes to Schedule of Investments and Other Information

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2015. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs |
|---|---|---|---|
| **Assets** | | | |
| **Investments in Securities:** | | | |
| *Common Stocks* | $ 712,966,876 | $ - | $ - |
| *Investment Companies* | - | 73,636,344 | - |
| Total Investments in Securities | $ 712,966,876 | $ 73,636,344 | $ - |
| **Other Financial Instruments[(a)]:** | | | |
| *Forward Currency Contracts* | $ - | $ 192,690 | $ - |
| **Total Assets** | $ 712,966,876 | $ 73,829,034 | $ - |
| **Liabilities** | | | |
| **Other Financial Instruments[(a)]:** | | | |
| *Forward Currency Contracts* | $ - | $ 9,349 | $ - |

(a) Other financial instruments include forward currency, futures, written options, and swap contracts. Forward currency contracts are reported at their unrealized appreciation/(depreciation) at measurement date, which represents the change in the contract's value from trade date. Futures are reported at their variation margin at measurement date, which represents the amount due to/from the Fund at that date. Options and swap contracts are reported at their market value at measurement date.

# Janus Aspen Enterprise Portfolio
## Statement of Assets and Liabilities
## December 31, 2015

| | | |
|---|---|---|
| Assets: | | |
| Investments, at cost | $ | 539,616,473 |
| Unaffiliated investments, at value[(1)] | $ | 712,966,876 |
| Affiliated investments, at value | | 73,636,344 |
| Cash | | 90 |
| Forward currency contracts | | 192,690 |
| Closed foreign currency contracts | | 28,960 |
| Non-interested Trustees' deferred compensation | | 15,007 |
| Receivables: | | |
| Investments sold | | 373,660 |
| Dividends | | 326,734 |
| Portfolio shares sold | | 177,353 |
| Foreign tax reclaims | | 7,163 |
| Dividends from affiliates | | 6,687 |
| Other assets | | 7,176 |
| Total Assets | | 787,738,740 |
| Liabilities: | | |
| Collateral for securities loaned (Note 3) | | 43,430,390 |
| Forward currency contracts | | 9,349 |
| Closed foreign currency contracts | | 57,008 |
| Payables: | | |
| Portfolio shares repurchased | | 2,167,761 |
| Investments purchased | | 1,821,285 |
| Advisory fees | | 442,299 |
| 12b-1 Distribution and shareholder servicing fees | | 74,732 |
| Professional fees | | 34,451 |
| Non-interested Trustees' deferred compensation fees | | 15,007 |
| Portfolio administration fees | | 6,565 |
| Non-interested Trustees' fees and expenses | | 4,216 |
| Custodian fees | | 632 |
| Transfer agent fees and expenses | | 577 |
| Accrued expenses and other payables | | 34,278 |
| Total Liabilities | | 48,098,550 |
| Net Assets | $ | 739,640,190 |
| Net Assets Consist of: | | |
| Capital (par value and paid-in surplus) | $ | 426,818,767 |
| Undistributed net investment income/(loss) | | 423,315 |
| Undistributed net realized gain/(loss) from investments and foreign currency transactions | | 65,226,304 |
| Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation | | 247,171,804 |
| Total Net Assets | $ | 739,640,190 |
| Net Assets - Institutional Shares | $ | 418,158,135 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 7,294,226 |
| Net Asset Value Per Share | $ | 57.33 |
| Net Assets - Service Shares | $ | 321,482,055 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 5,879,951 |
| Net Asset Value Per Share | $ | 54.67 |

(1) Includes $42,458,143 of securities on loan. See Note 3 in Notes to Financial Statements.

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Statement of Operations
## For the year ended December 31, 2015

| | | |
|---|---|---|
| Investment Income: | | |
| Dividends | $ | 8,128,677 |
| Affiliated securities lending income, net | | 194,990 |
| Dividends from affiliates | | 27,892 |
| Other income | | 533 |
| Foreign tax withheld | | (185,437) |
| Total Investment Income | | 8,166,655 |
| Expenses: | | |
| Advisory fees | | 4,681,885 |
| 12b-1Distribution and shareholder servicing fees: | | |
| Service Shares | | 753,211 |
| Other transfer agent fees and expenses: | | |
| Institutional Shares | | 2,845 |
| Service Shares | | 1,515 |
| Portfolio administration fees | | 65,383 |
| Shareholder reports expense | | 54,111 |
| Professional fees | | 46,981 |
| Registration fees | | 25,780 |
| Custodian fees | | 19,647 |
| Non-interested Trustees' fees and expenses | | 17,400 |
| Other expenses | | 55,451 |
| Total Expenses | | 5,724,209 |
| Net Investment Income/(Loss) | | 2,442,446 |
| Net Realized Gain/(Loss) on Investments: | | |
| Investments and foreign currency transactions | | 66,010,415 |
| Total Net Realized Gain/(Loss) on Investments | | 66,010,415 |
| Change in Unrealized Net Appreciation/Depreciation: | | |
| Investments, foreign currency translations and non-interested Trustees' deferred compensation | | (41,750,997) |
| Total Change in Unrealized Net Appreciation/Depreciation | | (41,750,997) |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | $ | 26,701,864 |

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Statements of Changes in Net Assets

| | | Year ended December 31, 2015 | | Year ended December 31, 2014 |
|---|---|---|---|---|
| Operations: | | | | |
| Net investment income/(loss) | $ | 2,442,446 | $ | 2,355,377 |
| Net realized gain/(loss) on investments | | 66,010,415 | | 77,239,085 |
| Change in unrealized net appreciation/depreciation | | (41,750,997) | | (1,208,984) |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | | 26,701,864 | | 78,385,478 |
| Dividends and Distributions to Shareholders: | | | | |
| Institutional Shares | | (2,737,465) | | (640,569) |
| Service Shares | | (1,623,824) | | (89,019) |
| Total Dividends from Net Investment Income | | (4,361,289) | | (729,588) |
| Distributions from Net Realized Gain from Investment Transactions | | | | |
| Institutional Shares | | (44,791,680) | | (27,409,527) |
| Service Shares | | (32,958,607) | | (18,585,932) |
| Total Distributions from Net Realized Gain from Investment Transactions | | (77,750,287) | | (45,995,459) |
| Net Decrease from Dividends and Distributions to Shareholders | | (82,111,576) | | (46,725,047) |
| Capital Share Transactions: | | | | |
| Institutional Shares | | 31,033,269 | | (8,823,119) |
| Service Shares | | 67,881,071 | | 5,579,382 |
| Net Increase/(Decrease) from Capital Share Transactions | | 98,914,340 | | (3,243,737) |
| Net Increase/(Decrease) in Net Assets | | 43,504,628 | | 28,416,694 |
| Net Assets: | | | | |
| Beginning of period | | 696,135,562 | | 667,718,868 |
| End of period | $ | 739,640,190 | $ | 696,135,562 |
| | | | | |
| Undistributed Net Investment Income/(Loss) | $ | 423,315 | $ | 2,339,738 |

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio
## Financial Highlights

### Institutional Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $61.75 | $58.96 | $44.77 | $38.17 | $38.72 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | 0.27(1) | 0.27(1) | 0.22 | 0.30 | 0.10 |
| Net realized and unrealized gain/(loss) | 2.55 | 6.79 | 14.23 | 6.30 | (0.65) |
| Total from Investment Operations | 2.82 | 7.06 | 14.45 | 6.60 | (0.55) |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | (0.40) | (0.10) | (0.26) | — | — |
| Distributions (from capital gains) | (6.84) | (4.17) | — | — | — |
| Total Dividends and Distributions | (7.24) | (4.27) | (0.26) | — | — |
| Net Asset Value, End of Period | $57.33 | $61.75 | $58.96 | $44.77 | $38.17 |
| Total Return* | 4.05% | 12.50% | 32.38% | 17.29% | (1.42)% |
| Net Assets, End of Period (in thousands) | $418,158 | $417,895 | $407,049 | $341,699 | $333,094 |
| Average Net Assets for the Period (in thousands) | $427,941 | $402,634 | $373,893 | $344,014 | $367,307 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.68% | 0.68% | 0.69% | 0.69% | 0.68% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.68% | 0.68% | 0.69% | 0.69% | 0.68% |
| Ratio of Net Investment Income/(Loss) | 0.44% | 0.45% | 0.28% | 0.52% | (0.17)% |
| Portfolio Turnover Rate | 22% | 16% | 15% | 15% | 15% |

### Service Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $59.26 | $56.80 | $43.18 | $36.91 | $37.53 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | 0.11(1) | 0.12(1) | (0.03) | 0.09 | (0.17) |
| Net realized and unrealized gain/(loss) | 2.45 | 6.53 | 13.83 | 6.18 | (0.45) |
| Total from Investment Operations | 2.56 | 6.65 | 13.80 | 6.27 | (0.62) |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | (0.31) | (0.02) | (0.18) | — | — |
| Distributions (from capital gains) | (6.84) | (4.17) | — | — | — |
| Total Dividends and Distributions | (7.15) | (4.19) | (0.18) | — | — |
| Net Asset Value, End of Period | $54.67 | $59.26 | $56.80 | $43.18 | $36.91 |
| Total Return* | 3.77% | 12.24% | 32.04% | 16.99% | (1.65)% |
| Net Assets, End of Period (in thousands) | $321,482 | $278,240 | $260,670 | $212,971 | $190,788 |
| Average Net Assets for the Period (in thousands) | $299,393 | $262,698 | $234,925 | $206,153 | $223,285 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.94% | 0.93% | 0.94% | 0.94% | 0.93% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.94% | 0.93% | 0.94% | 0.94% | 0.93% |
| Ratio of Net Investment Income/(Loss) | 0.19% | 0.20% | 0.03% | 0.28% | (0.41)% |
| Portfolio Turnover Rate | 22% | 16% | 15% | 15% | 15% |

* 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.

See Notes to Financial Statements.

## 1. Organization and Significant Accounting Policies

Janus Aspen Enterprise Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve Portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio invests primarily in common stocks. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2015 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year. The following describes the amounts of transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year.

Financial assets of $11,858,563 were transferred out of Level 2 to Level 1 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the prior fiscal year and no factor was applied at the end of the current period.

**Investment Transactions and Investment Income**
Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

**Expenses**
The Portfolio bears expenses incurred specifically on its behalf, as well as a portion of general expenses, which may be allocated pro rata to the Portfolio. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

**Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Indemnifications**
In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

**Foreign Currency Translations**
The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

**Dividends and Distributions**
The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

**Federal Income Taxes**
The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

### 2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, options on recovery locks, options on security and commodity indices, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the year ended December 31, 2015 is discussed in further detail below. A summary of derivative activity by the Portfolio is reflected in the tables at the end of this section.

The Portfolio may use derivative instruments for hedging purposes (to offset risks associated with an investment, currency exposure, or market conditions), to adjust currency exposure relative to a benchmark index, or for speculative purposes (to earn income and seek to enhance returns). When the Portfolio invests in a derivative for speculative purposes, the Portfolio will be fully exposed to the risks of loss of that derivative, which may sometimes be greater than the derivative's cost. The Portfolio may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. The Portfolio's ability to use derivative instruments may also be limited by tax considerations.

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks.

In pursuit of its investment objective, the Portfolio may seek to use derivatives to increase or decrease exposure to the following market risk factors:

- **Commodity Risk** – the risk related to the change in value of commodities or commodity-linked investments due to changes in the overall market movements, volatility of the underlying benchmark, changes in interest rates, or other factors affecting a particular industry of commodity such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.
- **Counterparty Risk** – the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be unable to honor its financial obligation to the Portfolio.
- **Credit Risk** – the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.
- **Currency Risk** – the risk that changes in the exchange rate between currencies will adversely affect the value (in U.S. dollar terms) of an investment.
- **Equity Risk** – the risk related to the change in value of equity securities as they relate to increases or decreases in the general market.
- **Index Risk** – if the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the Portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.
- **Interest Rate Risk** – the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause the Portfolio's NAV to likewise decrease.
- **Leverage Risk** – the risk associated with certain types of leveraged investments or trading strategies pursuant to which relatively small market movements may result in large changes in the value of an investment. The Portfolio creates leverage by investing in instruments, including derivatives, where the investment loss can exceed the original amount invested. Certain investments or trading strategies, such as short sales, that involve leverage can result in losses that greatly exceed the amount originally invested.
- **Liquidity Risk** – the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs. OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk.

In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital's ability to establish and maintain appropriate systems and trading.

**Forward Foreign Currency Exchange Contracts**
A forward foreign currency exchange contract ("forward currency contract") is an obligation to buy or sell a specified currency at a future date at a negotiated rate (which may be U.S. dollars or a foreign currency). The Portfolio may enter into forward currency contracts for hedging purposes, including, but not limited to, reducing exposure to changes in foreign currency exchange rates on foreign portfolio holdings and locking in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in or exposed to foreign currencies. The Portfolio may also invest in

forward currency contracts for nonhedging purposes such as seeking to enhance returns. The Portfolio is subject to currency risk and counterparty risk in the normal course of pursuing its investment objective through its investments in forward currency contracts.

Forward currency contracts are valued by converting the foreign value to U.S. dollars by using the current spot U.S. dollar exchange rate and/or forward rate for that currency. Exchange and forward rates as of the close of the NYSE shall be used to value the forward currency contracts.

The unrealized appreciation/(depreciation) for forward currency contracts is reported in the Statement of Assets and Liabilities as a receivable or payable and in the Statement of Operations for the change in unrealized net appreciation/depreciation (if applicable). The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing a forward currency contract is reported on the Statement of Operations (if applicable).

During the year, the Portfolio entered into forward currency contracts with the obligation to sell foreign currencies in the future at an agreed upon rate in order to decrease exposure to currency risk associated with foreign currency denominated securities held by the Portfolio.

During the year ended December 31, 2015, the average ending monthly currency value amounts on sold forward currency contracts $22,797,892.

The following table, grouped by derivative type, provides information about the fair value and location of derivatives within the Statement of Assets and Liabilities as of December 31, 2015.

**Fair Value of Derivative Instruments (not accounted for as hedging instruments) as of December 31, 2015**

| | *Currency Contracts* |
|---|---|
| *Asset Derivatives:* | |
| Forward currency contracts | $ 192,690 |
| *Liability Derivatives:* | |
| Forward currency contracts | $ 9,349 |

The following tables provide information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the year ended December 31, 2015.

**The effect of Derivative Instruments (not accounted for as hedging instruments) on the Statement of Operations for the year ended December 31, 2015**

*Amount of Realized Gain/(Loss) Recognized on Derivatives*

| *Derivative* | *Currency Contracts* |
|---|---|
| Investments and foreign currency transactions | $ 3,040,097 |

*Amount of Change in Unrealized Appreciation/Depreciation Recognized on Derivatives*

| *Derivative* | *Currency Contracts* |
|---|---|
| Investments, foreign currency translations and non-interested Trustees' deferred compensation | $ (400,266) |

Please see the Portfolio's Statement of Operations for the Portfolio's "Net Realized and Unrealized Gain/(Loss) on Investments."

### 3. Other Investments and Strategies

**Additional Investment Risk**

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. One or more countries may abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

**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. See the "Offsetting Assets and Liabilities" section of this Note for further details.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

### Offsetting Assets and Liabilities

The Portfolio presents gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement with a designated counterparty, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

In order to better define its contractual rights and to secure rights that will help the Portfolio mitigate its counterparty risk, the Portfolio may enter into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between the Portfolio and a counterparty that governs OTC derivatives and forward foreign currency exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, in the event of a default and/or termination event, the Portfolio may offset with each counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. For financial reporting purposes, the Portfolio does not offset certain derivative financial instruments' payables and receivables and related collateral on the Statement of Assets and Liabilities.

The following tables present gross amounts of recognized assets and/or liabilities and the net amounts after deducting collateral that has been pledged by counterparties or has been pledged to counterparties (if applicable). For corresponding information grouped by type of instrument, see either the "Fair Value of Derivative Instruments as of December 31, 2015" table located in Note 2 of these Notes to Financial Statements and/or the Portfolio's Schedule of Investments.

**Offsetting of Financial Assets and Derivative Assets**

| *Counterparty* | *Gross Amounts of Recognized Assets* | *Offsetting Asset or Liability*[(a)] | *Collateral Pledged*[(b)] | *Net Amount* |
|---|---|---|---|---|
| Bank of America | $ 49,626 | $ - | $ - | $ 49,626 |
| Citibank NA | 62,271 | (1,541) | - | 60,730 |
| Credit Suisse International | 2,361 | - | - | 2,361 |
| Deutsche Bank AG | 42,458,143 | - | (42,458,143) | - |
| HSBC Securities (USA,) Inc. | 52,223 | - | - | 52,223 |
| JPMorgan Chase & Co. | 4,590 | - | - | 4,590 |
| RBC Capital Markets Corp. | 21,619 | (7,808) | - | 13,811 |
| Total | $ 42,650,833 | $ (9,349) | $ (42,458,143) | $ 183,341 |

**Offsetting of Financial Liabilities and Derivative Liabilities**

| *Counterparty* | *Gross Amounts of Recognized Liabilities* | *Offsetting Asset or Liability*[(a)] | *Collateral Pledged*[(b)] | *Net Amount* |
|---|---|---|---|---|
| Citibank NA | $ 1,541 | $ (1,541) | $ - | $ - |
| RBC Capital Markets Corp. | 7,808 | (7,808) | - | - |
| Total | $ 9,349 | $ (9,349) | $ - | $ - |

(a) Represents the amount of assets or liabilities that could be offset with the same counterparty under master netting or similar agreements that management elects not to offset on the Statement of Assets and Liabilities.

(b) Collateral pledged is limited to the net outstanding amount due to/from an individual counterparty. The actual collateral amounts pledged may exceed these amounts and may fluctuate in value.

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. Securities on loan 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. 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. Upon receipt of cash collateral, Janus Capital intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. 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 Portfolio does not exchange collateral on its forward currency contracts with its counterparties; however, the Portfolio may segregate cash or high-grade securities in an amount at all times equal to or greater than the Portfolio's commitment with respect to these contracts. Such segregated assets, if with the Portfolio's custodian, are denoted on the accompanying Schedule of Investments and are evaluated daily to ensure their market value equals or exceeds the current market value of the Portfolio's corresponding forward currency contracts.

**Real Estate Investing**
The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

**Securities Lending**
Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments. 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. As of December 31, 2015, securities lending transactions accounted for as secured borrowings with an overnight and continuous contractual maturity are $42,458,143 in equity securities. Gross amounts of recognized liabilities for securities lending (collateral received) as of December 31, 2015 is $43,430,390, resulting in the net amount due to the counterparty of $972,247.

### 4. 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 contractual investment advisory fee rate (expressed as an annual rate) is 0.64%.

Janus Services LLC (“Janus Services”), a wholly-owned subsidiary of Janus Capital, is the Portfolio’s transfer agent. In addition, Janus Services provides or arranges for the provision of certain other administrative services including, but not limited to, recordkeeping, accounting, order processing, and other shareholder services for the Portfolio. Janus Services is not compensated for its services related to the shares, except for out-of-pocket costs. These amounts are disclosed as “Other transfer agent fees and expenses” on the Statement of Operations.

Under a distribution and shareholder servicing plan (the “Plan”) adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust’s distributor, Janus Distributors LLC (“Janus Distributors”), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as “12b-1 Distribution and shareholder servicing fees” on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio’s actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in “12b-1 Distribution fees and shareholder servicing fees” in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). The Portfolio also pays for salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as “Portfolio administration fees” on the Statement of Operations. In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $43,224 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2015. The Portfolio's portion is reported as part of “Other expenses” on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the “Deferred Plan”) for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2015 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2015 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of $317,200 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2015.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2015 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2015, the Portfolio engaged in cross trades amounting to $1,614,472 in purchases.

### 5. 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, derivatives, and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

| | | | Loss Deferrals | | | Net Tax |
|---|---|---|---|---|---|---|
| *Undistributed Ordinary Income* | *Undistributed Long-Term Gains* | *Accumulated Capital Losses* | *Late-Year Ordinary Loss* | *Post-October Capital Loss* | *Other Book to Tax Differences* | *Appreciation/ (Depreciation)* |
| $ 5,730,971 | $ 60,185,274 | $ - | $ - | $ - | $ (13,290) | $246,918,468 |

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2015 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

| Federal Tax Cost | Unrealized Appreciation | Unrealized (Depreciation) | Net Tax Appreciation/ (Depreciation) |
|---|---|---|---|
| $ 539,684,752 | $268,486,764 | $(21,568,296) | $ 246,918,468 |

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. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2015*

| Distributions | | | |
|---|---|---|---|
| From Ordinary Income | From Long-Term Capital Gains | Tax Return of Capital | Net Investment Loss |
| $ 6,036,918 | $ 76,074,658 | $ - | $ - |

*For the year ended December 31, 2014*

| Distributions | | | |
|---|---|---|---|
| From Ordinary Income | From Long-Term Capital Gains | Tax Return of Capital | Net Investment Loss |
| $ 729,588 | $ 45,995,459 | $ - | $ - |

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 |
|---|---|---|
| $ - | $ 2,420 | $ (2,420) |

## 6. Capital Share Transactions

| | Year ended December 31, 2015 | | Year ended December 31, 2014 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Institutional Shares: | | | | |
| Shares sold | 814,112 | $49,077,557 | 378,818 | $22,332,377 |
| Reinvested dividends and distributions | 789,910 | 47,529,145 | 487,573 | 28,050,096 |
| Shares repurchased | (1,076,851) | (65,573,433) | (1,003,722) | (59,205,592) |
| Net Increase/(Decrease) | 527,171 | $31,033,269 | (137,331) | $ (8,823,119) |
| Service Shares: | | | | |
| Shares sold | 1,538,508 | $89,152,188 | 824,572 | $46,862,838 |
| Reinvested dividends and distributions | 602,094 | 34,582,431 | 337,825 | 18,674,951 |
| Shares repurchased | (955,872) | (55,853,548) | (1,056,210) | (59,958,407) |
| Net Increase/(Decrease) | 1,184,730 | $67,881,071 | 106,187 | $ 5,579,382 |

### 7. Purchases and Sales of Investment Securities

For the year ended December 31, 2015, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

| *Purchases of Securities* | *Proceeds from Sales of Securities* | *Purchases of Long-Term U.S. Government Obligations* | *Proceeds from Sales of Long-Term U.S. Government Obligations* |
|---|---|---|---|
| $170,823,249 | $ 157,575,058 | $ - | $ - |

### 8. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2015 and through the date of issuance of the Portfolio's financial statements and determined that there were material events or transactions that would require recognition or disclosure in the Portfolio's financial statements, as discussed below.

Effective May 1, 2016, the Portfolio pays Janus Services a fee at an annual rate of up to 0.05% of the average daily net assets of the Portfolio's Institutional Shares and Service Shares to compensate insurance companies for services provided to contract owners. Any unused portion will be reimbursed back to the respective share class.

# Janus Aspen Enterprise Portfolio
## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Enterprise Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Enterprise Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 12, 2016

# Janus Aspen Enterprise Portfolio
## Additional Information (unaudited)

**Proxy Voting Policies and Voting Record**
A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at janus.com/proxyvoting; and (iii) on the SEC's website at http://www.sec.gov. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through janus.com/ proxyvoting and from the SEC's website at http://www.sec.gov.

**Quarterly Portfolio Holdings**
The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at http://www.sec.gov; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

**APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD**

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

At a meeting held on December 9, 2015, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from either January 1 or February 1, 2016 through January 1 or February 1, 2017, respectively, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

***Nature, Extent and Quality of Services***

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee

for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

***Performance of the Funds***

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by Broadridge Financial Solutions, Inc. ("Broadridge"), an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has been strong: for the 36 months ended September 30, 2015, approximately 70% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2015, approximately 61% of the Funds were in the top two Broadridge quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

***Fixed-Income Funds and Money Market Funds***

- For Janus Flexible Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.
- For Janus High-Yield Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Select Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and INTECH had taken or were taking to improve performance.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and in the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Research Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus International Equity Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile-for the 12 months ended May 31, 2015.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory and subadvisory agreement(s).

***Costs of Services Provided***

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by Broadridge, an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers,

was below the mean management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

The independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 14% below the mean total expenses of their respective Broadridge Expense Group peers and 24% below the mean total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 19% below the mean for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the mean total expenses for its Broadridge Expense Group peers and to mean total expenses for its Broadridge Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees, breakpoints, and expense waivers on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks and other costs that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) the average spread between management fees charged to the Funds and those charged to Janus Capital's institutional accounts is reasonable relative to the average spreads seen in the industry; and (4) by one estimation methodology, the fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to the estimated fee margins in the industry and relative to estimated fee margins of fund managers using Janus Capital as a subadviser.

The Trustees considered the fees for each Fund for its fiscal year ended in 2014, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

***Fixed-Income Funds and Money Market Funds***

- For Janus Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Global Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Multi-Sector Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus has contractually agreed to limit the Fund's expenses.
- For Janus Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group mean due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Global Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.

- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Mid Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Select Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Value Plus Income Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH International Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Core Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for one share class. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Contrarian Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Forty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

- For Janus Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Triton Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Twenty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Venture Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Emerging Markets Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Select Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Technology Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus International Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Allocation Portfolio - Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with the Funds and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the Trustees considered whether Janus Capital and each subadviser receive adequate incentives and resources to manage the Funds effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Fund in relation to the services rendered was reasonable.

The independent fee consultant found that, while assessing the reasonableness of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Funds is reasonable.

The Trustees concluded that the management fees payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services

provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

***Economies of Scale***

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted that their independent fee consultant provided an analysis of economies of scale, which included discussion of analysis from prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, their independent fee consultant concluded that 85% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 80% of the Funds are below their respective expense group averages for contractual management fees. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of some of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

The independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale considered in prior years, and their conflicting results, its analyses could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

***Other Benefits to Janus Capital***

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or Janus Capital, and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

# Janus Aspen Enterprise Portfolio
## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2015. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical $10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Enterprise Portfolio
## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

**Statement of Operations**

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

**Statements of Changes in Net Assets**

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

**Financial Highlights**

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the total return for the period. The total return may include adjustments in accordance with

generally accepted accounting principles required at the period end for financial reporting purposes. The total return does not include any charges at the separate account level or contract level. As a result, the total return may differ from the total return reflected for individual shareholder transactions. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Enterprise Portfolio
## Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2015:

| | |
|---|---|
| Capital Gain Distributions | $76,074,658 |
| Dividends Received Deduction Percentage | 85% |

# Janus Aspen Enterprise Portfolio
## Trustees and Officers (unaudited)

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| **Independent Trustees** | | | | | |
| William F. McCalpin<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Chairman<br><br>Trustee | 1/08-Present<br><br>6/02-Present | Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006). | 58 | Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation). |

## TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Alan A. Brown<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Trustee | 1/13-Present | Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management). | 58 | Director of MotiveQuest LLC (strategic social market research company) (since 2003), and Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010). |
| William D. Cvengros<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1948 | Trustee | 1/11-Present | Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994). | 58 | Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994). |

# Janus Aspen Enterprise Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| James T. Rothe<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1943 | Trustee | 1/97-Present | Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA, SBIC fund focusing on private investment in public equity firms) and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004); and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ. | 58 | Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004- 2014). |
| William D. Stewart<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1944 | Trustee | 9/93-Present | Retired. Formerly, Corporate Vice President and General Manager of MKS Instruments - HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves) and PMFC Division, Andover, MA (manufacturing pressure measurement and flow products) (1976-2012). | 58 | None |

# Janus Aspen Enterprise Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Linda S. Wolf<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1947 | Trustee | 12/05-Present | Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005). | 58 | Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014). |
| **Trustee Consultant** | | | | | |
| Raudline Etienne*<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1965 | Consultant | 6/14-Present | Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011). | N/A | Director of Brightwood Capital Advisors, LLC (since 2014). |

* Raudline Etienne was appointed consultant to the Trustees effective June 2, 2014. Shareholders of the Janus Funds are expected to be asked to elect Ms. Etienne as a Trustee at a future shareholder meeting.

# Janus Aspen Enterprise 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 |
|---|---|---|---|
| Brian Demain<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1977 | Executive Vice President and Portfolio Manager<br>Janus Aspen Enterprise Portfolio | 11/07-Present | Vice President of Janus Capital and Portfolio Manager for other Janus accounts. |
| Stephanie Grauerholz<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1970 | Chief Legal Counsel and Secretary<br><br>Vice President | 1/06-Present<br><br>3/06-Present | Senior Vice President and Chief Legal Counsel of Janus Capital and Senior Vice President of Janus Services LLC (since 2015). Formerly, Vice President and Assistant General Counsel of Janus Capital, Vice President and Assistant Secretary of Janus Distributors LLC, and Vice President of Janus Services LLC (2007-2015). |
| Bruce L. Koepfgen<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1952 | President and Chief Executive Officer | 7/14-Present | President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013). |
| David R. Kowalski<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer | 6/02-Present | Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation. |
| Jesper Nergaard<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Chief Financial Officer<br><br>Vice President, Treasurer, and Principal Accounting Officer | 3/05-Present<br><br>2/05-Present | Vice President of Janus Capital and Janus Services LLC. |

* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## Notes

## Notes

## Janus provides access to a wide range of investment disciplines.

**Alternative**
Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

**Asset Allocation**
Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

**Fixed Income**
Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

**Global & International**
Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

**Growth & Core**
Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

**Mathematical**
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH® (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

**Value**
Our value funds, managed by Perkins® (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.**

JANUS®

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.*



Funds distributed by Janus Distributors LLC

Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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ANNUAL REPORT
December 31, 2015

# Janus Aspen Forty Portfolio

Janus Aspen Series

**HIGHLIGHTS**

- Portfolio management perspective
- Investment strategy behind your fund
- Portfolio performance, characteristics and holdings

JANUS®

# Table of Contents

## Janus Aspen Forty Portfolio

# Janus Aspen Forty Portfolio (unaudited)

**PORTFOLIO SNAPSHOT**

We believe constructing a concentrated portfolio of quality growth companies will allow us to outperform our benchmark over time. We define quality as companies that enjoy sustainable "moats" around their businesses, potentially allowing companies to grow faster, with higher returns, than their competitors. We believe the market often underestimates these companies' sustainable competitive advantage periods.

Doug Rao
portfolio manager

## PERFORMANCE OVERVIEW

For the 12-month period ended December 31, 2015, Janus Aspen Forty Portfolio's Institutional Shares and Service Shares returned 12.22% and 11.94%, respectively, versus a return of 5.67% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 1.38% for the period.

## INVESTMENT ENVIRONMENT

The multi-year equities rally encountered significant turbulence during 2015. Cooling growth, weak commodities prices, a surging U.S. dollar and a shift in monetary policy were some of the factors investors had to consider when valuing stock portfolios. Volatility began early in the year as the slide in crude prices started being considered a potential harbinger for sagging demand rather than solely a consequence of overproduction. Global volatility was in the minds of Federal Reserve (Fed) officials when they chose to delay raising interest rates at their September meeting. However, improving U.S. employment data later led to a consensus that rates would indeed rise by the end of the year, and investors digested their first hike in nearly a decade with relative ease. Although markets were again roiled late year by energy prices coming under renewed pressure, bringing back the prospect that global growth may fall short of projections, large caps ended the year up.

## PERFORMANCE DISCUSSION

The Portfolio outperformed both its primary benchmark, the Russell 1000 Growth Index, and its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have built clear, sustainable competitive moats around their businesses, which should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. During the year, we saw a number of companies in our portfolio put up impressive results, further validating our view that they are well positioned to grow in excess of the market.

Amazon was the largest individual contributor to performance. The company benefited as its gross merchandise volume (GMV) sales accelerated. Continued improvements in operating leverage in its core retail business also aided results. We believe Amazon is a good example of the types of competitively advantaged companies we tend to seek in our portfolio. Amazon has already rewritten the rules for retail shopping and we believe it will continue to gain consumers' wallet share as more shopping moves from physical stores to online and mobile purchases. Meanwhile, Amazon's cloud business, Amazon Web Services, has come to market with scale and a disruptive pricing model for businesses seeking cloud-based services, and has continued to experience rapid growth.

Alphabet Inc., formerly known as Google, was also a strong contributor to performance. The company continued to benefit from the acceleration of its core business. Strong earnings also continued to indicate that the company is well positioned to consolidate advertising spending as advertising becomes increasingly connected and personalized, and as it transitions from offline channels such as print and television to more measurable online channels such as mobile and online video. The market continued to be encouraged by the new CFO's focus on expense discipline. The stock also benefited from increased visibility of the monetization of YouTube after the completion of Google's restructuring under

Alphabet. As the network effects around Alphabet's advertising business and Android ecosystem grow, we believe it further deepens the company's competitive moat and enables it to better understand users' context and intent and connect those users with suppliers of products and services.

Pharmacyclics was another top contributor to performance during the period. The stock was up significantly in the first quarter after it was announced that AbbVie had won a bidding war to acquire the company. The high interest Pharmacyclics received from other companies bidding for it validated our view that its blood cancer treatments are truly innovative and offer significant growth potential. We sold the stock after the announcement.

While pleased with our performance during the year, we did hold companies that detracted from performance. Canadian Pacific Railway was a large detractor. Softer rail volumes due to a weaker commodity market had a broad impact on the railroad industry, and Canadian Pacific was not immune to the slowdown. However, we continue to have a high level of conviction in the long-term potential of the company. We believe Canadian Pacific's railroad network across Canada and the U.S. is a valuable asset that would be nearly impossible for other transportation and logistics companies to replicate. The company also has a significant cost advantage over the trucking industry. Going forward, we believe Canadian Pacific can continue to grow revenues and railroad volumes as it improves execution around its railroad network. The company has made substantial investments to improve its service and reliability to customers, and as service improves, which should drive more shippers to use Canadian Pacific instead of trucking services.

Chipotle Mexican Grill also detracted after news about food-related illnesses created volatility and headwinds for the company during the period. However, we continue to like the stock; we believe Chipotle's higher throughput rates, which have led to higher unit economics at each store, still separate it from most competitors in the fast-food or fast-casual industry. We believe that, in time, the company will be able to re-establish its reputation for food integrity.

Alibaba also detracted. The Chinese e-commerce company provides consumer-to-consumer, business-to-consumer and business-to-business sales services via Web and mobile platforms. The weakness of the Chinese economy weighed on the stock's performance and we exited our position during the period.

## OUTLOOK

We believe that volatility will stay elevated amid continuing questions about global economic growth. While household balance sheets are strong and improving employment and early signs of wage growth are supportive of U.S consumer spending, the modern consumer is also sober minded, as shown by their long-term focus on using savings from cheaper gas and utilities to build up their personal savings. We expect this mindset to continue for the foreseeable future.

While there are concerns about the global economy, we think it underscores the importance of finding those select companies with truly sustainable competitive advantages that can take market share and continue to grow earnings, even without the backdrop of a strong global economy. Such companies are more appreciated in a world where growth is harder to come by, as they can create their own path to creating value.

Thank you for your investment in Janus Aspen Forty Portfolio.

# Janus Aspen Forty Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Top Performers - Holdings

| | Contribution |
|---|---|
| Casey's General Stores, Inc. | 2.47% |
| Amazon.com, Inc. | 2.03% |
| Alphabet Inc. - Class C | 1.31% |
| Pharmacyclics, Inc. | 1.21% |
| Starbucks Corp. | 1.05% |

### 5 Bottom Performers - Holdings

| | Contribution |
|---|---|
| Canadian Pacific Railway Limited | -1.16% |
| Chipotle Mexican Grill, Inc. | -0.99% |
| Alibaba Group Holding Ltd. Sponsored ADR | -0.70% |
| Precision Castparts Corp. | -0.64% |
| Biogen Inc. | -0.40% |

### 5 Top Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | Russell 1000® Growth Index Weighting |
|---|---|---|---|
| Health Care | 2.46% | 17.64% | 15.88% |
| Consumer Discretionary | 2.43% | 26.07% | 20.02% |
| Information Technology | 1.17% | 26.69% | 28.15% |
| Materials | 1.03% | 2.85% | 3.79% |
| Financials | 1.00% | 12.68% | 5.33% |

### 5 Bottom Performers - Sectors*

| | Portfolio Contribution | Portfolio Weighting (Average % of Equity) | Russell 1000® Growth Index Weighting |
|---|---|---|---|
| Consumer Discretionary | -0.69% | 0.25% | 10.74% |
| Industrials | -0.46% | 9.46% | 11.37% |
| Other** | -0.30% | 3.43% | 0.00% |
| Utilities | 0.02% | 0.00% | 0.06% |
| Telecommunication Services | 0.18% | 0.30% | 2.07% |

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

** Not a GICS classified sector.

# Janus Aspen Forty Portfolio (unaudited)
## Portfolio At A Glance
## December 31, 2015

### 5 Largest Equity Holdings - (% of Net Assets)

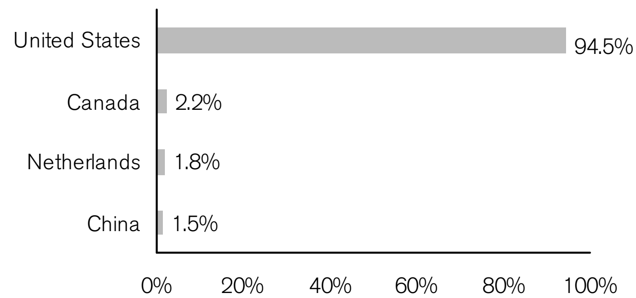
| | |
|---|---|
| Alphabet, Inc. - Class C | |
| Internet Software & Services | 6.1% |
| Lowe's Cos., Inc. | |
| Specialty Retail | 4.8% |
| General Electric Co. | |
| Industrial Conglomerates | 4.1% |
| MasterCard, Inc. - Class A | |
| Information Technology Services | 4.0% |
| Adobe Systems, Inc. | |
| Software | 3.7% |
| | 22.7% |

### Asset Allocation - (% of Net Assets)

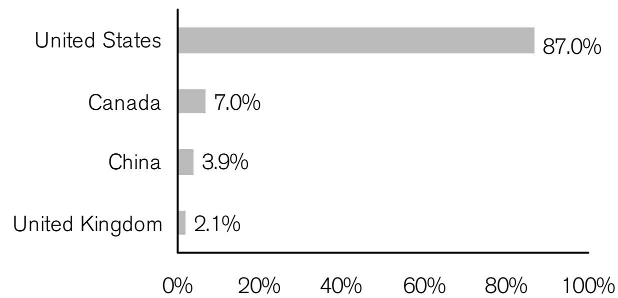
| | |
|---|---|
| Common Stocks | 97.0% |
| Investment Companies | 3.1% |
| Other | (0.1)% |
| | 100.0% |

### Top Country Allocations - Long Positions - (% of Investment Securities)

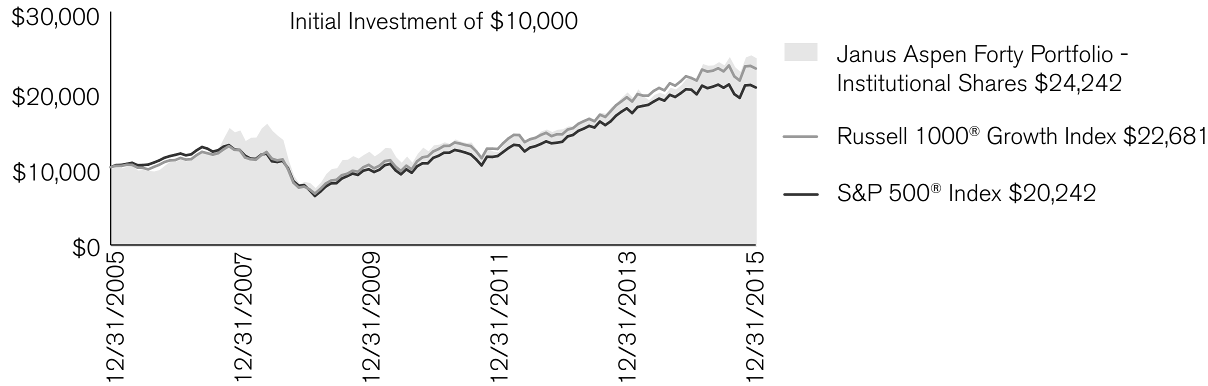
As of December 31, 2015




As of December 31, 2014



# Janus Aspen Forty Portfolio (unaudited)
## Performance




| Average Annual Total Return - for the periods ended December 31, 2015 | One Year | Five Year | Ten Year | Since Inception* | Expense Ratios - per the May 1, 2015 prospectuses: Total Annual Fund Operating Expenses |
|---|---|---|---|---|---|
| Institutional Shares | 12.22% | 13.15% | 9.26% | 11.02% | 0.57% |
| Service Shares | 11.94% | 12.87% | 8.99% | 10.71% | 0.82% |
| Russell 1000® Growth Index | 5.67% | 13.53% | 8.53% | 6.61% | |
| S&P 500® Index | 1.38% | 12.57% | 7.31% | 7.13% | |
| Morningstar Quartile - Institutional Shares | 1st | 1st | 1st | 1st | |
| Morningstar Ranking - based on total returns for Large Growth Funds | 15/1,745 | 361/1,548 | 116/1,331 | 17/741 | |

*Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit janus.com/variable-insurance.*

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

*A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, Portfolio holdings and other details.*

*Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.*

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

Returns shown for Service Shares for periods prior to December 31, 1999 are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.



There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

*See important disclosures on the next page.*

# Janus Aspen Forty Portfolio (unaudited)
## Performance

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

*The Portfolio's inception date – May 1, 1997

# Janus Aspen Forty Portfolio (unaudited)
## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of $1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading “Actual” provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the appropriate column for your share class under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading “Hypothetical (5% return before expenses)” provides information about hypothetical account values and hypothetical expenses based upon the Portfolio’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit www.finra.org/fundanalyzer.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio’s prospectuses. Therefore, the hypothetical examples are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

| | Actual | | | Hypothetical (5% return before expenses) | | | |
|---|---|---|---|---|---|---|---|
| | **Beginning Account Value (7/1/15)** | **Ending Account Value (12/31/15)** | **Expenses Paid During Period (7/1/15 - 12/31/15)†** | **Beginning Account Value (7/1/15)** | **Ending Account Value (12/31/15)** | **Expenses Paid During Period (7/1/15 - 12/31/15)†** | **Net Annualized Expense Ratio (7/1/15 - 12/31/15)** |
| Institutional Shares | $1,000.00 | $1,038.50 | $3.55 | $1,000.00 | $1,021.73 | $3.52 | 0.69% |
| Service Shares | $1,000.00 | $1,037.30 | $4.88 | $1,000.00 | $1,020.42 | $4.84 | 0.95% |

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio’s prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Forty Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares | Value |
|---|---|---|
| Common Stocks – 97.0% | | |
| Auto Components – 1.2% | | |
| Delphi Automotive PLC | 110,403 | $9,464,849 |
| Automobiles – 0.8% | | |
| Tesla Motors, Inc.* | 28,037 | 6,729,160 |
| Biotechnology – 7.8% | | |
| Amgen, Inc. | 156,550 | 25,412,761 |
| Celgene Corp.* | 164,836 | 19,740,759 |
| Regeneron Pharmaceuticals, Inc.* | 31,539 | 17,121,577 |
| | | 62,275,097 |
| Capital Markets – 4.1% | | |
| Charles Schwab Corp. | 323,118 | 10,640,276 |
| E*TRADE Financial Corp.* | 732,151 | 21,700,956 |
| | | 32,341,232 |
| Commercial Banks – 2.8% | | |
| US Bancorp | 520,892 | 22,226,462 |
| Construction Materials – 2.8% | | |
| Vulcan Materials Co. | 237,016 | 22,509,410 |
| Consumer Finance – 1.8% | | |
| Synchrony Financial* | 477,389 | 14,517,399 |
| Diversified Financial Services – 2.6% | | |
| Intercontinental Exchange, Inc. | 82,257 | 21,079,179 |
| Food & Staples Retailing – 1.8% | | |
| Costco Wholesale Corp. | 89,163 | 14,399,824 |
| Health Care Equipment & Supplies – 2.4% | | |
| Boston Scientific Corp.* | 1,023,484 | 18,873,045 |
| Hotels, Restaurants & Leisure – 7.6% | | |
| Chipotle Mexican Grill, Inc.* | 40,531 | 19,448,800 |
| Norwegian Cruise Line Holdings, Ltd.* | 397,003 | 23,264,376 |
| Starbucks Corp. | 291,393 | 17,492,322 |
| | | 60,205,498 |
| Industrial Conglomerates – 4.1% | | |
| General Electric Co. | 1,035,125 | 32,244,144 |
| Information Technology Services – 4.0% | | |
| MasterCard, Inc. - Class A | 327,413 | 31,876,930 |
| Internet & Catalog Retail – 7.3% | | |
| Amazon.com, Inc.* | 36,511 | 24,677,420 |
| Ctrip.com International, Ltd. (ADR)* | 261,982 | 12,137,626 |
| Priceline Group, Inc.* | 16,738 | 21,340,113 |
| | | 58,155,159 |
| Internet Software & Services – 11.5% | | |
| Alphabet, Inc. - Class C | 64,479 | 48,931,823 |
| CoStar Group, Inc.* | 98,349 | 20,327,755 |
| Facebook, Inc. - Class A* | 214,474 | 22,446,849 |
| | | 91,706,427 |
| Pharmaceuticals – 6.1% | | |
| Bristol-Myers Squibb Co. | 334,705 | 23,024,357 |
| Zoetis, Inc. | 526,336 | 25,222,021 |
| | | 48,246,378 |
| Professional Services – 3.1% | | |
| Nielsen Holdings PLC | 531,940 | 24,788,404 |
| Real Estate Investment Trusts (REITs) – 2.8% | | |
| Crown Castle International Corp. | 256,023 | 22,133,188 |
| Road & Rail – 2.2% | | |
| Canadian Pacific Railway, Ltd. (U.S. Shares) | 136,946 | 17,474,310 |
| Semiconductor & Semiconductor Equipment – 1.8% | | |
| NXP Semiconductor NV* | 174,083 | 14,666,493 |
| Software – 8.0% | | |
| Adobe Systems, Inc.* | 316,907 | 29,770,243 |
| Salesforce.com, Inc.* | 307,693 | 24,123,131 |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Forty Portfolio
## Schedule of Investments
## December 31, 2015

| | Shares | Value |
|---|---|---|
| Common Stocks – (continued) | | |
| Software – (continued) | | |
| Workday, Inc. - Class A* | 120,450 | $9,597,456 |
| | | 63,490,830 |
| Specialty Retail – 8.0% | | |
| Advance Auto Parts, Inc. | 117,407 | 17,670,928 |
| Lowe's Cos., Inc. | 499,089 | 37,950,728 |
| TJX Cos., Inc. | 116,507 | 8,261,511 |
| | | 63,883,167 |
| Technology Hardware, Storage & Peripherals – 2.4% | | |
| Apple, Inc. | 182,489 | 19,208,792 |
| Total Common Stocks (cost $602,378,484) | | 772,495,377 |
| Investment Companies – 3.1% | | |
| Money Markets – 3.1% | | |
| Janus Cash Liquidity Fund LLC, 0.3105%[°°,£] (cost $24,691,025) | 24,691,025 | 24,691,025 |
| Total Investments (total cost $627,069,509) – 100.1% | | 797,186,402 |
| Liabilities, net of Cash, Receivables and Other Assets – (0.1)% | | (457,568) |
| Net Assets – 100% | | $796,728,834 |

***Summary of Investments by Country - (Long Positions) (unaudited)***

| *Country* | *Value* | *% of Investment Securities* |
|---|---|---|
| United States | $752,907,974 | 94.5 % |
| Canada | 17,474,310 | 2.2 |
| Netherlands | 14,666,493 | 1.8 |
| China | 12,137,626 | 1.5 |
| Total | $797,186,403 | 100.0 % |

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Forty Portfolio
## Notes to Schedule of Investments and Other Information

| | |
|---|---|
| Russell 1000® Growth Index | Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. |
| S&P 500® Index | Measures broad U.S. equity performance. |
| ADR | American Depositary Receipt |
| LLC | Limited Liability Company |
| PLC | Public Limited Company |
| U.S. Shares | Securities of foreign companies trading on an American stock exchange. |

* Non-income producing security.

ºº Rate shown is the 7-day yield as of December 31, 2015.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. Based on the Portfolio's relative ownership, the following securities were considered affiliated companies for all or some portion of the year ended December 31, 2015. Unless otherwise indicated, all information in the table is for the year ended December 31, 2015.

| | *Share Balance at 12/31/14* | *Purchases* | *Sales* | *Share Balance at 12/31/15* | *Dividend Income* | *Value at 12/31/15* |
|---|---|---|---|---|---|---|
| Janus Cash Liquidity Fund LLC | 18,546,315 | 309,351,610 | (303,206,900) | 24,691,025 | $ 36,825 | $ 24,691,025 |

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2015. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

| | ***Level 1 - Quoted Prices*** | ***Level 2 - Other Significant Observable Inputs*** | ***Level 3 - Significant Unobservable Inputs*** |
|---|---|---|---|
| **Assets** | | | |
| **Investments in Securities:** | | | |
| *Common Stocks* | $ 772,495,377 | $ - | $ - |
| *Investment Companies* | - | 24,691,025 | - |
| **Total Assets** | $ 772,495,377 | $ 24,691,025 | $ - |

# Janus Aspen Forty Portfolio
## Statement of Assets and Liabilities
## December 31, 2015

| | | |
|---|---|---|
| Assets: | | |
| Investments, at cost | $ | 627,069,509 |
| Unaffiliated investments, at value | $ | 772,495,377 |
| Affiliated investments, at value | | 24,691,025 |
| Cash | | 591 |
| Non-interested Trustees' deferred compensation | | 16,127 |
| Receivables: | | |
| Dividends | | 528,372 |
| Portfolio shares sold | | 143,057 |
| Foreign tax reclaims | | 68,884 |
| Dividends from affiliates | | 6,179 |
| Other assets | | 7,840 |
| Total Assets | | 797,957,452 |
| Liabilities: | | |
| Payables: | | |
| Advisory fees | | 476,858 |
| Portfolio shares repurchased | | 433,035 |
| 12b-1 Distribution and shareholder servicing fees | | 117,013 |
| Postage fees | | 57,170 |
| Printing fees | | 53,000 |
| Professional fees | | 35,334 |
| Non-interested Trustees' deferred compensation fees | | 16,127 |
| Portfolio administration fees | | 7,078 |
| Non-interested Trustees' fees and expenses | | 4,587 |
| Custodian fees | | 3,384 |
| Transfer agent fees and expenses | | 547 |
| Accrued expenses and other payables | | 24,485 |
| Total Liabilities | | 1,228,618 |
| Net Assets | $ | 796,728,834 |
| Net Assets Consist of: | | |
| Capital (par value and paid-in surplus) | $ | 524,549,471 |
| Undistributed net investment income/(loss) | | (16,127) |
| Undistributed net realized gain/(loss) from investments and foreign currency transactions | | 102,080,853 |
| Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation | | 170,114,637 |
| Total Net Assets | $ | 796,728,834 |
| Net Assets - Institutional Shares | $ | 295,725,406 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 8,130,623 |
| Net Asset Value Per Share | $ | 36.37 |
| Net Assets - Service Shares | $ | 501,003,428 |
| Shares Outstanding, $0.01 Par Value (unlimited shares authorized) | | 14,280,847 |
| Net Asset Value Per Share | $ | 35.08 |

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio
## Statement of Operations
## For the year ended December 31, 2015

| | | |
|---|---|---|
| Investment Income: | | |
| Dividends | $ | 5,603,044 |
| Dividends from affiliates | | 36,825 |
| Other income | | 427 |
| Foreign tax withheld | | (66,797) |
| Total Investment Income | | 5,573,499 |
| Expenses: | | |
| Advisory fees | | 5,265,418 |
| 12b-1Distribution and shareholder servicing fees: | | |
| Service Shares | | 1,261,640 |
| Other transfer agent fees and expenses: | | |
| Institutional Shares | | 2,180 |
| Service Shares | | 2,148 |
| Portfolio administration fees | | 69,313 |
| Professional fees | | 48,955 |
| Registration fees | | 37,350 |
| Custodian fees | | 21,870 |
| Non-interested Trustees' fees and expenses | | 18,687 |
| Shareholder reports expense | | 4,436 |
| Other expenses | | 58,514 |
| Total Expenses | | 6,790,511 |
| Net Investment Income/(Loss) | | (1,217,012) |
| Net Realized Gain/(Loss) on Investments: | | |
| Investments and foreign currency transactions | | 103,601,643 |
| Total Net Realized Gain/(Loss) on Investments | | 103,601,643 |
| Change in Unrealized Net Appreciation/Depreciation: | | |
| Investments, foreign currency translations and non-interested Trustees' deferred compensation | | (11,093,868) |
| Total Change in Unrealized Net Appreciation/Depreciation | | (11,093,868) |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | $ | 91,290,763 |

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio
## Statements of Changes in Net Assets

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| Operations: | | |
| Net investment income/(loss) | $ (1,217,012) | $ (637,518) |
| Net realized gain/(loss) on investments | 103,601,643 | 160,492,743 |
| Change in unrealized net appreciation/depreciation | (11,093,868) | (96,604,872) |
| Net Increase/(Decrease) in Net Assets Resulting from Operations | 91,290,763 | 63,250,353 |
| Dividends and Distributions to Shareholders: | | |
| Institutional Shares | — | (503,982) |
| Service Shares | — | (154,665) |
| Total Dividends from Net Investment Income | — | (658,647) |
| Distributions from Net Realized Gain from Investment Transactions | | |
| Institutional Shares | (57,445,111) | (93,285,383) |
| Service Shares | (102,554,820) | (152,735,352) |
| Total Distributions from Net Realized Gain from Investment Transactions | (159,999,931) | (246,020,735) |
| Net Decrease from Dividends and Distributions to Shareholders | (159,999,931) | (246,679,382) |
| Capital Share Transactions: | | |
| Institutional Shares | 18,828,189 | 13,703,390 |
| Service Shares | 54,810,568 | 79,125,154 |
| Net Increase/(Decrease) from Capital Share Transactions | 73,638,757 | 92,828,544 |
| Net Increase/(Decrease) in Net Assets | 4,929,589 | (90,600,485) |
| Net Assets: | | |
| Beginning of period | 791,799,245 | 882,399,730 |
| End of period | $ 796,728,834 | $ 791,799,245 |
| | | |
| Undistributed Net Investment Income/(Loss) | $ (16,127) | $ (16,251) |

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio
## Financial Highlights

### Institutional Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $40.27 | $53.34 | $40.95 | $33.22 | $35.74 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | 0.03(1) | 0.03(1) | 0.38 | 0.47 | 0.23 |
| Net realized and unrealized gain/(loss) | 4.77 | 3.08 | 12.34 | 7.54 | (2.62) |
| Total from Investment Operations | 4.80 | 3.11 | 12.72 | 8.01 | (2.39) |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | — | (0.09) | (0.33) | (0.28) | (0.13) |
| Distributions (from capital gains) | (8.70) | (16.09) | — | — | — |
| Total Dividends and Distributions | (8.70) | (16.18) | (0.33) | (0.28) | (0.13) |
| Net Asset Value, End of Period | $36.37 | $40.27 | $53.34 | $40.95 | $33.22 |
| Total Return* | 12.22% | 8.73% | 31.23% | 24.16% | (6.69)% |
| Net Assets, End of Period (in thousands) | $295,725 | $299,546 | $355,429 | $488,374 | $459,459 |
| Average Net Assets for the Period (in thousands) | $298,904 | $307,359 | $491,231 | $512,799 | $518,818 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.69% | 0.57% | 0.55% | 0.55% | 0.70% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.69% | 0.57% | 0.55% | 0.55% | 0.70% |
| Ratio of Net Investment Income/(Loss) | 0.08% | 0.07% | 0.31% | 1.03% | 0.56% |
| Portfolio Turnover Rate | 55% | 46% | 61% | 10% | 46% |

### Service Shares

| For a share outstanding during each year ended December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net Asset Value, Beginning of Period | $39.21 | $52.40 | $40.28 | $32.72 | $35.24 |
| Income/(Loss) from Investment Operations: | | | | | |
| Net investment income/(loss) | (0.06)(1) | (0.07)(1) | —(2) | 0.31 | 0.09 |
| Net realized and unrealized gain/(loss) | 4.63 | 2.99 | 12.38 | 7.47 | (2.52) |
| Total from Investment Operations | 4.57 | 2.92 | 12.38 | 7.78 | (2.43) |
| Less Dividends and Distributions: | | | | | |
| Dividends (from net investment income) | — | (0.02) | (0.26) | (0.22) | (0.09) |
| Distributions (from capital gains) | (8.70) | (16.09) | — | — | — |
| Total Dividends and Distributions | (8.70) | (16.11) | (0.26) | (0.22) | (0.09) |
| Net Asset Value, End of Period | $35.08 | $39.21 | $52.40 | $40.28 | $32.72 |
| Total Return* | 11.94% | 8.47% | 30.89% | 23.82% | (6.91)% |
| Net Assets, End of Period (in thousands) | $501,003 | $492,253 | $526,971 | $471,002 | $417,408 |
| Average Net Assets for the Period (in thousands) | $501,868 | $493,575 | $486,845 | $468,967 | $475,743 |
| Ratios to Average Net Assets**: | | | | | |
| Ratio of Gross Expenses | 0.94% | 0.82% | 0.81% | 0.80% | 0.95% |
| Ratio of Net Expenses (After Waivers and Expense Offsets) | 0.94% | 0.82% | 0.81% | 0.80% | 0.95% |
| Ratio of Net Investment Income/(Loss) | (0.17)% | (0.17)% | 0.04% | 0.81% | 0.31% |
| Portfolio Turnover Rate | 55% | 46% | 61% | 10% | 46% |

* Total return not annualized for periods of less than one full year.
** Annualized for periods of less than one full year.
(1) Per share amounts are calculated based on average shares outstanding during the year or period.
(2) Less than $0.005 on a per share basis.

See Notes to Financial Statements.

### 1. Organization and Significant Accounting Policies

Janus Aspen Forty Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve Portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio invests primarily in common stocks. The Portfolio is classified as nondiversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2015 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf, as well as a portion of general expenses, which may be allocated pro rata to the Portfolio. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Indemnifications**
In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

**Foreign Currency Translations**
The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

**Dividends and Distributions**
The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

**Federal Income Taxes**
The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Other Investments and Strategies

**Additional Investment Risk**
The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. One or more countries may abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

**Real Estate Investing**

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

## 3. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate) is 0.64%.

The investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the Russell 1000® Growth Index.

The calculation of the performance adjustment applies as follows:

Investment Advisory Fee = Base Fee Rate +/- Performance Adjustment

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period, which is generally the previous 36 months.

The Portfolio's prospectuses and statement(s) of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee

Rate plus/minus any Performance Adjustment. For the year ended December 31, 2015, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.65%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. In addition, Janus Services provides or arranges for the provision of certain other administrative services including, but not limited to, recordkeeping, accounting, order processing, and other shareholder services for the Portfolio. Janus Services is not compensated for its services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). The Portfolio also pays for salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $43,224 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2015. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2015 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2015 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of $317,200 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2015.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2015 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2015, the Portfolio engaged in cross trades amounting to $30,619,365 in sales, resulting in a net realized gain/loss of $5,861,179. The net realized gain/loss is included in "Investments and foreign currency transactions" within the "Net Realized and Unrealized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

### 4. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

| | | | *Loss Deferrals* | | | *Net Tax* |
|---|---|---|---|---|---|---|
| *Undistributed Ordinary Income* | *Undistributed Long-Term Gains* | *Accumulated Capital Losses* | *Late-Year Ordinary Loss* | *Post-October Capital Loss* | *Other Book to Tax Differences* | *Appreciation/ (Depreciation)* |
| $ 6,437,226 | $ 95,750,642 | $ - | $ - | $ - | $ (18,380) | $170,009,875 |

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2015 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments is wash sale loss deferrals

| *Federal Tax Cost* | *Unrealized Appreciation* | *Unrealized (Depreciation)* | *Net Tax Appreciation/ (Depreciation)* |
|---|---|---|---|
| $ 627,176,527 | $183,969,994 | $(13,960,119) | $ 170,009,875 |

# Janus Aspen Forty Portfolio
## Notes to Financial Statements

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2015*

| *Distributions* | | | |
|---|---|---|---|
| *From Ordinary Income* | *From Long-Term Capital Gains* | *Tax Return of Capital* | *Net Investment Loss* |
| $ 9,606,802 | $ 150,393,129 | $ - | $ - |

*For the year ended December 31, 2014*

| *Distributions* | | | |
|---|---|---|---|
| *From Ordinary Income* | *From Long-Term Capital Gains* | *Tax Return of Capital* | *Net Investment Loss* |
| $ 658,647 | $ 246,020,735 | $ - | $ - |

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

| *Increase/(Decrease) to Capital* | *Increase/(Decrease) to Undistributed Net Investment Income/Loss* | *Increase/(Decrease) to Undistributed Net Realized Gain/Loss* |
|---|---|---|
| $ - | $ 1,217,136 | $ (1,217,136) |

### 5. Capital Share Transactions

| | *Year ended December 31, 2015* | | *Year ended December 31, 2014* | |
|---|---|---|---|---|
| | *Shares* | *Amount* | *Shares* | *Amount* |
| Institutional Shares: | | | | |
| Shares sold | 1,146,883 | $ 44,193,370 | 438,521 | $19,546,852 |
| Reinvested dividends and distributions | 1,601,927 | 57,445,111 | 2,552,786 | 93,789,365 |
| Shares repurchased | (2,057,242) | (82,810,292) | (2,216,104) | (99,632,827) |
| Net Increase/(Decrease) | 691,568 | $ 18,828,189 | 775,203 | $13,703,390 |
| Service Shares: | | | | |
| Shares sold | 1,444,396 | $ 53,479,766 | 568,799 | $25,026,559 |
| Reinvested dividends and distributions | 2,961,444 | 102,554,820 | 4,268,286 | 152,890,017 |
| Shares repurchased | (2,680,089) | (101,224,018) | (2,338,393) | (98,791,422) |
| Net Increase/(Decrease) | 1,725,751 | $ 54,810,568 | 2,498,692 | $79,125,154 |

### 6. Purchases and Sales of Investment Securities

For the year ended December 31, 2015, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

| *Purchases of Securities* | *Proceeds from Sales of Securities* | *Purchases of Long-Term U.S. Government Obligations* | *Proceeds from Sales of Long-Term U.S. Government Obligations* |
|---|---|---|---|
| $423,573,271 | $ 516,653,749 | $ - | $ - |

### 7. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2015 and through the date of issuance of the Portfolio's financial statements and determined that there were material events or transactions that would require recognition or disclosure in the Portfolio's financial statements, as discussed below.

Effective May 1, 2016, the Portfolio pays Janus Services a fee at an annual rate of up to 0.05% of the average daily net assets of the Portfolio's Institutional Shares and Service Shares to compensate insurance companies for services provided to contract owners. Any unused portion will be reimbursed back to the respective share class.

# Janus Aspen Forty Portfolio
## Independent Auditor's Report

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Forty Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Forty Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 12, 2016

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at janus.com/proxyvoting; and (iii) on the SEC's website at http://www.sec.gov. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through janus.com/ proxyvoting and from the SEC's website at http://www.sec.gov.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at http://www.sec.gov; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

## APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

At a meeting held on December 9, 2015, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from either January 1 or February 1, 2016 through January 1 or February 1, 2017, respectively, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

### *Nature, Extent and Quality of Services*

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee

for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

***Performance of the Funds***

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by Broadridge Financial Solutions, Inc. ("Broadridge"), an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has been strong: for the 36 months ended September 30, 2015, approximately 70% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2015, approximately 61% of the Funds were in the top two Broadridge quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

***Fixed-Income Funds and Money Market Funds***

- For Janus Flexible Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.
- For Janus High-Yield Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Select Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and INTECH had taken or were taking to improve performance.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and in the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Research Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus International Equity Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile-for the 12 months ended May 31, 2015.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory and subadvisory agreement(s).

***Costs of Services Provided***

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by Broadridge, an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers,

was below the mean management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

The independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 14% below the mean total expenses of their respective Broadridge Expense Group peers and 24% below the mean total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 19% below the mean for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the mean total expenses for its Broadridge Expense Group peers and to mean total expenses for its Broadridge Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees, breakpoints, and expense waivers on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks and other costs that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) the average spread between management fees charged to the Funds and those charged to Janus Capital's institutional accounts is reasonable relative to the average spreads seen in the industry; and (4) by one estimation methodology, the fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to the estimated fee margins in the industry and relative to estimated fee margins of fund managers using Janus Capital as a subadviser.

The Trustees considered the fees for each Fund for its fiscal year ended in 2014, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

***Fixed-Income Funds and Money Market Funds***

- For Janus Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Global Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Multi-Sector Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus has contractually agreed to limit the Fund's expenses.
- For Janus Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group mean due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.

***Asset Allocation Funds***

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Alternative Fund***

- For Janus Diversified Alternatives Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

***Value Funds***

- For Perkins International Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Global Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.

- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Mid Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Select Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Value Plus Income Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Mathematical Funds***

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH International Managed Volatility Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Core Fund, the Trustees noted that although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for one share class. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

***Growth and Core Funds***

- For Janus Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Contrarian Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Forty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

- For Janus Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Triton Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Twenty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Venture Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

***Global and International Funds***

- For Janus Asia Equity Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Emerging Markets Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Select Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Technology Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus International Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

***Janus Aspen Series***

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Allocation Portfolio - Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with the Funds and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the Trustees considered whether Janus Capital and each subadviser receive adequate incentives and resources to manage the Funds effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Fund in relation to the services rendered was reasonable.

The independent fee consultant found that, while assessing the reasonableness of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Funds is reasonable.

The Trustees concluded that the management fees payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services

provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

***Economies of Scale***

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted that their independent fee consultant provided an analysis of economies of scale, which included discussion of analysis from prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, their independent fee consultant concluded that 85% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 80% of the Funds are below their respective expense group averages for contractual management fees. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of some of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

The independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale considered in prior years, and their conflicting results, its analyses could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

***Other Benefits to Janus Capital***

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or Janus Capital, and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

# Janus Aspen Forty Portfolio
## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2015. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical $10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Forty Portfolio
## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

**Statement of Operations**

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

**Statements of Changes in Net Assets**

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

**Financial Highlights**

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the total return for the period. The total return may include adjustments in accordance with

generally accepted accounting principles required at the period end for financial reporting purposes. The total return does not include any charges at the separate account level or contract level. As a result, the total return may differ from the total return reflected for individual shareholder transactions. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Forty Portfolio
## Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2015:

| | |
|---|---|
| Capital Gain Distributions | $150,393,129 |
| Dividends Received Deduction Percentage | 39% |

# Janus Aspen Forty Portfolio
## Trustees and Officers (unaudited)

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| **Independent Trustees** | | | | | |
| William F. McCalpin<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Chairman<br><br>Trustee | 1/08-Present<br><br>6/02-Present | Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006). | 58 | Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation). |

# Janus Aspen Forty Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Alan A. Brown<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Trustee | 1/13-Present | Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management). | 58 | Director of MotiveQuest LLC (strategic social market research company) (since 2003), and Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010). |
| William D. Cvengros<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1948 | Trustee | 1/11-Present | Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994). | 58 | Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994). |

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| James T. Rothe<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1943 | Trustee | 1/97-Present | Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA, SBIC fund focusing on private investment in public equity firms) and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004); and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ. | 58 | Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004- 2014). |
| William D. Stewart<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1944 | Trustee | 9/93-Present | Retired. Formerly, Corporate Vice President and General Manager of MKS Instruments - HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves) and PMFC Division, Andover, MA (manufacturing pressure measurement and flow products) (1976-2012). | 58 | None |

# Janus Aspen Forty Portfolio
## Trustees and Officers (unaudited)

### TRUSTEES

| Name, Address, and Age | Positions Held with the Trust | Length of Time Served | Principal Occupations During the Past Five Years | Number of Portfolios/Funds in Fund Complex Overseen by Trustee | Other Directorships Held by Trustee During the Past Five Years |
|---|---|---|---|---|---|
| Linda S. Wolf<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1947 | Trustee | 12/05-Present | Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005). | 58 | Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014). |
| **Trustee Consultant** | | | | | |
| Raudline Etienne*<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1965 | Consultant | 6/14-Present | Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011). | N/A | Director of Brightwood Capital Advisors, LLC (since 2014). |

* Raudline Etienne was appointed consultant to the Trustees effective June 2, 2014. Shareholders of the Janus Funds are expected to be asked to elect Ms. Etienne as a Trustee at a future shareholder meeting.

# Janus Aspen Forty Portfolio
## Trustees and Officers (unaudited)

### OFFICERS

| Name, Address, and Age | Positions Held with the Trust | Term of Office* and Length of Time Served | Principal Occupations During the Past Five Years |
|---|---|---|---|
| A. Douglas Rao<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1974 | Executive Vice President and Co-Portfolio Manager<br>Janus Aspen Forty Portfolio | 6/13-Present | Portfolio Manager for other Janus accounts. Formerly, Partner and Portfolio Manager for Chautauqua Capital Management (2012-2013) and Portfolio Manager for Marsico Capital Management, LLC (2007-2012). |
| Stephanie Grauerholz<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1970 | Chief Legal Counsel and Secretary<br><br>Vice President | 1/06-Present<br><br>3/06-Present | Senior Vice President and Chief Legal Counsel of Janus Capital and Senior Vice President of Janus Services LLC (since 2015). Formerly, Vice President and Assistant General Counsel of Janus Capital, Vice President and Assistant Secretary of Janus Distributors LLC, and Vice President of Janus Services LLC (2007-2015). |
| Bruce L. Koepfgen<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1952 | President and Chief Executive Officer | 7/14-Present | President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013). |
| David R. Kowalski<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1957 | Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer | 6/02-Present | Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation. |
| Jesper Nergaard<br>151 Detroit Street<br>Denver, CO 80206<br>DOB: 1962 | Chief Financial Officer<br><br>Vice President, Treasurer, and Principal Accounting Officer | 3/05-Present<br><br>2/05-Present | Vice President of Janus Capital and Janus Services LLC. |

* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## Janus Aspen Forty Portfolio
### Notes

## Janus provides access to a wide range of investment disciplines.

**Alternative**
Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

**Asset Allocation**
Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

**Fixed Income**
Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

**Global & International**
Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

**Growth & Core**
Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

**Mathematical**
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH® (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

**Value**
Our value funds, managed by Perkins® (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.**

JANUS®

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.*



Funds distributed by Janus Distributors LLC

Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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# PIMCO

**PIMCO Variable Insurance Trust**


**Share Classes**

- Institutional
- Administrative
- Advisor

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

This brochure contains the following documents:

- Recent prospectus supplements relating to the above fund(s)
- The Annual Report dated December 31, 2015 (following the supplement(s))

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**PIMCO Variable Insurance Trust**

**Supplement Dated November 6, 2015 to the Administrative Class Prospectus, Institutional Class Prospectus, and Advisor and Class M Prospectus, each dated April 30, 2015, each as supplemented (the "Prospectuses")**

**Disclosure Related to the PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) and PIMCO Global Bond Portfolio (Unhedged)**

***PIMCO Foreign Bond Portfolio (Unhedged)***

*Effective December 1, 2015, the broad-based benchmark index of the PIMCO Foreign Bond Portfolio (Unhedged) is the Barclays Global Aggregate ex-USD (USD Unhedged) Index. Accordingly, the following changes are made.*

*Effective December 1, 2015, the second sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate ex-USD (USD Unhedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 7.39 years.

*Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate ex-USD (USD Unhedged) Index. The Barclays Global Aggregate ex-USD (USD Unhedged) Index provides a broad-based measure of the global investment-grade fixed income markets, excluding USD. The two major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Euro-Yen corporate bonds and Canadian Government securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD. The JPMorgan GBI Global ex-U.S. FX NY Index Unhedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Administrative Class Prospectus****:*

| | 1 Year | 5 Years | Since Inception (04/30/2008) |
|---|---|---|---|
| Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | -3.08% | 1.38% | 1.88% |

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the*

*"Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Institutional Class Prospectus****:*

| | **1 Year** | **Since Inception (04/30/2012)** |
|---|---|---|
| Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | -3.08% | -1.72% |

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Advisor and Class M Prospectus****:*

| | **1 Year** | **5 Years** | **Since Inception (03/31/2009)** |
|---|---|---|---|
| Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | -3.08% | 1.38% | 3.48% |

***PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)***

*Effective December 1, 2015, the broad-based benchmark index of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) is the Barclays Global Aggregate ex-USD (USD Hedged) Index. Accordingly, the following changes are made.*

*Effective December 1, 2015, the third sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate ex-USD (USD Hedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 7.39 years.

*Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate ex-USD (USD Hedged) Index. The Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets, excluding USD. The two major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Euro-Yen corporate bonds and Canadian Government securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global ex-U.S. Index Hedged in USD. The JPMorgan GBI Global ex-U.S. Index Hedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars of major non-U.S. bond markets.

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-U.S. Index Hedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses:*

| | **1 Year** | **5 Years** | **10 Years** |
|---|---|---|---|
| Barclays Global Aggregate ex-USD (USD Hedged) Index (reflects no deductions for fees, expenses or taxes) | 8.79% | 4.70% | 4.65% |

***PIMCO Global Bond Portfolio (Unhedged)***

*Effective December 1, 2015, the broad-based benchmark index of the PIMCO Global Bond Portfolio (Unhedged) is the Barclays Global Aggregate (USD Unhedged) Index. Accordingly, the following changes are made.*

*Effective December 1, 2015, the fourth sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate (USD Unhedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 6.42 years.

*Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:*

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate (USD Unhedged) Index. The Barclays Global Aggregate (USD Unhedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian Government securities, and USD investment grade 144A securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global FX NY Index Unhedged in USD. The JPMorgan GBI Global FX NY Index Unhedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major world bond markets.

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Administrative Class Prospectus****:*

| | **1 Year** | **5 Years** | **10 Years** |
|---|---|---|---|
| Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | 0.59% | 2.65% | 3.60% |

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Institutional Class Prospectus****:*

| | **1 Year** | **5 Years** | **Since Inception (01/31/2006)** |
|---|---|---|---|
| Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | 0.59% | 2.65% | 4.43% |

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the*

*"Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the* ***Advisor and Class M Prospectus****:*

| | 1 Year | 5 Years | Since Inception (10/31/2006) |
|---|---|---|---|
| Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes) | 0.59% | 2.65% | 4.32% |

**Investors Should Retain This Supplement For Future Reference**

PVIT_SUPP1_110615

*This supplement is not part of the Annual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.*

PIMCO

# Annual Report
*December 31, 2015*

**PIMCO Variable Insurance Trust**


PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

**Share Classes**

- Institutional
- Administrative
- Advisor

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# Table of Contents

## Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2015. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Heightened market volatility throughout the reporting period was sparked by a mix of investor concerns including geopolitical developments, monetary policy and the potential for slowing global economic growth, which generally contributed to dampened investor sentiment. In particular, increasing concern over the outlook for Chinese growth sent commodity prices and inflation expectations lower, while also negatively impacting prices of emerging market ("EM") debt and equities. In addition, the Chinese equity market began a strong decline in June 2015, which prompted the Chinese government to prop-up equity share prices and devalue the Chinese yuan. Volatility in Chinese equity markets continued into January 2016 on renewed concern over slowing Chinese economic growth. Furthermore, rising tension in the Middle East and the continued debt crisis in Greece also contributed to investor unease throughout the reporting period.

Economic data in the U.S. continued to confirm a healthy economy, particularly labor market indicators such as employment and wages. Still, signs of caution remained, particularly as U.S. consumers appeared to be more selective in their spending and chose to save rather than spend their windfall from lower gas prices. Additionally, consumer sentiment and certain housing indicators softened towards the end of the reporting period, and December 2015 U.S. manufacturing data indicated the fastest contraction in six years. Within the Eurozone, volatility increased despite gradual improvement in the underlying economies. Eurozone economic data also showed generally positive signs of an early recovery but were tempered slightly by sluggish inflation.

The theme of divergent global central bank monetary policy continued throughout the reporting period. The European Central Bank ("ECB") expressed its commitment to increase quantitative easing (or large-scale asset purchases), along with the Bank of Japan and the People's Bank of China who also indicated their intent to accelerate such measures. The Federal Reserve ("Fed"), on the other hand, moved on December 16 to raise the Federal Funds Rate by 0.25% to a new range of 0.25% - 0.50%, marking its first rate hike in nine years. However, the Fed noted that future increases in its target rate would be "gradual" and in-line with their previous projections, which helped to ease investor concerns. Outside of the reporting period on January 27, the Fed opted to leave the Federal Funds Rate unchanged, noting their intent to closely monitor how the global economy and markets influence the U.S. economic outlook.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 0.84% for the reporting period as yields generally rose slightly across the Treasury yield curve. The benchmark ten-year U.S. Treasury note yielded 2.27% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 0.55% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 1.44% over the reporting period. U.S. TIPS were pressured over the year as breakeven inflation levels, a proxy for inflation expectations, declined in-line with commodity markets. Global inflation-linked bonds ("ILBs") were also down overall during the reporting period, as the slide in energy and other commodities impacted inflation expectations globally. Despite this headwind, European ILBs fared better than other developed countries and posted marginal gains in local currencies as real yields benefited from the ECB's quantitative easing support.
- Prices on broad commodities were down over the reporting period, led lower primarily by energy and industrial metal prices. Crude oil prices faced increasing pressure from a persisting inventory glut and production growth, especially from the Organization of the Petroleum Exporting Countries ("OPEC"). Towards the end of the reporting period, seasonally warm weather put further pressure on oil prices, which ended the year considerably

lower. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 24.66% over the reporting period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 1.51% over the reporting period. Non-Agency MBS prices were mixed amid weakness in the broader credit markets, although underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.77% over the reporting period. Investment grade credit valuations cheapened as a record $1.15 trillion of new issuance came to market and commodity prices continued to fall given worries over slowing Chinese growth. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, declined 3.05% over the reporting period. Weakness in the commodity-oriented sectors including energy and metals & mining, weighed on returns as oil and other commodity prices fell. Overall, global high yield spreads and yields rose throughout the reporting period and ended higher.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.23% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 14.92% over the reporting period. Idiosyncratic forces remained a dominant theme. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. In addition, the Russian ruble continued its recovery from 2014 weakness before stumbling toward the end of the reporting period on oil price weakness.
- Equity markets showed mixed performance globally amid a period marked by economic uncertainty, increased volatility and divergent central bank monetary policy. U.S. equities, as represented by the S&P 500 Index, returned 1.38% (on a total return basis) and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 0.81% over the reporting period. However, ultra-easy monetary policy in Europe and Japan benefited European and Japanese equity markets, which generally posted positive returns. However, EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 14.92% over the same period, due to headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth and declining Chinese equities.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your broad investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 18, 2016

# Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen separate investment portfolios, including the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by the Portfolio are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). In addition, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

As of the date of this report, interest rates in the U.S. are near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets."

Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. Some of these risks may include, but are not limited to, the following: interest rate risk, call risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed securities risk, foreign (non-U.S.) investment risk, emerging markets risk, sovereign debt risk, currency risk, issuer non-diversification risk, leveraging risk, management risk and short sale risk. A complete description of these and other risks is contained in the Portfolio's prospectus.

The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, leverage risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in an asset, instrument, or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for the Portfolio. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in foreign (non-U.S.) securities may entail risk due to foreign (non-U.S.) economic and political developments; this risk may be increased when investing in emerging markets. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign (non-U.S.) issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

| Portfolio Name | Portfolio Inception | Institutional Class | Class M | Administrative Class | Advisor Class | Diversification Status |
|---|---|---|---|---|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | 2/16/99 | 4/10/00 | — | 2/16/99 | 4/30/14 | Non-diversified |

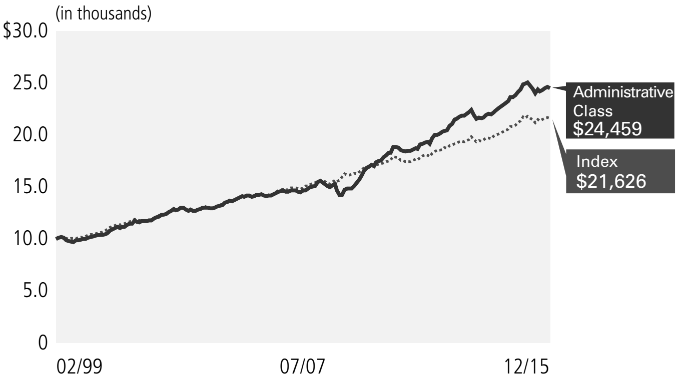
An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (888) 87-PIMCO, on the Portfolio's website at pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and is available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.




$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

## Allocation Breakdown†

| | |
|---|---|
| United States | 25.3% |
| Short-Term Instruments‡ | 20.6% |
| Italy | 9.6% |
| United Kingdom | 8.8% |
| Spain | 6.4% |
| Denmark | 5.4% |
| Other | 23.9% |

† % of Investments, at value as of 12/31/15. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes

## Average Annual Total Return for the period ended December 31, 2015

| | | 1 Year | 5 Years | 10 Years | Inception* |
|---|---|---|---|---|---|
| | PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class | 0.44% | 5.96% | 5.72% | 5.90% |
| — | PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class | 0.29% | 5.80% | 5.56% | 5.43% |
| | PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class | 0.19% | — | — | 4.43% |
| ····· | Barclays Global Aggregate ex-USD (USD Hedged) Index***± | 1.36% | 4.31% | 4.24% | 4.69%** |

All Portfolio returns are net of fees and expenses.

* For class inception dates please refer to the Important Information.
** Average annual total return since 02/28/1999.
*** Prior to December 1, 2015, the Portfolio's broad-based securities market index was JPMorgan GBI FX NY Index Unhedged.

*Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.76% for Institutional Class shares, 0.91% for Administrative Class shares, and 1.01% for Advisor Class shares.*

± Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the US Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

It is not possible to invest in an unmanaged index.

## Investment Objective and Strategy Overview

» The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing under normal circumstances at least 80% of its assets in Fixed Income Instruments that are economically tied to foreign (non-U.S.) countries, representing at least three foreign countries, which may be represented by forwards or derivatives such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities. The Portfolio will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its assets.

## Portfolio Insights

» An underweight to the euro and the Brazilian real contributed to relative performance, as both currencies depreciated relative to the U.S. dollar over the reporting period.

» An overweight to Australian duration during the first quarter contributed to relative performance, as yields declined over this portion of the reporting period.

» An underweight to Canadian duration detracted from relative performance, as Canadian rates declined during the reporting period.

» An overweight to Brazilian local duration detracted from relative performance, as Brazilian yields increased during the reporting period.

» Issue selection in the Brazilian emerging markets quasi-sovereign space detracted from performance, as emerging markets external spreads widened during the reporting period.

## Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service (12b-1) fees (if applicable), and other Portfolio expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held from July 1, 2015 to December 31, 2015 unless noted otherwise in the table and footnotes below.

## Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = $8.60), then multiply the result by the number in the appropriate column for your share class, in the column titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

## Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other portfolios. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other portfolios.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

| | Actual | | | Hypothetical (5% return before expenses) | | | |
|---|---|---|---|---|---|---|---|
| | Beginning Account Value (07/01/15) | Ending Account Value (12/31/15) | Expenses Paid During Period* | Beginning Account Value (07/01/15) | Ending Account Value (12/31/15) | Expenses Paid During Period* | Net Annualized Expense Ratio** |
| Institutional Class | $ 1,000.00 | $ 1,021.00 | $ 3.88 | $ 1,000.00 | $ 1,021.77 | $ 3.88 | 0.75% |
| Administrative Class | 1,000.00 | 1,020.20 | 4.66 | 1,000.00 | 1,021.01 | 4.66 | 0.90 |
| Advisor Class | 1,000.00 | 1,019.70 | 5.17 | 1,000.00 | 1,020.49 | 5.18 | 1.00 |

* Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 187/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.

| Selected Per Share Data for the Year or Period Ended: | Net Asset Value Beginning of Year or Period | Net Investment Income [(a)] | Net Realized/ Unrealized Gain (Loss) | Total from Investment Operations | Dividends from Net Investment Income [(b)] | Distributions from Net Realized Capital Gains [(b)] | Total Distributions |
|---|---|---|---|---|---|---|---|
| Institutional Class | | | | | | | |
| 12/31/2015 | $ 10.90 | $ 0.13 | $ (0.09) | $ 0.04 | $ (0.35) | $ (0.05) | $ (0.40) |
| 12/31/2014 | 10.05 | 0.21 | 0.92 | 1.13 | (0.21) | (0.07) | (0.28) |
| 12/31/2013 | 10.80 | 0.23 | (0.16) | 0.07 | (0.22) | (0.60) | (0.82) |
| 12/31/2012 | 10.33 | 0.27 | 0.85 | 1.12 | (0.26) | (0.39) | (0.65) |
| 12/31/2011 | 9.98 | 0.25 | 0.43 | 0.68 | (0.23) | (0.10) | (0.33) |
| Administrative Class | | | | | | | |
| 12/31/2015 | 10.90 | 0.10 | (0.07) | 0.03 | (0.34) | (0.05) | (0.39) |
| 12/31/2014 | 10.05 | 0.18 | 0.93 | 1.11 | (0.19) | (0.07) | (0.26) |
| 12/31/2013 | 10.80 | 0.22 | (0.17) | 0.05 | (0.20) | (0.60) | (0.80) |
| 12/31/2012 | 10.33 | 0.26 | 0.84 | 1.10 | (0.24) | (0.39) | (0.63) |
| 12/31/2011 | 9.98 | 0.23 | 0.43 | 0.66 | (0.21) | (0.10) | (0.31) |
| Advisor Class | | | | | | | |
| 12/31/2015 | 10.90 | 0.10 | (0.08) | 0.02 | (0.33) | (0.05) | (0.38) |
| 04/30/2014 - 12/31/2014 | 10.34 | 0.13 | 0.62 | 0.75 | (0.12) | (0.07) | (0.19) |

* Annualized

(a) Per share amounts based on average number of shares outstanding during the year or period.

(b) Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

| Net Asset Value End of Year or Period | Total Return | Net Assets End of Year or Period (000s) | Ratio of Expenses to Average Net Assets | Ratio of Expenses to Average Net Assets Excluding Interest Expense | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|---|
| $ 10.54 | 0.44% | $ 3,001 | 0.75% | 0.75% | 1.15% | 302% |
| 10.90 | 11.32 | 879 | 0.76 | 0.75 | 1.99 | 176 |
| 10.05 | 0.65 | 22 | 0.77 | 0.75 | 2.18 | 127 |
| 10.80 | 11.00 | 21 | 0.79 | 0.75 | 2.54 | 356 |
| 10.33 | 6.91 | 19 | 0.76 | 0.75 | 2.45 | 218 |
| | | | | | | |
| 10.54 | 0.29 | 73,278 | 0.90 | 0.90 | 0.90 | 302 |
| 10.90 | 11.16 | 89,343 | 0.91 | 0.90 | 1.73 | 176 |
| 10.05 | 0.50 | 66,176 | 0.92 | 0.90 | 2.03 | 127 |
| 10.80 | 10.85 | 78,497 | 0.94 | 0.90 | 2.40 | 356 |
| 10.33 | 6.76 | 78,493 | 0.91 | 0.90 | 2.30 | 218 |
| | | | | | | |
| 10.54 | 0.19 | 221,379 | 1.00 | 1.00 | 0.90 | 302 |
| 10.90 | 7.31 | 69,716 | 1.01* | 1.00* | 1.79* | 176 |

# Statement of Assets and Liabilities PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

| (Amounts in thousands, except per share amounts) | December 31, 2015 |
|---|---|
| **Assets:** | |
| *Investments, at value* | |
| Investments in securities* | $ 239,103 |
| Investments in Affiliates | 59,473 |
| *Financial Derivative Instruments* | |
| Exchange-traded or centrally cleared | 276 |
| Over the counter | 4,429 |
| Cash | 714 |
| Deposits with counterparty | 4,184 |
| Foreign currency, at value | 4,107 |
| Receivable for investments sold | 40,445 |
| Receivable for TBA investments sold | 29,779 |
| Receivable for Portfolio shares sold | 464 |
| Interest receivable | 1,850 |
| Dividends receivable from Affiliates | 37 |
| **Total Assets** | 384,861 |
| **Liabilities:** | |
| *Borrowings & Other Financing Transactions* | |
| Payable for short sales | $ 16,124 |
| *Financial Derivative Instruments* | |
| Exchange-traded or centrally cleared | 450 |
| Over the counter | 4,221 |
| Payable for investments purchased | 43,052 |
| Payable for investments in Affiliates purchased | 37 |
| Payable for TBA investments purchased | 20,761 |
| Deposits from counterparty | 2,270 |
| Payable for Portfolio shares redeemed | 25 |
| Accrued investment advisory fees | 68 |
| Accrued supervisory and administrative fees | 135 |
| Accrued distribution fees | 50 |
| Accrued servicing fees | 10 |
| **Total Liabilities** | 87,203 |
| **Net Assets** | $ 297,658 |
| **Net Assets Consist of:** | |
| Paid in capital | $ 300,348 |
| Undistributed net investment income | 4,027 |
| Accumulated undistributed net realized gain | 849 |
| Net unrealized (depreciation) | (7,566) |
| | $ 297,658 |
| **Net Assets:** | |
| Institutional Class | $ 3,001 |
| Administrative Class | 73,278 |
| Advisor Class | 221,379 |
| **Shares Issued and Outstanding:** | |
| Institutional Class | 285 |
| Administrative Class | 6,953 |
| Advisor Class | 21,005 |
| **Net Asset Value and Redemption Price Per Share Outstanding:** | |
| Institutional Class | $ 10.54 |
| Administrative Class | 10.54 |
| Advisor Class | 10.54 |
| Cost of investments in securities | $ 247,029 |
| Cost of investments in Affiliates | $ 59,708 |
| Cost of foreign currency held | $ 4,125 |
| Proceeds received on short sales | $ 16,123 |
| Cost or premiums of financial derivative instruments, net | $ (408) |
| * Includes repurchase agreements of: | $ 1,404 |

# Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

| (Amounts in thousands) | Year Ended December 31, 2015 |
|---|---|
| **Investment Income:** | |
| Interest | $ 3,899 |
| Dividends | 1 |
| Dividends from Investments in Affiliates | 466 |
| Total Income | 4,366 |
| **Expenses:** | |
| Investment advisory fees | 584 |
| Supervisory and administrative fees | 1,169 |
| Servicing fees - Administrative Class | 117 |
| Distribution and/or servicing fees - Advisor Class | 385 |
| Trustee fees | 4 |
| Interest expense | 4 |
| Total Expenses | 2,263 |
| **Net Investment Income** | 2,103 |
| **Net Realized Gain (Loss):** | |
| Investments in securities | (6,985) |
| Investments in Affiliates | (203) |
| Exchange-traded or centrally cleared financial derivative instruments | 874 |
| Over the counter financial derivative instruments | 12,134 |
| Foreign currency | 2,106 |
| **Net Realized Gain** | 7,926 |
| **Net Change in Unrealized (Depreciation):** | |
| Investments in securities | (6,488) |
| Investments in Affiliates | (24) |
| Exchange-traded or centrally cleared financial derivative instruments | (1,513) |
| Over the counter financial derivative instruments | (2,039) |
| Foreign currency assets and liabilities | (250) |
| **Net Change in Unrealized (Depreciation)** | (10,314) |
| **Net (Decrease) in Net Assets Resulting from Operations** | $ (285) |

## Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

| (Amounts in thousands) | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| **Increase in Net Assets from:** | | |
| **Operations:** | | |
| Net investment income | $ 2,103 | $ 1,659 |
| Net realized gain | 7,926 | 5,766 |
| Net change in unrealized appreciation (depreciation) | (10,314) | 2,784 |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | (285) | 10,209 |
| **Distributions to Shareholders:** | | |
| From net investment income [(a)] | | |
| Institutional Class | (87) | (5) |
| Administrative Class | (2,313) | (1,426) |
| Advisor Class | (6,116) | (294) |
| From net realized capital gains [(a)] | | |
| Institutional Class | (15) | (5) |
| Administrative Class | (367) | (540) |
| Advisor Class | (1,083) | (371) |
| **Total Distributions** | (9,981) | (2,641) |
| **Portfolio Share Transactions:** | | |
| Net increase resulting from Portfolio share transactions** | 147,986 | 86,172 |
| **Total Increase in Net Assets** | 137,720 | 93,740 |
| **Net Assets:** | | |
| Beginning of year | 159,938 | 66,198 |
| End of year* | $ 297,658 | $ 159,938 |
| * Including undistributed net investment income of: | $ 4,027 | $ 3,900 |

**See Note 12 in the Notes to Financial Statements.
(a) Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **INVESTMENTS IN SECURITIES 80.3%** | | | |
| **AUSTRALIA 0.2%** | | | |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 0.0%** | | | |
| **Torrens Trust** | | | |
| 2.485% due 10/19/2038 | AUD | 36 | $ 26 |
| **SOVEREIGN ISSUES 0.2%** | | | |
| **New South Wales Treasury Corp. Inflation Linked Bond** | | | |
| 2.750% due 11/20/2025 | | 124 | 106 |
| **Queensland Treasury Corp.** | | | |
| 4.250% due 07/21/2023 | | 600 | 470 |
| | | | 576 |
| **Total Australia (Cost $735)** | | | **602** |
| **BRAZIL 0.4%** | | | |
| **CORPORATE BONDS & NOTES 0.4%** | | | |
| **Petrobras Global Finance BV** | | | |
| 2.886% due 03/17/2017 | $ | 200 | 184 |
| 3.250% due 03/17/2017 | | 300 | 278 |
| 3.406% due 03/17/2020 | | 500 | 356 |
| 8.375% due 12/10/2018 | | 300 | 277 |
| **Total Brazil (Cost $1,212)** | | | **1,095** |
| **CANADA 3.8%** | | | |
| **CORPORATE BONDS & NOTES 0.2%** | | | |
| **Toronto-Dominion Bank** | | | |
| 1.052% due 07/02/2019 | $ | 500 | 496 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%** | | | |
| **Canadian Mortgage Pools** | | | |
| 0.933% due 06/01/2020 | CAD | 281 | 201 |
| 1.133% due 07/01/2020 | | 766 | 550 |
| 1.133% due 08/01/2020 | | 294 | 211 |
| | | | 962 |
| **SOVEREIGN ISSUES 3.3%** | | | |
| **Canada Government International Bond** | | | |
| 1.500% due 12/01/2044 (b) | | 440 | 389 |
| **Province of Alberta** | | | |
| 1.250% due 06/01/2020 | | 1,100 | 792 |
| 2.350% due 06/01/2025 | | 1,100 | 793 |
| **Province of British Columbia** | | | |
| 4.300% due 06/18/2042 | | 100 | 88 |
| **Province of Ontario** | | | |
| 2.600% due 06/02/2025 | | 9,700 | 7,166 |
| 3.450% due 06/02/2045 | | 100 | 76 |
| 3.500% due 06/02/2024 | | 600 | 478 |
| 6.200% due 06/02/2031 | | 100 | 101 |
| | | | 9,883 |
| **Total Canada (Cost $11,829)** | | | **11,341** |
| **CAYMAN ISLANDS 0.5%** | | | |
| **ASSET-BACKED SECURITIES 0.5%** | | | |
| **Atrium CDO Corp.** | | | |
| 1.421% due 11/16/2022 | $ | 246 | 245 |
| **Gallatin CLO Ltd.** | | | |
| 1.591% due 07/15/2023 | | 196 | 195 |
| **OHA Credit Partners Ltd.** | | | |
| 1.582% due 05/15/2023 | | 595 | 592 |

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **Symphony CLO LP** | | | |
| 1.419% due 01/09/2023 | $ | 489 | $ 487 |
| **Total Cayman Islands (Cost $1,526)** | | | **1,519** |
| **CHINA 0.1%** | | | |
| **CORPORATE BONDS & NOTES 0.1%** | | | |
| **CNOOC Curtis Funding Pty. Ltd.** | | | |
| 4.500% due 10/03/2023 | $ | 200 | 207 |
| **Total China (Cost $203)** | | | **207** |
| **DENMARK 5.4%** | | | |
| **CORPORATE BONDS & NOTES 5.4%** | | | |
| **Nykredit Realkredit A/S** | | | |
| 1.000% due 07/01/2016 | DKK | 21,900 | 3,208 |
| 1.000% due 10/01/2016 | | 43,900 | 6,445 |
| 2.000% due 01/01/2016 | | 2,400 | 350 |
| 2.000% due 04/01/2016 | | 2,600 | 380 |
| 3.000% due 10/01/2047 | | 12,851 | 1,846 |
| **Realkredit Danmark A/S** | | | |
| 2.000% due 01/01/2016 | | 11,600 | 1,689 |
| 2.500% due 10/01/2037 | | 10,500 | 1,523 |
| 3.000% due 10/01/2047 | | 4,185 | 603 |
| **Total Denmark (Cost $16,533)** | | | **16,044** |
| **FRANCE 4.2%** | | | |
| **CORPORATE BONDS & NOTES 0.7%** | | | |
| **Banque PSA Finance S.A.** | | | |
| 4.250% due 02/25/2016 | EUR | 700 | 765 |
| **BPCE S.A.** | | | |
| 4.500% due 03/15/2025 | $ | 500 | 481 |
| **Credit Agricole S.A.** | | | |
| 1.047% due 06/12/2017 | | 400 | 399 |
| 8.125% due 09/19/2033 | | 200 | 221 |
| **Dexia Credit Local S.A.** | | | |
| 1.875% due 01/29/2020 | | 250 | 246 |
| | | | 2,112 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%** | | | |
| **Infiniti SoPRANo** | | | |
| 0.111% due 11/05/2019 | EUR | 820 | 852 |
| **SOVEREIGN ISSUES 3.2%** | | | |
| **Caisse d'Amortissement de la Dette Sociale** | | | |
| 3.375% due 03/20/2024 | $ | 400 | 425 |
| **France Government International Bond** | | | |
| 0.250% due 07/25/2024 (b) | EUR | 1,017 | 1,163 |
| 1.000% due 11/25/2018 | | 900 | 1,012 |
| 1.000% due 11/25/2025 | | 1,100 | 1,197 |
| 1.750% due 11/25/2024 | | 900 | 1,057 |
| 2.500% due 05/25/2030 | | 600 | 739 |
| 3.250% due 05/25/2045 | | 2,000 | 2,764 |
| 4.000% due 10/25/2038 | | 200 | 304 |
| 4.500% due 04/25/2041 | | 600 | 991 |
| | | | 9,652 |
| **Total France (Cost $13,530)** | | | **12,616** |
| **GERMANY 2.1%** | | | |
| **CORPORATE BONDS & NOTES 1.7%** | | | |
| **Commerzbank AG** | | | |
| 8.125% due 09/19/2023 | $ | 1,300 | 1,497 |

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **FMS Wertmanagement AoeR** | | | |
| 0.750% due 12/15/2017 | GBP | 200 | $ 293 |
| **Landwirtschaftliche Rentenbank** | | | |
| 4.250% due 01/24/2023 | AUD | 500 | 385 |
| 4.750% due 03/12/2019 | NZD | 1,200 | 854 |
| 5.500% due 03/29/2022 | AUD | 1,600 | 1,318 |
| **Symrise AG** | | | |
| 4.125% due 10/25/2017 | EUR | 500 | 575 |
| | | | 4,922 |
| **SOVEREIGN ISSUES 0.4%** | | | |
| **Republic of Germany** | | | |
| 0.100% due 04/15/2023 (b) | | 104 | 118 |
| 4.000% due 01/04/2037 | | 100 | 161 |
| 4.250% due 07/04/2039 | | 500 | 855 |
| | | | 1,134 |
| **Total Germany (Cost $6,533)** | | | **6,056** |
| **GREECE 0.6%** | | | |
| **CORPORATE BONDS & NOTES 0.3%** | | | |
| **Hellenic Railways Organization S.A.** | | | |
| 5.014% due 12/27/2017 | EUR | 300 | 302 |
| **National Bank of Greece S.A.** | | | |
| 3.875% due 10/07/2016 | | 700 | 744 |
| | | | 1,046 |
| **SOVEREIGN ISSUES 0.3%** | | | |
| **Republic of Greece Government International Bond** | | | |
| 3.800% due 08/08/2017 | JPY | 80,000 | 599 |
| 5.000% due 08/22/2016 | | 25,000 | 201 |
| | | | 800 |
| **Total Greece (Cost $1,834)** | | | **1,846** |
| **HONG KONG 0.1%** | | | |
| **CORPORATE BONDS & NOTES 0.1%** | | | |
| **CNOOC Finance Ltd.** | | | |
| 3.875% due 05/02/2022 | $ | 200 | 203 |
| **Total Hong Kong (Cost $197)** | | | **203** |
| **IRELAND 1.9%** | | | |
| **ASSET-BACKED SECURITIES 0.3%** | | | |
| **Celf Loan Partners PLC** | | | |
| 0.997% due 05/03/2023 | GBP | 643 | 916 |
| **CORPORATE BONDS & NOTES 1.4%** | | | |
| **Depfa ACS Bank** | | | |
| 3.875% due 11/14/2016 | EUR | 3,500 | 3,924 |
| 5.125% due 03/16/2037 | $ | 200 | 245 |
| | | | 4,169 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%** | | | |
| **DECO Series** | | | |
| 1.200% due 04/27/2027 | EUR | 495 | 534 |
| **German Residential Funding Ltd.** | | | |
| 1.046% due 08/27/2024 | | 185 | 203 |
| | | | 737 |
| **Total Ireland (Cost $6,157)** | | | **5,822** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **ITALY 9.7%** | | |
| **ASSET-BACKED SECURITIES 0.0%** | | |
| **Alba SPV SRL** | | |
| 1.449% due 04/20/2040 | EUR 33 | $ 36 |
| **CORPORATE BONDS & NOTES 0.5%** | | |
| **Banca Carige SpA** | | |
| 3.875% due 10/24/2018 | 600 | 707 |
| **Banca Monte dei Paschi di Siena SpA** | | |
| 5.000% due 02/09/2056 | 100 | 118 |
| **Banco Popolare SC** | | |
| 2.375% due 01/22/2018 | 500 | 547 |
| | | 1,372 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 0.5%** | | |
| **Berica Residential MBS SRL** | | |
| 0.229% due 03/31/2048 | 104 | 111 |
| **Casa D'este Finance SRL** | | |
| 0.222% due 09/15/2040 | 152 | 161 |
| **Claris SRL** | | |
| 0.354% due 10/31/2060 | 372 | 398 |
| **Creso SRL** | | |
| 0.569% due 12/30/2060 | 625 | 675 |
| **Giovecca Mortgages SRL** | | |
| 0.547% due 04/23/2048 | 93 | 100 |
| | | 1,445 |
| **SOVEREIGN ISSUES 8.7%** | | |
| **Italy Buoni Poliennali Del Tesoro** | | |
| 2.000% due 12/01/2025 | 800 | 901 |
| 2.500% due 12/01/2024 | 1,700 | 2,007 |
| 3.750% due 09/01/2024 | 3,600 | 4,644 |
| 4.000% due 02/01/2037 | 2,700 | 3,662 |
| 4.500% due 05/01/2023 | 500 | 670 |
| 4.500% due 03/01/2024 | 7,600 | 10,264 |
| 5.000% due 03/01/2025 | 1,300 | 1,837 |
| 5.500% due 09/01/2022 | 600 | 839 |
| **Italy Government International Bond** | | |
| 6.000% due 08/04/2028 | GBP 600 | 1,067 |
| | | 25,891 |
| **Total Italy (Cost $29,566)** | | **28,744** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **JAPAN 0.6%** | | |
| **CORPORATE BONDS & NOTES 0.6%** | | |
| **Bank of Tokyo-Mitsubishi UFJ Ltd.** | | |
| 1.700% due 03/05/2018 | $ 200 | 198 |
| **Mizuho Bank Ltd.** | | |
| 1.507% due 10/20/2018 | 1,500 | 1,515 |
| **Total Japan (Cost $1,707)** | | **1,713** |
| **JERSEY, CHANNEL ISLANDS 0.2%** | | |
| **ASSET-BACKED SECURITIES 0.2%** | | |
| **Highlander Euro CDO BV** | | |
| 0.488% due 09/06/2022 | EUR 534 | 578 |
| **Total Jersey, Channel Islands (Cost $590)** | | **578** |
| **LUXEMBOURG 0.9%** | | |
| **CORPORATE BONDS & NOTES 0.9%** | | |
| **Erste Europaische Pfandbrief und Kommunalkreditbank AG S.A.** | | |
| 4.250% due 06/04/2018 | EUR 1,650 | 1,948 |
| **Wind Acquisition Finance S.A.** | | |
| 7.000% due 04/23/2021 | EUR 600 | $ 647 |
| **Total Luxembourg (Cost $2,593)** | | **2,595** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **MEXICO 1.9%** | | |
| **SOVEREIGN ISSUES 1.9%** | | |
| **Mexico Government International Bond** | | |
| 4.750% due 06/14/2018 | MXN 12,100 | 706 |
| 6.500% due 06/09/2022 | 79,800 | 4,776 |
| 8.500% due 12/13/2018 | 2,640 | 169 |
| **Total Mexico (Cost $6,087)** | | **5,651** |
| **NETHERLANDS 1.7%** | | |
| **ASSET-BACKED SECURITIES 0.3%** | | |
| **Cadogan Square CLO BV** | | |
| 0.279% due 01/17/2023 | EUR 93 | 100 |
| **Chapel BV** | | |
| 0.308% due 07/17/2066 | 218 | 222 |
| **Highlander Euro CDO BV** | | |
| 0.161% due 05/01/2023 | 205 | 217 |
| **Jubilee CDO BV** | | |
| 0.336% due 09/20/2022 | 200 | 217 |
| **Panther CDO BV** | | |
| 0.312% due 10/15/2084 | 152 | 158 |
| | | 914 |
| **CORPORATE BONDS & NOTES 1.4%** | | |
| **Bank Nederlandse Gemeenten NV** | | |
| 4.550% due 02/15/2019 | CAD 1,800 | 1,427 |
| **Fiat Chrysler Automobiles NV** | | |
| 4.500% due 04/15/2020 | $ 400 | 407 |
| **Rabobank Group** | | |
| 8.375% due 07/26/2016 (c) | 2,000 | 2,064 |
| 8.400% due 06/29/2017 (c) | 300 | 323 |
| | | 4,221 |
| **Total Netherlands (Cost $5,295)** | | **5,135** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **NORWAY 0.5%** | | |
| **CORPORATE BONDS & NOTES 0.3%** | | |
| **Eksportfinans ASA** | | |
| 2.375% due 05/25/2016 | $ 600 | 601 |
| 5.500% due 05/25/2016 | 400 | 405 |
| | | 1,006 |
| **SOVEREIGN ISSUES 0.2%** | | |
| **Kommunalbanken A/S** | | |
| 0.983% due 03/27/2017 | 400 | 401 |
| **Norway Government International Bond** | | |
| 3.750% due 05/25/2021 | NOK 1,800 | 233 |
| | | 634 |
| **Total Norway (Cost $1,677)** | | **1,640** |
| **PORTUGAL 0.1%** | | |
| **CORPORATE BONDS & NOTES 0.1%** | | |
| **Banco Espirito Santo S.A.** | | |
| 4.000% due 01/21/2019 | EUR 300 | 45 |
| 4.750% due 01/15/2018 | 200 | 30 |
| **Novo Banco S.A.** | | |
| 5.000% due 05/14/2019 | 100 | 95 |
| 5.000% due 05/21/2019 | EUR 200 | $ 194 |
| **Total Portugal (Cost $933)** | | **364** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **SLOVENIA 2.6%** | | |
| **SOVEREIGN ISSUES 2.6%** | | |
| **Slovenia Government International Bond** | | |
| 4.125% due 02/18/2019 | $ 2,300 | 2,423 |
| 4.700% due 11/01/2016 | EUR 800 | 904 |
| 4.750% due 05/10/2018 | $ 1,400 | 1,489 |
| 5.250% due 02/18/2024 | 1,800 | 1,990 |
| 5.850% due 05/10/2023 | 700 | 799 |
| **Total Slovenia (Cost $7,651)** | | **7,605** |
| **SPAIN 6.4%** | | |
| **CORPORATE BONDS & NOTES 0.2%** | | |
| **Banco Santander S.A.** | | |
| 6.250% due 09/11/2021 (c) | EUR 500 | 510 |
| **BPE Financiaciones S.A.** | | |
| 2.875% due 05/19/2016 | 100 | 109 |
| | | 619 |
| **SOVEREIGN ISSUES 6.2%** | | |
| **Autonomous Community of Catalonia** | | |
| 4.300% due 11/15/2016 | 400 | 440 |
| 4.750% due 06/04/2018 | 300 | 345 |
| 4.950% due 02/11/2020 | 100 | 118 |
| **Autonomous Community of Madrid** | | |
| 4.125% due 05/21/2024 | 600 | 766 |
| 4.300% due 09/15/2026 | 400 | 521 |
| **Autonomous Community of Valencia** | | |
| 4.900% due 03/17/2020 | 600 | 750 |
| **Spain Government International Bond** | | |
| 2.150% due 10/31/2025 | 6,500 | 7,305 |
| 2.750% due 10/31/2024 | 3,100 | 3,678 |
| 3.300% due 07/30/2016 | 900 | 997 |
| 4.650% due 07/30/2025 | 1,200 | 1,641 |
| 5.150% due 10/31/2028 | 200 | 290 |
| 5.150% due 10/31/2044 | 1,050 | 1,621 |
| | | 18,472 |
| **Total Spain (Cost $19,340)** | | **19,091** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **SUPRANATIONAL 0.4%** | | |
| **CORPORATE BONDS & NOTES 0.4%** | | |
| **European Investment Bank** | | |
| 0.500% due 06/21/2023 | AUD 500 | 285 |
| 0.500% due 08/10/2023 | 400 | 226 |
| 6.500% due 08/07/2019 | 800 | 658 |
| **Total Supranational (Cost $1,265)** | | **1,169** |
| **SWEDEN 0.3%** | | |
| **CORPORATE BONDS & NOTES 0.2%** | | |
| **Skandinaviska Enskilda Banken AB** | | |
| 3.000% due 06/20/2018 | SEK 1,500 | 190 |
| **Swedbank AB** | | |
| 2.200% due 03/04/2020 | $ 300 | 297 |
| **Swedbank Hypotek AB** | | |
| 3.750% due 12/20/2017 | SEK 1,100 | 140 |
| | | 627 |

| | | PRINCIPAL AMOUNT (000S) | | MARKET VALUE (000S) |
|---|---|---|---|---|
| **SOVEREIGN ISSUES 0.1%** | | | | |
| **Sweden Government International Bond** | | | | |
| 4.250% due 03/12/2019 | SEK | 1,200 | $ | 162 |
| **Total Sweden (Cost $906)** | | | | **789** |
| **SWITZERLAND 1.0%** | | | | |
| **CORPORATE BONDS & NOTES 0.8%** | | | | |
| **UBS AG** | | | | |
| 4.750% due 05/22/2023 | $ | 600 | | 610 |
| 7.250% due 02/22/2022 | | 1,100 | | 1,151 |
| 7.625% due 08/17/2022 | | 500 | | 571 |
| | | | | 2,332 |
| **SOVEREIGN ISSUES 0.2%** | | | | |
| **Switzerland Government Bond** | | | | |
| 3.500% due 04/08/2033 | CHF | 300 | | 458 |
| **Total Switzerland (Cost $2,822)** | | | | **2,790** |
| **UNITED KINGDOM 8.8%** | | | | |
| **ASSET-BACKED SECURITIES 0.0%** | | | | |
| **Motor PLC** | | | | |
| 0.902% due 08/25/2021 | $ | 109 | | 109 |
| **CORPORATE BONDS & NOTES 2.4%** | | | | |
| **Barclays Bank PLC** | | | | |
| 7.625% due 11/21/2022 | | 1,100 | | 1,255 |
| 7.750% due 04/10/2023 | | 500 | | 534 |
| **Barclays PLC** | | | | |
| 3.650% due 03/16/2025 | | 600 | | 578 |
| **HBOS PLC** | | | | |
| 1.303% due 09/30/2016 | | 1,200 | | 1,197 |
| 6.750% due 05/21/2018 | | 1,100 | | 1,203 |
| **Lloyds Banking Group PLC** | | | | |
| 7.875% due 06/27/2029 (c) | GBP | 600 | | 939 |
| **Royal Bank of Scotland PLC** | | | | |
| 9.500% due 03/16/2022 | $ | 900 | | 976 |
| **Tesco PLC** | | | | |
| 6.125% due 02/24/2022 | GBP | 300 | | 463 |
| | | | | 7,145 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 1.5%** | | | | |
| **Business Mortgage Finance PLC** | | | | |
| 0.953% due 02/15/2039 | | 813 | | 1,163 |
| 2.573% due 02/15/2041 | | 441 | | 639 |
| **Eurohome UK Mortgages PLC** | | | | |
| 0.733% due 06/15/2044 | | 141 | | 194 |
| **Eurosail PLC** | | | | |
| 0.743% due 06/10/2044 | | 43 | | 61 |
| 0.885% due 06/13/2045 | | 218 | | 318 |
| **Mansard Mortgages PLC** | | | | |
| 1.233% due 12/15/2049 | | 254 | | 361 |
| **Money Partners Securities PLC** | | | | |
| 0.963% due 03/15/2040 | | 27 | | 38 |
| **Newgate Funding PLC** | | | | |
| 0.733% due 12/01/2050 | | 300 | | 394 |
| 1.583% due 12/15/2050 | | 354 | | 475 |
| **RMAC Securities PLC** | | | | |
| 0.735% due 06/12/2044 | | 614 | | 827 |
| | | | | 4,470 |

| | | PRINCIPAL AMOUNT (000S) | | MARKET VALUE (000S) |
|---|---|---|---|---|
| **SOVEREIGN ISSUES 4.9%** | | | | |
| **United Kingdom Gilt** | | | | |
| 2.250% due 09/07/2023 | GBP | 500 | $ | 763 |
| 3.250% due 01/22/2044 | | 5,400 | | 8,874 |
| 3.500% due 01/22/2045 | | 1,500 | | 2,583 |
| 4.250% due 12/07/2040 | | 1,200 | | 2,288 |
| | | | | 14,508 |
| **Total United Kingdom (Cost $27,369)** | | | | **26,232** |
| **UNITED STATES 25.2%** | | | | |
| **ASSET-BACKED SECURITIES 6.7%** | | | | |
| **Amortizing Residential Collateral Trust** | | | | |
| 0.921% due 10/25/2031 | $ | 1 | | 1 |
| 1.002% due 07/25/2032 | | 1 | | 1 |
| **Amresco Residential Securities Corp. Mortgage Loan Trust** | | | | |
| 1.362% due 06/25/2029 | | 1 | | 1 |
| **Argent Securities, Inc. Asset-Backed Pass-Through Certificates** | | | | |
| 0.802% due 02/25/2036 | | 800 | | 547 |
| **Citigroup Mortgage Loan Trust, Inc.** | | | | |
| 0.582% due 12/25/2036 | | 813 | | 539 |
| 0.682% due 03/25/2036 | | 800 | | 616 |
| **Countrywide Asset-Backed Certificates** | | | | |
| 0.552% due 12/25/2036 ^ | | 628 | | 567 |
| 0.562% due 06/25/2035 | | 644 | | 498 |
| 0.562% due 01/25/2037 | | 2,879 | | 2,711 |
| 0.562% due 06/25/2037 | | 829 | | 633 |
| 0.562% due 06/25/2047 ^ | | 643 | | 499 |
| 0.572% due 04/25/2047 | | 919 | | 792 |
| 0.712% due 07/25/2036 | | 700 | | 625 |
| 5.397% due 08/25/2035 ^ | | 1,429 | | 1,399 |
| **Credit Suisse First Boston Mortgage Securities Corp.** | | | | |
| 1.042% due 01/25/2032 | | 1 | | 1 |
| **First Alliance Mortgage Loan Trust** | | | | |
| 0.862% due 12/20/2027 | | 1 | | 1 |
| **GSAMP Trust** | | | | |
| 0.852% due 11/25/2035 ^ | | 1,392 | | 798 |
| **HSI Asset Securitization Corp. Trust** | | | | |
| 0.682% due 04/25/2037 | | 1,026 | | 596 |
| **IndyMac Home Equity Mortgage Loan Asset-Backed Trust** | | | | |
| 0.662% due 04/25/2037 | | 775 | | 479 |
| 0.872% due 08/25/2035 | | 78 | | 77 |
| **JPMorgan Mortgage Acquisition Trust** | | | | |
| 0.552% due 08/25/2036 | | 691 | | 604 |
| **Long Beach Mortgage Loan Trust** | | | | |
| 0.982% due 10/25/2034 | | 12 | | 12 |
| **Morgan Stanley ABS Capital, Inc. Trust** | | | | |
| 0.552% due 10/25/2036 | | 218 | | 168 |
| **Morgan Stanley Home Equity Loan Trust** | | | | |
| 0.652% due 04/25/2037 | | 1,055 | | 602 |
| **Morgan Stanley Mortgage Loan Trust** | | | | |
| 5.919% due 09/25/2046 ^ | | 202 | | 113 |
| **Nomura Home Equity Loan, Inc. Home Equity Loan Trust** | | | | |
| 0.712% due 03/25/2036 | | 700 | | 525 |
| **NovaStar Mortgage Funding Trust** | | | | |
| 0.552% due 03/25/2037 | | 990 | | 649 |
| **Renaissance Home Equity Loan Trust** | | | | |
| 2.972% due 12/25/2032 | | 531 | | 503 |
| 5.294% due 01/25/2037 | | 670 | | 370 |
| 5.675% due 06/25/2037 ^ | | 1,074 | | 531 |
| 5.731% due 11/25/2036 | | 1,080 | | 586 |

| | | PRINCIPAL AMOUNT (000S) | | MARKET VALUE (000S) |
|---|---|---|---|---|
| **Residential Asset Mortgage Products Trust** | | | | |
| 0.441% due 12/25/2035 | $ | 629 | $ | 486 |
| 0.451% due 12/25/2035 | | 1,398 | | 1,019 |
| **Residential Asset Securities Corp. Trust** | | | | |
| 0.922% due 07/25/2032 ^ | | 2 | | 2 |
| **Saxon Asset Securities Trust** | | | | |
| 2.172% due 12/25/2037 | | 523 | | 421 |
| 2.222% due 05/25/2031 | | 647 | | 565 |
| **SLM Student Loan Trust** | | | | |
| 0.820% due 10/25/2017 | | 12 | | 12 |
| 1.820% due 04/25/2023 | | 387 | | 388 |
| **Soundview Home Loan Trust** | | | | |
| 0.572% due 06/25/2037 | | 113 | | 69 |
| **Structured Asset Investment Loan Trust** | | | | |
| 0.552% due 07/25/2036 | | 688 | | 487 |
| **Wells Fargo Home Equity Asset-Backed Securities Trust** | | | | |
| 0.652% due 01/25/2037 | | 800 | | 556 |
| | | | | 20,049 |
| **BANK LOAN OBLIGATIONS 0.2%** | | | | |
| **Charter Communications Operating LLC** | | | | |
| 3.500% due 01/24/2023 | | 600 | | 600 |
| **CORPORATE BONDS & NOTES 4.2%** | | | | |
| **Ally Financial, Inc.** | | | | |
| 2.750% due 01/30/2017 | | 800 | | 800 |
| 2.995% due 07/18/2016 | | 100 | | 100 |
| 3.600% due 05/21/2018 | | 400 | | 401 |
| 5.500% due 02/15/2017 | | 300 | | 310 |
| **Charter Communications Operating LLC** | | | | |
| 4.250% due 08/03/2017 | EUR | 200 | | 228 |
| **Bank of America Corp.** | | | | |
| 6.100% due 03/17/2025 (c) | $ | 400 | | 406 |
| 6.400% due 08/28/2017 | | 1,200 | | 1,286 |
| **BellSouth Corp.** | | | | |
| 4.821% due 04/26/2021 | | 600 | | 607 |
| **CCO Safari LLC** | | | | |
| 4.464% due 07/23/2022 | | 200 | | 200 |
| 6.384% due 10/23/2035 | | 600 | | 607 |
| **Chesapeake Energy Corp.** | | | | |
| 3.571% due 04/15/2019 | | 100 | | 28 |
| **Citigroup, Inc.** | | | | |
| 5.950% due 05/15/2025 (c) | | 500 | | 482 |
| 6.125% due 11/15/2020 (c) | | 700 | | 715 |
| **Goldman Sachs Group, Inc.** | | | | |
| 1.476% due 04/23/2020 | | 400 | | 401 |
| **International Lease Finance Corp.** | | | | |
| 6.750% due 09/01/2016 | | 200 | | 206 |
| **Lehman Brothers Holdings, Inc.** | | | | |
| 6.875% due 05/02/2018 ^ | | 200 | | 15 |
| **Metropolitan Life Global Funding** | | | | |
| 2.000% due 04/14/2020 | | 300 | | 294 |
| **Navient Corp.** | | | | |
| 5.500% due 01/15/2019 | | 1,100 | | 1,031 |
| **SABMiller Holdings, Inc.** | | | | |
| 4.950% due 01/15/2042 | | 800 | | 814 |
| **SLM Student Loan Trust** | | | | |
| 1.136% due 03/15/2038 | GBP | 700 | | 891 |
| **Springleaf Finance Corp.** | | | | |
| 6.000% due 06/01/2020 | $ | 400 | | 382 |
| **Sprint Communications, Inc.** | | | | |
| 6.000% due 12/01/2016 | | 700 | | 698 |
| 8.375% due 08/15/2017 | | 400 | | 396 |
| **Universal Health Services, Inc.** | | | | |
| 7.125% due 06/30/2016 | | 1,000 | | 1,026 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **Zimmer Biomet Holdings, Inc.** | | |
| 3.150% due 04/01/2022 | $ 300 | $ 295 |
| | | 12,619 |
| **MUNICIPAL BONDS & NOTES 0.0%** | | |
| **Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010** | | |
| 7.148% due 03/01/2043 | 100 | 132 |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 2.8%** | | |
| **American Home Mortgage Investment Trust** | | |
| 2.154% due 09/25/2045 | 59 | 58 |
| **Banc of America Alternative Loan Trust** | | |
| 6.500% due 04/25/2036 ^ | 819 | 704 |
| **Banc of America Mortgage Trust** | | |
| 2.635% due 02/25/2036 ^ | 111 | 100 |
| **Bear Stearns Adjustable Rate Mortgage Trust** | | |
| 2.601% due 08/25/2033 | 3 | 4 |
| 2.680% due 03/25/2035 | 49 | 49 |
| 2.924% due 03/25/2035 | 5 | 5 |
| **Bear Stearns ALT-A Trust** | | |
| 0.582% due 02/25/2034 | 68 | 62 |
| 2.726% due 09/25/2035 | 49 | 42 |
| 2.741% due 11/25/2035 ^ | 42 | 32 |
| 2.743% due 03/25/2036 ^ | 190 | 146 |
| 2.956% due 08/25/2036 ^ | 60 | 45 |
| **Bear Stearns Structured Products, Inc. Trust** | | |
| 2.566% due 12/26/2046 | 44 | 32 |
| **Citigroup Commercial Mortgage Trust** | | |
| 1.081% due 06/15/2033 | 400 | 396 |
| **Citigroup Mortgage Loan Trust, Inc.** | | |
| 2.420% due 09/25/2035 | 16 | 16 |
| 2.430% due 09/25/2035 | 9 | 9 |
| **Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates** | | |
| 2.399% due 09/25/2035 ^ | 572 | 496 |
| **Countrywide Alternative Loan Trust** | | |
| 0.612% due 03/20/2046 | 103 | 78 |
| 0.702% due 02/25/2037 | 85 | 67 |
| 1.257% due 12/25/2035 | 112 | 94 |
| 1.674% due 11/25/2035 | 20 | 16 |
| 5.250% due 06/25/2035 ^ | 14 | 13 |
| **Countrywide Home Loan Mortgage Pass-Through Trust** | | |
| 0.652% due 05/25/2035 | 40 | 35 |
| 0.742% due 03/25/2035 | 84 | 66 |
| 1.082% due 02/25/2035 | 10 | 9 |
| 2.646% due 11/25/2034 | 12 | 11 |
| 2.766% due 08/25/2034 ^ | 32 | 28 |
| 5.500% due 01/25/2035 | 553 | 564 |
| **Credit Suisse First Boston Mortgage Securities Corp.** | | |
| 6.500% due 04/25/2033 | 1 | 1 |
| **Credit Suisse Mortgage Capital Mortgage-Backed Trust** | | |
| 5.863% due 02/25/2037 ^ | 218 | 115 |
| **DBUBS Mortgage Trust** | | |
| 0.291% due 11/10/2046 (a) | 400 | 6 |
| 1.127% due 11/10/2046 (a) | 510 | 11 |
| **Deutsche Alt-A Securities Mortgage Loan Trust** | | |
| 1.172% due 10/25/2047 | 1,362 | 1,040 |
| **GSR Mortgage Loan Trust** | | |
| 0.752% due 12/25/2034 | 95 | 86 |
| 2.690% due 04/25/2035 | 407 | 384 |
| 2.869% due 01/25/2036 ^ | 98 | 92 |
| **HarborView Mortgage Loan Trust** | | |
| 2.574% due 05/19/2033 | 5 | 5 |
| **IndyMac Mortgage Loan Trust** | | |
| 0.632% due 05/25/2046 | 722 | 597 |
| 0.662% due 07/25/2035 | 34 | 30 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **JPMorgan Mortgage Trust** | | |
| 2.048% due 07/27/2037 | $ 143 | $ 134 |
| 2.609% due 02/25/2036 ^ | 57 | 50 |
| **Mellon Residential Funding Corp. Mortgage Pass-Through Trust** | | |
| 0.771% due 12/15/2030 | 9 | 8 |
| **Merrill Lynch Mortgage Investors Trust** | | |
| 1.904% due 10/25/2035 | 14 | 14 |
| **Morgan Stanley Bank of America Merrill Lynch Trust** | | |
| 1.446% due 12/15/2048 (a) | 1,245 | 61 |
| **Morgan Stanley Capital Trust** | | |
| 0.465% due 07/12/2044 | 123 | 123 |
| **Morgan Stanley Mortgage Loan Trust** | | |
| 2.225% due 06/25/2036 | 65 | 63 |
| **Residential Accredit Loans, Inc. Trust** | | |
| 0.572% due 02/25/2047 | 43 | 24 |
| 0.602% due 06/25/2046 | 357 | 153 |
| 0.632% due 04/25/2046 | 615 | 293 |
| **Structured Adjustable Rate Mortgage Loan Trust** | | |
| 2.580% due 04/25/2034 | 9 | 9 |
| **Structured Asset Mortgage Investments Trust** | | |
| 0.632% due 05/25/2046 | 17 | 13 |
| 0.642% due 05/25/2036 | 123 | 92 |
| 0.642% due 09/25/2047 | 180 | 144 |
| 0.652% due 05/25/2045 | 30 | 26 |
| 0.982% due 07/19/2034 | 4 | 4 |
| 1.062% due 09/19/2032 | 3 | 3 |
| 1.102% due 03/19/2034 | 7 | 7 |
| 1.757% due 08/25/2047 ^ | 52 | 43 |
| **TBW Mortgage-Backed Trust** | | |
| 5.970% due 09/25/2036 | 189 | 28 |
| **Thornburg Mortgage Securities Trust** | | |
| 2.084% due 06/25/2047 ^ | 60 | 54 |
| 5.750% due 06/25/2047 | 16 | 15 |
| **Wachovia Mortgage Loan Trust LLC** | | |
| 2.752% due 10/20/2035 ^ | 213 | 194 |
| **WaMu Mortgage Pass-Through Certificates Trust** | | |
| 0.732% due 01/25/2045 | 154 | 146 |
| 1.237% due 06/25/2046 | 59 | 55 |
| 1.257% due 02/25/2046 | 135 | 125 |
| 1.899% due 02/27/2034 | 7 | 6 |
| 2.183% due 03/25/2033 | 15 | 15 |
| 2.258% due 12/25/2036 ^ | 316 | 273 |
| 2.443% due 03/25/2035 | 91 | 91 |
| 2.446% due 04/25/2035 | 82 | 81 |
| **Washington Mutual Mortgage Pass-Through Certificates Trust** | | |
| 1.197% due 07/25/2046 ^ | 33 | 21 |
| **Wells Fargo Mortgage-Backed Securities Trust** | | |
| 2.658% due 03/25/2035 | 121 | 122 |
| 2.736% due 04/25/2036 | 11 | 11 |
| 2.738% due 07/25/2036 ^ | 79 | 77 |
| 2.755% due 06/25/2035 | 34 | 34 |
| 2.801% due 03/25/2036 ^ | 301 | 294 |
| | | 8,450 |
| | SHARES | |
| **PREFERRED SECURITIES 0.0%** | | |
| **Navient Corp. CPI Linked Security** | | |
| 2.014% due 01/16/2018 | 900 | 21 |
| | PRINCIPAL AMOUNT (000S) | |
| **U.S. GOVERNMENT AGENCIES 3.5%** | | |
| **Fannie Mae** | | |
| 0.542% due 03/25/2034 | $ 8 | 8 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| 0.572% due 08/25/2034 | $ 5 | $ 5 |
| 0.772% due 09/25/2042 | 23 | 22 |
| 0.852% due 11/25/2040 | 99 | 99 |
| 0.872% due 11/25/2040 | 166 | 166 |
| 1.002% due 06/25/2041 | 327 | 330 |
| 1.443% due 10/01/2044 | 22 | 22 |
| 2.255% due 12/01/2034 | 7 | 8 |
| 2.326% due 05/25/2035 | 19 | 20 |
| 2.614% due 11/01/2034 | 49 | 51 |
| 3.500% due 11/01/2021 | 93 | 99 |
| 5.480% due 07/01/2018 | 200 | 208 |
| 6.000% due 07/25/2044 | 14 | 16 |
| **Fannie Mae, TBA** | | |
| 3.000% due 01/01/2046 | 3,000 | 2,999 |
| 3.500% due 02/01/2046 | 4,000 | 4,117 |
| **Freddie Mac** | | |
| 0.831% due 12/15/2032 | 10 | 11 |
| 0.931% due 12/15/2037 | 31 | 31 |
| 1.443% due 10/25/2044 | 62 | 63 |
| 2.250% due 03/01/2035 | 6 | 6 |
| 2.350% due 04/01/2035 | 92 | 98 |
| 2.488% due 02/01/2029 | 4 | 5 |
| **Ginnie Mae** | | |
| 1.750% due 04/20/2028 - 06/20/2030 | 2 | 3 |
| 2.000% due 04/20/2030 - 05/20/2030 | 2 | 2 |
| **NCUA Guaranteed Notes** | | |
| 0.746% due 11/05/2020 | 1,184 | 1,190 |
| 0.829% due 12/08/2020 | 305 | 307 |
| **Tennessee Valley Authority** | | |
| 6.250% due 12/15/2017 | 400 | 439 |
| | | 10,325 |
| **U.S. TREASURY OBLIGATIONS 7.8%** | | |
| **U.S. Treasury Bonds** | | |
| 1.750% due 05/15/2023 (h) | 100 | 97 |
| 2.500% due 05/15/2024 (h) | 100 | 102 |
| 5.250% due 02/15/2029 (h) | 100 | 131 |
| **U.S. Treasury Inflation Protected Securities (b)** | | |
| 0.125% due 01/15/2022 (h) | 420 | 407 |
| 0.125% due 07/15/2022 (f)(h) | 1,965 | 1,905 |
| 0.125% due 01/15/2023 (f) | 2,370 | 2,271 |
| 0.125% due 07/15/2024 (h) | 701 | 666 |
| 0.250% due 01/15/2025 | 9,538 | 9,098 |
| 0.375% due 07/15/2025 (h) | 8,825 | 8,536 |
| 2.375% due 01/15/2025 (h) | 126 | 143 |
| | | 23,356 |
| **Total United States (Cost $76,835)** | | **75,552** |
| **SHORT-TERM INSTRUMENTS 0.7%** | | |
| **CERTIFICATES OF DEPOSIT 0.2%** | | |
| **Credit Suisse AG** | | |
| 0.698% due 01/28/2016 | $ 400 | 400 |
| **Intesa Sanpaolo SpA** | | |
| 1.701% due 04/11/2016 | 300 | 300 |
| | | 700 |
| **REPURCHASE AGREEMENTS (d) 0.5%** | | |
| | | 1,404 |
| **Total Short-Term Instruments (Cost $2,104)** | | **2,104** |
| **Total Investments in Securities (Cost $247,029)** | | **239,103** |

| | SHARES | MARKET VALUE (000S) |
|---|---|---|
| **INVESTMENTS IN AFFILIATES 20.0%** | | |
| **SHORT-TERM INSTRUMENTS 20.0%** | | |
| **CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 20.0%** | | |
| PIMCO Short-Term Floating NAV Portfolio III | 6,023,208 | $ 59,473 |
| **Total Short-Term Instruments (Cost $59,708)** | | **59,473** |
| **Total Investments in Affiliates (Cost $59,708)** | | **59,473** |
| **Total Investments 100.3% (Cost $306,737)** | | **$ 298,576** |
| **Financial Derivative Instruments (e)(g) 0.0% (Cost or Premiums, net $(408))** | | **34** |
| **Other Assets and Liabilities, net (0.3%)** | | **(952)** |
| **Net Assets 100.0%** | | **$ 297,658** |

## NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

*** A zero balance may reflect actual amounts rounding to less than one thousand.**

**^ Security is in default.**

**(a) Interest only security.**

**(b) Principal amount of security is adjusted for inflation.**

**(c) Perpetual maturity; date shown, if applicable, represents next contractual call date.**

## BORROWINGS AND OTHER FINANCING TRANSACTIONS

### (d) REPURCHASE AGREEMENTS:

| Counterparty | Lending Rate | Settlement Date | Maturity Date | Principal Amount | Collateralized By | Collateral (Received) | Repurchase Agreements, at Value | Repurchase Agreement Proceeds to be Received [(1)] |
|---|---|---|---|---|---|---|---|---|
| SSB | 0.010% | 12/31/2015 | 01/04/2016 | $ 1,404 | Fannie Mae 2.140% due 11/07/2022 | $ (1,432) | $ 1,404 | $ 1,404 |
| **Total Repurchase Agreements** | | | | | | **$ (1,432)** | **$ 1,404** | **$ 1,404** |

(1) Includes accrued interest.

### SHORT SALES:

### SHORT SALES ON U.S. GOVERNMENT AGENCIES*:

| Description | Coupon | Maturity Date | Principal Amount | Proceeds | Payable for Short Sales |
|---|---|---|---|---|---|
| Fannie Mae, TBA | 4.000% | 01/01/2046 | $ 3,000 | $ (3,180) | $ (3,174) |
| Fannie Mae, TBA | 4.500 | 01/01/2046 | 7,000 | (7,557) | (7,559) |
| Fannie Mae, TBA | 4.500 | 02/01/2046 | 5,000 | (5,386) | (5,391) |
| **Total Short Sales** | | | | **$ (16,123)** | **$ (16,124)** |

* Short Sales shown are To-Be-Announced (“TBA”) securities which are not subject to collateral pledging under the terms of any master agreements.

## BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

**The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received) as of December 31, 2015:**

| Counterparty | Repurchase Agreement Proceeds to be Received | Payable for Reverse Repurchase Agreements | Payable for Sale-Buyback Transactions | Total Borrowings and Other Financing Transactions | Collateral (Received) | Net Exposure [(2)] |
|---|---|---|---|---|---|---|
| Global/Master Repurchase Agreement | | | | | | |
| SSB | $ 1,404 | $ 0 | $ 0 | $ 1,404 | $ (1,432) | $ (28) |
| **Total Borrowings and Other Financing Transactions** | **$ 1,404** | **$ 0** | **$ 0** | | | |

(2) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

## (e) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

### PURCHASED OPTIONS:

### OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

| Description | Strike Price | Expiration Date | # of Contracts | Cost | Market Value |
|---|---|---|---|---|---|
| Put - CBOT U.S. Treasury 10-Year Note March Futures | $ 109.000 | 02/19/2016 | 47 | $ 0 | $ 1 |
| **Total Purchased Options** | | | | **$ 0** | **$ 1** |

### FUTURES CONTRACTS:

| Description | Type | Expiration Month | # of Contracts | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|
| Australia Government 3-Year Note March Futures | Long | 03/2016 | 20 | $ 4 | $ 0 | $ (2) |
| Australia Government 10-Year Bond March Futures | Long | 03/2016 | 13 | 4 | 0 | (12) |
| Euro-Bobl March Futures | Long | 03/2016 | 122 | 19 | 5 | 0 |
| Euro-BONO March Future | Long | 03/2016 | 26 | (10) | 18 | 0 |
| Euro-BTP Italy Government Bond March Futures | Short | 03/2016 | 64 | 26 | 0 | (43) |
| Euro-Bund 10-Year Bond March Futures | Short | 03/2016 | 73 | (19) | 0 | (3) |
| Euro-Buxl 30-Year Bond March Futures | Short | 03/2016 | 1 | 3 | 0 | (1) |
| Euro-OAT France Government 10-Year Bond March Futures | Long | 03/2016 | 106 | 44 | 24 | 0 |
| Euro-Schatz March Futures | Long | 03/2016 | 84 | 8 | 2 | 0 |
| Japan Government 10-Year Bond March Futures | Long | 03/2016 | 14 | 35 | 0 | (1) |
| U.S. Treasury 5-Year Note March Futures | Long | 03/2016 | 14 | (3) | 2 | 0 |
| U.S. Treasury 10-Year Note March Futures | Long | 03/2016 | 349 | (73) | 104 | 0 |
| U.S. Treasury Ultra Long-Term Bond March Futures | Short | 03/2016 | 2 | (1) | 0 | (2) |
| United Kingdom Long Gilt March Futures | Short | 03/2016 | 44 | 11 | 48 | (22) |
| **Total Futures Contracts** | | | | **$ 48** | **$ 203** | **$ (86)** |

### SWAP AGREEMENTS:

### CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(1)]

| Index/Tranches | Fixed Receive Rate | Maturity Date | Notional Amount [(2)] | Market Value [(3)] | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|---|
| CDX.HY-24 5-Year Index | 5.000% | 06/20/2020 | $ 1,683 | $ 66 | $ (52) | $ 2 | $ 0 |
| CDX.HY-25 5-Year Index | 5.000 | 12/20/2020 | 5,100 | 71 | (26) | 8 | 0 |
| CDX.IG-25 5-Year Index | 1.000 | 12/20/2020 | 18,700 | 110 | (37) | 3 | 0 |
| iTraxx Europe Main 24 5-Year Index | 1.000 | 12/20/2020 | EUR 24,100 | 302 | (61) | 10 | 0 |
| iTraxx Senior 24 5-Year Index | 1.000 | 12/20/2020 | 4,100 | 52 | 4 | 0 | (2) |
| | | | | $ 601 | $ (172) | $ 23 | $ (2) |

(1) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(3) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

## INTEREST RATE SWAPS

| Pay/Receive Floating Rate | Floating Rate Index | Fixed Rate | Maturity Date | | Notional Amount | Market Value | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|---|---|---|
| Pay | 3-Month CHF-LIBOR | 0.050% | 03/16/2026 | CHF | 1,400 | $ (34) | $ (33) | $ 0 | $ (3) |
| Pay | 3-Month SEK-LIBOR | 1.013 | 01/23/2025 | SEK | 600 | (2) | (2) | 0 | 0 |
| Pay | 3-Month SEK-LIBOR | 1.023 | 01/23/2025 | | 500 | (2) | (2) | 0 | 0 |
| Pay | 3-Month SEK-LIBOR | 1.033 | 01/23/2025 | | 500 | (2) | (2) | 0 | 0 |
| Pay | 3-Month SEK-LIBOR | 1.036 | 01/23/2025 | | 600 | (2) | (2) | 0 | 0 |
| Receive | 3-Month USD-LIBOR | 2.250 | 12/16/2022 | $ | 17,100 | (333) | (111) | 0 | (43) |
| Receive | 3-Month USD-LIBOR | 1.250 | 12/16/2016 | | 2,400 | (11) | (2) | 0 | 0 |
| Receive | 3-Month USD-LIBOR* | 1.300 | 05/06/2017 | | 89,400 | (197) | (173) | 0 | (21) |
| Receive | 3-Month USD-LIBOR | 1.500 | 12/16/2017 | | 43,300 | (317) | (126) | 0 | (10) |
| Receive | 3-Month USD-LIBOR | 2.038 | 08/31/2022 | | 1,700 | (11) | (11) | 0 | (4) |
| Receive | 3-Month USD-LIBOR | 2.000 | 08/31/2022 | | 3,800 | (17) | (9) | 0 | (9) |
| Receive | 3-Month USD-LIBOR | 2.250 | 12/16/2022 | | 27,900 | (595) | (716) | 0 | (89) |
| Receive | 3-Month USD-LIBOR | 2.300 | 01/13/2023 | | 3,300 | (69) | (56) | 0 | (8) |
| Receive | 3-Month USD-LIBOR | 2.500 | 12/16/2025 | | 12,700 | (390) | (531) | 0 | (53) |
| Receive | 3-Month USD-LIBOR* | 2.250 | 06/15/2026 | | 17,700 | 119 | 50 | 0 | (63) |
| Pay | 3-Month ZAR-JIBAR | 8.500 | 03/16/2026 | ZAR | 10,600 | (47) | (45) | 0 | (10) |
| Receive | 6-Month AUD-BBR-BBSW* | 3.250 | 06/17/2026 | AUD | 600 | (4) | 1 | 5 | 0 |
| Pay | 6-Month EUR-EURIBOR* | 0.493 | 03/16/2021 | EUR | 17,500 | 112 | 112 | 3 | 0 |
| Pay | 6-Month EUR-EURIBOR | 0.500 | 03/16/2021 | | 7,400 | 50 | (61) | 1 | 0 |
| Pay | 6-Month EUR-EURIBOR | 1.000 | 11/30/2025 | | 2,500 | 6 | (35) | 0 | (2) |
| Pay | 6-Month EUR-EURIBOR* | 1.000 | 03/16/2026 | | 5,000 | (22) | (20) | 0 | (4) |
| Receive | 6-Month EUR-EURIBOR | 1.564 | 11/30/2045 | | 500 | 6 | 26 | 1 | 0 |
| Receive | 6-Month GBP-LIBOR | 1.500 | 03/16/2018 | GBP | 2,800 | (26) | (18) | 1 | 0 |
| Receive | 6-Month GBP-LIBOR | 1.750 | 09/16/2018 | | 5,600 | (55) | (59) | 4 | 0 |
| Pay | 6-Month GBP-LIBOR | 1.750 | 03/16/2021 | | 4,700 | 33 | (5) | 0 | (11) |
| Pay | 6-Month GBP-LIBOR* | 2.000 | 03/16/2026 | | 3,600 | (18) | (80) | 0 | (19) |
| Receive | 6-Month GBP-LIBOR | 2.250 | 03/16/2046 | | 1,000 | (29) | (33) | 11 | 0 |
| Pay | 6-Month JPY-LIBOR | 0.150 | 03/22/2018 | JPY | 4,450,000 | 31 | 16 | 0 | (1) |
| Receive | 6-Month JPY-LIBOR | 0.500 | 09/17/2021 | | 500,000 | (77) | (8) | 0 | 0 |
| Pay | 6-Month JPY-LIBOR | 1.000 | 12/18/2025 | | 670,000 | 322 | 43 | 1 | 0 |
| Pay | 6-Month JPY-LIBOR | 1.500 | 06/19/2033 | | 2,340,000 | 2,042 | 1,754 | 0 | (3) |
| Pay | 6-Month JPY-LIBOR | 1.250 | 06/17/2035 | | 150,000 | 65 | 40 | 0 | 0 |
| Pay | 6-Month JPY-LIBOR | 1.500 | 12/20/2044 | | 590,000 | 381 | 117 | 0 | (9) |
| Pay | 28-Day MXN-TIIE | 4.300 | 09/01/2016 | MXN | 61,600 | 13 | 4 | 1 | 0 |
| Pay | 28-Day MXN-TIIE | 4.340 | 09/28/2017 | | 34,300 | 2 | (3) | 2 | 0 |
| Pay | 28-Day MXN-TIIE | 4.195 | 10/05/2017 | | 26,300 | (2) | (1) | 1 | 0 |
| Pay | 28-Day MXN-TIIE | 4.130 | 10/17/2017 | | 80,500 | (13) | 1 | 4 | 0 |
| Pay | 28-Day MXN-TIIE | 4.260 | 10/31/2017 | | 57,800 | (4) | (4) | 3 | 0 |
| Pay | 28-Day MXN-TIIE | 5.010 | 10/10/2019 | | 23,600 | (4) | 5 | 3 | 0 |
| Pay | 28-Day MXN-TIIE | 5.615 | 06/02/2020 | | 49,900 | 33 | 15 | 4 | 0 |
| Pay | 28-Day MXN-TIIE | 5.620 | 11/09/2021 | | 1,100 | 0 | 0 | 0 | 0 |
| Pay | 28-Day MXN-TIIE | 5.560 | 11/11/2021 | | 1,600 | (1) | (1) | 0 | 0 |
| Pay | 28-Day MXN-TIIE | 5.860 | 11/22/2022 | | 29,400 | (13) | (13) | 4 | 0 |
| | | | | | | $ 918 | $ 22 | $ 49 | $ (362) |
| **Total Swap Agreements** | | | | | | **$ 1,519** | **$ (150)** | **$ 72** | **$ (364)** |

* This security has a forward starting effective date. See Note 2a for further information.

## FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

**The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of December 31, 2015:**

**(f) Securities with an aggregate market value of $2,036 and cash of $4,184 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2015. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.**

| | Financial Derivative Assets | | | | Financial Derivative Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | Market Value | Variation Margin Asset | | | Market Value | Variation Margin Liability | | |
| | Purchased Options | Futures | Swap Agreements | Total | Written Options | Futures | Swap Agreements | Total |
| **Total Exchange-Traded or Centrally Cleared** | **$ 1** | **$ 203** | **$ 72** | **$ 276** | **$ 0** | **$ (86)** | **$ (364)** | **$ (450)** |

## (g) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

### FORWARD FOREIGN CURRENCY CONTRACTS:

| Counterparty | Settlement Month | Currency to be Delivered | | Currency to be Received | | Unrealized Appreciation/ (Depreciation) Asset | Unrealized Appreciation/ (Depreciation) Liability |
|---|---|---|---|---|---|---|---|
| AZD | 01/2016 | $ | 571 | MYR | 2,358 | $ 0 | $ (25) |
| BOA | 01/2016 | BRL | 1,007 | $ | 260 | 6 | 0 |
| | 01/2016 | DKK | 16,705 | | 2,374 | 0 | (59) |
| | 01/2016 | EUR | 3,810 | | 4,062 | 0 | (78) |
| | 01/2016 | GBP | 668 | | 1,007 | 22 | 0 |
| | 01/2016 | SEK | 4,060 | | 468 | 0 | (13) |
| | 01/2016 | $ | 258 | BRL | 1,007 | 0 | (3) |
| | 01/2016 | | 12,067 | CAD | 16,758 | 44 | 0 |
| | 01/2016 | | 76,488 | EUR | 69,611 | 0 | (839) |
| | 01/2016 | | 2,417 | INR | 160,991 | 9 | 0 |
| | 02/2016 | CAD | 16,758 | $ | 12,068 | 0 | (44) |
| | 02/2016 | DKK | 27,190 | | 3,983 | 20 | 0 |
| | 02/2016 | EUR | 69,611 | | 76,543 | 841 | 0 |
| | 02/2016 | THB | 20,366 | | 567 | 2 | 0 |
| | 04/2016 | DKK | 1,302 | | 193 | 3 | 0 |
| | 07/2016 | | 14,749 | | 2,227 | 66 | 0 |
| | 09/2016 | CNH | 794 | | 120 | 2 | 0 |
| BPS | 01/2016 | BRL | 11,342 | | 2,905 | 38 | 0 |
| | 01/2016 | DKK | 7,675 | | 1,194 | 77 | 0 |
| | 01/2016 | $ | 2,903 | BRL | 11,342 | 0 | (36) |
| | 01/2016 | | 342 | KRW | 403,697 | 1 | 0 |
| | 02/2016 | BRL | 11,342 | $ | 2,874 | 35 | 0 |
| | 02/2016 | TWD | 19,718 | | 608 | 10 | 0 |
| | 09/2016 | CNH | 7,530 | | 1,139 | 23 | 0 |
| BRC | 01/2016 | IDR | 3,094,680 | | 222 | 0 | (1) |
| | 01/2016 | RUB | 15,300 | | 227 | 18 | 0 |
| | 01/2016 | $ | 2,074 | INR | 137,508 | 0 | (1) |
| | 02/2016 | INR | 29,203 | $ | 432 | 0 | (6) |
| | 02/2016 | TWD | 11,786 | | 355 | 0 | (2) |
| | 03/2016 | $ | 191 | MXN | 3,300 | 0 | (1) |
| | 09/2016 | CNH | 1,729 | $ | 260 | 3 | 0 |
| CBK | 01/2016 | CHF | 492 | | 479 | 0 | (12) |
| | 01/2016 | EUR | 3,505 | | 3,782 | 14 | (41) |
| | 01/2016 | KRW | 1,147 | | 1 | 0 | 0 |
| | 01/2016 | MYR | 1,825 | | 422 | 0 | (1) |
| | 01/2016 | $ | 163 | CNH | 1,039 | 0 | (5) |
| | 01/2016 | | 10,916 | EUR | 10,290 | 266 | 0 |
| | 01/2016 | | 137 | KRW | 158,851 | 0 | (2) |
| | 02/2016 | EUR | 608 | $ | 665 | 4 | 0 |
| | 02/2016 | HKD | 251 | | 32 | 0 | 0 |
| | 09/2016 | CNH | 865 | | 130 | 2 | 0 |
| DUB | 01/2016 | BRL | 13,664 | | 3,470 | 17 | 0 |
| | 01/2016 | CNY | 149 | | 23 | 0 | 0 |
| | 01/2016 | DKK | 2,457 | | 382 | 24 | 0 |
| | 01/2016 | KRW | 249,224 | | 217 | 5 | 0 |
| | 01/2016 | $ | 3,495 | BRL | 13,664 | 0 | (41) |
| | 02/2016 | BRL | 3,010 | $ | 761 | 7 | 0 |
| | 02/2016 | $ | 221 | BRL | 869 | 0 | (4) |
| FBF | 01/2016 | BRL | 4,109 | $ | 1,052 | 14 | 0 |
| | 01/2016 | KRW | 2,289 | | 2 | 0 | 0 |
| | 01/2016 | $ | 1,061 | BRL | 4,109 | 0 | (22) |
| GLM | 01/2016 | EUR | 4,244 | $ | 4,517 | 0 | (95) |
| | 01/2016 | JPY | 407,139 | | 3,333 | 0 | (54) |
| | 01/2016 | $ | 732 | EUR | 674 | 1 | 0 |
| | 01/2016 | | 151 | GBP | 100 | 0 | (4) |
| | 01/2016 | | 86 | INR | 5,768 | 1 | 0 |
| | 01/2016 | | 50 | KRW | 56,623 | 0 | (2) |
| HUS | 01/2016 | BRL | 136 | $ | 35 | 1 | 0 |
| | 01/2016 | EUR | 68,784 | | 73,301 | 0 | (1,450) |
| | 01/2016 | $ | 35 | BRL | 136 | 0 | (1) |
| | 09/2016 | CNH | 864 | $ | 130 | 2 | 0 |
| JPM | 01/2016 | BRL | 3,241 | | 1,100 | 281 | 0 |
| | 01/2016 | CAD | 8,516 | | 6,391 | 236 | 0 |
| | 01/2016 | DKK | 12,030 | | 1,757 | 11 | (6) |

| Counterparty | Settlement Month | Currency to be Delivered | | Currency to be Received | | Unrealized Appreciation/ (Depreciation) Asset | Liability |
|---|---|---|---|---|---|---|---|
| | 01/2016 | INR | 104,581 | $ | 1,574 | $ 0 | $ (2) |
| | 01/2016 | KRW | 1,998,684 | | 1,710 | 10 | 0 |
| | 01/2016 | NZD | 3,442 | | 2,281 | 0 | (73) |
| | 01/2016 | $ | 6,930 | AUD | 9,533 | 16 | 0 |
| | 01/2016 | | 830 | BRL | 3,241 | 0 | (11) |
| | 01/2016 | | 2,987 | EUR | 2,751 | 13 | (11) |
| | 01/2016 | | 24,120 | GBP | 16,253 | 0 | (159) |
| | 01/2016 | | 1,499 | INR | 100,312 | 13 | 0 |
| | 01/2016 | | 704 | KRW | 812,315 | 2 | (15) |
| | 02/2016 | AUD | 9,533 | $ | 6,921 | 0 | (16) |
| | 02/2016 | EUR | 1,918 | | 2,105 | 19 | 0 |
| | 02/2016 | GBP | 16,254 | | 24,121 | 158 | 0 |
| | 02/2016 | IDR | 7,133,205 | | 499 | 0 | (8) |
| | 02/2016 | NZD | 2,275 | | 1,554 | 0 | 0 |
| | 02/2016 | SGD | 870 | | 614 | 2 | 0 |
| | 04/2016 | DKK | 1,298 | | 193 | 3 | 0 |
| | 09/2016 | CNH | 14,076 | | 2,129 | 42 | 0 |
| | 09/2016 | $ | 530 | CNH | 3,458 | 0 | (17) |
| | 10/2016 | DKK | 44,085 | $ | 6,707 | 223 | 0 |
| MSB | 01/2016 | | 2,530 | | 387 | 19 | 0 |
| | 01/2016 | GBP | 16,101 | | 24,274 | 538 | 0 |
| | 01/2016 | $ | 1,184 | JPY | 143,339 | 9 | 0 |
| | 01/2016 | | 111 | KRW | 128,864 | 0 | (1) |
| | 01/2016 | | 110 | MYR | 462 | 0 | (3) |
| | 01/2016 | | 216 | RUB | 15,300 | 0 | (7) |
| | 02/2016 | JPY | 88,639 | $ | 733 | 0 | (5) |
| | 04/2016 | RUB | 15,300 | | 211 | 7 | 0 |
| NAB | 01/2016 | AUD | 9,533 | | 6,858 | 0 | (88) |
| NGF | 03/2016 | MXN | 103,687 | | 5,948 | 0 | (39) |
| SCX | 01/2016 | CAD | 8,242 | | 6,166 | 209 | 0 |
| | 01/2016 | INR | 68,326 | | 1,029 | 0 | (1) |
| | 01/2016 | MYR | 11,749 | | 2,679 | 0 | (44) |
| | 01/2016 | TRY | 2,279 | | 772 | 0 | (6) |
| | 02/2016 | IDR | 2,973,610 | | 206 | 0 | (5) |
| | 02/2016 | SGD | 923 | | 655 | 6 | 0 |
| SOG | 01/2016 | IDR | 3,585,150 | | 257 | 0 | (1) |
| | 01/2016 | INR | 16,208 | | 244 | 0 | 0 |
| | 01/2016 | KRW | 573,786 | | 497 | 9 | 0 |
| | 01/2016 | $ | 605 | MYR | 2,591 | 0 | (5) |
| | 02/2016 | TWD | 10,162 | $ | 307 | 0 | (1) |
| UAG | 01/2016 | BRL | 1,496 | | 387 | 9 | 0 |
| | 01/2016 | EUR | 3,357 | | 3,614 | 0 | (34) |
| | 01/2016 | NOK | 2,075 | | 239 | 4 | 0 |
| | 01/2016 | $ | 383 | BRL | 1,496 | 0 | (5) |
| | 01/2016 | | 410 | EUR | 374 | 0 | (4) |
| | 01/2016 | | 625 | GBP | 415 | 0 | (13) |
| | 01/2016 | | 75 | INR | 5,031 | 1 | 0 |
| | 01/2016 | | 2,150 | JPY | 263,800 | 45 | 0 |
| | 01/2016 | | 370 | KRW | 424,737 | 0 | (9) |
| | 01/2016 | | 505 | MYR | 2,098 | 0 | (19) |
| | 01/2016 | | 784 | NZD | 1,167 | 14 | 0 |
| | 02/2016 | | 383 | BRL | 1,496 | 0 | (9) |
| | 07/2016 | DKK | 7,374 | $ | 1,110 | 30 | 0 |
| | 09/2016 | CNH | 2,254 | | 341 | 7 | 0 |
| | 09/2016 | $ | 3,627 | CNH | 23,647 | 0 | (120) |
| **Total Forward Foreign Currency Contracts** | | | | | | **$ 3,514** | **$ (3,579)** |

**PURCHASED OPTIONS:**

**FOREIGN CURRENCY OPTIONS**

| Counterparty | Description | Strike Price | | Expiration Date | Notional Amount | Cost | Market Value |
|---|---|---|---|---|---|---|---|
| DUB | Call - OTC USD versus BRL | BRL | 4.000 | 03/28/2016 | $ 400 | $ 18 | $ 21 |
| FBF | Call - OTC USD versus BRL | | 4.000 | 03/28/2016 | 1,900 | 83 | 101 |
| GLM | Call - OTC USD versus JPY | JPY | 125.100 | 01/27/2016 | 1,400 | 10 | 1 |
| SCX | Call - OTC USD versus CNY | CNY | 6.520 | 10/31/2016 | 66 | 20 | 46 |
| | | | | | | $ 131 | $ 169 |

## OPTIONS ON SECURITIES

| Counterparty | Description | Strike Price | Expiration Date | Notional Amount | Cost | Market Value |
|---|---|---|---|---|---|---|
| JPM | Put - OTC Fannie Mae 3.000% due 02/01/2046 | $ 70.000 | 02/04/2016 | $ 3,000 | $ 0 | $ 0 |
| | Put - OTC Fannie Mae 3.500% due 02/01/2046 | 73.000 | 02/04/2016 | 4,000 | 1 | 0 |
| | Call - OTC Fannie Mae 4.000% due 02/01/2046 | 124.000 | 02/04/2016 | 3,000 | 0 | 0 |
| | | | | | $ 1 | $ 0 |
| **Total Purchased Options** | | | | | **$ 132** | **$ 169** |

## WRITTEN OPTIONS:

## CREDIT DEFAULT SWAPTIONS ON CREDIT INDICES

| Counterparty | Description | Buy/Sell Protection | Exercise Rate | Expiration Date | Notional Amount | Premiums (Received) | Market Value |
|---|---|---|---|---|---|---|---|
| BOA | Put - OTC CDX.IG-25 5-Year Index | Sell | 0.950% | 01/20/2016 | $ 1,500 | $ (3) | $ (1) |
| BRC | Put - OTC CDX.IG-25 5-Year Index | Sell | 0.950 | 01/20/2016 | 2,200 | (4) | (2) |
| CBK | Put - OTC CDX.IG-25 5-Year Index | Sell | 0.950 | 01/20/2016 | 800 | (2) | (1) |
| GST | Call - OTC CDX.IG-25 5-Year Index | Buy | 0.700 | 01/20/2016 | 3,900 | (2) | 0 |
| | Put - OTC CDX.IG-25 5-Year Index | Sell | 0.900 | 01/20/2016 | 3,900 | (7) | (6) |
| | | | | | | $ (18) | $ (10) |

## FOREIGN CURRENCY OPTIONS

| Counterparty | Description | Strike Price | Expiration Date | Notional Amount | Premiums (Received) | Market Value |
|---|---|---|---|---|---|---|
| AZD | Call - OTC USD versus CNY | CNY 7.000 | 11/01/2016 | $ 500 | $ (6) | $ (8) |
| CBK | Call - OTC USD versus RUB | RUB 71.500 | 03/09/2016 | 300 | (6) | (14) |
| DUB | Put - OTC USD versus BRL | BRL 3.800 | 03/28/2016 | 400 | (8) | (6) |
| | Call - OTC USD versus BRL | 4.300 | 03/28/2016 | 400 | (8) | (10) |
| FBF | Put - OTC USD versus BRL | 3.800 | 03/28/2016 | 1,900 | (41) | (29) |
| | Call - OTC USD versus BRL | 4.300 | 03/28/2016 | 1,900 | (39) | (49) |
| GLM | Put - OTC USD versus JPY | JPY 117.350 | 01/27/2016 | 2,800 | (20) | (6) |
| | Put - OTC USD versus KRW | KRW 1,092.500 | 01/20/2016 | 200 | (2) | 0 |
| HUS | Call - OTC USD versus CNY | CNY 6.600 | 02/05/2016 | 500 | (6) | (3) |
| JPM | Call - OTC USD versus CNY | 6.600 | 02/05/2016 | 460 | (5) | (3) |
| | Put - OTC USD versus KRW | KRW 1,082.500 | 01/19/2016 | 600 | (5) | 0 |
| | Put - OTC USD versus KRW | 1,092.500 | 01/20/2016 | 700 | (5) | 0 |
| MSB | Call - OTC USD versus RUB | RUB 70.000 | 02/02/2016 | 400 | (7) | (18) |
| SOG | Call - OTC USD versus CNY | CNY 7.000 | 11/01/2016 | 1,100 | (13) | (18) |
| | | | | | $ (171) | $ (164) |

## INTEREST RATE SWAPTIONS

| Counterparty | Description | Floating Rate Index | Pay/Receive Floating Rate | Exercise Rate | Expiration Date | Notional Amount | Premiums (Received) | Market Value |
|---|---|---|---|---|---|---|---|---|
| BRC | Call - OTC 5-Year Interest Rate Swap* | 6-Month EUR-EURIBOR | Receive | 0.400% | 04/29/2016 | EUR 3,000 | $ (11) | $ 0 |
| | Put - OTC 5-Year Interest Rate Swap* | 6-Month EUR-EURIBOR | Pay | 1.400 | 04/29/2016 | 3,000 | (26) | (64) |
| | Call - OTC 10-Year Interest Rate Swap | 6-Month GBP-LIBOR | Receive | 1.700 | 03/10/2016 | GBP 2,700 | (21) | (9) |
| | Put - OTC 10-Year Interest Rate Swap | 6-Month GBP-LIBOR | Pay | 2.250 | 03/10/2016 | 2,700 | (15) | (17) |
| | Call - OTC 30-Year Interest Rate Swap | 6-Month GBP-LIBOR | Receive | 1.800 | 01/12/2016 | 1,800 | (31) | 0 |
| | Put - OTC 30-Year Interest Rate Swap | 6-Month GBP-LIBOR | Pay | 2.400 | 01/12/2016 | 1,800 | (29) | 0 |
| JPM | Call - OTC 10-Year Interest Rate Swap | 6-Month GBP-LIBOR | Receive | 1.750 | 02/01/2016 | 2,900 | (21) | (3) |
| | Put - OTC 10-Year Interest Rate Swap | 6-Month GBP-LIBOR | Pay | 2.300 | 02/01/2016 | 2,900 | (20) | (3) |
| | | | | | | | $ (174) | $ (96) |
| **Total Written Options** | | | | | | | **$ (363)** | **$ (270)** |

* This security has a forward starting effective date. See Note 2a for further information.



See Accompanying Notes

## TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2015:

| | # of Contracts | Notional Amount in $ | Notional Amount in AUD | Notional Amount in EUR | Notional Amount in GBP | Notional Amount in NZD | Premiums |
|---|---|---|---|---|---|---|---|
| Balance at Beginning of Period | 0 | $ 20,900 | AUD 0 | EUR 7,900 | GBP 1,800 | NZD 0 | $ (443) |
| Sales | 26 | 67,860 | 3,400 | 78,550 | 29,600 | 6,400 | (986) |
| Closing Buys | 0 | (19,400) | 0 | (26,500) | (4,100) | (6,400) | 421 |
| Expirations | (13) | (40,600) | (3,400) | (47,730) | (10,000) | 0 | 484 |
| Exercised | (13) | (4,300) | 0 | (6,220) | (2,500) | 0 | 161 |
| Balance at End of Period | 0 | $ 24,460 | AUD 0 | EUR 6,000 | GBP 14,800 | NZD 0 | $ (363) |

## SWAP AGREEMENTS:

### CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION (1)

| Counterparty | Reference Entity | Fixed (Pay) Rate | Maturity Date | Implied Credit Spread at December 31, 2015 (3) | Notional Amount (4) | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| BOA | Commerzbank AG | (1.000%) | 12/20/2023 | 2.232% | $ 1,300 | $ 133 | $ (23) | $ 110 | $ 0 |
| | Universal Health Services, Inc. | (1.250%) | 06/20/2016 | 0.137 | 1,000 | 0 | (6) | 0 | (6) |
| | Wind Acquisition Finance S.A. | (5.000%) | 06/20/2021 | 4.129 | EUR 600 | (82) | 53 | 0 | (29) |
| BRC | Navient Corp. | (5.000%) | 03/20/2019 | 5.367 | $ 1,100 | (82) | 91 | 9 | 0 |
| | Springleaf Finance Corp. | (5.000%) | 06/20/2020 | 3.286 | 400 | (38) | 10 | 0 | (28) |
| | UBS AG | (1.000%) | 09/20/2022 | 1.543 | 750 | 22 | 3 | 25 | 0 |
| CBK | UBS AG | (1.000%) | 09/20/2022 | 1.543 | 800 | 43 | (17) | 26 | 0 |
| MYC | UBS AG | (1.000%) | 03/20/2017 | 0.922 | 850 | (1) | 0 | 0 | (1) |
| | | | | | | $ (5) | $ 111 | $ 170 | $ (64) |

### CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (2)

| Counterparty | Reference Entity | Fixed Receive Rate | Maturity Date | Implied Credit Spread at December 31, 2015 (3) | Notional Amount (4) | Premiums (Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| BOA | Brazil Government International Bond | 1.000% | 03/20/2019 | 4.263% | $ 300 | $ (15) | $ (14) | $ 0 | $ (29) |
| | Brazil Government International Bond | 1.000% | 09/20/2019 | 4.461 | 100 | (3) | (8) | 0 | (11) |
| | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | 1,000 | (7) | 9 | 2 | 0 |
| | Volkswagen International Finance NV | 1.000% | 12/20/2016 | 1.169 | EUR 600 | (3) | 2 | 0 | (1) |
| BRC | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | $ 300 | (2) | 3 | 1 | 0 |
| | Russia Government International Bond | 1.000% | 09/20/2016 | 1.591 | 500 | (7) | 5 | 0 | (2) |
| CBK | Brazil Government International Bond | 1.000% | 03/20/2019 | 4.263 | 100 | (4) | (6) | 0 | (10) |
| | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | 200 | (2) | 2 | 0 | 0 |
| | France Government International Bond | 0.250% | 06/20/2020 | 0.212 | 200 | (1) | 1 | 0 | 0 |
| | Tesco PLC | 1.000% | 12/20/2020 | 2.886 | EUR 300 | (25) | (3) | 0 | (28) |
| DUB | Brazil Government International Bond | 1.000% | 03/20/2019 | 4.263 | $ 300 | (13) | (16) | 0 | (29) |
| | Italy Government International Bond | 1.000% | 06/20/2019 | 0.691 | 100 | (1) | 2 | 1 | 0 |
| FBF | Tesco PLC | 1.000% | 12/20/2020 | 2.886 | EUR 100 | (8) | (1) | 0 | (9) |
| GST | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | $ 1,600 | (14) | 18 | 4 | 0 |
| | France Government International Bond | 0.250% | 06/20/2020 | 0.212 | 200 | (1) | 1 | 0 | 0 |
| HUS | Brazil Government International Bond | 1.000% | 06/20/2019 | 4.369 | 100 | (2) | (9) | 0 | (11) |
| | Brazil Government International Bond | 1.000% | 09/20/2019 | 4.461 | 100 | (3) | (8) | 0 | (11) |
| | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | 300 | (2) | 3 | 1 | 0 |
| | Russia Government International Bond | 1.000% | 09/20/2016 | 1.591 | 500 | (6) | 4 | 0 | (2) |
| JPM | Brazil Government International Bond | 1.000% | 03/20/2019 | 4.263 | 200 | (8) | (11) | 0 | (19) |
| | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | 600 | (4) | 5 | 1 | 0 |
| | France Government International Bond | 0.250% | 06/20/2020 | 0.212 | 300 | (2) | 3 | 1 | 0 |
| | Tesco PLC | 1.000% | 12/20/2020 | 2.886 | EUR 800 | (69) | (6) | 0 | (75) |
| MYC | Brazil Government International Bond | 1.000% | 03/20/2019 | 4.263 | $ 100 | (4) | (6) | 0 | (10) |
| | Brazil Government International Bond | 1.000% | 09/20/2019 | 4.461 | 100 | (3) | (8) | 0 | (11) |
| | France Government International Bond | 0.250% | 03/20/2020 | 0.195 | 700 | (4) | 6 | 2 | 0 |
| | Tesco PLC | 1.000% | 12/20/2020 | 2.886 | EUR 200 | (16) | (3) | 0 | (19) |
| | | | | | | $ (229) | $ (35) | $ 13 | $ (277) |

## CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [1]

| Counterparty | Index/Tranches | Fixed (Pay) Rate | Maturity Date | Notional Amount [4] | Premiums Paid | Unrealized Appreciation | Swap Agreements, at Value [5] Asset | Liability |
|---|---|---|---|---|---|---|---|---|
| BOA | iTraxx Europe Subordinated 23 5-Year Index | (1.000%) | 12/20/2020 | EUR 300 | $ 7 | $ 2 | $ 9 | $ 0 |
| BPS | iTraxx Europe Subordinated 23 5-Year Index | (1.000) | 12/20/2020 | 100 | 2 | 1 | 3 | 0 |
| BRC | iTraxx Europe Subordinated 23 5-Year Index | (1.000) | 12/20/2020 | 500 | 11 | 3 | 14 | 0 |
| | | | | | $ 20 | $ 6 | $ 26 | $ 0 |

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

## CROSS-CURRENCY SWAPS

| Counterparty | Receive | Pay | Maturity Date [6] | Notional Amount of Currency Received | Notional Amount of Currency Delivered | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Liability |
|---|---|---|---|---|---|---|---|---|---|
| BOA | Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2021 | EUR 6,700 | $ 7,350 | $ (22) | $ 40 | $ 18 | $ 0 |
| | Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2026 | 590 | 640 | 2 | 8 | 10 | 0 |
| | Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 06/15/2026 | 2,700 | 2,875 | (13) | 109 | 96 | 0 |
| BPS | Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 12/16/2020 | 7,100 | 7,696 | 9 | 97 | 106 | 0 |
| | Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2021 | 6,470 | 7,098 | (5) | 22 | 17 | 0 |
| CBK | Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2021 | 2,400 | 2,633 | (8) | 14 | 6 | 0 |
| | Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2026 | 6,190 | 6,710 | 76 | 26 | 102 | 0 |
| DUB | Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2021 | 2,000 | 2,194 | (2) | 7 | 5 | 0 |
| | Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 06/15/2026 | 1,600 | 1,698 | (1) | 64 | 63 | 0 |

| Counterparty | Receive | Pay | Maturity Date (6) | Notional Amount of Currency Received | Notional Amount of Currency Delivered | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| GLM | Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered | 03/16/2026 | EUR 300 | $ 325 | $ 5 | $ 0 | $ 5 | $ 0 |
| MYC | Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency received | Floating rate equal to 3-Month JPY-LIBOR less 0.9075% based on the notional amount of currency delivered | 03/16/2021 | $ 1,065 | JPY 130,000 | (10) | (3) | 0 | (13) |
| | | | | | | $ 31 | $ 384 | $ 428 | $ (13) |

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

## INTEREST RATE SWAPS

| Counterparty | Pay/Receive Floating Rate | Floating Rate Index | Fixed Rate | Maturity Date | Notional Amount | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| BOA | Pay | 3-Month KRW-KWCDC | 1.860% | 12/01/2020 | KRW 1,607,700 | $ 0 | $ 9 | $ 9 | $ 0 |
| CBK | Pay | 3-Month KRW-KWCDC | 1.863 | 12/01/2020 | 996,500 | 0 | 6 | 6 | 0 |
| DUB | Pay | 3-Month KRW-KWCDC | 1.860 | 12/01/2020 | 4,823,100 | 0 | 26 | 26 | 0 |
| GLM | Receive | 1-Year BRL-CDI | 16.150 | 01/04/2021 | BRL 8,200 | 4 | 10 | 14 | 0 |
| JPM | Pay | 1-Year BRL-CDI | 11.320 | 01/04/2016 | 3,300 | 0 | (6) | 0 | (6) |
| MYC | Receive | 1-Year BRL-CDI | 16.150 | 01/04/2021 | 1,900 | 2 | 1 | 3 | 0 |
| NGF | Pay | 3-Month KRW-KWCDC | 1.863 | 12/01/2020 | KRW 1,607,700 | 0 | 9 | 9 | 0 |
| | | | | | | $ 6 | $ 55 | $ 67 | $ (6) |

## VOLATILITY SWAPS

| Counterparty | Pay/Receive Volatility | Reference Entity | Volatility Strike | Maturity Date | Notional Amount | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| DUB | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.350% | 08/16/2016 | CHF 6 | $ 0 | $ 10 | $ 10 | $ 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.450 | 08/16/2016 | 3 | 0 | 5 | 5 | 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.650 | 08/16/2016 | 3 | 0 | 6 | 6 | 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.700 | 08/16/2016 | 3 | 0 | 6 | 6 | 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.800 | 08/16/2016 | 3 | 0 | 6 | 6 | 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 9.000 | 08/16/2016 | 3 | 0 | 7 | 7 | 0 |
| | Pay | EUR versus CHF 1-Year ATM Implied Volatility | 8.400 | 12/06/2016 | 2 | 0 | 2 | 2 | 0 |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 10.250 | 08/16/2016 | 3 | 0 | 0 | 0 | 0 |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 10.450 | 08/16/2016 | 3 | 0 | 0 | 0 | 0 |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 10.550 | 08/16/2016 | 6 | 0 | (1) | 0 | (1) |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 10.900 | 08/16/2016 | 3 | 0 | (3) | 0 | (3) |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 11.200 | 08/16/2016 | 6 | 0 | (7) | 0 | (7) |
| | Receive | USD versus CHF 1-Year ATM Implied Volatility | 10.800 | 12/06/2016 | 2 | 0 | (1) | 0 | (1) |
| | | | | | | $ 0 | $ 30 | $ 42 | $ (12) |
| **Total Swap Agreements** | | | | | | **$ (177)** | **$ 551** | **$ 746** | **$ (372)** |

## FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

**The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of December 31, 2015:**

**(h) Securities with an aggregate market value of $1,967 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2015.**

| | Financial Derivative Assets | | | | Financial Derivative Liabilities | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Counterparty | Forward Foreign Currency Contracts | Purchased Options | Swap Agreements | Total Over the Counter | Forward Foreign Currency Contracts | Written Options | Swap Agreements | Total Over the Counter | Net Market Value of OTC Derivatives | Collateral (Received)/ Pledged | Net Exposure (7) |
| AZD | $ 0 | $ 0 | $ 0 | $ 0 | $ (25) | $ (8) | $ 0 | $ (33) | $ (33) | $ 0 | $ (33) |
| BOA | 1,015 | 0 | 254 | 1,269 | (1,036) | (1) | (76) | (1,113) | 156 | 0 | 156 |
| BPS | 184 | 0 | 126 | 310 | (36) | 0 | 0 | (36) | 274 | (320) | (46) |
| BRC | 21 | 0 | 49 | 70 | (11) | (92) | (30) | (133) | (63) | 0 | (63) |
| CBK | 286 | 0 | 140 | 426 | (61) | (15) | (38) | (114) | 312 | (470) | (158) |
| DUB | 53 | 21 | 137 | 211 | (45) | (16) | (41) | (102) | 109 | (106) | 3 |
| FBF | 14 | 101 | 0 | 115 | (22) | (78) | (9) | (109) | 6 | 0 | 6 |
| GLM | 2 | 1 | 19 | 22 | (155) | (6) | 0 | (161) | (139) | 0 | (139) |
| GST | 0 | 0 | 4 | 4 | 0 | (6) | 0 | (6) | (2) | 0 | (2) |
| HUS | 3 | 0 | 1 | 4 | (1,451) | (3) | (24) | (1,478) | (1,474) | 1,933 | 459 |
| JPM | 1,029 | 0 | 2 | 1,031 | (318) | (9) | (100) | (427) | 604 | (710) | (106) |
| MSB | 573 | 0 | 0 | 573 | (16) | (18) | 0 | (34) | 539 | (310) | 229 |
| MYC | 0 | 0 | 5 | 5 | 0 | 0 | (54) | (54) | (49) | 0 | (49) |
| NAB | 0 | 0 | 0 | 0 | (88) | 0 | 0 | (88) | (88) | 0 | (88) |
| NGF | 0 | 0 | 9 | 9 | (39) | 0 | 0 | (39) | (30) | 0 | (30) |
| SCX | 215 | 46 | 0 | 261 | (56) | 0 | 0 | (56) | 205 | (270) | (65) |
| SOG | 9 | 0 | 0 | 9 | (7) | (18) | 0 | (25) | (16) | 0 | (16) |
| UAG | 110 | 0 | 0 | 110 | (213) | 0 | 0 | (213) | (103) | 0 | (103) |
| **Total Over the Counter** | **$3,514** | **$169** | **$746** | **$4,429** | **$(3,579)** | **$(270)** | **$(372)** | **$(4,221)** | | | |

(7) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

## FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

**The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.**

**Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 2015:**

| | Derivatives not accounted for as hedging instruments | | | | | |
|---|---|---|---|---|---|---|
| | Commodity Contracts | Credit Contracts | Equity Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Total |
| **Financial Derivative Instruments - Assets** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Purchased Options | $ 0 | $ 0 | $ 0 | $ 0 | $ 1 | $ 1 |
| Futures | 0 | 0 | 0 | 0 | 203 | 203 |
| Swap Agreements | 0 | 23 | 0 | 0 | 49 | 72 |
| | $ 0 | $ 23 | $ 0 | $ 0 | $ 253 | $ 276 |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 3,514 | $ 0 | $ 3,514 |
| Purchased Options | 0 | 0 | 0 | 169 | 0 | 169 |
| Swap Agreements | 0 | 209 | 0 | 470 | 67 | 746 |
| | $ 0 | $ 209 | $ 0 | $ 4,153 | $ 67 | $ 4,429 |
| | $ 0 | $ 232 | $ 0 | $ 4,153 | $ 320 | $ 4,705 |
| **Financial Derivative Instruments - Liabilities** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Futures | $ 0 | $ 0 | $ 0 | $ 0 | $ 86 | $ 86 |
| Swap Agreements | 0 | 2 | 0 | 0 | 362 | 364 |
| | $ 0 | $ 2 | $ 0 | $ 0 | $ 448 | $ 450 |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 3,579 | $ 0 | $ 3,579 |
| Written Options | 0 | 10 | 0 | 164 | 96 | 270 |
| Swap Agreements | 0 | 341 | 0 | 25 | 6 | 372 |
| | $ 0 | $ 351 | $ 0 | $ 3,768 | $ 102 | $ 4,221 |
| | $ 0 | $ 353 | $ 0 | $ 3,768 | $ 550 | $ 4,671 |

**The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2015:**

| | Derivatives not accounted for as hedging instruments | | | | | |
|---|---|---|---|---|---|---|
| | Commodity Contracts | Credit Contracts | Equity Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Total |
| **Net Realized Gain (Loss) on Financial Derivative Instruments** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Written Options | $ 0 | $ 0 | $ 0 | $ 0 | $ 3 | $ 3 |
| Futures | 0 | 0 | 0 | 0 | (145) | (145) |
| Swap Agreements | 0 | 32 | 0 | 0 | 984 | 1,016 |
| | $ 0 | $ 32 | $ 0 | $ 0 | $ 842 | $ 874 |
| **Over the counter** | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 14,325 | $ 0 | $ 14,325 |
| Purchased Options | 0 | (21) | 0 | 37 | (81) | (65) |
| Written Options | 0 | 115 | 0 | 401 | 197 | 713 |
| Swap Agreements | 0 | (52) | 0 | (2,122) | (665) | (2,839) |
| | $ 0 | $ 42 | $ 0 | $ 12,641 | $ (549) | $ 12,134 |
| | $ 0 | $ 74 | $ 0 | $ 12,641 | $ 293 | $ 13,008 |
| **Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Futures | $ (110) | $ 0 | $ 0 | $ 0 | $ (98) | $ (208) |
| Swap Agreements | 0 | (172) | 0 | 0 | (1,133) | (1,305) |
| | $ (110) | $ (172) | $ 0 | $ 0 | $ (1,231) | $ (1,513) |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ (3,130) | $ 0 | $ (3,130) |
| Purchased Options | 0 | 0 | 0 | (30) | 42 | 12 |
| Written Options | 0 | (3) | 0 | 5 | 71 | 73 |
| Swap Agreements | 0 | 84 | 0 | 865 | 57 | 1,006 |
| | $ 0 | $ 81 | $ 0 | $ (2,290) | $ 170 | $ (2,039) |
| | $ (110) | $ (91) | $ 0 | $ (2,290) | $ (1,061) | $ (3,552) |

## FAIR VALUE MEASUREMENTS

**The following is a summary of the fair valuations according to the inputs used as of December 31, 2015 in valuing the Portfolio's assets and liabilities:**

| Category and Subcategory | Level 1 | Level 2 | Level 3 | Fair Value at 12/31/2015 |
|---|---|---|---|---|
| **Investments in Securities, at Value** | | | | |
| Australia | | | | |
| Non-Agency Mortgage-Backed Securities | $ 0 | $ 26 | $ 0 | $ 26 |
| Sovereign Issues | 0 | 576 | 0 | 576 |
| Brazil | | | | |
| Corporate Bonds & Notes | 0 | 1,095 | 0 | 1,095 |
| Canada | | | | |
| Corporate Bonds & Notes | 0 | 496 | 0 | 496 |
| Non-Agency Mortgage-Backed Securities | 0 | 962 | 0 | 962 |
| Sovereign Issues | 0 | 9,883 | 0 | 9,883 |
| Cayman Islands | | | | |
| Asset-Backed Securities | 0 | 1,519 | 0 | 1,519 |
| China | | | | |
| Corporate Bonds & Notes | 0 | 207 | 0 | 207 |
| Denmark | | | | |
| Corporate Bonds & Notes | 0 | 16,044 | 0 | 16,044 |
| France | | | | |
| Corporate Bonds & Notes | 0 | 2,112 | 0 | 2,112 |
| Non-Agency Mortgage-Backed Securities | 0 | 852 | 0 | 852 |
| Sovereign Issues | 0 | 9,652 | 0 | 9,652 |
| Germany | | | | |
| Corporate Bonds & Notes | 0 | 4,922 | 0 | 4,922 |
| Sovereign Issues | 0 | 1,134 | 0 | 1,134 |
| Greece | | | | |
| Corporate Bonds & Notes | 0 | 1,046 | 0 | 1,046 |
| Sovereign Issues | 0 | 800 | 0 | 800 |
| Hong Kong | | | | |
| Corporate Bonds & Notes | 0 | 203 | 0 | 203 |
| Ireland | | | | |
| Asset-Backed Securities | 0 | 916 | 0 | 916 |
| Corporate Bonds & Notes | 0 | 4,169 | 0 | 4,169 |
| Non-Agency Mortgage-Backed Securities | 0 | 737 | 0 | 737 |
| Italy | | | | |
| Asset-Backed Securities | 0 | 36 | 0 | 36 |
| Corporate Bonds & Notes | 0 | 1,372 | 0 | 1,372 |
| Non-Agency Mortgage-Backed Securities | 0 | 1,445 | 0 | 1,445 |
| Sovereign Issues | 0 | 25,891 | 0 | 25,891 |
| Japan | | | | |
| Corporate Bonds & Notes | 0 | 1,713 | 0 | 1,713 |
| Jersey, Channel Islands | | | | |
| Asset-Backed Securities | 0 | 578 | 0 | 578 |
| Luxembourg | | | | |
| Corporate Bonds & Notes | 0 | 2,595 | 0 | 2,595 |
| Mexico | | | | |
| Sovereign Issues | 0 | 5,651 | 0 | 5,651 |
| Netherlands | | | | |
| Asset-Backed Securities | 0 | 914 | 0 | 914 |
| Corporate Bonds & Notes | 0 | 4,221 | 0 | 4,221 |
| Norway | | | | |
| Corporate Bonds & Notes | 0 | 1,006 | 0 | 1,006 |
| Sovereign Issues | 0 | 634 | 0 | 634 |
| Portugal | | | | |
| Corporate Bonds & Notes | 0 | 364 | 0 | 364 |
| Slovenia | | | | |
| Sovereign Issues | 0 | 7,605 | 0 | 7,605 |
| Spain | | | | |
| Corporate Bonds & Notes | $ 0 | $ 619 | $ 0 | $ 619 |
| Sovereign Issues | 0 | 18,472 | 0 | 18,472 |
| Supranational | | | | |
| Corporate Bonds & Notes | 0 | 1,169 | 0 | 1,169 |
| Sweden | | | | |
| Corporate Bonds & Notes | 0 | 627 | 0 | 627 |
| Sovereign Issues | 0 | 162 | 0 | 162 |
| Switzerland | | | | |
| Corporate Bonds & Notes | 0 | 2,332 | 0 | 2,332 |
| Sovereign Issues | 0 | 458 | 0 | 458 |
| United Kingdom | | | | |
| Asset-Backed Securities | 0 | 109 | 0 | 109 |
| Corporate Bonds & Notes | 0 | 7,145 | 0 | 7,145 |
| Non-Agency Mortgage-Backed Securities | 0 | 4,470 | 0 | 4,470 |
| Sovereign Issues | 0 | 14,508 | 0 | 14,508 |
| United States | | | | |
| Asset-Backed Securities | 0 | 20,049 | 0 | 20,049 |
| Bank Loan Obligations | 0 | 600 | 0 | 600 |
| Corporate Bonds & Notes | 0 | 12,619 | 0 | 12,619 |
| Municipal Bonds & Notes | 0 | 132 | 0 | 132 |
| Non-Agency Mortgage-Backed Securities | 0 | 8,418 | 32 | 8,450 |
| Preferred Securities | 21 | 0 | 0 | 21 |
| U.S. Government Agencies | 0 | 10,325 | 0 | 10,325 |
| U.S. Treasury Obligations | 0 | 23,356 | 0 | 23,356 |
| Short-Term Instruments | | | | |
| Certificates of Deposit | 0 | 700 | 0 | 700 |
| Repurchase Agreements | 0 | 1,404 | 0 | 1,404 |
| | $ 21 | $ 239,050 | $ 32 | $ 239,103 |
| **Investments in Affiliates, at Value** | | | | |
| Short-Term Instruments | | | | |
| Central Funds Used for Cash Management Purposes | 59,473 | 0 | 0 | 59,473 |
| Total Investments | $ 59,494 | $ 239,050 | $ 32 | $ 298,576 |
| **Short Sales, at Value - Liabilities** | | | | |
| U.S. Government Agencies | $ 0 | $ (16,124) | $ 0 | $ (16,124) |
| **Financial Derivative Instruments - Assets** | | | | |
| Exchange-traded or centrally cleared | 203 | 73 | 0 | 276 |
| Over the counter | 0 | 4,429 | 0 | 4,429 |
| | $ 203 | $ 4,502 | $ 0 | $ 4,705 |
| **Financial Derivative Instruments - Liabilities** | | | | |
| Exchange-traded or centrally cleared | (86) | (364) | 0 | (450) |
| Over the counter | 0 | (4,221) | 0 | (4,221) |
| | $ (86) | $ (4,585) | $ 0 | $ (4,671) |
| Totals | $ 59,611 | $ 222,843 | $ 32 | $ 282,486 |

**There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2015.**

## 1. ORGANIZATION

The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans. Pacific Investment Management Company LLC ("PIMCO") serves as the investment adviser (the "Adviser") for the Portfolio.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Portfolio is treated as an investment company under the reporting requirements of U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

**(a) Securities Transactions and Investment Income** Securities transactions are recorded as of the trade date for financial reporting purposes. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective date. For convertible securities, premiums attributable to the conversion feature are not amortized. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized appreciation (depreciation) on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain (loss) on investments on the Statement of Operations. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is probable.

**(b) Cash and Foreign Currency** The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and income and expense items denominated in foreign currencies, if any, are translated into U.S. dollars at the exchange rate in effect on the transaction date. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized gain (loss) and net change in unrealized appreciation (depreciation) from investments on the Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see Financial Derivative Instruments, if any). Realized foreign exchange gains or losses arising from sales of spot foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid are included in net realized gain (loss) on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains and losses arising from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period are included in net change in unrealized appreciation (depreciation) on foreign currency assets and liabilities on the Statement of Operations.

**(c) Multiclass Operations** Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative net assets. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

**(d) Dividends and Distributions to Shareholders** Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. Examples of transactions that may cause character differences include the treatment of paydowns on mortgage-backed securities, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income (loss) and realized gains (losses) reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed (overdistributed) net investment income (loss), accumulated undistributed (overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

**(e) New Accounting Pronouncements** In June 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-11, that expanded secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Portfolio has adopted the ASU. The financial statements have been modified to provide enhanced disclosures surrounding secured borrowing transactions, if any. See the Notes to Schedule of Investments for additional details.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

## 3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

**(a) Investment Valuation Policies** The price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). Information that becomes known to the Portfolio or its agents after the time as of which NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the

Adviser to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies (other than exchange-traded funds ("ETFs")), a Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees of the Trust (the "Board"). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. As a result, the value of such investments and, in turn, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of investments traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, indicative market quotations ("Broker Quotes"), Pricing Services' prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of a Portfolio's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that a Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by a Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

**(b) Fair Value Hierarchy** U.S. GAAP describes fair value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1 — Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.
- Level 2 — Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3 — Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers in and out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Portfolio.

**(c) Valuation Techniques and the Fair Value Hierarchy**

**Level 1 and Level 2 trading assets and trading liabilities, at fair value** The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buyback transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using Pricing Services that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment companies (other than ETFs) will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemption where the inputs to the NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange (if available). For centrally cleared credit default swaps, the clearing facility requires its members to provide actionable price levels across complete term structures. These levels along with external third-party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

**Level 3 trading assets and trading liabilities, at fair value** When a fair valuation method is applied by the Adviser that uses significant unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy.

The validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

## 4. SECURITIES AND OTHER INVESTMENTS

### (a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The tables below show the Portfolio's transactions in and earnings from investments in these affiliated Funds for the period ended December 31, 2015 (amounts in thousands†):

**Investments in PIMCO Short-Term Floating NAV Portfolio***

| Market Value 12/31/2014 | Purchases at Cost | Proceeds from Sales | Net Realized Gain (Loss) | Change in Unrealized Appreciation (Depreciation) | Market Value 12/31/2015 | Dividend Income (1) | Realized Net Capital Gain Distributions (1) |
|---|---|---|---|---|---|---|---|
| $ 17 | $ 0 | $ (17) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |

† A zero balance may reflect actual amounts rounding to less than one thousand.
* Effective July 1, 2015, the Portfolio was liquidated.
(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

**Investments in PIMCO Short-Term Floating NAV Portfolio III**

| Market Value 12/31/2014 | Purchases at Cost | Proceeds from Sales | Net Realized Gain (Loss) | Change in Unrealized Appreciation (Depreciation) | Market Value 12/31/2015 | Dividend Income (1) | Realized Net Capital Gain Distributions (1) |
|---|---|---|---|---|---|---|---|
| $ 40,634 | $ 181,666 | $ (162,600) | $ (203) | $ (24) | $ 59,473 | $ 466 | $ 0 |

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

### (b) Investments in Securities

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

Loan Participations, Assignments and Originations The Portfolio may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. The Portfolio's investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties or investments in or originations of loans by a Portfolio. A loan is often administered by a bank or other financial institution (the "lender") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. The Portfolio may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. When the Portfolio purchases assignments from lenders it acquires direct rights against the borrowers of the loans. These loans may include participations in bridge loans, which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions.

The types of loans and related investments in which the Portfolio may invest include, among others, senior loans, subordinated loans (including second lien loans, B-Notes and mezzanine loans), whole loans, commercial real estate and other commercial loans and structured loans. The Portfolio may originate loans or acquire direct interests in loans through primary loan distributions and/or in private transactions. In the case of subordinated loans, there may be significant indebtedness ranking ahead of the borrower's obligation to the holder of such a loan, including in the event of the borrower's insolvency. Mezzanine loans are typically secured by a pledge of an equity interest in the mortgage borrower that owns the real estate rather than an interest in a mortgage.

Investments in loans may include unfunded loan commitments, which are contractual obligations for funding. Unfunded loan commitments may include revolving credit facilities, which may obligate the Portfolio to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the committed amount may not be utilized by the borrower. When investing in a loan participation, the Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan agreement and only upon receipt of payments by the lender from the borrower. The Portfolio may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statement of Operations. As of December 31, 2015, the Portfolio had no unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. These securities provide a monthly payment which consists of both interest and principal. Interest may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. An SMBS will have one class that will receive all of the interest (the interest-only or "IO" class), while the other class will receive the entire principal (the principal-only or "PO" class). Payments received for IOs are included in interest income on the Statement of Operations. Because no principal will be received at the maturity of an IO, adjustments are made to the cost of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); and others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest-paying securities.

Government-related guarantors (*i.e.*, not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (*i.e.*, not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a To Be Announced ("TBA") security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

## 5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location of these instruments is described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements  The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for the receipt of collateral, which may result in interest expense to the Portfolio.

(b) Short Sales  The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

## 6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the net realized gain (loss) and net change in unrealized appreciation (depreciation) on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of net realized gain (loss) and net change in unrealized appreciation (depreciation) on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts  The Portfolio may enter into forward foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward foreign currency contracts are marked to market daily, and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses are equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed and are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker an amount of cash, U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("Futures Variation Margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are included on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio, as a writer of an option has no control over whether the underlying instrument may be sold ("call") or purchased ("put") and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included as an asset on the Statement of Assets and Liabilities and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is executed.

Options on Exchange-Traded Futures Contracts The Portfolio may write or purchase options on exchange-traded futures contracts ("Futures Option") to hedge an existing position or future investment, for speculative purposes or to manage exposure to market movements. A Futures Option is an option contract in which the underlying instrument is a single futures contract.

Credit Default Swaptions The Portfolio may write or purchase credit default swaptions to hedge exposure to the credit risk of an investment without making a commitment to the underlying instrument. A credit default swaption is an option to sell or buy credit protection to a specific reference by entering into a pre-defined swap agreement by some specified date in the future.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaptions which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

**Foreign Currency Options** The Portfolio may write or purchase foreign currency options. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell the currency with specified amounts of currency and a rate of exchange that may be exercised by a certain date. These options may be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies.

**Options on Securities** The Portfolio may write or purchase options on securities. An option uses a specified security as the underlying instrument for the option contract. The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment.

**(d) Swap Agreements** The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("Centrally Cleared Swaps"). The Portfolio may enter into asset, credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Centrally Cleared Swaps are marked to market daily based upon valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. Changes in market value, if any, are reflected as a component of net change in unrealized appreciation (depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps ("Swap Variation Margin"), if any, are included within centrally cleared financial derivative instruments on the Statement of Assets and Liabilities. OTC swap payments received or paid at the beginning of the measurement period are included on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions, the Portfolio will value the credit default swap at its notional value or its full exposure value (i.e., the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

**Credit Default Swap Agreements** A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.*, to reduce risk where a Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event that the referenced entity, obligation or index, as specified in the swap agreement, undergoes a certain credit event. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event).

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are instruments for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, are disclosed in the Notes to Schedule of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end for which the Portfolio is the seller of protection are disclosed in the Notes to Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

**Cross-Currency Swap Agreements** The Portfolio may enter into cross-currency swap agreements to gain or mitigate exposure to currency risk. Cross-currency swap agreements involve two parties exchanging two different currencies with an agreement to reverse the exchange at a later date at specified exchange rates. The exchange of currencies at the inception date of the contract takes place at the current spot rate. The re-exchange at maturity may take place at the same exchange rate, a specified rate, or the then current spot rate. Interest payments, if applicable, are made between the parties based on interest rates available in the two currencies at the inception of the contract. The terms of cross-currency swap contracts may extend for many years. Cross-currency swaps are usually negotiated with commercial and investment banks. Some cross-currency swaps may not provide for exchanging principal cash flows, but only for exchanging interest cash flows.

**Interest Rate Swap Agreements** The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost and at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different segments of money markets.

**Volatility Swap Agreements** The Portfolio also may enter into forward volatility agreements, also known as volatility swaps. In a volatility swap, the counterparties agree to make payments in connection with changes in the volatility (*i.e.*, the magnitude of change over a specified period of time) of an underlying referenced instrument, such as a currency, rate, index, security or other financial instrument. Volatility swaps permit the parties to attempt to hedge volatility risk and/or take positions on the projected future volatility of an underlying referenced instrument. For example, the Portfolio may enter into a volatility swap in order to take the position that the referenced instrument's volatility will increase over a particular period of time. If the referenced instrument's volatility does increase over the specified time, the Portfolio will receive payment from its counterparty based upon the amount by which the referenced instrument's realized volatility level exceeds a volatility level agreed upon by the parties. If the referenced instrument's volatility does not increase over the specified time, the Portfolio will make a payment to the counterparty based upon the amount by which the referenced instrument's realized volatility level falls below the volatility level agreed upon by the parties. At the maturity date, a net cash flow is exchanged, where the payoff amount is equivalent to the difference between the realized price volatility of the referenced instrument and the strike multiplied by the notional amount. As a receiver of the realized price volatility, the Portfolio would receive the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would owe the payoff amount when the volatility is less than the strike. As a payer of the realized price volatility, the Portfolio would owe the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would receive the payoff amount when the volatility is less than the strike. Payments on a volatility swap will be greater if they are based upon the mathematical square of volatility (*i.e.*, the measured volatility multiplied by itself, which is referred to as "variance"). This type of volatility swap is frequently referred to as a variance swap.

## 7. PRINCIPAL RISKS

In the normal course of business, the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to such things as changes in the market (market risk) or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a more comprehensive list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

**Market Risks** The Portfolio's investments in financial derivative instruments and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of an increase in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by the Portfolio's management. The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

Duration is a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.*, yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. Given the importance of intermediary "market making" in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause the Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is subject to various risks such as, but not limited to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that further economic sanctions may be imposed by the United States and/or other countries. Such sanctions — which may impact companies in many sectors, including energy, financial services and defense, among others — may negatively impact the Portfolio's performance and/or ability to achieve its investment objective. The Russian securities market, as compared to U.S. markets, has significant price volatility, less liquidity, difficulties in obtaining accurate prices, a smaller market capitalization and a smaller number of traded securities. Settlement, clearing and registration of securities transactions are subject to risks, which may result in significant delays or problems in registering the transfer of securities, including issues with foreign nominee accounts held with custodian banks. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. In addition, it may be difficult for the Portfolio to enforce any rights it may have in the event of loss of share registration. Adverse currency exchange rates are a risk and there may be a lack of available currency hedging instruments. Investments in Russia may be subject to the risk of nationalization or expropriation of assets. Oil, natural gas, metals, and timber account for a significant portion of Russia's exports, leaving the country vulnerable to swings in world prices.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivative instruments that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency-denominated securities may reduce the Portfolio's returns.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen in periodic cycles and may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Different types of equity securities may react differently to these developments. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

**Credit and Counterparty Risks** The Portfolio will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges, where applicable. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities and financial derivative instruments are subject to varying degrees of credit risk, which may be reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

Master Netting Arrangements The Portfolio may be subject to various netting arrangements ("Master Agreements") with select counterparties. Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally presents derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under most Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper or sovereign securities may be used depending on the terms outlined in the applicable Master Agreement. Securities and cash pledged as collateral are reflected as assets on the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits with counterparty. Cash collateral received is not typically held in a segregated account and as such is reflected as a liability on the Statement of Assets and Liabilities as Deposits from counterparty. The market value of any securities received as collateral is not reflected as a component of NAV. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addenda govern cleared derivatives transactions such as futures, options on futures, and cleared over the counter ("OTC") derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk is significantly reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of an FCM default scenario further reduces risk to the Portfolio. Variation margin, or changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation (depreciation), initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern bilateral OTC derivative transactions entered into by the Portfolio with select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third-party custodian. The market value of OTC financial derivative instruments, collateral received or pledged, and net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

## 8. FEES AND EXPENSES

**(a) Investment Advisory Fee** PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management") and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

**(b) Supervisory and Administrative Fee** PIMCO serves as administrator (the "Administrator") and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.50%.

**(c) Distribution and Servicing Fees** PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

**(d) Portfolio Expenses** PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Trust is responsible for the following expenses: (i) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multi-Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives an additional annual retainer of $1,500.

These expenses are allocated on a pro rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio, which does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

## 9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another fund or portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

| Purchases | Sales |
|---|---|
| $ 19,533 | $ 842 |

## 10. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Portfolio. Additionally, in the normal course of business, the Portfolio enters into contracts that contain a variety of indemnification clauses. The Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolio that have not yet occurred. However, the Portfolio has not had prior claims or losses pursuant to these contracts.

## 11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover may involve correspondingly greater transaction costs to the Portfolio, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The transaction costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended December 31, 2015, were as follows (amounts in thousands):

| U.S. Government/Agency | | All Other | |
|---|---|---|---|
| Purchases | Sales | Purchases | Sales |
| $ 430,557 | $ 405,138 | $ 220,296 | $ 100,580 |

## 12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

| | Year Ended 12/31/2015 | | Year Ended 12/31/2014 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| **Receipts for shares sold** | | | | |
| Institutional Class | 215 | $ 2,352 | 83 | $ 884 |
| Administrative Class | 4,371 | 48,158 | 5,383 | 56,686 |
| Advisor Class | 13,971 | 152,491 | 6,335 | 67,757 |
| **Issued as reinvestment of distributions** | | | | |
| Institutional Class | 10 | 102 | 1 | 10 |
| Administrative Class | 251 | 2,680 | 185 | 1,966 |
| Advisor Class | 677 | 7,198 | 61 | 665 |
| **Cost of shares redeemed** | | | | |
| Institutional Class | (21) | (230) | (5) | (55) |
| Administrative Class | (5,865) | (64,356) | (3,956) | (41,731) |
| Advisor Class | (38) | (409) | (1) | (10) |
| **Net increase (decrease) resulting from Portfolio share transactions** | 13,571 | $ 147,986 | 8,086 | $ 86,172 |

As of December 31, 2015, one shareholder owned 10% or more of the Portfolio’s total outstanding shares comprising 75% of the Portfolio.

## 13. REGULATORY AND LITIGATION MATTERS

The Portfolio is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission (“SEC”) that relates to the PIMCO Total Return Active Exchange-Traded Fund (“BOND”), a series of PIMCO ETF Trust. The notice indicates the staff’s preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a non-public investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND’s performance disclosures for that period, and PIMCO’s compliance policies and procedures related to these matters.

The Wells process provides PIMCO with the opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO’s ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

## 14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the “Code”) and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio’s tax positions for all open tax years. As of December 31, 2015, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio’s U.S. tax returns filed for the fiscal years ending in 2012-2014, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregated asset accounts (“Separate Accounts”) of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding Federal income tax treatment of distributions to the Separate Account.

As of December 31, 2015, the components of distributable taxable earnings are as follows (amounts in thousands):

| | Undistributed Ordinary Income | Undistributed Long-Term Capital Gains | Net Tax Basis Unrealized Appreciation/ (Depreciation) (1) | Other Book-to-Tax Accounting Differences (2) | Accumulated Capital Losses (3) | Qualified Late-Year Loss Deferral— Capital (4) | Qualified Late-Year Loss Deferral— Ordinary (5) |
|---|---|---|---|---|---|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | $ 6,472 | $ — | $ (8,587) | $ (575) | $ — | $ — | $ — |

(1) Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures, options and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts, treasury inflation-protected securities, lehman securities, convertible preferred stock and sale/buyback transactions.

(2) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, namely for straddle loss deferrals at fiscal year-end.

(3) Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.

(4) Capital losses realized during the period November 1, 2015 through December 31, 2015 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

(5) Specified losses realized during the period November 1, 2015 through December 31, 2015, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2015, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

| | Federal Tax Cost | Unrealized Appreciation | Unrealized (Depreciation) | Net Unrealized Appreciation/ (Depreciation) (6) |
|---|---|---|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | $ 308,156 | $ 1,408 | $ (10,988) | $ (9,580) |

(6) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals, treasury inflation-protected securities, sale/buyback transactions, lehman securities and convertible preferred stock.

For the years ended December 31, 2015 and December 31, 2014, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

| | Fiscal Year Ended | Ordinary Income Distributions (7) | Long-Term Capital Gain Distributions | Return of Capital (8) |
|---|---|---|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | 12/31/2015 | $ 9,807 | $ 174 | $ — |
| | 12/31/2014 | $ 2,371 | $ 270 | $ — |

(7) Includes short-term capital gains, if any, distributed.

(8) A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform financial accounting to tax accounting.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged):**

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (one of the portfolios constituting PIMCO Variable Insurance Trust, hereinafter referred to as the "Portfolio") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 18, 2016

# Glossary: (abbreviations that may be used in the preceding statements)

**Counterparty Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **AZD** | Australia and New Zealand Banking Group | **GLM** | Goldman Sachs Bank USA | **NAB** | National Australia Bank Ltd. |
| **BOA** | Bank of America N.A. | **GST** | Goldman Sachs International | **NGF** | Nomura Global Financial Products, Inc. |
| **BPS** | BNP Paribas S.A. | **HUS** | HSBC Bank USA N.A. | **SCX** | Standard Chartered Bank |
| **BRC** | Barclays Bank PLC | **JPM** | JPMorgan Chase Bank N.A. | **SOG** | Societe Generale |
| **CBK** | Citibank N.A. | **MSB** | Morgan Stanley Bank, N.A | **SSB** | State Street Bank and Trust Co. |
| **DUB** | Deutsche Bank AG | **MYC** | Morgan Stanley Capital Services, Inc. | **UAG** | UBS AG Stamford |
| **FBF** | Credit Suisse International | | | | |

**Currency Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **AUD** | Australian Dollar | **HKD** | Hong Kong Dollar | **RUB** | Russian Ruble |
| **BRL** | Brazilian Real | **IDR** | Indonesian Rupiah | **SEK** | Swedish Krona |
| **CAD** | Canadian Dollar | **INR** | Indian Rupee | **SGD** | Singapore Dollar |
| **CHF** | Swiss Franc | **JPY** | Japanese Yen | **THB** | Thai Baht |
| **CNH** | Chinese Renminbi (Offshore) | **KRW** | South Korean Won | **TRY** | Turkish New Lira |
| **CNY** | Chinese Renminbi (Mainland) | **MXN** | Mexican Peso | **TWD** | Taiwanese Dollar |
| **DKK** | Danish Krone | **MYR** | Malaysian Ringgit | **USD (or $)** | United States Dollar |
| **EUR** | Euro | **NOK** | Norwegian Krone | **ZAR** | South African Rand |
| **GBP** | British Pound | **NZD** | New Zealand Dollar | | |

**Exchange Abbreviations:**

| | | | |
|---|---|---|---|
| **CBOT** | Chicago Board of Trade | **OTC** | Over the Counter |

**Index/Spread Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **CDX.HY** | Credit Derivatives Index - High Yield | **CDX.IG** | Credit Derivatives Index - Investment Grade | **KWCDC** | KRW Certificate of Deposit |

**Other Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **ABS** | Asset-Backed Security | **CDI** | Brazil Interbank Deposit Rate | **LIBOR** | London Interbank Offered Rate |
| **ALT** | Alternate Loan Trust | **CDO** | Collateralized Debt Obligation | **MBS** | Mortgage-Backed Security |
| **BABs** | Build America Bonds | **CLO** | Collateralized Loan Obligation | **NCUA** | National Credit Union Administration |
| **BBR** | Bank Bill Rate | **EURIBOR** | Euro Interbank Offered Rate | **TIIE** | Tasa de Interés Interbancaria de Equilibrio |
| **BBSW** | Bank Bill Swap Reference Rate | **JIBAR** | Johannesburg Interbank Agreed Rate | | |

## Federal Income Tax Information

(Unaudited)

As required by the Internal Revenue Code ("Code") and Treasury Regulations, if applicable, shareholders must be notified within 60 days of the Portfolio's fiscal year end regarding the status of qualified dividend income and the dividend received deduction.

**Qualified Dividend Income.** Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), the following percentage of ordinary dividends paid during the calendar year was designated as "qualified dividend income", as defined in the Act, subject to reduced tax rates in 2015:

| | |
|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | 0.16% |

**Dividend Received Deduction.** Corporate shareholders are generally entitled to take the dividend received deduction on the portion of a Portfolio's dividend distribution that qualifies under tax law. The percentage of the following Portfolio's calendar year ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below:

| | |
|---|---|
| PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) | 0.01% |

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust. However, income received by tax-exempt recipients need not be reported as taxable income.

## Management of the Trust

The charts below identify the Trustees and executive officers of the Trust. Unless otherwise indicated, the address of all persons below is 650 Newport Center Drive, Newport Beach, CA 92660.

The Portfolio's Statement of Additional Information includes more information about the Trustees and Officers. To request a free copy, call PIMCO at (888) 87-PIMCO or visit the Portfolio's website at pvit.pimco-funds.com.

| Name, Year of Birth and Position Held with Trust | Term of Office and Length of Time Served** | Principal Occupation(s) During Past 5 Years | Number of Funds in Fund Complex Overseen by Trustee | Other Public Company and Investment Company Directorships Held by Trustee During the Past 5 Years |
|---|---|---|---|---|
| **Interested Trustees*** | | | | |
| **Brent R. Harris (1959)** *Chairman of the Board and Trustee* | 08/1997 to present | Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO. | 168 | Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT; Director, StocksPLUS® Management, Inc; and member of Board of Governors, Investment Company Institute. |
| **Douglas M. Hodge (1957)** *Trustee* | 02/2010 to present | Managing Director, Chief Executive Officer, PIMCO (since 2/14); Chief Operating Officer, PIMCO (7/09 - 2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management. | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **Independent Trustees** | | | | |
| **George E. Borst (1948)** *Trustee* | 04/2015 to present | Executive Advisor, McKinsey & Company; Formerly, Executive Advisor, Toyota Financial Services; CEO, Toyota Financial Services. | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **E. Philip Cannon (1940)** *Trustee* | 05/2000 to present | Private Investor. Formerly, President, Houston Zoo. | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Formerly, Trustee, Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series. |
| **Jennifer Holden Dunbar (1963)** *Trustee* | 04/2015 to present | Managing Director, Dunbar Partners, LLC (business consulting and investments). | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation. |
| **Gary F. Kennedy (1955)** *Trustee* | 04/2015 to present | Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group). | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **Peter B. McCarthy (1950)** *Trustee* | 04/2015 to present | Formerly, Assistant Secretary and Chief Financial Officer, United States Department of Treasury; Deputy Managing Director, Institute of International Finance. | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. |
| **Ronald C. Parker (1951)** *Trustee* | 07/2009 to present | Director of Roseburg Forest Products Company. Formerly, Chairman of the Board, The Ford Family Foundation. Formerly President, Chief Executive Officer, Hampton Affiliates (forestry products). | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. |

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations with PIMCO.
** Trustees serve until their successors are duly elected and qualified.

## Executive Officers

| Name, Year of Birth and Position Held with Trust | Term of Office and Length of Time Served | Principal Occupation(s) During Past 5 Years* |
|---|---|---|
| **Peter G. Strelow (1970)**<br>*President* | 01/2015 to present<br>Senior Vice President<br>11/2013 to 01/2015<br>Vice President<br>05/2008 to 11/2013 | Managing Director, PIMCO. President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **David C. Flattum (1964)**<br>*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)**<br>*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)**<br>*Senior Vice President* | 01/2015 to present<br>President<br>03/2009 to 01/2015 | Managing Director and current member of Executive Committee, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Douglas M. Hodge (1957)**<br>*Senior Vice President* | 05/2010 to present | Managing Director, Chief Executive Officer, PIMCO (since 2/14); Chief Operating Officer, PIMCO (7/09 - 2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Kevin M. Broadwater (1964)**<br>*Vice President - Senior Counsel* | 05/2012 to present | Executive Vice President and Deputy General Counsel, PIMCO. Vice President - Senior Counsel, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Joshua D. Ratner (1976)****<br>*Vice President - Senior Counsel, Secretary* | 11/2013 to present<br>Assistant Secretary<br>10/2007 to 01/2011 | Executive Vice President and Senior Counsel, PIMCO. Chief Legal Officer, PIMCO Investments LLC. Vice President - Senior Counsel, Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Vice President, Secretary and Chief Legal Officer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Ryan G. Leshaw (1980)**<br>*Assistant Secretary* | 05/2012 to present | Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Associate, Willkie Farr & Gallagher LLP. |
| **Stacie D. Anctil (1969)**<br>*Vice President* | 05/2015 to present<br>Assistant Treasurer<br>11/2003 to 05/2015 | Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **William G. Galipeau (1974)**<br>*Vice President* | 11/2013 to present | Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Vice President, Fidelity Investments. |
| **Eric D. Johnson (1970)****<br>*Vice President* | 05/2011 to present | Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Henrik P. Larsen (1970)**<br>*Vice President* | 02/1999 to present | Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Greggory S. Wolf (1970)**<br>*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)**<br>*Treasurer* | 11/2013 to present<br>Assistant Treasurer<br>05/2007 to 11/2013 | Executive Vice President, PIMCO. Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Assistant Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Erik C. Brown (1967)**<br>*Assistant Treasurer* | 02/2001 to present | Executive Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Jason J. Nagler (1982)****<br>*Assistant Treasurer* | 05/2015 to present | Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds. |

* The term "PIMCO Closed-End Funds" as used herein includes: PIMCO California Municipal Income Fund, PIMCO California Municipal Income Fund II, PIMCO California Municipal Income Fund III, PIMCO Municipal Income Fund, PIMCO Municipal Income Fund II, PIMCO Municipal Income Fund III, PIMCO New York Municipal Income Fund, PIMCO New York Municipal Income Fund II, PIMCO New York Municipal Income Fund III, PCM Fund Inc., PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO Dynamic Credit Income Fund, PIMCO Dynamic Income Fund, PIMCO Global StocksPLUS & Income Fund, PIMCO High Income Fund, PIMCO Income Opportunity Fund, PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II and PIMCO Strategic Income Fund, Inc.

** The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

# Privacy Policy[1]

The Trust[2] considers customer privacy to be a fundamental aspect of its relationships with shareholders and is committed to maintaining the confidentiality, integrity and security of its current, prospective and former shareholders' non-public personal information. The Trust has developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

## Obtaining Personal Information

In the course of providing shareholders with products and services, the Trust and certain service providers to the Trust, such as the Trust's investment advisers or sub-advisers ("Advisers"), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial advisor or consultant, and/or from information captured on applicable websites.

## Respecting Your Privacy

As a matter of policy, the Trust does not disclose any non-public personal information provided by shareholders or gathered by the Trust to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Trust. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. The Trust or its affiliates may also retain non-affiliated companies to market the Trust's shares or products which use the Trust's shares and enter into joint marketing arrangements with them and other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Trust may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

### Sharing Information with Third Parties

The Trust reserves the right to disclose or report personal or account information to non-affiliated third parties in limited circumstances where the Trust believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any fund advised by PIMCO in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder or a shareholder's accounts to a non-affiliated third party at the shareholder's request or with the consent of the shareholder.

## Sharing Information with Affiliates

The Trust may share shareholder information with its affiliates in connection with servicing shareholders' accounts, and subject to applicable law may provide shareholders with information about products and services that the Trust or its Advisers, distributors or their affiliates ("Service Affiliates") believe may be of interest to such shareholders. The information that the Trust may share may include, for example, a shareholder's participation in the Trust or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), information about the Trust's experiences or transactions with a shareholder, information captured on applicable websites, or other data about a shareholder's accounts, subject to applicable law. The Trust's Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

## Procedures to Safeguard Private Information

The Trust takes seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Trust has implemented procedures that are designed to restrict access to a shareholder's non-public personal information to internal personnel who need to know that information to perform their jobs, such as servicing shareholder accounts or notifying shareholders of new products or services. Physical, electronic and procedural safeguards are in place to guard a shareholder's non-public personal information.

## Information Collected from Websites

Websites maintained by the Trust or its service providers may use a variety of technologies to collect information that help the Trust and its service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. In addition, the Trust or its Service Affiliates may use third parties to place advertisements for the Trust on other websites, including banner advertisements. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information these third parties collect is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information such as name, address, phone number or email address.

You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly.

## Changes to the Privacy Policy

From time to time, the Trust may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

[1] Effective as of September 5, 2014.

[2] When distributing this Policy, the Trust may combine the distribution with any similar distribution of its investment adviser's privacy policy. The distributed, combined policy may be written in the first person (i.e., by using "we" instead of "the Trust").

Approval of Renewal of the Amended and Restated Investment Advisory Contract, Supervision and Administration Agreement and Amended and Restated Asset Allocation Sub-Advisory Agreement

At a meeting held on August 10-11, 2015, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the Trustees who are not "interested persons" of the Trust under the Investment Company Act of 1940, as amended (the "Independent Trustees"), considered and unanimously approved the Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") between the Trust, on behalf of each of the Trust's series (the "Portfolios"), and Pacific Investment Management Company LLC ("PIMCO") for an additional one-year term through August 31, 2016. The Board also considered and unanimously approved for an additional one-year term through August 31, 2016, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO. In addition, the Board considered and unanimously approved the renewal of the Amended and Restated Asset Allocation Sub-Advisory Agreement (the "Asset Allocation Agreement") between PIMCO, on behalf of PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, and Research Affiliates, LLC ("Research Affiliates") for an additional one-year term through August 31, 2016.

The information, material factors and conclusions that formed the basis for the Board's approvals are summarized below.

## 1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of the past year, the Trustees received a wide variety of materials relating to the services provided by PIMCO and Research Affiliates to the Trust. At each of its quarterly meetings, the Board reviewed the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including shareholder services, valuation and custody, the Portfolios' compliance program and other information relating to the nature, extent and quality of services provided by PIMCO and Research Affiliates to the Trust. In considering whether to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board also reviewed supplementary information, including, but not limited to, comparative industry data with regard to investment performance, advisory and supervisory and administrative fees and expenses, financial information for PIMCO and, where relevant, Research Affiliates, information regarding the profitability to PIMCO of its relationship with the Portfolios, information about the personnel providing investment management services, other advisory services and supervisory and administrative services to the Portfolios, and information about the fees charged and services provided to other clients with similar investment mandates as the Portfolios (where applicable). In addition, the Board reviewed materials provided by counsel to the Trust and the Independent Trustees, which included, among other things, memoranda outlining legal duties of the Board in considering the continuation of the Agreements and the Asset Allocation Agreement.

(b) Review Process: In connection with the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed written materials prepared by PIMCO and, where applicable, Research Affiliates in response to requests from counsel to the Trust and the Independent Trustees. The Board requested and received assistance and advice regarding applicable legal standards from counsel to the Trust and the Independent Trustees, and reviewed comparative fee and performance data prepared at the Board's request by Lipper, Inc. ("Lipper"), an independent provider of investment company performance and fee and expense data. The Board heard oral presentations on matters related to the Agreements and the Asset Allocation Agreement and met both as a full Board and in a separate session of the Independent Trustees, without management present, at the August 10-11, 2015 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees on July 30, 2015 and executive sessions on August 10, 2015 to discuss the materials presented. In addition, the Independent Trustees requested and received from PIMCO additional information including, but not limited to, information related to profitability and comparative performance information.

The approval determinations were made on the basis of each Trustee's business judgment after consideration of all the information presented. Individual Trustees may have given different weights to certain factors and assigned various degrees of materiality to information received in connection with the approval process. In deciding to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board did not identify any single factor or particular information that, in isolation, was controlling. This summary describes the most important, but not all, of the factors considered by the Board.

## 2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in assets under management. The Board also considered the various services in addition to portfolio management that PIMCO provides under the Investment Advisory Contract. The Board noted that PIMCO makes available to its investment professionals a variety of resources and systems relating to investment management, compliance, trading, performance and portfolio accounting. The Board also noted PIMCO's commitment to investing in information technology supporting investment management and compliance, as well as PIMCO's continuing efforts to attract and retain qualified personnel and to maintain and enhance its resources and systems. The Board considered

PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs, its oversight of matters that may involve conflicts of interest between the Portfolios' investments and those of other accounts managed by PIMCO, and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders. The Board also considered PIMCO's continuous investment in new disciplines and talented personnel, which has enhanced PIMCO's service to the Funds and has allowed PIMCO to introduce innovative new funds over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of applicable Portfolios.

The Trustees considered information they had received about the steps that PIMCO has taken in recent years with respect to active management of counterparty risk, such as implementing procedures requiring daily collateral adjustments and frequent communication between credit analysts and the counterparty risk committee, which oversees counterparty risk on a firm-wide basis, continually evaluating requests to add or remove approved counterparties as market needs and conditions warrant. The Trustees also considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of counterparties with which the Portfolios do business, to manage collateral and to protect portfolios from an unforeseen deterioration in the creditworthiness of trading counterparties. The Trustees noted that, consistent with its fiduciary duty, PIMCO executes transactions through a competitive best execution process and uses only those counterparties that meet its stringent and monitored criteria. The Trustees considered that PIMCO's collateral management team utilizes a counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

In addition, the Trustees considered new services and service enhancements that PIMCO has implemented since the Board renewed the Agreements in 2014, including, but not limited to: conducting a targeted review of quality and efficiency in the valuation process; expanding the analytical review of shareholder reports by State Street Bank and Trust Company, the Portfolios' custodian; developing a process for monthly forecasts of taxable and book income to enhance portfolio management of investment income; continuing the expansion of a proprietary performance reconciliation tool, which includes next-day comparison of daily internal performance to custodian bank performance to identify potential errors and guardrail net asset value calculations; developing and implementing the Global Process Monitor application, which includes real-time tracking and escalation protocols for critical activities; and implementing monthly cash flow reporting processes to support client and media demands for information about investor flows and assets under management data. The Trustees also considered the recent outflows from the Portfolios. The Trustees further considered whether the decline in the Portfolios' assets and the reduction in PIMCO's total assets under management materially impacted the service quality or resources available to the Portfolios. The Trustees concluded that there has been no adverse impact to service quality or resources available to the Portfolios.

Similarly, the Board considered the asset allocation services provided by Research Affiliates to the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio. The Board noted that the PIMCO All Asset All Authority Portfolio recently commenced operations. The Board also considered the depth and quality of Research Affiliates' investment management and research capabilities, the experience and capabilities of its portfolio management personnel and, in particular, the experience and capabilities of Robert Arnott, Research Affiliates' principal, and the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services proposed to be provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to benefit the Portfolios and their respective shareholders (as applicable).

(b) Other Services: The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and Administration Agreement. The Board noted that the Supervision and Administration Agreement was approved at the August 2008 Board meeting to replace the Trust's previous Administration Agreement. The purpose of the change was to reflect the increased scope and complexity of supervisory and administrative services that PIMCO had been providing to the Trust pursuant to the Administration Agreement.

The Board considered the terms of the Supervision and Administration Agreement, under which the Trust pays for the supervisory and administrative services provided pursuant to that agreement under what is essentially an all-in fee structure (the "unified fee"). In return, PIMCO provides or procures certain supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that the scope and complexity of the supervisory and administrative services provided by PIMCO under the Supervision and Administration Agreement continue to increase. The Board considered PIMCO's provision of these services and its supervision of the Trust's third party service providers to assure that these service providers continue to provide a high level of service relative to alternatives available in the market.

Ultimately, the Board concluded that the nature, extent and quality of the services provided by PIMCO has benefited, and will likely continue to benefit, the Portfolios and their shareholders.

## 3. INVESTMENT PERFORMANCE

The Board received and examined information from PIMCO concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 and other performance data, as available, over short- and long-term periods ended June 30, 2015 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 (the "Lipper Report").

The Board considered information regarding both the short-term and long-term investment performance of each Portfolio relative to its peer group and relevant benchmark index as provided to the Board in advance of each of its quarterly meetings throughout the year, including the PIMCO Report and Lipper Report, which were provided in advance of the August 10-11, 2015 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three-year and longer periods ended May 31, 2015.

The Board also noted that, as of May 31, 2015, the Administrative Class of 44%, 79% and 92% of the Portfolios outperformed its Lipper category median on a net-of-fees basis over the three-year, five-year and ten-year periods, respectively. The Trustees considered that other classes of each Portfolio would have substantially similar performance to that of the Administrative Class of the relevant Portfolio on a relative basis because all of the classes are invested in the same portfolio of investments and that differences in performance among classes could principally be attributed to differences in the supervisory and administrative fees and distribution and servicing expenses of each class. The Board also considered that the investment objectives of certain of the Portfolios may not always be identical to those of the other funds in their respective peer groups and that the Lipper categories do not: separate funds based upon maturity or duration; account for the applicable Portfolios' hedging strategies; distinguish between enhanced index and actively managed equity strategies; include as many subsets as the Portfolios offer (i.e., Portfolios may be placed in a "catch-all" Lipper category to which they do not properly belong); or account for certain fee waivers. The Board noted that, due to these differences, performance comparisons between certain of the Portfolios and their so-called peers may not be particularly relevant to the consideration of Portfolio performance.

The Board noted that 63% or more of the assets of the Trust had outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods ending May 31, 2015 (based on the performance of the Administrative Class). The Board also noted that 8 of 14 Portfolios, representing 69% of the total assets of the Trust, had outperformed their respective benchmark indexes on a net-of-fees basis over the five-year period ending May 31, 2015. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are certain Portfolios that do not fit neatly into their respective Lipper classifications. The Board also discussed actions that have been taken by PIMCO to attempt to improve performance and took note of PIMCO's plans to monitor performance going forward. The Board also considered that the Trust's assets were over $20 billion as of December 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the management of a number of factors, including: varying maturities; prepayments; collateral management; counterparty management; pay-downs; credit events; workouts; derivatives; net new issuance in the bond market; and decreased market maker inventory levels. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages, including the Portfolios. Despite these challenges, the Board noted that PIMCO has generated "alpha" (i.e., non-market correlated excess performance) for its clients over time, including the Trust.

The Board ultimately determined, within the context of all of its considerations in connection with the Agreements, that the Trust's overall investment performance was strong, and concluded that PIMCO's performance record and process in managing the Portfolios indicates that its continued management is likely to benefit the Portfolios and their shareholders, and merits the approval of the continuation of the Agreements.

## 4. ADVISORY FEES, SUPERVISORY AND ADMINISTRATIVE FEES AND TOTAL EXPENSES

The Board considered that PIMCO seeks to price funds to scale at the outset with reference to the total expense ratios of the respective Lipper median (if available), while providing a premium for innovative investment offerings. PIMCO reported to the Board that, in proposing fees for any Portfolio or class of shares, it considers a number of factors, including the type and complexity of the services provided, the cost of providing services, the risk assumed by PIMCO in the development of products and the provision of services, the impact on potential returns from different levels of fees, the competitive marketplace for financial products, and the attractiveness of potential Portfolio returns to current and potential investors. Fees charged to or proposed for different Portfolios for advisory services and supervisory and administrative services may vary in light of these various factors. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate. Further, the Board noted that PIMCO believes that the growth in the Trust's assets under management over the long-term and long-term positive net flows are important indicators of proper and effective pricing.

The Board reviewed the advisory fees, supervisory and administrative fees and total expenses of the Portfolios (each as a percentage of average net assets) and compared such amounts with the average and median fee and expense levels of other similar funds. The Board also reviewed information relating to the sub-advisory fees paid to Research Affiliates with respect to applicable Portfolios, taking into account that PIMCO compensates Research Affiliates from the advisory fees paid by such Portfolios to PIMCO. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in a "Peer Group" of comparable funds, as well as the universe of other similar funds. The Board noted that a number of Portfolios have total expense ratios that fall below the average and median expense ratios in their Peer Group and Lipper universe. In addition, the Board noted the fee waivers in place with respect to the fees that might result from investments by applicable Portfolios in their respective wholly-owned subsidiaries.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard fee rate PIMCO charges to separate accounts and as sub-adviser to other investment companies with a similar investment strategy, including differences in advisory services provided. The Board noted that advisory fees for most Portfolios were similar to the fee rates charged to separate account strategies with the same investment strategies as the Portfolios. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including differences in the advisory and other services provided by PIMCO to the Portfolios, the manner in which similar portfolios may be managed, different requirements with respect to liquidity management and the implementation of other regulatory requirements, and the fact that separate accounts may have other contractual arrangements that justify different levels of fees.

Regarding advisory fees charged by PIMCO in its capacity as sub-adviser to third-party/unaffiliated funds, the Trustees took into account that such fees may be lower than the fees charged by PIMCO to serve as adviser to the Portfolios. The Trustees also took into account that there are various reasons for any such difference in fees, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities on a contract-by-contract basis and different servicing requirements when it does not serve as the sponsor of a fund and is not principally responsible for all aspects of a fund's investment program and operations as compared to when PIMCO serves as investment adviser and sponsor.

The Board considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board also considered that as the Portfolios' business has become increasingly complex, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. In addition, the Board considered the Trust's unified fee structure, under which the Trust pays for the supervisory and administrative services it requires for one set fee and, in return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board further considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Trust's unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board also considered that the unified supervisory and administrative fee leads to Portfolio fees that are fixed, rather than variable. The Board noted that, although the unified fee structure does not have breakpoints, it implicitly reflects economies of scale by fixing the absolute level of Portfolio fees at competitive levels even if the Portfolios' operating costs rise when assets remain flat or decrease. The Board also considered that the Portfolios' unified fee structure meant that fees were not impacted by recent outflows in certain Portfolios, unlike funds without a unified fee structure, which may see increased expense ratios when fixed costs are passed through to a smaller asset base. The Board further noted that, with few exceptions, PIMCO has generally maintained Portfolio fees at the same level as implemented when the unified fee was adopted, and has reduced fees for a number of Portfolios in prior years. The Board concluded that the Portfolios' supervisory and administrative fees were reasonable in relation to the value of the services provided, including the services provided to different classes of shareholders, and that the expenses assumed contractually by PIMCO under the Supervision and Administration Agreement represent, in effect, a cap on overall Portfolio fees, which is beneficial to the Portfolios and their shareholders.

The Board considered the Portfolios' total expenses and discussed with PIMCO those Portfolios and/or classes of Portfolios that had above median total expenses. The Board noted that several Portfolios launched in recent years have been unique products that have few peers (if any), and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the "Peer Groups" provided by Lipper, the Board found total expenses of each Portfolio to be reasonable.

The Trustees also considered the advisory fees charged to the Portfolios that operate as funds of funds (the "Funds of Funds") and the advisory services provided in exchange for such fees. The Trustees determined that such services were in addition to the advisory services provided to the underlying funds in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying funds. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board determined, in the exercise of their business judgment, that the level of the advisory fees and supervisory and administrative fees charged by PIMCO under the Agreements, as well as the total expenses of each Portfolio, are reasonable.

## 5. ADVISER COSTS, LEVEL OF PROFITS AND ECONOMIES OF SCALE

The Board reviewed information regarding PIMCO's costs of providing services to the Portfolios as a whole, as well as the resulting level of profits to PIMCO, noting that those results were lower than in the previous year due to the impact of the Portfolios' overall outflows. To the extent applicable, the Board also reviewed information regarding the portion of a Portfolio's advisory fee retained by PIMCO, following the payment of sub-advisory fees to Research Affiliates, with respect to the Portfolio. Additionally, the Board noted that profit margins with respect to the Portfolios were within the ranges, although above the median, of publicly held investment management companies reported by Lipper and Strategic Insight (an independent provider of fund industry research). The Board noted that the PIMCO's profit margin with respect to the Trust shows that the Trust is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board also noted that it had received information regarding the structure and manner in which PIMCO's investment professionals were compensated, and PIMCO's view of the relationship of such compensation to the attraction and retention of quality personnel. The Board considered PIMCO's need to invest in technology, cyber security, information security, shareholder privacy, business continuity planning, infrastructure and staff to reinforce and offer new services and to accommodate changing regulatory requirements.

With respect to potential economies of scale, the Board noted that PIMCO shares the benefits of economies of scale with the Portfolios and their shareholders in a number of ways, including through the pricing of Portfolios to scale from inception and the enhancement of services provided to the Portfolios in return for fees paid. The Board reviewed the history of the Portfolios' fee structure. The Board considered that the Portfolios' unified fee rates had been set competitively and/or priced to scale from inception, had been held steady at that scaled competitive rate for most Portfolios as assets grew, or as assets declined in the case of some Portfolios, and continued to be competitive compared with peers. The Board also considered that the unified fee is a transparent means of informing Portfolio shareholders of the fees associated with the Portfolios, and that the Portfolios bear certain expenses that are not covered by the advisory fee or the unified fee.

The Trustees considered that the unified fee has provided inherent economies of scale because a Portfolio maintains competitive fixed unified fees even if the particular Portfolio's assets decline and/or operating costs rise. The Trustees further considered that, in contrast, breakpoints are a proxy for charging higher fees on lower asset levels and that when a fund's assets decline, breakpoints may reverse, which causes expense ratios to increase. The Trustees also considered that, unlike the Portfolios' unified fee structure, funds with "pass through" administrative fee structures may experience increased expense ratios when fixed dollar fees are charged against declining fund assets. The Trustees also considered that the unified fee protects shareholders from a rise in operating costs that may result from, among other things, PIMCO's investments in various business enhancements and infrastructure, including those referenced above. The Trustees noted that PIMCO's investments in these areas are extensive.

The Board concluded that the Portfolios' cost structures were reasonable and that the unified fee structure inherently involves the sharing of economies of scale between PIMCO and each of the Portfolios, to the benefit of their respective shareholders.

## 6. ANCILLARY BENEFITS

The Board considered other benefits received by PIMCO and its affiliates as a result of PIMCO's relationship with the Trust, including possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Trust. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their respective shareholders, for which they may be compensated through distribution and servicing fees paid pursuant to the Portfolios' Rule 12b-1 plans or otherwise. The Board reviewed PIMCO's soft dollar policies and procedures, noting that while PIMCO has the authority to receive the benefit of research provided by broker-dealers executing portfolio transactions on behalf of the Portfolios, it has adopted a policy not to enter into contractual soft dollar arrangements.

## 7. CONCLUSIONS

Based on their review, including their consideration of each of the factors summarized above, the Independent Trustees and the Board as a whole concluded that the nature, extent and quality of the services rendered to the Portfolios by PIMCO and Research Affiliates favored the renewal of the Agreements and the Asset Allocation Agreement. The Independent Trustees and the Board as a whole concluded that the Agreements and the Asset Allocation Agreement continued to be fair and reasonable to the Portfolios and their shareholders, that the Portfolios' shareholders received reasonable value in return for the fees paid to PIMCO by the Portfolios under the Agreements and the fees paid to Research Affiliates by PIMCO under the Asset Allocation Agreement, and that the renewal of the Agreements and the Asset Allocation Agreement was in the best interests of the Portfolios and their shareholders.

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## General Information

**Investment Adviser and Administrator**

Pacific Investment Management Company LLC
650 Newport Center Drive
Newport Beach, CA 92660

**Distributor**

PIMCO Investments LLC
1633 Broadway
New York, NY 10019

**Custodian**

State Street Bank and Trust Company
801 Pennsylvania Avenue
Kansas City, MO 64105

**Transfer Agent**

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

**Legal Counsel**

Dechert LLP
1900 K Street, N.W.
Washington, D.C. 20006

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pvit.pimco-funds.com

PIMCO

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PIMCO

# Annual Report
*December 31, 2015*

PIMCO Variable Insurance Trust


PIMCO Low Duration Portfolio

**Share Classes**

- Institutional
- Administrative
- Advisor

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# Table of Contents



This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the “Trust”) prospectus for the Portfolio. (The variable product prospectus may be obtained by contacting your Investment Consultant.)

## Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2015. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Heightened market volatility throughout the reporting period was sparked by a mix of investor concerns including geopolitical developments, monetary policy and the potential for slowing global economic growth, which generally contributed to dampened investor sentiment. In particular, increasing concern over the outlook for Chinese growth sent commodity prices and inflation expectations lower, while also negatively impacting prices of emerging market ("EM") debt and equities. In addition, the Chinese equity market began a strong decline in June 2015, which prompted the Chinese government to prop-up equity share prices and devalue the Chinese yuan. Volatility in Chinese equity markets continued into January 2016 on renewed concern over slowing Chinese economic growth. Furthermore, rising tension in the Middle East and the continued debt crisis in Greece also contributed to investor unease throughout the reporting period.

Economic data in the U.S. continued to confirm a healthy economy, particularly labor market indicators such as employment and wages. Still, signs of caution remained, particularly as U.S. consumers appeared to be more selective in their spending and chose to save rather than spend their windfall from lower gas prices. Additionally, consumer sentiment and certain housing indicators softened towards the end of the reporting period, and December 2015 U.S. manufacturing data indicated the fastest contraction in six years. Within the Eurozone, volatility increased despite gradual improvement in the underlying economies. Eurozone economic data also showed generally positive signs of an early recovery but were tempered slightly by sluggish inflation.

The theme of divergent global central bank monetary policy continued throughout the reporting period. The European Central Bank ("ECB") expressed its commitment to increase quantitative easing (or large-scale asset purchases), along with the Bank of Japan and the People's Bank of China who also indicated their intent to accelerate such measures. The Federal Reserve ("Fed"), on the other hand, moved on December 16 to raise the Federal Funds Rate by 0.25% to a new range of 0.25% - 0.50%, marking its first rate hike in nine years. However, the Fed noted that future increases in its target rate would be "gradual" and in-line with their previous projections, which helped to ease investor concerns. Outside of the reporting period on January 27, the Fed opted to leave the Federal Funds Rate unchanged, noting their intent to closely monitor how the global economy and markets influence the U.S. economic outlook.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 0.84% for the reporting period as yields generally rose slightly across the Treasury yield curve. The benchmark ten-year U.S. Treasury note yielded 2.27% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 0.55% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 1.44% over the reporting period. U.S. TIPS were pressured over the year as breakeven inflation levels, a proxy for inflation expectations, declined in-line with commodity markets. Global inflation-linked bonds ("ILBs") were also down overall during the reporting period, as the slide in energy and other commodities impacted inflation expectations globally. Despite this headwind, European ILBs fared better than other developed countries and posted marginal gains in local currencies as real yields benefited from the ECB's quantitative easing support.

- Prices on broad commodities were down over the reporting period, led lower primarily by energy and industrial metal prices. Crude oil prices faced increasing pressure from a persisting inventory glut and production growth, especially from the Organization of the Petroleum Exporting Countries ("OPEC"). Towards the end of the reporting period, seasonally warm weather put further pressure on oil prices, which ended the year considerably lower. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 24.66% over the reporting period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 1.51% over the reporting period. Non-Agency MBS prices were mixed amid weakness in the broader credit markets, although underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.77% over the reporting period. Investment grade credit valuations cheapened as a record $1.15 trillion of new issuance came to market and commodity prices continued to fall given worries over slowing Chinese growth. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, declined 3.05% over the reporting period. Weakness in the commodity-oriented sectors including energy and metals & mining, weighed on returns as oil and other commodity prices fell. Overall, global high yield spreads and yields rose throughout the reporting period and ended higher.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.23% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index - Emerging Markets Global Diversified Index (Unhedged), declined 14.92% over the reporting period. Idiosyncratic forces remained a dominant theme. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. In addition, the Russian ruble continued its recovery from 2014 weakness before stumbling toward the end of the reporting period on oil price weakness.
- Equity markets showed mixed performance globally amid a period marked by economic uncertainty, increased volatility and divergent central bank monetary policy. U.S. equities, as represented by the S&P 500 Index, returned 1.38% (on a total return basis) and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 0.81% over the reporting period. However, ultra-easy monetary policy in Europe and Japan benefited European and Japanese equity markets, which generally posted positive returns. However, EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 14.92% over the same period, due to headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth and declining Chinese equities.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your broad investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 18, 2016

## Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen separate investment portfolios, including the PIMCO Low Duration Portfolio (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by the Portfolio are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions, etc.). In addition, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

As of the date of this report, interest rates in the U.S. are near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets."

Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions, which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. Some of these risks may include, but are not limited to, the following: interest rate risk, call risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed securities risk, foreign (non-U.S.) investment risk, emerging markets risk, sovereign debt risk, currency risk, leveraging risk, management risk and short sale risk. A complete description of these and other risks is contained in the Portfolio's prospectus.

The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, leverage risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in an asset, instrument or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for the Portfolio. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in foreign (non-U.S.) securities may entail risk due to foreign (non-U.S.) economic and political developments; this risk may be increased when investing in emerging markets. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign (non-U.S.) issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

| **Portfolio Name** | **Portfolio Inception** | **Institutional Class** | **Class M** | **Administrative Class** | **Advisor Class** | **Diversification Status** |
|---|---|---|---|---|---|---|
| PIMCO Low Duration Portfolio | 02/16/99 | 04/10/00 | — | 02/16/99 | 03/31/06 | Diversified |

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

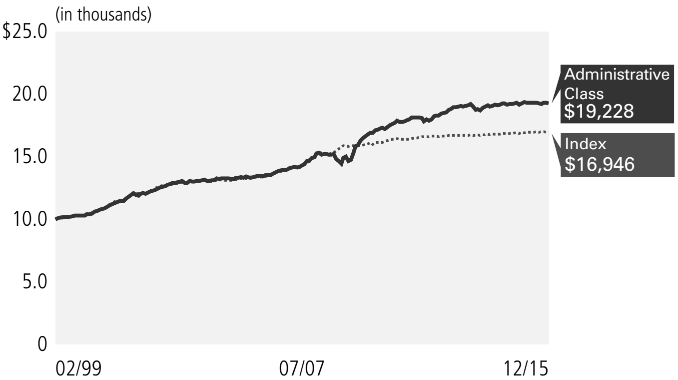
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (888) 87-PIMCO, on the Portfolio's website at pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and is available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

## Cumulative Returns Through December 31, 2015




$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

## Allocation Breakdown†

| | |
|---|---|
| Corporate Bonds & Notes | 39.1% |
| U.S. Treasury Obligations | 14.8% |
| U.S. Government Agencies | 14.5% |
| Asset-Backed Securities | 9.7% |
| Non-Agency Mortgage-Backed Securities | 7.3% |
| Short-Term Instruments‡ | 7.2% |
| Sovereign Issues | 6.2% |
| Other | 1.2% |

† % of Investments, at value as of 12/31/15. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes

## Average Annual Total Return for the period ended December 31, 2015

| | | 1 Year | 5 Years | 10 Years | Inception* |
|---|---|---|---|---|---|
| | PIMCO Low Duration Portfolio Institutional Class | 0.47% | 1.73% | 3.83% | 4.12% |
| — | PIMCO Low Duration Portfolio Administrative Class | 0.31% | 1.58% | 3.67% | 3.93% |
| | PIMCO Low Duration Portfolio Advisor Class | 0.21% | 1.47% | — | 3.65% |
| ····· | BofA Merrill Lynch 1-3 Year U.S. Treasury Index± | 0.54% | 0.70% | 2.42% | 3.17%** |

All Portfolio returns are net of fees and expenses.

* For class inception dates please refer to the Important Information.
** Average annual total return since 02/16/1999.

*Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.50% for Institutional Class shares, 0.65% for Administrative Class shares, and 0.75% for Advisor Class shares.*

± The BofA Merrill Lynch 1-3 Year U.S. Treasury Index is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years.

It is not possible to invest in an unmanaged index.

## Investment Objective and Strategy Overview

» The PIMCO Low Duration Portfolio seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing under normal circumstances at least 65% of its total assets in a diversified portfolio of Fixed Income Instruments of varying maturities, which may be represented by forwards or derivatives, such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities.

## Portfolio Insights

» Exposure to investment grade credit detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Exposure to high yield credit detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Holdings of U.S. Treasury Inflation-Protected Securities detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Exposure to U.S. dollar-denominated emerging market bonds positively contributed to performance, as these securities generally posted positive total returns during the reporting period.

» Short exposure to the Japanese yen and the euro benefited performance, as both currencies depreciated relative to the U.S. dollar during the reporting period.

# Expense Example PIMCO Low Duration Portfolio

## Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, distribution and/or service (12b-1) fees (if applicable), and other Portfolio expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held from July 1, 2015 to December 31, 2015 unless noted otherwise in the table and footnotes below.

## Actual Expenses

The information in the table under the heading “Actual” provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = $8.60), then multiply the result by the number in the appropriate column for your share class, in the column titled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

## Hypothetical Example for Comparison Purposes

The information in the table under the heading “Hypothetical (5% return before expenses)” provides information about hypothetical account values and hypothetical expenses based on the Portfolio’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other portfolios. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other portfolios.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading “Hypothetical (5% return before expenses)” is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

| | Actual | | | Hypothetical (5% return before expenses) | | | |
|---|---|---|---|---|---|---|---|
| | Beginning Account Value (07/01/15) | Ending Account Value (12/31/15) | Expenses Paid During Period* | Beginning Account Value (07/01/15) | Ending Account Value (12/31/15) | Expenses Paid During Period* | Net Annualized Expense Ratio** |
| Institutional Class | $ 1,000.00 | $ 996.80 | $ 2.61 | $ 1,000.00 | $ 1,023.00 | $ 2.64 | 0.51% |
| Administrative Class | 1,000.00 | 996.00 | 3.37 | 1,000.00 | 1,022.24 | 3.42 | 0.66 |
| Advisor Class | 1,000.00 | 995.50 | 3.88 | 1,000.00 | 1,021.72 | 3.94 | 0.76 |

** Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by 187/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.*

*** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.*

# Financial Highlights PIMCO Low Duration Portfolio

| Selected Per Share Data for the Year Ended: | Net Asset Value Beginning of Year | Net Investment Income [(a)] | Net Realized/ Unrealized Gain (Loss) | Total from Investment Operations | Dividends from Net Investment Income [(b)] | Total Distributions |
|---|---|---|---|---|---|---|
| Institutional Class | | | | | | |
| 12/31/2015 | $ 10.58 | $ 0.15 | $ (0.10) | $ 0.05 | $ (0.38) | $ (0.38) |
| 12/31/2014 | 10.61 | 0.10 | 0.01 | 0.11 | (0.14) | (0.14) |
| 12/31/2013 | 10.78 | 0.10 | (0.10) | 0.00 | (0.17) | (0.17) |
| 12/31/2012 | 10.38 | 0.15 | 0.47 | 0.62 | (0.22) | (0.22) |
| 12/31/2011 | 10.44 | 0.16 | (0.03) | 0.13 | (0.19) | (0.19) |
| Administrative Class | | | | | | |
| 12/31/2015 | 10.58 | 0.14 | (0.11) | 0.03 | (0.36) | (0.36) |
| 12/31/2014 | 10.61 | 0.10 | (0.01) | 0.09 | (0.12) | (0.12) |
| 12/31/2013 | 10.78 | 0.08 | (0.09) | (0.01) | (0.16) | (0.16) |
| 12/31/2012 | 10.38 | 0.14 | 0.46 | 0.60 | (0.20) | (0.20) |
| 12/31/2011 | 10.44 | 0.14 | (0.02) | 0.12 | (0.18) | (0.18) |
| Advisor Class | | | | | | |
| 12/31/2015 | 10.58 | 0.13 | (0.11) | 0.02 | (0.35) | (0.35) |
| 12/31/2014 | 10.61 | 0.09 | (0.01) | 0.08 | (0.11) | (0.11) |
| 12/31/2013 | 10.78 | 0.07 | (0.10) | (0.03) | (0.14) | (0.14) |
| 12/31/2012 | 10.38 | 0.13 | 0.46 | 0.59 | (0.19) | (0.19) |
| 12/31/2011 | 10.44 | 0.13 | (0.02) | 0.11 | (0.17) | (0.17) |

[(a)] Per share amounts based on average number of shares outstanding during the year.
[(b)] Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

| Net Asset Value End of Year | Total Return | Net Assets End of Year (000s) | Ratio of Expenses to Average Net Assets | Ratio of Expenses to Average Net Assets Excluding Interest Expense | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|---|
| | | | | | | |
| $ 10.25 | 0.47% | $ 8,291 | 0.51% | 0.50% | 1.39% | 181% |
| 10.58 | 1.00 | 13,590 | 0.50 | 0.50 | 0.96 | 208 |
| 10.61 | 0.01 | 58,621 | 0.50 | 0.50 | 0.95 | 316 |
| 10.78 | 6.01 | 54,192 | 0.50 | 0.50 | 1.45 | 647 |
| 10.38 | 1.26 | 63,047 | 0.50 | 0.50 | 1.52 | 456 |
| | | | | | | |
| 10.25 | 0.31 | 1,323,009 | 0.66 | 0.65 | 1.32 | 181 |
| 10.58 | 0.85 | 1,481,605 | 0.65 | 0.65 | 0.90 | 208 |
| 10.61 | (0.14) | 1,510,077 | 0.65 | 0.65 | 0.79 | 316 |
| 10.78 | 5.85 | 1,527,088 | 0.65 | 0.65 | 1.29 | 647 |
| 10.38 | 1.11 | 1,326,770 | 0.65 | 0.65 | 1.37 | 456 |
| | | | | | | |
| 10.25 | 0.21 | 677,728 | 0.76 | 0.75 | 1.25 | 181 |
| 10.58 | 0.75 | 647,468 | 0.75 | 0.75 | 0.80 | 208 |
| 10.61 | (0.23) | 617,374 | 0.75 | 0.75 | 0.69 | 316 |
| 10.78 | 5.75 | 532,901 | 0.75 | 0.75 | 1.18 | 647 |
| 10.38 | 1.01 | 388,854 | 0.75 | 0.75 | 1.27 | 456 |

# Statement of Assets and Liabilities PIMCO Low Duration Portfolio

| (Amounts in thousands, except per share amounts) | December 31, 2015 |
|---|---|
| **Assets:** | |
| *Investments, at value* | |
| Investments in securities* | $ 2,159,398 |
| Investments in Affiliates | 114,868 |
| *Financial Derivative Instruments* | |
| Exchange-traded or centrally cleared | 722 |
| Over the counter | 36,014 |
| Deposits with counterparty | 5,314 |
| Foreign currency, at value | 2,674 |
| Receivable for investments sold | 37 |
| Receivable for TBA investments sold | 185,468 |
| Receivable for Portfolio shares sold | 5,564 |
| Interest receivable | 6,795 |
| Dividends receivable from Affiliates | 65 |
| **Total Assets** | 2,516,919 |
| **Liabilities:** | |
| *Borrowings & Other Financing Transactions* | |
| Payable for short sales | $ 4,046 |
| *Financial Derivative Instruments* | |
| Exchange-traded or centrally cleared | 823 |
| Over the counter | 8,272 |
| Payable for investments purchased | 284 |
| Payable for investments in Affiliates purchased | 65 |
| Payable for TBA investments purchased | 463,999 |
| Deposits from counterparty | 28,720 |
| Payable for Portfolio shares redeemed | 346 |
| Overdraft due to custodian | 59 |
| Accrued investment advisory fees | 467 |
| Accrued supervisory and administrative fees | 467 |
| Accrued distribution fees | 157 |
| Accrued servicing fees | 185 |
| Other liabilities | 1 |
| **Total Liabilities** | 507,891 |
| **Net Assets** | $ 2,009,028 |
| **Net Assets Consist of:** | |
| Paid in capital | $ 2,074,423 |
| (Overdistributed) net investment income | (17,299) |
| Accumulated undistributed net realized (loss) | (30,779) |
| Net unrealized (depreciation) | (17,317) |
| | $ 2,009,028 |
| **Net Assets:** | |
| Institutional Class | $ 8,291 |
| Administrative Class | 1,323,009 |
| Advisor Class | 677,728 |
| **Shares Issued and Outstanding:** | |
| Institutional Class | 809 |
| Administrative Class | 129,022 |
| Advisor Class | 66,093 |
| **Net Asset Value and Redemption Price Per Share Outstanding:** | |
| Institutional Class | $ 10.25 |
| Administrative Class | 10.25 |
| Advisor Class | 10.25 |
| Cost of investments in securities | $ 2,198,157 |
| Cost of investments in Affiliates | $ 115,332 |
| Cost of foreign currency held | $ 2,680 |
| Proceeds received on short sales | $ 4,053 |
| Cost or premiums of financial derivative instruments, net | $ (470) |
| * Includes repurchase agreements of: | $ 1,963 |



See Accompanying Notes

## Statement of Operations PIMCO Low Duration Portfolio

| (Amounts in thousands) | Year Ended December 31, 2015 |
|---|---|
| **Investment Income:** | |
| Interest, net of foreign taxes* | $ 39,701 |
| Dividends from Investments in Affiliates | 700 |
| Total Income | 40,401 |
| **Expenses:** | |
| Investment advisory fees | 5,083 |
| Supervisory and administrative fees | 5,083 |
| Servicing fees - Administrative Class | 2,039 |
| Distribution and/or servicing fees - Advisor Class | 1,661 |
| Trustee fees | 41 |
| Interest expense | 136 |
| Miscellaneous expense | 4 |
| Total Expenses | 14,047 |
| **Net Investment Income** | 26,354 |
| **Net Realized Gain (Loss):** | |
| Investments in securities | (80,287) |
| Investments in Affiliates | (882) |
| Exchange-traded or centrally cleared financial derivative instruments | (9,120) |
| Over the counter financial derivative instruments | 66,627 |
| Foreign currency | 2,699 |
| **Net Realized (Loss)** | (20,963) |
| **Net Change in Unrealized Appreciation (Depreciation):** | |
| Investments in securities | 3,263 |
| Investments in Affiliates | 488 |
| Exchange-traded or centrally cleared financial derivative instruments | (3,006) |
| Over the counter financial derivative instruments | 1,309 |
| Foreign currency assets and liabilities | 62 |
| **Net Change in Unrealized Appreciation** | 2,116 |
| **Net Increase in Net Assets Resulting from Operations** | $ 7,507 |
| * Foreign tax withholdings | $ 18 |

## Statements of Changes in Net Assets PIMCO Low Duration Portfolio

| (Amounts in thousands) | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| **(Decrease) in Net Assets from:** | | |
| **Operations:** | | |
| Net investment income | $ 26,354 | $ 19,646 |
| Net realized gain (loss) | (20,963) | 20,561 |
| Net change in unrealized appreciation (depreciation) | 2,116 | (21,423) |
| **Net Increase in Net Assets Resulting from Operations** | 7,507 | 18,784 |
| **Distributions to Shareholders:** | | |
| From net investment income [(a)] | | |
| Institutional Class | (308) | (607) |
| Administrative Class | (45,888) | (17,615) |
| Advisor Class | (22,510) | (6,660) |
| **Total Distributions** | (68,706) | (24,882) |
| **Portfolio Share Transactions:** | | |
| Net (decrease) resulting from Portfolio share transactions** | (72,436) | (37,311) |
| **Total (Decrease) in Net Assets** | (133,635) | (43,409) |
| **Net Assets:** | | |
| Beginning of year | 2,142,663 | 2,186,072 |
| End of year* | $ 2,009,028 | $ 2,142,663 |
| * Including undistributed (overdistributed) net investment income of: | $ (17,299) | $ 37,549 |

**See Note 12 in the Notes to Financial Statements.
[(a)] Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **INVESTMENTS IN SECURITIES 107.5%** | | | |
| **BANK LOAN OBLIGATIONS 0.3%** | | | |
| **Chrysler Group LLC** | | | |
| 3.500% due 05/24/2017 | $ | 2,954 | $ 2,948 |
| **HCA, Inc.** | | | |
| 3.174% due 03/31/2017 | | 2,955 | 2,955 |
| **Total Bank Loan Obligations (Cost $5,919)** | | | **5,903** |
| **CORPORATE BONDS & NOTES 44.3%** | | | |
| **BANKING & FINANCE 26.2%** | | | |
| **ABN AMRO Bank NV** | | | |
| 1.800% due 06/04/2018 | | 4,300 | 4,269 |
| **AerCap Ireland Capital Ltd.** | | | |
| 2.750% due 05/15/2017 | | 3,800 | 3,786 |
| **Ally Financial, Inc.** | | | |
| 2.750% due 01/30/2017 | | 6,360 | 6,360 |
| 3.125% due 01/15/2016 | | 2,200 | 2,201 |
| 3.500% due 07/18/2016 | | 3,400 | 3,417 |
| 6.250% due 12/01/2017 | | 2,000 | 2,103 |
| **American Tower Corp.** | | | |
| 2.800% due 06/01/2020 | | 7,400 | 7,324 |
| **Banco Espirito Santo S.A.** | | | |
| 2.625% due 05/08/2017 | EUR | 3,500 | 553 |
| **Banco Popolare SC** | | | |
| 3.500% due 03/14/2019 | | 9,700 | 10,822 |
| **Bank of America Corp.** | | | |
| 1.272% due 09/15/2026 | $ | 900 | 776 |
| 2.650% due 04/01/2019 | | 1,200 | 1,204 |
| 5.650% due 05/01/2018 | | 8,000 | 8,607 |
| 6.875% due 11/15/2018 | | 2,700 | 3,036 |
| **Bank of America N.A.** | | | |
| 0.812% due 06/15/2017 | | 23,900 | 23,716 |
| **Bankia S.A.** | | | |
| 0.147% due 01/25/2016 | EUR | 2,000 | 2,173 |
| **BB&T Corp.** | | | |
| 1.036% due 01/15/2020 | $ | 5,100 | 5,061 |
| **BBVA Bancomer S.A.** | | | |
| 4.500% due 03/10/2016 | | 6,100 | 6,132 |
| **Bear Stearns Cos. LLC** | | | |
| 6.400% due 10/02/2017 | | 1,500 | 1,616 |
| **BPCE S.A.** | | | |
| 0.934% due 11/18/2016 | | 500 | 500 |
| 1.203% due 06/23/2017 | | 400 | 399 |
| 1.375% due 03/06/2017 | GBP | 2,300 | 3,400 |
| 1.625% due 02/10/2017 | $ | 2,100 | 2,097 |
| **Caterpillar Financial Services Corp.** | | | |
| 2.250% due 12/01/2019 | | 1,300 | 1,304 |
| **CIT Group, Inc.** | | | |
| 4.250% due 08/15/2017 | | 7,100 | 7,277 |
| 5.000% due 05/15/2017 | | 9,700 | 10,015 |
| **Citigroup, Inc.** | | | |
| 1.013% due 04/27/2018 | | 18,200 | 18,137 |
| 1.202% due 07/30/2018 | | 12,000 | 12,002 |
| 1.350% due 03/10/2017 | | 2,500 | 2,491 |
| **Citizens Bank N.A.** | | | |
| 2.300% due 12/03/2018 | | 3,600 | 3,599 |
| **Commonwealth Bank of Australia** | | | |
| 1.750% due 11/02/2018 | | 1,800 | 1,788 |
| **Credit Agricole S.A.** | | | |
| 1.457% due 06/10/2020 | | 11,700 | 11,704 |
| **Dexia Credit Local S.A.** | | | |
| 0.724% due 11/07/2016 | | 4,500 | 4,505 |
| **Eksportfinans ASA** | | | |
| 1.570% due 02/14/2018 | JPY | 500,000 | 4,122 |
| 2.375% due 05/25/2016 | $ | 6,000 | 6,008 |

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| 5.500% due 05/25/2016 | $ | 5,700 | $ 5,775 |
| 5.500% due 06/26/2017 | | 4,500 | 4,691 |
| **Ford Motor Credit Co. LLC** | | | |
| 0.794% due 11/08/2016 | | 7,500 | 7,449 |
| 1.264% due 11/04/2019 | | 5,500 | 5,347 |
| 1.412% due 06/15/2018 | | 6,000 | 5,930 |
| 1.700% due 05/09/2016 | | 2,100 | 2,102 |
| 2.375% due 01/16/2018 | | 5,224 | 5,215 |
| 3.000% due 06/12/2017 | | 2,700 | 2,727 |
| 5.750% due 02/01/2021 | | 600 | 664 |
| 8.000% due 12/15/2016 | | 2,600 | 2,750 |
| **General Motors Financial Co., Inc.** | | | |
| 1.681% due 04/10/2018 | | 4,600 | 4,568 |
| 1.881% due 01/15/2020 | | 3,900 | 3,841 |
| 2.388% due 01/15/2019 | | 5,500 | 5,532 |
| 3.000% due 09/25/2017 | | 5,000 | 5,021 |
| 3.200% due 07/13/2020 | | 7,000 | 6,899 |
| 4.750% due 08/15/2017 | | 2,000 | 2,074 |
| **Goldman Sachs Group, Inc.** | | | |
| 1.462% due 11/15/2018 | | 1,292 | 1,298 |
| 1.476% due 04/23/2020 | | 15,200 | 15,238 |
| 1.522% due 04/30/2018 | | 3,200 | 3,216 |
| 1.712% due 09/15/2020 | | 4,500 | 4,515 |
| 2.012% due 11/29/2023 | | 1,700 | 1,718 |
| 6.000% due 06/15/2020 | | 2,000 | 2,263 |
| 7.500% due 02/15/2019 | | 600 | 687 |
| **Harley-Davidson Financial Services, Inc.** | | | |
| 2.700% due 03/15/2017 | | 400 | 406 |
| **HBOS PLC** | | | |
| 1.303% due 09/30/2016 | | 4,155 | 4,146 |
| **HSBC Bank PLC** | | | |
| 1.002% due 05/15/2018 | | 500 | 498 |
| **HSBC Finance Corp.** | | | |
| 0.844% due 06/01/2016 | | 7,000 | 6,988 |
| **HSBC USA, Inc.** | | | |
| 0.969% due 11/13/2019 | | 12,900 | 12,719 |
| 2.375% due 11/13/2019 | | 3,800 | 3,787 |
| **Hutchison Whampoa International Ltd.** | | | |
| 1.625% due 10/31/2017 | | 7,000 | 6,947 |
| **Industrial Bank of Korea** | | | |
| 2.375% due 07/17/2017 | | 2,200 | 2,216 |
| 3.750% due 09/29/2016 | | 3,400 | 3,455 |
| **ING Bank NV** | | | |
| 2.050% due 08/17/2018 | | 4,000 | 3,998 |
| **International Lease Finance Corp.** | | | |
| 2.462% due 06/15/2016 | | 5,500 | 5,500 |
| 5.750% due 05/15/2016 | | 3,535 | 3,588 |
| 6.250% due 05/15/2019 | | 2,250 | 2,416 |
| **Intesa Sanpaolo SpA** | | | |
| 2.375% due 01/13/2017 | | 9,400 | 9,433 |
| 3.125% due 01/15/2016 | | 9,645 | 9,650 |
| **JPMorgan Chase & Co.** | | | |
| 0.924% due 03/01/2018 | | 3,000 | 2,981 |
| 1.063% due 05/30/2017 | GBP | 6,300 | 9,228 |
| 1.271% due 01/23/2020 | $ | 4,100 | 4,107 |
| 1.529% due 10/29/2020 | | 5,800 | 5,863 |
| **JPMorgan Chase Bank N.A.** | | | |
| 6.000% due 10/01/2017 | | 1,000 | 1,070 |
| **KEB Hana Bank** | | | |
| 4.000% due 11/03/2016 | | 1,600 | 1,632 |
| **Kookmin Bank** | | | |
| 1.198% due 01/27/2017 | | 10,000 | 10,035 |
| **LeasePlan Corp. NV** | | | |
| 2.500% due 05/16/2018 | | 300 | 296 |
| 3.000% due 10/23/2017 | | 1,200 | 1,204 |
| **Lloyds Bank PLC** | | | |
| 0.912% due 05/14/2018 | | 8,000 | 7,947 |
| 2.000% due 08/17/2018 | | 6,900 | 6,909 |

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **Macquarie Bank Ltd.** | | | |
| 1.444% due 07/29/2020 | $ | 8,900 | $ 8,921 |
| **Metropolitan Life Global Funding** | | | |
| 1.300% due 04/10/2017 | | 3,600 | 3,600 |
| **MUFG Americas Holdings Corp.** | | | |
| 0.914% due 02/09/2018 | | 3,500 | 3,488 |
| **MUFG Union Bank N.A.** | | | |
| 0.734% due 05/05/2017 | | 6,600 | 6,571 |
| **Navient Corp.** | | | |
| 6.250% due 01/25/2016 | | 1,407 | 1,410 |
| 8.780% due 09/15/2016 | MXN | 49,700 | 2,900 |
| **Nordea Bank AB** | | | |
| 1.366% due 09/17/2018 | $ | 4,900 | 4,921 |
| **Pacific Life Global Funding** | | | |
| 2.622% due 06/02/2018 | | 3,500 | 3,502 |
| **Piper Jaffray Cos.** | | | |
| 5.060% due 10/09/2018 | | 1,500 | 1,498 |
| **Pricoa Global Funding** | | | |
| 1.350% due 08/18/2017 | | 23,600 | 23,446 |
| **Santander Bank N.A.** | | | |
| 1.251% due 01/12/2018 | | 6,200 | 6,159 |
| **Shinhan Bank** | | | |
| 0.968% due 04/08/2017 | | 13,600 | 13,596 |
| **Springleaf Finance Corp.** | | | |
| 6.500% due 09/15/2017 | | 4,900 | 5,010 |
| **Sumitomo Mitsui Banking Corp.** | | | |
| 0.897% due 01/16/2018 | | 12,300 | 12,264 |
| **Synchrony Financial** | | | |
| 1.564% due 02/03/2020 | | 5,600 | 5,517 |
| **UBS AG** | | | |
| 0.974% due 06/01/2017 | | 6,500 | 6,489 |
| **Wachovia Corp.** | | | |
| 0.691% due 10/15/2016 | | 5,000 | 4,992 |
| **WEA Finance LLC** | | | |
| 1.750% due 09/15/2017 | | 1,000 | 992 |
| **Wells Fargo & Co.** | | | |
| 1.200% due 07/22/2020 | | 2,000 | 1,995 |
| | | | 526,314 |
| **INDUSTRIALS 12.2%** | | | |
| **Actavis Funding SCS** | | | |
| 1.582% due 03/12/2018 | | 1,700 | 1,706 |
| 1.757% due 03/12/2020 | | 5,300 | 5,324 |
| 2.450% due 06/15/2019 | | 300 | 297 |
| **Actavis, Inc.** | | | |
| 1.875% due 10/01/2017 | | 2,800 | 2,798 |
| **Adani Ports & Special Economic Zone Ltd.** | | | |
| 3.500% due 07/29/2020 | | 4,300 | 4,245 |
| **Amgen, Inc.** | | | |
| 2.125% due 05/15/2017 | | 3,695 | 3,719 |
| 2.200% due 05/22/2019 | | 2,700 | 2,699 |
| **Barrick Gold Corp.** | | | |
| 6.950% due 04/01/2019 | | 130 | 133 |
| **BAT International Finance PLC** | | | |
| 1.022% due 06/15/2018 | | 9,200 | 9,193 |
| 1.850% due 06/15/2018 | | 1,600 | 1,600 |
| **Becton Dickinson and Co.** | | | |
| 1.800% due 12/15/2017 | | 2,100 | 2,098 |
| 2.675% due 12/15/2019 | | 900 | 906 |
| **Boston Scientific Corp.** | | | |
| 2.850% due 05/15/2020 | | 1,300 | 1,295 |
| 5.125% due 01/12/2017 | | 1,500 | 1,548 |
| **Canadian Natural Resources Ltd.** | | | |
| 0.978% due 03/30/2016 | | 1,100 | 1,098 |
| 1.750% due 01/15/2018 | | 1,200 | 1,168 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **Cardinal Health, Inc.** | | |
| 1.950% due 06/15/2018 | $ 1,000 | $ 998 |
| **CCO Safari LLC** | | |
| 3.579% due 07/23/2020 | 3,700 | 3,682 |
| 4.464% due 07/23/2022 | 600 | 599 |
| **CNPC General Capital Ltd.** | | |
| 1.450% due 04/16/2016 | 3,400 | 3,400 |
| **ConocoPhillips Co.** | | |
| 1.262% due 05/15/2022 | 3,500 | 3,453 |
| **Cox Communications, Inc.** | | |
| 9.375% due 01/15/2019 | 400 | 464 |
| **Daimler Finance North America LLC** | | |
| 0.836% due 03/02/2018 | 2,700 | 2,671 |
| 0.837% due 03/10/2017 | 11,400 | 11,342 |
| 2.000% due 08/03/2018 | 6,000 | 5,963 |
| 2.375% due 08/01/2018 | 900 | 902 |
| **DISH DBS Corp.** | | |
| 4.625% due 07/15/2017 | 4,700 | 4,806 |
| **Dominion Gas Holdings LLC** | | |
| 2.500% due 12/15/2019 | 2,300 | 2,299 |
| **Freeport-McMoRan, Inc.** | | |
| 2.300% due 11/14/2017 | 2,200 | 1,884 |
| **General Mills, Inc.** | | |
| 0.624% due 01/29/2016 | 8,900 | 8,899 |
| **Georgia-Pacific LLC** | | |
| 2.539% due 11/15/2019 | 4,400 | 4,380 |
| 5.400% due 11/01/2020 | 2,400 | 2,651 |
| **Gilead Sciences, Inc.** | | |
| 1.850% due 09/04/2018 | 1,100 | 1,105 |
| 2.350% due 02/01/2020 | 800 | 801 |
| **Hellenic Railways Organization S.A.** | | |
| 4.028% due 03/17/2017 | EUR 1,300 | 1,314 |
| 4.500% due 12/06/2016 | JPY 29,000 | 222 |
| **Hewlett Packard Enterprise Co.** | | |
| 2.353% due 10/05/2017 | $ 4,100 | 4,108 |
| 2.450% due 10/05/2017 | 5,900 | 5,898 |
| **Humana, Inc.** | | |
| 7.200% due 06/15/2018 | 1,200 | 1,344 |
| **Hyundai Capital America** | | |
| 1.450% due 02/06/2017 | 950 | 946 |
| 1.875% due 08/09/2016 | 300 | 300 |
| **Imperial Tobacco Finance PLC** | | |
| 2.050% due 02/11/2018 | 1,250 | 1,245 |
| **Intel Corp.** | | |
| 2.450% due 07/29/2020 | 800 | 810 |
| **Kinder Morgan Energy Partners LP** | | |
| 2.650% due 02/01/2019 | 500 | 463 |
| 9.000% due 02/01/2019 | 300 | 323 |
| **Kinder Morgan, Inc.** | | |
| 2.000% due 12/01/2017 | 1,500 | 1,446 |
| 3.050% due 12/01/2019 | 4,000 | 3,707 |
| 7.000% due 06/15/2017 | 1,500 | 1,546 |
| 7.250% due 06/01/2018 | 400 | 416 |
| **KLA-Tencor Corp.** | | |
| 2.375% due 11/01/2017 | 500 | 500 |
| 3.375% due 11/01/2019 | 150 | 152 |
| **Korea National Oil Corp.** | | |
| 4.000% due 10/27/2016 | 7,200 | 7,349 |
| **Kraft Heinz Foods Co.** | | |
| 2.000% due 07/02/2018 | 2,300 | 2,293 |
| **Kroger Co.** | | |
| 0.845% due 10/17/2016 | 5,600 | 5,598 |
| **Lowe's Cos., Inc.** | | |
| 1.102% due 09/14/2018 | 1,200 | 1,204 |
| **Medtronic, Inc.** | | |
| 1.312% due 03/15/2020 | 6,300 | 6,288 |
| 1.375% due 04/01/2018 | 2,900 | 2,886 |
| **Merck & Co., Inc.** | | |
| 0.716% due 02/10/2020 | $ 5,700 | $ 5,671 |
| **Merck Sharp & Dohme Corp.** | | |
| 5.000% due 06/30/2019 | 1,400 | 1,546 |
| **MGM Resorts International** | | |
| 6.875% due 04/01/2016 | 500 | 506 |
| 7.500% due 06/01/2016 | 7,700 | 7,861 |
| 10.000% due 11/01/2016 | 400 | 424 |
| **Nissan Motor Acceptance Corp.** | | |
| 1.800% due 03/15/2018 | 200 | 199 |
| 1.950% due 09/12/2017 | 400 | 401 |
| 2.350% due 03/04/2019 | 200 | 199 |
| **Pearson Dollar Finance PLC** | | |
| 6.250% due 05/06/2018 | 600 | 648 |
| **Pioneer Natural Resources Co.** | | |
| 6.875% due 05/01/2018 | 300 | 319 |
| **QUALCOMM, Inc.** | | |
| 3.000% due 05/20/2022 | 4,600 | 4,560 |
| **Reynolds American, Inc.** | | |
| 2.300% due 06/12/2018 | 1,800 | 1,812 |
| **SABMiller Holdings, Inc.** | | |
| 2.200% due 08/01/2018 | 1,300 | 1,298 |
| 2.450% due 01/15/2017 | 500 | 504 |
| 3.750% due 01/15/2022 | 200 | 206 |
| **SABMiller PLC** | | |
| 6.500% due 07/15/2018 | 300 | 331 |
| **Sinopec Group Overseas Development Ltd.** | | |
| 2.750% due 05/17/2017 | 6,000 | 6,055 |
| **Southern Natural Gas Co. LLC** | | |
| 5.900% due 04/01/2017 | 300 | 305 |
| **Southwest Airlines Co.** | | |
| 2.750% due 11/06/2019 | 6,300 | 6,357 |
| **Southwestern Energy Co.** | | |
| 3.300% due 01/23/2018 | 700 | 575 |
| 4.050% due 01/23/2020 | 2,800 | 2,033 |
| **Telefonica Emisiones S.A.U.** | | |
| 1.243% due 06/23/2017 | 13,000 | 12,930 |
| 5.375% due 02/02/2018 | GBP 1,300 | 2,040 |
| 6.421% due 06/20/2016 | $ 1,600 | 1,637 |
| **Thermo Fisher Scientific, Inc.** | | |
| 1.300% due 02/01/2017 | 6,600 | 6,578 |
| **Time Warner Cable, Inc.** | | |
| 5.850% due 05/01/2017 | 700 | 733 |
| 6.750% due 07/01/2018 | 1,800 | 1,965 |
| 8.750% due 02/14/2019 | 1,100 | 1,277 |
| **UnitedHealth Group, Inc.** | | |
| 1.400% due 12/15/2017 | 1,000 | 997 |
| 1.450% due 07/17/2017 | 1,800 | 1,800 |
| 1.900% due 07/16/2018 | 1,800 | 1,806 |
| **Volkswagen Group of America Finance LLC** | | |
| 0.810% due 11/20/2017 | 7,500 | 7,210 |
| 1.250% due 05/23/2017 | 1,500 | 1,465 |
| 2.450% due 11/20/2019 | 4,200 | 4,031 |
| **Walgreens Boots Alliance, Inc.** | | |
| 0.814% due 05/18/2016 | 4,500 | 4,485 |
| 1.750% due 11/17/2017 | 1,700 | 1,698 |
| **WestRock RKT Co.** | | |
| 4.450% due 03/01/2019 | 400 | 417 |
| **Whirlpool Corp.** | | |
| 1.650% due 11/01/2017 | 1,100 | 1,095 |
| **Woodside Finance Ltd.** | | |
| 3.650% due 03/05/2025 | 950 | 844 |
| | | 245,302 |
| **UTILITIES 5.9%** | | |
| **AES Corp.** | | |
| 3.414% due 06/01/2019 | $ 600 | $ 552 |
| **AT&T, Inc.** | | |
| 1.023% due 03/30/2017 | 6,800 | 6,785 |
| 1.533% due 06/30/2020 | 12,300 | 12,225 |
| 2.950% due 05/15/2016 | 900 | 906 |
| 3.000% due 06/30/2022 | 2,200 | 2,143 |
| **Consumers Energy Co.** | | |
| 6.700% due 09/15/2019 | 200 | 230 |
| **Dayton Power & Light Co.** | | |
| 1.875% due 09/15/2016 | 1,000 | 1,001 |
| **DTE Energy Co.** | | |
| 2.400% due 12/01/2019 | 3,700 | 3,689 |
| **Electricite de France S.A.** | | |
| 6.500% due 01/26/2019 | 100 | 112 |
| **Exelon Corp.** | | |
| 1.550% due 06/09/2017 | 900 | 897 |
| **Kinder Morgan Finance Co. LLC** | | |
| 6.000% due 01/15/2018 | 1,500 | 1,513 |
| **KT Corp.** | | |
| 1.750% due 04/22/2017 | 3,700 | 3,692 |
| **Ooredoo International Finance Ltd.** | | |
| 3.375% due 10/14/2016 | 2,300 | 2,328 |
| **Orange S.A.** | | |
| 2.750% due 09/14/2016 | 2,500 | 2,528 |
| **Petrobras Global Finance BV** | | |
| 1.990% due 05/20/2016 | 2,500 | 2,444 |
| 2.000% due 05/20/2016 | 4,500 | 4,444 |
| 2.886% due 03/17/2017 | 6,400 | 5,880 |
| 3.250% due 03/17/2017 | 1,500 | 1,391 |
| 3.500% due 02/06/2017 | 1,200 | 1,125 |
| 4.875% due 03/17/2020 | 4,400 | 3,311 |
| 5.750% due 01/20/2020 | 2,000 | 1,575 |
| 7.875% due 03/15/2019 | 2,200 | 1,953 |
| **Plains All American Pipeline LP** | | |
| 8.750% due 05/01/2019 | 700 | 769 |
| **Sinopec Group Overseas Development Ltd.** | | |
| 2.500% due 04/28/2020 | 11,000 | 10,843 |
| **Sprint Communications, Inc.** | | |
| 9.125% due 03/01/2017 | 14,800 | 15,059 |
| **Verizon Communications, Inc.** | | |
| 0.877% due 06/09/2017 | 3,500 | 3,486 |
| 2.252% due 09/14/2018 | 19,300 | 19,775 |
| 2.500% due 09/15/2016 | 2,041 | 2,057 |
| 2.550% due 06/17/2019 | 4,655 | 4,718 |
| 2.625% due 02/21/2020 | 900 | 904 |
| | | 118,335 |
| **Total Corporate Bonds & Notes (Cost $907,325)** | | **889,951** |
| **MUNICIPAL BONDS & NOTES 1.0%** | | |
| **CALIFORNIA 0.5%** | | |
| **University of California Revenue Bonds, Series 2011** | | |
| 0.744% due 07/01/2041 | 10,600 | 10,598 |
| **NEW JERSEY 0.5%** | | |
| **New Jersey Economic Development Authority Revenue Notes, Series 2014** | | |
| 1.096% due 06/15/2016 | 9,525 | 9,525 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **TEXAS 0.0%** | | |
| **North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011** | | |
| 1.426% due 04/01/2040 | $ 334 | $ 333 |
| **Total Municipal Bonds & Notes (Cost $20,467)** | | **20,456** |
| **U.S. GOVERNMENT AGENCIES 16.5%** | | |
| **Fannie Mae** | | |
| 0.482% due 12/25/2036 - 07/25/2037 | 589 | 558 |
| 0.772% due 09/25/2042 - 03/25/2044 | 410 | 408 |
| 0.922% due 12/25/2022 | 49 | 49 |
| 1.000% due 01/25/2043 | 421 | 386 |
| 1.222% due 04/25/2023 | 52 | 53 |
| 1.251% due 06/17/2027 | 31 | 32 |
| 1.272% due 02/25/2023 | 3 | 3 |
| 1.322% due 05/25/2022 | 5 | 5 |
| 1.443% due 07/01/2042 - 06/01/2043 | 318 | 326 |
| 1.493% due 09/01/2041 | 209 | 213 |
| 1.643% due 09/01/2040 | 1 | 1 |
| 2.122% due 11/01/2035 | 49 | 51 |
| 2.274% due 09/01/2035 | 339 | 359 |
| 2.333% due 07/01/2035 | 54 | 57 |
| 4.321% due 12/01/2036 | 16 | 17 |
| 4.500% due 03/01/2018 - 01/01/2027 | 4,957 | 5,236 |
| 4.611% due 09/01/2034 | 10 | 11 |
| 5.000% due 05/01/2027 - 04/25/2033 | 247 | 271 |
| 5.500% due 12/01/2027 - 12/01/2028 | 840 | 935 |
| 5.735% due 12/25/2042 | 8 | 9 |
| 6.000% due 03/01/2017 - 01/01/2039 | 3,491 | 3,970 |
| 6.500% due 04/01/2036 | 117 | 134 |
| **Fannie Mae, TBA** | | |
| 4.000% due 01/01/2046 - 02/01/2046 | 133,000 | 140,593 |
| 4.500% due 01/01/2046 - 02/01/2046 | 132,000 | 142,448 |
| **FDIC Structured Sale Guaranteed Notes** | | |
| 2.980% due 12/06/2020 | 1,422 | 1,446 |
| **Federal Housing Administration** | | |
| 7.430% due 10/01/2020 | 1 | 1 |
| **Freddie Mac** | | |
| 0.462% due 12/25/2036 | 720 | 719 |
| 0.682% due 08/25/2031 | 132 | 129 |
| 0.731% due 06/15/2018 | 7 | 7 |
| 1.443% due 02/25/2045 | 274 | 279 |
| 2.000% due 11/15/2026 | 9,369 | 9,426 |
| 2.505% due 07/01/2035 | 128 | 136 |
| 2.521% due 09/01/2035 | 371 | 395 |
| 5.000% due 05/01/2024 - 12/01/2041 | 601 | 662 |
| 5.500% due 12/01/2022 - 08/15/2030 | 1 | 1 |
| 6.500% due 07/25/2043 | 58 | 67 |
| 9.151% due 08/15/2044 | 5,455 | 6,415 |
| **Ginnie Mae** | | |
| 0.652% due 06/20/2065 | 3,756 | 3,729 |
| 0.712% due 10/20/2065 | 10,210 | 10,142 |
| 1.892% due 02/20/2041 | 854 | 856 |
| 6.000% due 09/15/2017 | 226 | 231 |
| **Total U.S. Government Agencies (Cost $329,937)** | | **330,766** |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **U.S. TREASURY OBLIGATIONS 16.7%** | | |
| **U.S. Treasury Inflation Protected Securities (e)** | | |
| 0.125% due 04/15/2018 | $ 173,550 | $ 173,204 |
| 0.125% due 04/15/2019 (h) | 117,726 | 117,006 |
| 0.625% due 07/15/2021 | 22,579 | 22,725 |
| 0.750% due 02/15/2042 (j) | 1,894 | 1,662 |
| 1.125% due 01/15/2021 | 10,327 | 10,647 |
| 1.250% due 07/15/2020 (h) | 4,144 | 4,309 |
| 1.375% due 02/15/2044 | 5,816 | 5,908 |
| **Total U.S. Treasury Obligations (Cost $342,230)** | | **335,461** |
| **NON-AGENCY MORTGAGE-BACKED SECURITIES 8.3%** | | |
| **Adjustable Rate Mortgage Trust** | | |
| 2.757% due 09/25/2035 | 960 | 803 |
| **Aire Valley Mortgages PLC** | | |
| 0.790% due 09/20/2066 | 2,101 | 2,011 |
| **Alba PLC** | | |
| 2.832% due 12/16/2042 | GBP 1,205 | 1,781 |
| **American Home Mortgage Investment Trust** | | |
| 2.314% due 10/25/2034 | $ 214 | 214 |
| 2.654% due 02/25/2045 | 148 | 148 |
| **Banc of America Commercial Mortgage Trust** | | |
| 5.568% due 04/10/2049 | 2,502 | 2,577 |
| 5.617% due 07/10/2046 | 2,072 | 2,091 |
| **Banc of America Funding Trust** | | |
| 0.702% due 07/25/2037 | 1,089 | 935 |
| 3.007% due 01/20/2047 ^ | 435 | 369 |
| **Banc of America Mortgage Trust** | | |
| 2.677% due 07/25/2034 | 690 | 704 |
| 2.789% due 08/25/2034 | 2,040 | 2,021 |
| 2.791% due 05/25/2033 | 406 | 410 |
| 6.500% due 10/25/2031 | 6 | 6 |
| **BCAP LLC Trust** | | |
| 0.335% due 09/26/2035 | 426 | 423 |
| **Bear Stearns Adjustable Rate Mortgage Trust** | | |
| 2.480% due 08/25/2035 | 1,066 | 1,072 |
| 2.537% due 04/25/2033 | 4 | 4 |
| 2.581% due 02/25/2033 | 1 | 1 |
| 2.924% due 03/25/2035 | 1,234 | 1,250 |
| 2.928% due 07/25/2034 | 278 | 270 |
| 2.965% due 01/25/2035 | 3,579 | 3,516 |
| 3.059% due 01/25/2034 | 18 | 19 |
| 3.147% due 01/25/2035 | 170 | 166 |
| **Bear Stearns ALT-A Trust** | | |
| 0.582% due 02/25/2034 | 428 | 393 |
| **Bear Stearns Commercial Mortgage Securities Trust** | | |
| 5.331% due 02/11/2044 | 334 | 344 |
| **Bear Stearns Structured Products, Inc. Trust** | | |
| 2.566% due 12/26/2046 | 569 | 421 |
| 2.693% due 01/26/2036 | 988 | 817 |
| **Chevy Chase Funding LLC Mortgage-Backed Certificates** | | |
| 0.702% due 01/25/2035 | 72 | 66 |
| **Citigroup Commercial Mortgage Trust** | | |
| 5.710% due 12/10/2049 | 3,500 | 3,620 |
| 6.137% due 12/10/2049 | 770 | 810 |
| **Citigroup Global Markets Mortgage Securities, Inc.** | | |
| 7.000% due 12/25/2018 | 7 | 8 |
| **Citigroup Mortgage Loan Trust, Inc.** | | |
| 2.660% due 05/25/2035 | 161 | 159 |
| 2.706% due 08/25/2035 ^ | 655 | 489 |
| **Citigroup/Deutsche Bank Commercial Mortgage Trust** | | |
| 5.289% due 12/11/2049 | 14,280 | 14,638 |
| **Countrywide Alternative Loan Trust** | | |
| 0.602% due 05/25/2047 | 549 | 454 |
| 6.000% due 10/25/2033 | 13 | 14 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **Countrywide Home Loan Mortgage Pass-Through Trust** | | |
| 2.602% due 02/20/2036 ^ | $ 522 | $ 459 |
| 2.640% due 11/20/2034 | 1,249 | 1,203 |
| 2.646% due 11/25/2034 | 582 | 555 |
| 2.671% due 02/20/2035 | 848 | 846 |
| **Credit Suisse Commercial Mortgage Trust** | | |
| 5.297% due 12/15/2039 | 3,604 | 3,687 |
| 5.448% due 01/15/2049 | 10 | 10 |
| 5.659% due 03/15/2039 | 8,019 | 8,019 |
| 5.816% due 06/15/2038 | 4,426 | 4,440 |
| **Credit Suisse First Boston Mortgage Securities Corp.** | | |
| 0.824% due 03/25/2032 | 1 | 1 |
| **Credit Suisse Mortgage Capital Certificates** | | |
| 2.087% due 09/27/2036 | 3,833 | 3,841 |
| 2.703% due 09/26/2047 | 520 | 519 |
| **Deco Pan Europe Ltd.** | | |
| 0.149% due 04/27/2018 | EUR 429 | 463 |
| **Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates** | | |
| 2.740% due 06/26/2035 | $ 253 | 252 |
| **Eurosail PLC** | | |
| 0.044% due 12/10/2044 | EUR 162 | 169 |
| 1.283% due 09/13/2045 | GBP 980 | 1,409 |
| 1.535% due 06/13/2045 | 9,300 | 12,887 |
| **Extended Stay America Trust** | | |
| 2.958% due 12/05/2031 | $ 500 | 502 |
| **First Horizon Alternative Mortgage Securities Trust** | | |
| 2.204% due 09/25/2034 | 1,194 | 1,172 |
| **First Horizon Mortgage Pass-Through Trust** | | |
| 2.723% due 08/25/2035 | 309 | 277 |
| 2.726% due 02/25/2035 | 2,083 | 2,076 |
| **GE Commercial Mortgage Corp. Trust** | | |
| 5.483% due 12/10/2049 | 6,894 | 7,145 |
| **GMAC Mortgage Corp. Loan Trust** | | |
| 2.862% due 11/19/2035 | 218 | 197 |
| **Granite Mortgages PLC** | | |
| 0.329% due 01/20/2044 | EUR 19 | 21 |
| 0.962% due 01/20/2044 | GBP 17 | 25 |
| **Great Hall Mortgages PLC** | | |
| 0.663% due 06/18/2039 | $ 2,144 | 2,023 |
| **Greenwich Capital Commercial Funding Corp.** | | |
| 5.444% due 03/10/2039 | 1,604 | 1,640 |
| **GS Mortgage Securities Corp.** | | |
| 2.329% due 11/10/2045 (a) | 2,854 | 275 |
| **GS Mortgage Securities Trust** | | |
| 5.560% due 11/10/2039 | 2,120 | 2,118 |
| **GSR Mortgage Loan Trust** | | |
| 2.798% due 09/25/2034 | 161 | 154 |
| 2.806% due 09/25/2035 | 674 | 691 |
| **HarborView Mortgage Loan Trust** | | |
| 0.622% due 05/19/2035 | 120 | 101 |
| 2.685% due 07/19/2035 | 625 | 555 |
| **Hercules Eclipse PLC** | | |
| 0.819% due 10/25/2018 | GBP 2,243 | 3,259 |
| **Hilton USA Trust** | | |
| 1.269% due 11/05/2030 | $ 1,813 | 1,806 |
| **Impac CMB Trust** | | |
| 1.422% due 07/25/2033 | 155 | 150 |
| **Infinity Classico** | | |
| 0.109% due 02/15/2024 | EUR 846 | 905 |
| **JPMorgan Chase Commercial Mortgage Securities Trust** | | |
| 5.257% due 05/15/2047 | $ 3,061 | 3,108 |
| 5.397% due 05/15/2045 | 499 | 504 |
| 5.420% due 01/15/2049 | 543 | 555 |
| 5.794% due 02/12/2051 | 3,623 | 3,770 |
| 5.882% due 02/15/2051 | 1,300 | 1,350 |

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **JPMorgan Commercial Mortgage-Backed Securities Trust** | | | |
| 5.637% due 03/18/2051 | | $ 2,067 | $ 2,122 |
| **JPMorgan Mortgage Trust** | | | |
| 5.750% due 01/25/2036 ^ | | 28 | 24 |
| **Juno Eclipse Ltd.** | | | |
| 0.088% due 11/20/2022 | EUR | 1,937 | 2,064 |
| **LB-UBS Commercial Mortgage Trust** | | | |
| 5.342% due 09/15/2039 | | $ 1,412 | 1,437 |
| **MASTR Asset Securitization Trust** | | | |
| 5.500% due 09/25/2033 | | 5 | 6 |
| **Merrill Lynch Mortgage Investors Trust** | | | |
| 0.672% due 11/25/2035 | | 208 | 198 |
| 1.082% due 09/25/2029 | | 1,188 | 1,187 |
| 1.244% due 10/25/2035 | | 123 | 117 |
| 2.062% due 01/25/2029 | | 1 | 1 |
| **Merrill Lynch/Countrywide Commercial Mortgage Trust** | | | |
| 5.485% due 03/12/2051 | | 2,700 | 2,771 |
| **Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates** | | | |
| 0.702% due 12/25/2035 | | 706 | 627 |
| 0.732% due 04/25/2035 | | 2,879 | 2,851 |
| **PHHMC Series 2005-4 Trust** | | | |
| 5.645% due 07/18/2035 | | 774 | 780 |
| **Prime Mortgage Trust** | | | |
| 0.822% due 02/25/2034 | | 9 | 8 |
| **Residential Funding Mortgage Securities, Inc. Trust** | | | |
| 3.192% due 09/25/2035 ^ | | 1,008 | 809 |
| **RFTI 2015-FL1 Issuer Ltd.** | | | |
| 2.081% due 08/15/2030 | | 10,000 | 9,929 |
| **Structured Adjustable Rate Mortgage Loan Trust** | | | |
| 1.657% due 01/25/2035 | | 297 | 240 |
| 2.561% due 08/25/2034 | | 438 | 435 |
| 2.586% due 02/25/2034 | | 310 | 308 |
| 2.586% due 08/25/2035 | | 263 | 246 |
| **Structured Asset Mortgage Investments Trust** | | | |
| 0.702% due 02/25/2036 ^ | | 171 | 133 |
| 1.062% due 09/19/2032 | | 4 | 4 |
| **Ulysses European Loan Conduit PLC** | | | |
| 0.739% due 07/25/2017 | GBP | 2,700 | 3,841 |
| **Vulcan European Loan Conduit Ltd.** | | | |
| 0.199% due 05/15/2017 | EUR | 244 | 262 |
| **Wachovia Bank Commercial Mortgage Trust** | | | |
| 0.561% due 04/15/2047 | | $ 9,800 | 9,490 |
| 5.749% due 07/15/2045 | | 1,171 | 1,181 |
| **WaMu Mortgage Pass-Through Certificates Trust** | | | |
| 0.692% due 12/25/2045 | | 134 | 130 |
| 0.987% due 01/25/2047 | | 342 | 312 |
| 1.102% due 01/25/2045 | | 923 | 875 |
| 1.457% due 11/25/2042 | | 54 | 51 |
| 1.643% due 08/25/2042 | | 123 | 117 |
| 1.657% due 06/25/2042 | | 31 | 30 |
| **Washington Mutual Mortgage Loan Trust** | | | |
| 1.439% due 05/25/2041 | | 7 | 7 |
| **Wells Fargo Mortgage-Backed Securities Trust** | | | |
| 2.642% due 03/25/2035 | | 271 | 274 |
| 2.743% due 09/25/2034 | | 5,796 | 5,946 |
| 2.763% due 03/25/2036 | | 387 | 385 |
| 2.823% due 01/25/2035 | | 391 | 397 |
| 2.853% due 12/25/2034 | | 335 | 330 |
| **Total Non-Agency Mortgage-Backed Securities (Cost $171,782)** | | | **166,088** |

**ASSET-BACKED SECURITIES 11.0%**

| | | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|---|
| **ACE Securities Corp. Home Equity Loan Trust** | | | |
| 0.482% due 10/25/2036 | | 112 | 60 |
| 1.322% due 12/25/2034 | | 1,518 | 1,373 |
| **Ally Auto Receivables Trust** | | | |
| 0.680% due 07/17/2017 | | $ 3,300 | $ 3,300 |
| **Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates** | | | |
| 0.922% due 09/25/2035 | | 7,100 | 6,543 |
| **Amortizing Residential Collateral Trust** | | | |
| 1.002% due 07/25/2032 | | 13 | 12 |
| **Ares European CLO BV** | | | |
| 0.256% due 08/15/2024 | EUR | 894 | 968 |
| **Asset-Backed Funding Certificates Trust** | | | |
| 1.097% due 06/25/2035 | | $ 10,799 | 10,392 |
| **Asset-Backed Securities Corp. Home Equity Loan Trust** | | | |
| 0.972% due 09/25/2034 | | 4 | 4 |
| 1.981% due 03/15/2032 | | 116 | 113 |
| **Atrium CDO Corp.** | | | |
| 1.421% due 11/16/2022 | | 3,451 | 3,437 |
| **Avoca CLO PLC** | | | |
| 0.259% due 01/16/2023 | EUR | 222 | 241 |
| **Bear Stearns Asset-Backed Securities Trust** | | | |
| 1.422% due 10/25/2037 | | $ 2,168 | 2,017 |
| **Cadogan Square CLO BV** | | | |
| 0.278% due 08/12/2022 | EUR | 435 | 473 |
| 0.279% due 01/17/2023 | | 1,208 | 1,302 |
| **Carlyle Global Market Strategies CLO Ltd.** | | | |
| 1.547% due 04/20/2022 | | $ 5,200 | 5,176 |
| **Carlyle High Yield Partners Ltd.** | | | |
| 0.540% due 04/19/2022 | | 740 | 720 |
| **Cavalry CLO Ltd.** | | | |
| 1.687% due 01/16/2024 | | 10,200 | 10,169 |
| **Celf Loan Partners PLC** | | | |
| 0.342% due 12/15/2021 | EUR | 890 | 959 |
| **CIFC Funding Ltd.** | | | |
| 1.587% due 01/19/2023 | | $ 4,850 | 4,848 |
| 1.802% due 12/05/2024 | | 4,800 | 4,782 |
| **Citigroup Mortgage Loan Trust, Inc.** | | | |
| 1.142% due 09/25/2035 ^ | | 6,200 | 5,899 |
| **Countrywide Asset-Backed Certificates** | | | |
| 0.602% due 09/25/2036 | | 2,272 | 2,247 |
| 0.701% due 12/25/2031 ^ | | 32 | 23 |
| 1.122% due 12/25/2033 | | 1,657 | 1,589 |
| 1.222% due 03/25/2033 | | 1,208 | 1,123 |
| **Credit Suisse First Boston Mortgage Securities Corp.** | | | |
| 1.042% due 01/25/2032 | | 7 | 6 |
| **Doral CLO Ltd.** | | | |
| 1.657% due 05/26/2023 | | 6,784 | 6,775 |
| **Duane Street CLO Ltd.** | | | |
| 0.592% due 11/14/2021 | | 349 | 344 |
| **Educational Services of America, Inc.** | | | |
| 1.572% due 09/25/2040 | | 1,838 | 1,839 |
| **Elm CLO Ltd.** | | | |
| 1.715% due 01/17/2023 | | 7,841 | 7,865 |
| **Equity One Mortgage Pass-Through Trust** | | | |
| 0.982% due 11/25/2032 | | 4 | 4 |
| **First Franklin Mortgage Loan Trust** | | | |
| 1.142% due 05/25/2035 | | 300 | 294 |
| **Fortress Credit Investments Ltd.** | | | |
| 1.565% due 07/17/2023 | | 4,765 | 4,764 |
| **Four Corners CLO Ltd.** | | | |
| 0.590% due 01/26/2020 | | 1,021 | 1,016 |
| **Fraser Sullivan CLO Ltd.** | | | |
| 1.362% due 04/20/2023 | | 4,074 | 4,070 |
| **Galaxy CLO Ltd.** | | | |
| 1.660% due 08/20/2022 | | 1,020 | 1,019 |
| **GE-WMC Mortgage Securities Trust** | | | |
| 0.462% due 08/25/2036 | | 11 | 6 |
| **Goldentree Loan Opportunities Ltd.** | | | |
| 1.010% due 10/18/2021 | | 691 | 688 |
| **GSAMP Trust** | | | |
| 0.812% due 01/25/2036 | | $ 1,067 | $ 893 |
| **Halcyon Structured Asset Management European CLO BV** | | | |
| 0.289% due 01/25/2023 | EUR | 595 | 644 |
| **Highbridge Loan Management Ltd.** | | | |
| 1.436% due 09/20/2022 | | $ 5,379 | 5,370 |
| **Inwood Park CDO Ltd.** | | | |
| 0.542% due 01/20/2021 | | 2,803 | 2,802 |
| **JPMorgan Mortgage Acquisition Corp.** | | | |
| 0.602% due 02/25/2036 | | 670 | 646 |
| 0.652% due 05/25/2035 | | 8,007 | 7,815 |
| **Jubilee CDO BV** | | | |
| 0.282% due 08/21/2021 | EUR | 202 | 218 |
| 0.776% due 10/15/2019 | | 677 | 735 |
| **LCM LP** | | | |
| 1.521% due 07/14/2022 | | $ 2,976 | 2,974 |
| 1.575% due 10/19/2022 | | 5,100 | 5,067 |
| **Leopard CLO BV** | | | |
| 0.254% due 07/24/2023 | EUR | 1,649 | 1,789 |
| **Lockwood Grove CLO Ltd.** | | | |
| 1.690% due 01/25/2024 | | $ 5,400 | 5,381 |
| **Madison Park Funding Ltd.** | | | |
| 1.762% due 06/15/2022 | | 687 | 687 |
| **Massachusetts Educational Financing Authority** | | | |
| 1.270% due 04/25/2038 | | 557 | 554 |
| **Mercator CLO PLC** | | | |
| 0.149% due 02/18/2024 | EUR | 752 | 811 |
| **Merrill Lynch Mortgage Investors Trust** | | | |
| 0.622% due 08/25/2036 | | $ 93 | 93 |
| **Motor PLC** | | | |
| 1.022% due 06/25/2022 | | 10,000 | 9,974 |
| **MT Wilson CLO Ltd.** | | | |
| 0.551% due 07/11/2020 | | 550 | 550 |
| **Navient Private Education Loan Trust** | | | |
| 1.531% due 12/15/2028 | | 2,100 | 2,082 |
| **Panhandle-Plains Higher Education Authority, Inc.** | | | |
| 1.742% due 10/01/2035 | | 1,317 | 1,318 |
| **Panther CDO BV** | | | |
| 0.304% due 03/20/2084 | EUR | 6,984 | 7,330 |
| **Prospero CLO BV** | | | |
| 0.189% due 10/20/2022 | | 282 | 304 |
| **Queen Street CLO BV** | | | |
| 0.246% due 08/15/2024 | | 1,165 | 1,267 |
| **RAAC Trust** | | | |
| 0.902% due 03/25/2037 | | $ 677 | 657 |
| **Renaissance Home Equity Loan Trust** | | | |
| 0.922% due 12/25/2033 | | 3,686 | 3,465 |
| **Residential Asset Securities Corp. Trust** | | | |
| 0.742% due 01/25/2036 | | 4,155 | 4,076 |
| 1.307% due 01/25/2034 | | 4,492 | 4,047 |
| **SLC Student Loan Trust** | | | |
| 0.492% due 11/15/2021 | | 8,785 | 8,750 |
| 0.612% due 09/15/2026 | | 4,900 | 4,712 |
| **SLM Private Credit Student Loan Trust** | | | |
| 0.692% due 03/15/2024 | | 858 | 847 |
| 0.702% due 12/15/2023 | | 586 | 577 |
| **SLM Private Education Loan Trust** | | | |
| 1.081% due 10/16/2023 | | 890 | 888 |
| 1.381% due 06/15/2023 | | 637 | 637 |
| **SLM Student Loan Trust** | | | |
| 0.410% due 10/25/2024 | | 4,359 | 4,269 |
| 1.820% due 04/25/2023 | | 521 | 522 |
| **South Carolina Student Loan Corp.** | | | |
| 1.164% due 03/02/2020 | | 1,391 | 1,378 |
| **Specialty Underwriting & Residential Finance Trust** | | | |
| 0.812% due 12/25/2036 | | 4,800 | 3,980 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **SpringCastle America Funding LLC** | | |
| 2.700% due 05/25/2023 | $ 7,007 | $ 6,993 |
| **Stone Tower CLO Ltd.** | | |
| 0.545% due 04/17/2021 | 707 | 700 |
| **Structured Asset Investment Loan Trust** | | |
| 1.127% due 03/25/2034 | 681 | 625 |
| 1.397% due 10/25/2033 | 912 | 886 |
| **Sunrise SRL** | | |
| 0.396% due 08/27/2031 | EUR 672 | 729 |
| **Symphony CLO LP** | | |
| 1.617% due 04/16/2022 | $ 989 | 985 |
| **Symphony CLO Ltd.** | | |
| 1.586% due 07/23/2023 | 4,100 | 4,093 |
| **Voya CLO Ltd.** | | |
| 1.621% due 10/15/2022 | 4,800 | 4,764 |
| 1.641% due 10/15/2022 | 5,300 | 5,271 |
| **Wells Fargo Home Equity Asset-Backed Securities Trust** | | |
| 0.682% due 05/25/2036 | 1,100 | 1,039 |
| **Wood Street CLO BV** | | |
| 0.231% due 11/22/2021 | EUR 226 | 245 |
| **Total Asset-Backed Securities (Cost $220,084)** | | **220,899** |
| **SOVEREIGN ISSUES 7.1%** | | |
| **Athens Urban Transportation Organisation** | | |
| 4.851% due 09/19/2016 | 2,200 | 2,232 |
| **Autonomous Community of Catalonia** | | |
| 4.750% due 06/04/2018 | 2,700 | 3,104 |
| **Brazil Letras do Tesouro Nacional** | | |
| 0.000% due 04/01/2016 (d) | BRL 97,700 | 23,881 |
| 0.000% due 10/01/2016 (d) | 143,300 | 32,487 |
| **Export-Import Bank of Korea** | | |
| 1.071% due 01/14/2017 | $ 4,600 | 4,608 |
| **Korea Development Bank** | | |
| 0.945% due 01/22/2017 | 800 | 801 |
| 3.250% due 03/09/2016 | 6,300 | 6,326 |
| 3.250% due 09/20/2016 | 1,500 | 1,520 |
| 3.875% due 05/04/2017 | 1,200 | 1,232 |
| **Korea Housing Finance Corp.** | | |
| 3.500% due 12/15/2016 | 1,500 | 1,524 |
| **Korea Land & Housing Corp.** | | |
| 1.875% due 08/02/2017 | 500 | 499 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **Mexico Government International Bond** | | |
| 4.000% due 11/15/2040 (e) | MXN 3,230 | $ 190 |
| 5.000% due 06/16/2016 (e) | 6,999 | 415 |
| 8.500% due 12/13/2018 | 733,500 | 46,849 |
| **Province of Ontario** | | |
| 1.000% due 07/22/2016 | $ 2,800 | 2,801 |
| 1.100% due 10/25/2017 | 13,600 | 13,542 |
| **Total Sovereign Issues (Cost $152,241)** | | **142,011** |
| | SHARES | |
| **CONVERTIBLE PREFERRED SECURITIES 0.0%** | | |
| **INDUSTRIALS 0.0%** | | |
| **Motors Liquidation Co.** | | |
| 5.250% due 03/06/2032 (b) | 4,000 | 0 |
| **Total Convertible Preferred Securities (Cost $0)** | | **0** |
| | PRINCIPAL AMOUNT (000S) | |
| **SHORT-TERM INSTRUMENTS 2.3%** | | |
| **CERTIFICATES OF DEPOSIT 0.8%** | | |
| **Intesa Sanpaolo SpA** | | |
| 1.701% due 04/11/2016 | $ 14,600 | 14,612 |
| **Itau Unibanco Holding S.A.** | | |
| 1.605% due 06/21/2016 | 2,200 | 2,202 |
| | | 16,814 |
| **COMMERCIAL PAPER 0.6%** | | |
| **Hyundai Capital America** | | |
| 0.580% due 01/21/2016 | 13,000 | 12,996 |
| **REPURCHASE AGREEMENTS (f) 0.1%** | | |
| | | 1,963 |
| **SHORT-TERM NOTES 0.5%** | | |
| **JPMorgan Chase Bank N.A.** | | |
| 0.010% due 10/04/2016 | 10,600 | 10,323 |

| | PRINCIPAL AMOUNT (000S) | MARKET VALUE (000S) |
|---|---|---|
| **MEXICO TREASURY BILLS 0.2%** | | |
| 3.620% due 05/26/2016 | MXN 81,000 | $ 4,634 |
| **U.S. TREASURY BILLS 0.1%** | | |
| 0.165% due 01/14/2016 (c)(j) | $ 1,133 | 1,133 |
| **Total Short-Term Instruments (Cost $48,172)** | | **47,863** |
| **Total Investments in Securities (Cost $2,198,157)** | | **2,159,398** |
| | SHARES | |
| **INVESTMENTS IN AFFILIATES 5.7%** | | |
| **SHORT-TERM INSTRUMENTS 5.7%** | | |
| **CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 5.7%** | | |
| PIMCO Short-Term Floating NAV Portfolio III | 11,633,387 | 114,868 |
| **Total Short-Term Instruments (Cost $115,332)** | | **114,868** |
| **Total Investments in Affiliates (Cost $115,332)** | | **114,868** |
| **Total Investments 113.2% (Cost $2,313,489)** | | **$ 2,274,266** |
| **Financial Derivative Instruments (g)(i) 1.4% (Cost or Premiums, net $(470))** | | **27,641** |
| **Other Assets and Liabilities, net (14.6%)** | | **(292,879)** |
| **Net Assets 100.0%** | | **$ 2,009,028** |

## NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) Security did not produce income within the last twelve months.

(c) Coupon represents a weighted average yield to maturity.

(d) Zero coupon bond.

(e) Principal amount of security is adjusted for inflation.

## BORROWINGS AND OTHER FINANCING TRANSACTIONS

### (f) REPURCHASE AGREEMENTS:

| Counterparty | Lending Rate | Settlement Date | Maturity Date | Principal Amount | Collateralized By | Collateral (Received) | Repurchase Agreements, at Value | Repurchase Agreement Proceeds to be Received [(1)] |
|---|---|---|---|---|---|---|---|---|
| SSB | 0.010% | 12/31/2015 | 01/04/2016 | $ 1,963 | Fannie Mae 2.140% due 11/07/2022 | $ (2,006) | $ 1,963 | $ 1,963 |
| **Total Repurchase Agreements** | | | | | | **$ (2,006)** | **$ 1,963** | **$ 1,963** |

(1) Includes accrued interest.

**As of December 31, 2015, there were no open reverse repurchase agreements. The average amount of borrowings outstanding during the period ended December 31, 2015 was $(25,879) at a weighted average interest rate of 0.302%.**

## SHORT SALES:

### SHORT SALES ON U.S. GOVERNMENT AGENCIES*:

| Description | Coupon | Maturity Date | Principal Amount | Proceeds | Payable for Short Sales |
|---|---|---|---|---|---|
| Fannie Mae, TBA | 5.000% | 01/01/2046 | $ 100 | $ (110) | $ (110) |
| Fannie Mae, TBA | 6.000 | 01/01/2046 | 3,000 | (3,394) | (3,390) |
| Freddie Mac, TBA | 5.000 | 01/01/2046 | 500 | (549) | (546) |
| **Total Short Sales** | | | | **$ (4,053)** | **$ (4,046)** |

* Short Sales shown are To-Be-Announced ("TBA") securities which are not subject to collateral pledging under the terms of any master agreements.

## BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

**The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received) as of December 31, 2015:**

| Counterparty | Repurchase Agreement Proceeds to be Received | Payable for Reverse Repurchase Agreements | Payable for Sale-Buyback Transactions | Total Borrowings and Other Financing Transactions | Collateral (Received) | Net Exposure [2] |
|---|---|---|---|---|---|---|
| Global/Master Repurchase Agreement | | | | | | |
| SSB | $ 1,963 | $ 0 | $ 0 | $ 1,963 | $ (2,006) | $ (43) |
| **Total Borrowings and Other Financing Transactions** | **$ 1,963** | **$ 0** | **$ 0** | | | |

[2] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

## (g) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

### FUTURES CONTRACTS:

| Description | Type | Expiration Month | # of Contracts | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|
| 90-Day Eurodollar June Futures | Short | 06/2017 | 467 | $ (219) | $ 0 | $ (18) |
| 90-Day Eurodollar March Futures | Short | 03/2018 | 53 | (48) | 0 | (3) |
| U.S. Treasury 2-Year Note March Futures | Long | 03/2016 | 526 | (190) | 25 | 0 |
| U.S. Treasury 5-Year Note March Futures | Long | 03/2016 | 1,156 | (408) | 162 | 0 |
| U.S. Treasury 10-Year Note March Futures | Short | 03/2016 | 476 | 224 | 0 | (141) |
| United Kingdom 90-Day LIBOR Sterling Interest Rate June Futures | Short | 06/2017 | 1,968 | (968) | 109 | 0 |
| United Kingdom 90-Day LIBOR Sterling Interest Rate March Futures | Short | 03/2017 | 575 | 63 | 32 | 0 |
| **Total Futures Contracts** | | | | **$ (1,546)** | **$ 328** | **$ (162)** |

## SWAP AGREEMENTS:

### INTEREST RATE SWAPS

| Pay/Receive Floating Rate | Floating Rate Index | Fixed Rate | Maturity Date | Notional Amount | Market Value | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|---|---|
| Receive | 3-Month USD-LIBOR | 2.000% | 12/16/2019 | $ 58,300 | $ (986) | $ 395 | $ 0 | $ (61) |
| Receive | 3-Month USD-LIBOR | 2.000 | 12/16/2020 | 233,600 | (3,437) | (4,451) | 0 | (423) |
| Pay | 3-Month USD-LIBOR | 2.000 | 12/16/2020 | 104,800 | 1,424 | (225) | 163 | 0 |
| Receive | 3-Month USD-LIBOR* | 2.250 | 06/15/2026 | 28,700 | 118 | 183 | 0 | (113) |
| Receive | 3-Month USD-LIBOR | 2.750 | 12/16/2045 | 7,600 | (191) | (329) | 0 | (64) |
| Receive | 6-Month GBP-LIBOR | 1.880 | 10/05/2017 | GBP 8,100 | (209) | (4) | 2 | 0 |
| Receive | 6-Month GBP-LIBOR | 1.837 | 10/06/2017 | 1,300 | (32) | (1) | 0 | 0 |
| Receive | 6-Month GBP-LIBOR | 1.500 | 03/16/2018 | 37,600 | (348) | (94) | 19 | 0 |
| Pay | 28-Day MXN-TIIE | 3.960 | 05/16/2016 | MXN 931,900 | 68 | (16) | 5 | 0 |
| Pay | 28-Day MXN-TIIE | 5.250 | 06/11/2018 | 15,300 | 14 | (1) | 1 | 0 |
| Pay | 28-Day MXN-TIIE | 5.500 | 06/11/2018 | 18,800 | 24 | (1) | 2 | 0 |
| Pay | 28-Day MXN-TIIE | 4.955 | 06/24/2019 | 360,000 | (20) | (13) | 40 | 0 |
| Pay | 28-Day MXN-TIIE | 5.280 | 10/02/2019 | 370,000 | 162 | (33) | 39 | 0 |
| Pay | 28-Day MXN-TIIE | 5.010 | 10/10/2019 | 354,500 | (61) | (40) | 36 | 0 |
| Pay | 28-Day MXN-TIIE | 5.615 | 06/02/2020 | 667,100 | 447 | (122) | 57 | 0 |

| Pay/Receive Floating Rate | Floating Rate Index | Fixed Rate | Maturity Date | Notional Amount | Market Value | Unrealized Appreciation/ (Depreciation) | Variation Margin Asset | Variation Margin Liability |
|---|---|---|---|---|---|---|---|---|
| Pay | 28-Day MXN-TIIE | 5.575% | 03/16/2022 | MXN 224,800 | $ (173) | $ 71 | $ 23 | $ 0 |
| Pay | 28-Day MXN-TIIE | 5.980 | 08/26/2024 | 52,600 | (58) | 8 | 7 | 0 |
| | | | | | $ (3,258) | $ (4,673) | $ 394 | $ (661) |
| **Total Swap Agreements** | | | | | **$ (3,258)** | **$ (4,673)** | **$ 394** | **$ (661)** |

* This security has a forward starting effective date. See Note 2a for further information.

## FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

**The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of December 31, 2015:**

**(h) Securities with an aggregate market value of $11,380 and cash of $5,314 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2015. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.**

| | Financial Derivative Assets | | | | Financial Derivative Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | Market Value | Variation Margin Asset | | | Market Value | Variation Margin Liability | | |
| | Purchased Options | Futures | Swap Agreements | Total | Written Options | Futures | Swap Agreements | Total |
| **Total Exchange-Traded or Centrally Cleared** | **$ 0** | **$ 328** | **$ 394** | **$ 722** | **$ 0** | **$ (162)** | **$ (661)** | **$ (823)** |

## (i) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

## FORWARD FOREIGN CURRENCY CONTRACTS:

| Counterparty | Settlement Month | Currency to be Delivered | | Currency to be Received | | Unrealized Appreciation/ (Depreciation) Asset | Unrealized Appreciation/ (Depreciation) Liability |
|---|---|---|---|---|---|---|---|
| BOA | 01/2016 | BRL | 3,389 | $ | 868 | $ 11 | $ 0 |
| | 01/2016 | $ | 877 | BRL | 3,389 | 0 | (20) |
| | 02/2016 | EUR | 27,636 | $ | 29,914 | 0 | (147) |
| | 02/2016 | SGD | 7,071 | | 4,962 | 0 | (17) |
| | 02/2016 | $ | 1,993 | ILS | 7,720 | 0 | (7) |
| BPS | 01/2016 | BRL | 25,603 | $ | 6,557 | 85 | 0 |
| | 01/2016 | $ | 6,693 | BRL | 25,603 | 0 | (221) |
| | 02/2016 | ILS | 85,070 | $ | 21,934 | 54 | 0 |
| | 03/2016 | MXN | 930,937 | | 53,376 | 0 | (375) |
| | 03/2016 | $ | 3,411 | RUB | 253,506 | 0 | (4) |
| | 01/2017 | BRL | 20,000 | $ | 7,269 | 2,766 | 0 |
| BRC | 01/2016 | | 1,420 | | 364 | 5 | 0 |
| | 01/2016 | $ | 355 | BRL | 1,420 | 4 | 0 |
| | 02/2016 | | 712 | ILS | 2,764 | 0 | (1) |
| | 03/2016 | | 1,404 | MXN | 24,203 | 0 | (6) |
| CBK | 01/2016 | BRL | 61,700 | $ | 15,801 | 206 | 0 |
| | 01/2016 | $ | 15,502 | BRL | 61,700 | 93 | 0 |
| | 01/2016 | | 2,007 | INR | 133,302 | 2 | 0 |
| | 01/2016 | | 1,408 | JPY | 173,600 | 36 | 0 |
| | 02/2016 | EUR | 16,392 | $ | 17,591 | 0 | (239) |
| | 02/2016 | SGD | 10 | | 7 | 0 | 0 |
| | 02/2016 | $ | 37,909 | EUR | 35,386 | 589 | (7) |
| | 02/2016 | | 1,241 | GBP | 823 | 0 | (28) |
| | 02/2016 | | 2,422 | ILS | 9,422 | 1 | 0 |
| | 02/2016 | | 9,304 | JPY | 1,143,100 | 214 | 0 |
| | 04/2016 | BRL | 51,347 | $ | 15,205 | 2,612 | 0 |
| DUB | 01/2016 | | 98,838 | | 25,817 | 835 | 0 |
| | 01/2016 | GBP | 29,051 | | 43,795 | 968 | 0 |
| | 01/2016 | KRW | 2,318,158 | | 1,983 | 12 | 0 |
| | 01/2016 | $ | 25,425 | BRL | 98,838 | 0 | (442) |
| | 01/2016 | | 1,983 | KRW | 2,318,159 | 0 | (12) |
| | 02/2016 | | 9,905 | BRL | 39,106 | 0 | (117) |
| | 03/2016 | | 7,757 | RUB | 535,079 | 0 | (567) |
| | 10/2016 | BRL | 34,544 | $ | 9,067 | 1,093 | 0 |
| FBF | 01/2016 | KRW | 4,637,725 | | 4,049 | 105 | 0 |
| | 03/2016 | $ | 519 | RUB | 37,290 | 0 | (18) |
| | 04/2016 | BRL | 45,300 | $ | 12,601 | 1,493 | 0 |
| GLM | 01/2016 | | 34,071 | | 8,809 | 197 | 0 |
| | 01/2016 | JPY | 10,312,346 | | 84,146 | 0 | (1,651) |

| Counterparty | Settlement Month | Currency to be Delivered | | Currency to be Received | | Unrealized Appreciation/ (Depreciation) Asset | Liability |
|---|---|---|---|---|---|---|---|
| | 01/2016 | MYR | 8,623 | $ | 2,027 | $ 29 | $ 0 |
| | 01/2016 | PHP | 91,509 | | 1,943 | 0 | (5) |
| | 01/2016 | $ | 8,708 | BRL | 34,072 | 0 | (96) |
| | 01/2016 | | 23,914 | JPY | 2,926,800 | 437 | 0 |
| | 01/2016 | | 997 | KRW | 1,155,025 | 0 | (15) |
| | 02/2016 | EUR | 2,287 | $ | 2,489 | 2 | 0 |
| | 03/2016 | $ | 1,657 | RUB | 121,988 | 0 | (18) |
| | 05/2016 | MXN | 78,599 | $ | 4,803 | 289 | 0 |
| HUS | 01/2016 | $ | 1,014 | KRW | 1,175,733 | 0 | (14) |
| | 02/2016 | THB | 93,264 | $ | 2,576 | 0 | (12) |
| | 10/2016 | CNH | 63,822 | | 9,761 | 309 | 0 |
| | 12/2016 | | 33,375 | | 5,023 | 98 | 0 |
| JPM | 01/2016 | BRL | 111,900 | | 37,752 | 9,467 | 0 |
| | 01/2016 | KRW | 6,788,987 | | 5,909 | 135 | 0 |
| | 01/2016 | RUB | 434,279 | | 6,034 | 98 | 0 |
| | 01/2016 | $ | 28,917 | BRL | 111,900 | 0 | (632) |
| | 01/2016 | | 7,833 | KRW | 9,157,315 | 0 | (46) |
| | 02/2016 | CHF | 292 | $ | 291 | 0 | (1) |
| | 02/2016 | EUR | 81,155 | | 87,463 | 18 | (831) |
| | 02/2016 | JPY | 1,785,500 | | 14,507 | 0 | (359) |
| | 02/2016 | SGD | 1,660 | | 1,176 | 8 | 0 |
| | 02/2016 | THB | 363,213 | | 10,039 | 0 | (41) |
| | 02/2016 | $ | 2,641 | GBP | 1,756 | 0 | (52) |
| | 02/2016 | | 10,162 | ILS | 39,359 | 1 | (40) |
| | 03/2016 | | 240 | MXN | 4,091 | 0 | (3) |
| | 03/2016 | | 1,352 | RUB | 99,737 | 0 | (12) |
| | 04/2016 | | 5,892 | | 434,279 | 0 | (100) |
| | 10/2016 | BRL | 143,300 | $ | 34,111 | 1,033 | 0 |
| MSB | 01/2016 | | 156,900 | | 48,293 | 8,634 | 0 |
| | 01/2016 | JPY | 416,300 | | 3,432 | 0 | (32) |
| | 01/2016 | $ | 39,369 | BRL | 156,900 | 290 | 0 |
| | 01/2016 | | 43,010 | GBP | 29,051 | 0 | (183) |
| | 01/2016 | | 61,166 | JPY | 7,405,946 | 450 | 0 |
| | 02/2016 | GBP | 29,051 | $ | 43,012 | 182 | 0 |
| | 02/2016 | JPY | 7,405,946 | | 61,201 | 0 | (451) |
| | 12/2016 | CNH | 69,590 | | 10,460 | 190 | 0 |
| NGF | 01/2016 | THB | 88,565 | | 2,454 | 0 | (7) |
| SCX | 01/2016 | BRL | 1,572 | | 402 | 5 | 0 |
| | 01/2016 | MYR | 47,432 | | 11,023 | 36 | (5) |
| | 01/2016 | $ | 389 | BRL | 1,572 | 8 | 0 |
| | 02/2016 | | 1,673 | EUR | 1,560 | 24 | 0 |
| SOG | 01/2016 | | 6,603 | RUB | 434,279 | 0 | (667) |
| | 02/2016 | SGD | 4,276 | $ | 3,020 | 9 | 0 |
| | 02/2016 | $ | 6,766 | ILS | 26,161 | 0 | (37) |
| UAG | 01/2016 | INR | 118,505 | $ | 1,783 | 0 | (3) |
| | 01/2016 | JPY | 793,100 | | 6,462 | 0 | (137) |
| | 01/2016 | $ | 8,300 | JPY | 1,015,400 | 148 | 0 |
| | 01/2016 | | 1,944 | PHP | 91,714 | 8 | 0 |
| | 02/2016 | | 26,708 | JPY | 3,266,700 | 492 | 0 |
| **Total Forward Foreign Currency Contracts** | | | | | | **$ 33,781** | **$ (7,678)** |

## WRITTEN OPTIONS:

### FOREIGN CURRENCY OPTIONS

| Counterparty | Description | Strike Price | Expiration Date | Notional Amount | Premiums (Received) | Market Value |
|---|---|---|---|---|---|---|
| BOA | Put - OTC EUR versus USD | $ 1.082 | 01/15/2016 | EUR 13,100 | $ (83) | $ (69) |
| | Put - OTC USD versus JPY | JPY 80.000 | 02/18/2019 | $ 8,300 | (472) | (52) |
| FBF | Call - OTC USD versus BRL | BRL 4.600 | 03/14/2016 | 9,300 | (263) | (88) |
| GLM | Call - OTC USD versus BRL | 4.450 | 01/14/2016 | 11,300 | (232) | (6) |
| SCX | Call - OTC USD versus CNH | CNH 6.850 | 06/01/2016 | 4,600 | (42) | (52) |
| | | | | | $ (1,092) | $ (267) |

## INTEREST RATE SWAPTIONS

| Counterparty | Description | Floating Rate Index | Pay/Receive Floating Rate | Exercise Rate | Expiration Date | Notional Amount | Premiums (Received) | Market Value |
|---|---|---|---|---|---|---|---|---|
| DUB | Put - OTC 5-Year Interest Rate Swap | 3-Month USD-LIBOR | Pay | 1.900% | 02/16/2016 | $ 26,800 | $ (108) | $ (69) |
| MYC | Put - OTC 5-Year Interest Rate Swap | 3-Month USD-LIBOR | Pay | 1.900 | 02/16/2016 | 32,700 | (127) | (85) |
| | | | | | | | $ (235) | $ (154) |
| **Total Written Options** | | | | | | | **$ (1,327)** | **$ (421)** |

## TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2015:

| | # of Contracts | Notional Amount in $ | Notional Amount in AUD | Notional Amount in EUR | Premiums |
|---|---|---|---|---|---|
| Balance at Beginning of Period | 0 | $ 1,295,500 | AUD 11,500 | EUR 78,700 | $ (8,115) |
| Sales | 1,071 | 1,240,900 | 26,800 | 210,600 | (6,981) |
| Closing Buys | (394) | (1,349,800) | 0 | (51,600) | 6,788 |
| Expirations | (677) | (911,500) | (24,400) | (192,400) | 5,780 |
| Exercised | 0 | (182,100) | (13,900) | (32,200) | 1,201 |
| Balance at End of Period | 0 | $ 93,000 | AUD 0 | EUR 13,100 | $ (1,327) |

## SWAP AGREEMENTS:

### CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (1)

| Counterparty | Reference Entity | Fixed Receive Rate | Maturity Date | Implied Credit Spread at December 31, 2015 (2) | Notional Amount (3) | Premiums Paid/(Received) | Unrealized Appreciation/ (Depreciation) | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| BOA | BP Capital Markets America, Inc. | 1.000% | 12/20/2019 | 0.805% | EUR 5,200 | $ 113 | $ (67) | $ 46 | $ 0 |
| | China Government International Bond | 1.000 | 06/20/2019 | 0.786 | $ 2,800 | 21 | 0 | 21 | 0 |
| BPS | BP Capital Markets America, Inc. | 1.000 | 12/20/2019 | 0.805 | EUR 1,500 | 34 | (21) | 13 | 0 |
| | Continental AG | 1.000 | 12/20/2020 | 0.628 | 2,400 | 7 | 42 | 49 | 0 |
| BRC | Berkshire Hathaway, Inc. | 1.000 | 03/20/2019 | 0.456 | $ 3,700 | 60 | 5 | 65 | 0 |
| | Berkshire Hathaway, Inc. | 1.000 | 12/20/2023 | 1.038 | 1,000 | (29) | 27 | 0 | (2) |
| | MetLife, Inc. | 1.000 | 03/20/2019 | 0.545 | 2,700 | 20 | 20 | 40 | 0 |
| | Mexico Government International Bond | 1.000 | 03/20/2018 | 1.050 | 4,300 | (7) | 4 | 0 | (3) |
| | Volkswagen International Finance NV | 1.000 | 12/20/2017 | 1.310 | EUR 3,200 | (66) | 46 | 0 | (20) |
| CBK | BP Capital Markets America, Inc. | 1.000 | 12/20/2019 | 0.805 | 1,100 | 25 | (15) | 10 | 0 |
| | Brazil Government International Bond | 1.000 | 06/20/2016 | 1.387 | $ 27,000 | (52) | 13 | 0 | (39) |
| | HSBC Bank PLC | 1.000 | 03/20/2019 | 0.765 | EUR 3,600 | (36) | 67 | 31 | 0 |
| | Mexico Government International Bond | 1.000 | 09/20/2016 | 0.582 | $ 1,000 | 5 | (2) | 3 | 0 |
| DUB | Berkshire Hathaway, Inc. | 1.000 | 03/20/2019 | 0.456 | 1,700 | 36 | (6) | 30 | 0 |
| | China Government International Bond | 1.000 | 03/20/2019 | 0.732 | 1,300 | 1 | 10 | 11 | 0 |
| | China Government International Bond | 1.000 | 06/20/2019 | 0.786 | 600 | 5 | 0 | 5 | 0 |
| | Export-Import Bank of China | 1.000 | 12/20/2016 | 0.410 | 2,300 | (186) | 200 | 14 | 0 |
| | MetLife, Inc. | 1.000 | 03/20/2019 | 0.545 | 1,700 | 29 | (4) | 25 | 0 |
| | Mexico Government International Bond | 1.000 | 03/20/2016 | 0.481 | 3,200 | (18) | 23 | 5 | 0 |
| | Mexico Government International Bond | 1.000 | 06/20/2016 | 0.531 | 7,900 | 19 | 2 | 21 | 0 |
| | Mexico Government International Bond | 1.000 | 09/20/2016 | 0.582 | 700 | 3 | (1) | 2 | 0 |
| FBF | BP Capital Markets America, Inc. | 1.000 | 12/20/2019 | 0.805 | EUR 200 | 4 | (2) | 2 | 0 |
| | Brazil Government International Bond | 1.000 | 12/20/2016 | 2.151 | $ 3,800 | (62) | 21 | 0 | (41) |
| | Prudential Financial, Inc. | 1.000 | 09/20/2019 | 0.633 | 3,400 | 69 | (22) | 47 | 0 |
| | Wendel S.A. | 5.000 | 12/20/2019 | 0.824 | EUR 300 | 74 | (20) | 54 | 0 |
| GST | Brazil Government International Bond | 1.000 | 12/20/2016 | 2.151 | $ 1,100 | (19) | 7 | 0 | (12) |
| | MetLife, Inc. | 1.000 | 06/20/2016 | 0.119 | 3,800 | 65 | (48) | 17 | 0 |
| | Mexico Government International Bond | 1.000 | 09/20/2016 | 0.582 | 1,900 | 9 | (2) | 7 | 0 |
| | Wendel S.A. | 5.000 | 12/20/2019 | 0.824 | EUR 1,000 | 251 | (70) | 181 | 0 |
| HUS | Brazil Government International Bond | 1.000 | 03/20/2016 | 1.120 | $ 1,200 | (6) | 6 | 0 | 0 |
| | Mexico Government International Bond | 1.000 | 09/20/2016 | 0.582 | 700 | 4 | (2) | 2 | 0 |
| JPM | BP Capital Markets America, Inc. | 1.000 | 12/20/2019 | 0.805 | EUR 3,800 | 85 | (52) | 33 | 0 |
| | China Government International Bond | 1.000 | 06/20/2019 | 0.786 | $ 3,000 | 15 | 8 | 23 | 0 |
| | Mexico Government International Bond | 1.000 | 09/20/2016 | 0.582 | 800 | 4 | (1) | 3 | 0 |
| | Prudential Financial, Inc. | 1.000 | 09/20/2019 | 0.633 | 5,000 | 102 | (33) | 69 | 0 |
| | PSEG Power LLC | 1.000 | 12/20/2018 | 0.604 | 1,700 | 11 | 9 | 20 | 0 |
| | Volkswagen International Finance NV | 1.000 | 12/20/2018 | 1.403 | EUR 1,700 | (104) | 83 | 0 | (21) |
| MYC | BP Capital Markets America, Inc. | 1.000 | 12/20/2019 | 0.805 | 3,400 | 78 | (48) | 30 | 0 |
| | BP Capital Markets America, Inc. | 1.000 | 03/20/2020 | 0.863 | 2,800 | 47 | (28) | 19 | 0 |
| | Wendel S.A. | 5.000 | 12/20/2019 | 0.824 | 1,600 | 397 | (107) | 290 | 0 |
| | | | | | | $ 1,008 | $ 42 | $ 1,188 | $ (138) |

### CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(1)]

| Counterparty | Index/Tranches | Fixed Receive Rate | Maturity Date | Notional Amount [(3)] | Premiums Paid/(Received) | Unrealized Appreciation | Swap Agreements, at Value [(4)] Asset | Swap Agreements, at Value [(4)] Liability |
|---|---|---|---|---|---|---|---|---|
| GST | CDX.IG-9 10-Year Index 30-100% | 0.548% | 12/20/2017 | $ 193 | $ 0 | $ 2 | $ 2 | $ 0 |
| JPM | CDX.IG-9 10-Year Index 30-100% | 0.553 | 12/20/2017 | 386 | 0 | 4 | 4 | 0 |
| MYC | CMBX.NA.AAA.3 Index | 0.080 | 12/13/2049 | 8,876 | (61) | 26 | 0 | (35) |
| | | | | | $ (61) | $ 32 | $ 6 | $ (35) |

(1) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(3) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(4) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

### INTEREST RATE SWAPS

| Counterparty | Pay/Receive Floating Rate | Floating Rate Index | Fixed Rate | Maturity Date | Notional Amount | Premiums Paid/(Received) | Unrealized Appreciation | Swap Agreements, at Value Asset | Swap Agreements, at Value Liability |
|---|---|---|---|---|---|---|---|---|---|
| DUB | Receive | 1-Year BRL-CDI | 12.810% | 01/04/2021 | BRL 43,000 | $ (90) | $ 1,126 | $ 1,036 | $ 0 |
| HUS | Pay | 28-Day MXN-TIIE | 5.500 | 06/11/2018 | MXN 2,700 | 0 | 3 | 3 | 0 |
| | | | | | | $ (90) | $ 1,129 | $ 1,039 | $ 0 |
| **Total Swap Agreements** | | | | | | **$ 857** | **$ 1,203** | **$ 2,233** | **$ (173)** |

### FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

**The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of December 31, 2015:**

**(j) Securities with an aggregate market value of $1,891 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2015.**

| Counterparty | Financial Derivative Assets: Forward Foreign Currency Contracts | Purchased Options | Swap Agreements | Total Over the Counter | Financial Derivative Liabilities: Forward Foreign Currency Contracts | Written Options | Swap Agreements | Total Over the Counter | Net Market Value of OTC Derivatives | Collateral (Received)/ Pledged | Net Exposure [(5)] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BOA | $ 11 | $0 | $ 67 | $ 78 | $ (191) | $ (121) | $ 0 | $ (312) | $ (234) | $ 372 | $ 138 |
| BPS | 2,905 | 0 | 62 | 2,967 | (600) | 0 | 0 | (600) | 2,367 | (2,650) | (283) |
| BRC | 9 | 0 | 105 | 114 | (7) | 0 | (25) | (32) | 82 | (230) | (148) |
| CBK | 3,753 | 0 | 44 | 3,797 | (274) | 0 | (39) | (313) | 3,484 | (3,302) | 182 |
| DUB | 2,908 | 0 | 1,149 | 4,057 | (1,138) | (69) | 0 | (1,207) | 2,850 | (3,680) | (830) |
| FBF | 1,598 | 0 | 103 | 1,701 | (18) | (88) | (41) | (147) | 1,554 | (1,639) | (85) |
| GLM | 954 | 0 | 0 | 954 | (1,785) | (6) | 0 | (1,791) | (837) | 756 | (81) |
| GST | 0 | 0 | 207 | 207 | 0 | 0 | (12) | (12) | 195 | (270) | (75) |
| HUS | 407 | 0 | 5 | 412 | (26) | 0 | 0 | (26) | 386 | (380) | 6 |
| JPM | 10,760 | 0 | 152 | 10,912 | (2,117) | 0 | (21) | (2,138) | 8,774 | (8,656) | 118 |
| MSB | 9,746 | 0 | 0 | 9,746 | (666) | 0 | 0 | (666) | 9,080 | (9,050) | 30 |
| MYC | 0 | 0 | 339 | 339 | 0 | (85) | (35) | (120) | 219 | (280) | (61) |
| NGF | 0 | 0 | 0 | 0 | (7) | 0 | 0 | (7) | (7) | 0 | (7) |
| SCX | 73 | 0 | 0 | 73 | (5) | (52) | 0 | (57) | 16 | 0 | 16 |
| SOG | 9 | 0 | 0 | 9 | (704) | 0 | 0 | (704) | (695) | 763 | 68 |
| UAG | 648 | 0 | 0 | 648 | (140) | 0 | 0 | (140) | 508 | (470) | 38 |
| **Total Over the Counter** | **$33,781** | **$0** | **$2,233** | **$36,014** | **$(7,678)** | **$(421)** | **$(173)** | **$(8,272)** | | | |

(5) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

## FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

**The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.**

**Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 2015:**

| | Derivatives not accounted for as hedging instruments | | | | | |
|---|---|---|---|---|---|---|
| | Commodity Contracts | Credit Contracts | Equity Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Total |
| **Financial Derivative Instruments - Assets** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Futures | $ 0 | $ 0 | $ 0 | $ 0 | $ 328 | $ 328 |
| Swap Agreements | 0 | 0 | 0 | 0 | 394 | 394 |
| | $ 0 | $ 0 | $ 0 | $ 0 | $ 722 | $ 722 |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 33,781 | $ 0 | $ 33,781 |
| Swap Agreements | 0 | 1,194 | 0 | 0 | 1,039 | 2,233 |
| | $ 0 | $ 1,194 | $ 0 | $ 33,781 | $ 1,039 | $ 36,014 |
| | $ 0 | $ 1,194 | $ 0 | $ 33,781 | $ 1,761 | $ 36,736 |
| **Financial Derivative Instruments - Liabilities** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Futures | $ 0 | $ 0 | $ 0 | $ 0 | $ 162 | $ 162 |
| Swap Agreements | 0 | 0 | 0 | 0 | 661 | 661 |
| | $ 0 | $ 0 | $ 0 | $ 0 | $ 823 | $ 823 |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 7,678 | $ 0 | $ 7,678 |
| Written Options | 0 | 0 | 0 | 267 | 154 | 421 |
| Swap Agreements | 0 | 173 | 0 | 0 | 0 | 173 |
| | $ 0 | $ 173 | $ 0 | $ 7,945 | $ 154 | $ 8,272 |
| | $ 0 | $ 173 | $ 0 | $ 7,945 | $ 977 | $ 9,095 |

**The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2015:**

| | Derivatives not accounted for as hedging instruments | | | | | |
|---|---|---|---|---|---|---|
| | Commodity Contracts | Credit Contracts | Equity Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Total |
| **Net Realized Gain (Loss) on Financial Derivative Instruments** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Written Options | $ 0 | $ 0 | $ 0 | $ 0 | $ 333 | $ 333 |
| Futures | 0 | 0 | 0 | 0 | (8,644) | (8,644) |
| Swap Agreements | 0 | (396) | 0 | 0 | (413) | (809) |
| | $ 0 | $ (396) | $ 0 | $ 0 | $ (8,724) | $ (9,120) |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ 62,056 | $ 0 | $ 62,056 |
| Purchased Options | 0 | 0 | 0 | (5) | (372) | (377) |
| Written Options | 0 | 108 | 0 | 1,944 | 4,194 | 6,246 |
| Swap Agreements | 0 | (870) | 0 | 0 | (428) | (1,298) |
| | $ 0 | $ (762) | $ 0 | $ 63,995 | $ 3,394 | $ 66,627 |
| | $ 0 | $ (1,158) | $ 0 | $ 63,995 | $ (5,330) | $ 57,507 |
| **Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments** | | | | | | |
| Exchange-traded or centrally cleared | | | | | | |
| Futures | $ 0 | $ 0 | $ 0 | $ 0 | $ 660 | $ 660 |
| Swap Agreements | 0 | 42 | 0 | 0 | (3,708) | (3,666) |
| | $ 0 | $ 42 | $ 0 | $ 0 | $ (3,048) | $ (3,006) |
| Over the counter | | | | | | |
| Forward Foreign Currency Contracts | $ 0 | $ 0 | $ 0 | $ (3,720) | $ 0 | $ (3,720) |
| Purchased Options | 0 | 0 | 0 | 0 | 661 | 661 |
| Written Options | 0 | (106) | 0 | (298) | (494) | (898) |
| Swap Agreements | 0 | 2,728 | 0 | 0 | 2,538 | 5,266 |
| | $ 0 | $ 2,622 | $ 0 | $ (4,018) | $ 2,705 | $ 1,309 |
| | $ 0 | $ 2,664 | $ 0 | $ (4,018) | $ (343) | $ (1,697) |

## FAIR VALUE MEASUREMENTS

**The following is a summary of the fair valuations according to the inputs used as of December 31, 2015 in valuing the Portfolio's assets and liabilities:**

| Category and Subcategory | Level 1 | Level 2 | Level 3 | Fair Value at 12/31/2015 |
|---|---|---|---|---|
| **Investments in Securities, at Value** | | | | |
| Bank Loan Obligations | $ 0 | $ 5,903 | $ 0 | $ 5,903 |
| Corporate Bonds & Notes | | | | |
| Banking & Finance | 0 | 524,816 | 1,498 | 526,314 |
| Industrials | 0 | 245,302 | 0 | 245,302 |
| Utilities | 0 | 118,335 | 0 | 118,335 |
| Municipal Bonds & Notes | | | | |
| California | 0 | 10,598 | 0 | 10,598 |
| New Jersey | 0 | 9,525 | 0 | 9,525 |
| Texas | 0 | 333 | 0 | 333 |
| U.S. Government Agencies | 0 | 330,765 | 1 | 330,766 |
| U.S. Treasury Obligations | 0 | 335,461 | 0 | 335,461 |
| Non-Agency Mortgage-Backed Securities | 0 | 155,738 | 10,350 | 166,088 |
| Asset-Backed Securities | 0 | 220,899 | 0 | 220,899 |
| Sovereign Issues | 0 | 142,011 | 0 | 142,011 |
| Short-Term Instruments | | | | |
| Certificates of Deposit | 0 | 16,814 | 0 | 16,814 |
| Commercial Paper | 0 | 12,996 | 0 | 12,996 |
| Repurchase Agreements | 0 | 1,963 | 0 | 1,963 |
| Short-Term Notes | 0 | 10,323 | 0 | 10,323 |
| Mexico Treasury Bills | 0 | 4,634 | 0 | 4,634 |
| U.S. Treasury Bills | 0 | 1,133 | 0 | 1,133 |
| | $ 0 | $ 2,147,549 | $ 11,849 | $ 2,159,398 |

| Category and Subcategory | Level 1 | Level 2 | Level 3 | Fair Value at 12/31/2015 |
|---|---|---|---|---|
| **Investments in Affiliates, at Value** | | | | |
| Short-Term Instruments | | | | |
| Central Funds Used for Cash Management Purposes | $ 114,868 | $ 0 | $ 0 | $ 114,868 |
| Total Investments | $ 114,868 | $ 2,147,549 | $ 11,849 | $ 2,274,266 |
| **Short Sales, at Value - Liabilities** | | | | |
| U.S. Government Agencies | $ 0 | $ (4,046) | $ 0 | $ (4,046) |
| **Financial Derivative Instruments - Assets** | | | | |
| Exchange-traded or centrally cleared | 328 | 394 | 0 | 722 |
| Over the counter | 0 | 36,014 | 0 | 36,014 |
| | $ 328 | $ 36,408 | $ 0 | $ 36,736 |
| **Financial Derivative Instruments - Liabilities** | | | | |
| Exchange-traded or centrally cleared | (162) | (661) | 0 | (823) |
| Over the counter | 0 | (8,272) | 0 | (8,272) |
| | $ (162) | $ (8,933) | $ 0 | $ (9,095) |
| Totals | $ 115,034 | $ 2,170,978 | $ 11,849 | $ 2,297,861 |

**There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2015.**

## 1. ORGANIZATION

The PIMCO Low Duration Portfolio (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans. Pacific Investment Management Company LLC ("PIMCO") serves as the investment adviser (the "Adviser") for the Portfolio.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Portfolio is treated as an investment company under the reporting requirements of U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

**(a) Securities Transactions and Investment Income** Securities transactions are recorded as of the trade date for financial reporting purposes. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled 15 days or more after the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective date. For convertible securities, premiums attributable to the conversion feature are not amortized. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized appreciation (depreciation) on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain (loss) on investments on the Statement of Operations. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is probable.

**(b) Cash and Foreign Currency** The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and income and expense items denominated in foreign currencies, if any, are translated into U.S. dollars at the exchange rate in effect on the transaction date. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized gain (loss) and net change in unrealized appreciation (depreciation) from investments on the Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see Financial Derivative Instruments, if any). Realized foreign exchange gains or losses arising from sales of spot foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid are included in net realized gain (loss) on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains and losses arising from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period are included in net change in unrealized appreciation (depreciation) on foreign currency assets and liabilities on the Statement of Operations.

**(c) Multiclass Operations** Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative net assets. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

**(d) Dividends and Distributions to Shareholders** Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. Examples of transactions that may cause character differences include the treatment of paydowns on mortgage-backed securities, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income (loss) and realized gains (losses) reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed (overdistributed) net investment income (loss), accumulated undistributed (overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

**(e) New Accounting Pronouncements** In June 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-11, that expanded secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Portfolio has adopted the ASU. The financial statements have been modified to provide enhanced disclosures surrounding secured borrowing transactions, if any. See the Notes to Schedule of Investments for additional details.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

## 3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

**(a) Investment Valuation Policies** The price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). Information that becomes known to the Portfolio or its agents after the time as of which NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the Adviser to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies (other than exchange-traded funds ("ETFs")), a Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees of the Trust (the "Board"). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. As a result, the value of such investments and, in turn, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of investments traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, indicative market quotations ("Broker Quotes"), Pricing Services' prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of a Portfolio's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that a Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by a Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

**(b) Fair Value Hierarchy** U.S. GAAP describes fair value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1 — Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.
- Level 2 — Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3 — Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers in and out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Portfolio.

**(c) Valuation Techniques and the Fair Value Hierarchy**

**Level 1 and Level 2 trading assets and trading liabilities, at fair value** The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buyback transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using Pricing Services that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment companies (other than ETFs) will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemption where the inputs to the NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange (if available). For centrally cleared credit default swaps, the clearing facility requires its members to provide actionable price levels across complete term structures. These levels along with external third-party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

**Level 3 trading assets and trading liabilities, at fair value** When a fair valuation method is applied by the Adviser that uses significant unobservable inputs, investments will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy.

The validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

## 4. SECURITIES AND OTHER INVESTMENTS

### (a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio III ("Central Fund") to the extent permitted by the Act and rules thereunder. The Central Fund is a registered investment company created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Fund are money market and short maturity fixed income instruments. The Central Fund may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Fund is considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in affiliated Funds for the period ended December 31, 2015 (amounts in thousands†):

### Investments in PIMCO Short-Term Floating NAV Portfolio III

| Market Value 12/31/2014 | Purchases at Cost | Proceeds from Sales | Net Realized Gain (Loss) | Change in Unrealized Appreciation (Depreciation) | Market Value 12/31/2015 | Dividend Income [(1)] | Realized Net Capital Gain Distributions [(1)] |
|---|---|---|---|---|---|---|---|
| $ 186,362 | $ 1,026,700 | $ (1,097,800) | $ (882) | $ 488 | $ 114,868 | $ 700 | $ 0 |

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

### (b) Investments in Securities

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

Loan Participations, Assignments and Originations The Portfolio may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. The Portfolio's investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties or investments in or originations of loans by a Portfolio. A loan is often administered by a bank or other financial institution (the "lender") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. The Portfolio may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. When the Portfolio purchases assignments from lenders it acquires direct rights against the borrowers of the loans. These loans may include participations in bridge loans, which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions.

The types of loans and related investments in which the Portfolio may invest include, among others, senior loans, subordinated loans (including second lien loans, B-Notes and mezzanine loans), whole loans, commercial real estate and other commercial loans and structured loans. The Portfolio may originate loans or acquire direct interests in loans through primary loan distributions and/or in private transactions. In the case of subordinated loans, there may be significant indebtedness ranking ahead of the borrower's obligation to the holder of such a loan, including in the event of the borrower's insolvency. Mezzanine loans are typically secured by a pledge of an equity interest in the mortgage borrower that owns the real estate rather than an interest in a mortgage.

Investments in loans may include unfunded loan commitments, which are contractual obligations for funding. Unfunded loan commitments may include revolving credit facilities, which may obligate the Portfolio to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the committed amount may not be utilized by the borrower. When investing in a loan participation, the Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan agreement and only upon receipt of payments by the lender from the borrower. The Portfolio may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statement of Operations. As of December 31, 2015, the Portfolio had no unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. These securities provide a monthly payment which consists of both interest and principal. Interest may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. An SMBS will have one class that will receive all of the interest (the interest-only or "IO" class), while the other class will receive the entire principal (the principal-only or "PO" class). Payments received for IOs are included in interest income on the Statement of Operations. Because no principal will be received at the maturity of an IO, adjustments are made to the cost of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); and others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest-paying securities.

Government-related guarantors (*i.e.*, not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (*i.e.*, not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation

Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a To Be Announced ("TBA") security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

## 5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location of these instruments is described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for the receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by the Adviser or will otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by the Adviser or will otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

## 6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the net realized gain (loss) and net change in unrealized appreciation (depreciation) on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of net realized gain (loss) and net change in unrealized appreciation (depreciation) on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts The Portfolio may enter into forward foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward foreign currency contracts are marked to market daily, and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses are equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed and are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker an amount of cash, U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("Futures Variation Margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are included on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio, as a writer of an option has no control over whether the underlying instrument may be sold ("call") or purchased ("put") and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included as an asset on the Statement of Assets and Liabilities and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is executed.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaptions which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

Foreign Currency Options The Portfolio may write or purchase foreign currency options. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell the currency with specified amounts of currency and a rate of exchange that may be exercised by a certain date. These options may be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("Centrally Cleared Swaps"). The Portfolio may enter into asset, credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Centrally Cleared Swaps are marked to market daily based upon valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. Changes in market value, if any, are reflected as a component of net change in unrealized appreciation (depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps ("Swap Variation Margin"), if any, are included within centrally cleared financial derivative instruments on the Statement of Assets and Liabilities. OTC swap payments received or paid at the beginning of the measurement period are included on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions, the Portfolio will value the credit default swap at its notional value or its full exposure value (*i.e.,* the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

Credit Default Swap Agreements A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.,* to reduce risk where a Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event that the referenced entity, obligation or index, as specified in the swap agreement, undergoes a certain credit event. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event).

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are instruments for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, are disclosed in the Notes to Schedule of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end for which the Portfolio is the seller of protection are disclosed in the Notes to Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost and at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different segments of money markets.

## 7. PRINCIPAL RISKS

In the normal course of business, the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to such things as changes in the market (market risk) or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a more comprehensive list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

Market Risks The Portfolio's investments in financial derivative instruments and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of an increase in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by Portfolio management. The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

Duration is a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.*, yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. Given the importance of intermediary "market making" in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause the Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is subject to various risks such as, but not limited to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that further economic sanctions may be imposed by the United States and/or other countries. Such sanctions — which may impact companies in many sectors, including energy, financial services and defense, among others — may negatively impact the Portfolio's performance and/or ability to achieve its investment objective. The Russian securities market, as compared to U.S. markets, has significant price volatility, less liquidity, difficulties in obtaining accurate prices, a smaller market capitalization and a smaller number of traded securities. Settlement, clearing and registration of securities transactions are subject to risks, which may result in significant delays or problems in registering the transfer of securities, including issues with foreign nominee accounts held with custodian banks. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. In addition, it may be difficult for the Portfolio to enforce any rights it may have in the event of loss of share registration. Adverse currency exchange rates are a risk and there may be a lack of available currency hedging instruments. Investments in Russia may be subject to the risk of nationalization or expropriation of assets. Oil, natural gas, metals, and timber account for a significant portion of Russia's exports, leaving the country vulnerable to swings in world prices.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivative instruments that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency-denominated securities may reduce the Portfolio's returns.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen in periodic cycles and may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Different types of equity securities may react differently to these developments. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

**Credit and Counterparty Risks** The Portfolio will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges, where applicable. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities and financial derivative instruments are subject to varying degrees of credit risk, which may be reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

**Master Netting Arrangements** The Portfolio may be subject to various netting arrangements ("Master Agreements") with select counterparties. Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally presents derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under most Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and

U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper or sovereign securities may be used depending on the terms outlined in the applicable Master Agreement. Securities and cash pledged as collateral are reflected as assets on the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits with counterparty. Cash collateral received is not typically held in a segregated account and as such is reflected as a liability on the Statement of Assets and Liabilities as Deposits from counterparty. The market value of any securities received as collateral is not reflected as a component of NAV. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addenda govern cleared derivatives transactions such as futures, options on futures, and cleared over the counter ("OTC") derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk is significantly reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of an FCM default scenario further reduces risk to the Portfolio. Variation margin, or changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation (depreciation), initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern bilateral OTC derivative transactions entered into by the Portfolio with select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third-party custodian. The market value of OTC financial derivative instruments, collateral received or pledged, and net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

## 8. FEES AND EXPENSES

(a) Investment Advisory Fee PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management") and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

(b) Supervisory and Administrative Fee PIMCO serves as administrator (the "Administrator") and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.25%.

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the

Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

(d) Portfolio Expenses PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Trust is responsible for the following expenses: (i) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multi-Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives an additional annual retainer of $1,500.

These expenses are allocated on a pro rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio, which does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

## 9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another fund or portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

| Purchases | Sales |
|---|---|
| $ 112,662 | $ 132,432 |

## 10. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Portfolio. Additionally, in the normal course of business, the Portfolio enters into contracts that contain a variety of indemnification clauses. The Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolio that have not yet occurred. However, the Portfolio has not had prior claims or losses pursuant to these contracts.

## 11. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover may involve correspondingly greater transaction costs to the Portfolio, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The transaction costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended December 31, 2015, were as follows (amounts in thousands):

| U.S. Government/Agency | | All Other | |
|---|---|---|---|
| Purchases | Sales | Purchases | Sales |
| $ 3,464,982 | $ 3,091,477 | $ 796,394 | $ 534,545 |

## 12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

| | Year Ended 12/31/2015 | | Year Ended 12/31/2014 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| **Receipts for shares sold** | | | | |
| Institutional Class | 409 | $ 4,303 | 115 | $ 1,217 |
| Administrative Class | 24,857 | 261,154 | 34,121 | 363,560 |
| Advisor Class | 15,590 | 164,276 | 13,683 | 145,639 |
| **Issued as reinvestment of distributions** | | | | |
| Institutional Class | 30 | 308 | 57 | 607 |
| Administrative Class | 4,414 | 45,887 | 1,654 | 17,615 |
| Advisor Class | 2,167 | 22,510 | 626 | 6,660 |
| **Cost of shares redeemed** | | | | |
| Institutional Class | (914) | (9,687) | (4,411) | (46,929) |
| Administrative Class | (40,239) | (425,738) | (38,068) | (405,306) |
| Advisor Class | (12,840) | (135,449) | (11,304) | (120,374) |
| **Net increase (decrease) resulting from Portfolio share transactions** | (6,526) | $ (72,436) | (3,527) | $ (37,311) |

As of December 31, 2015, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 44% of the Portfolio.

## 13. REGULATORY AND LITIGATION MATTERS

The Portfolio is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission ("SEC") that relates to the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), a series of PIMCO ETF Trust. The notice indicates the staff's preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a non-public investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND's performance disclosures for that period, and PIMCO's compliance policies and procedures related to these matters.

The Wells process provides PIMCO with the opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO's ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

## 14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the "Code") and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of December 31, 2015, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio's U.S. tax returns filed for the fiscal years ending in 2012-2014, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregated asset accounts ("Separate Accounts") of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable

Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding Federal income tax treatment of distributions to the Separate Account.

As of December 31, 2015, the components of distributable taxable earnings are as follows (amounts in thousands):

| | Undistributed Ordinary Income | Undistributed Long-Term Capital Gains | Net Tax Basis Unrealized Appreciation/ (Depreciation) [(1)] | Other Book-to-Tax Accounting Differences [(2)] | Accumulated Capital Losses [(3)] | Qualified Late-Year Loss Deferral — Capital [(4)] | Qualified Late-Year Loss Deferral — Ordinary [(5)] |
|---|---|---|---|---|---|---|---|
| PIMCO Low Duration Portfolio | $ 9,035 | $ — | $ (43,909) | $ — | $ (30,521) | $ — | $ — |

(1) Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts and treasury inflation-protected securities.
(2) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, namely for straddle loss deferrals and distributions payable at fiscal year-end.
(3) Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.
(4) Capital losses realized during the period November 1, 2015 through December 31, 2015 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.
(5) Specified losses realized during the period November 1, 2015 through December 31, 2015, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2015, the Portfolio had accumulated capital losses expiring in the following years (amounts in thousands). The Portfolio will resume capital gain distributions in the future to the extent gains are realized in excess of accumulated capital losses.

| | Expiration of Accumulated Capital Losses | | |
|---|---|---|---|
| | 12/31/2016 | 12/31/2017 | 12/31/2018 |
| PIMCO Low Duration Portfolio | $ — | $ 8,599 | $ — |

Under the Regulated Investment Company Act of 2010, a Portfolio is permitted to carry forward any new capital losses for an unlimited period. Additionally, such capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term under previous law.

As of December 31, 2015, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands):

| | Short-Term | Long-Term |
|---|---|---|
| PIMCO Low Duration Portfolio | $ 13,392 | $ 8,530 |

As of December 31, 2015, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

| | Federal Tax Cost | Unrealized Appreciation | Unrealized (Depreciation) | Net Unrealized Appreciation/ (Depreciation) [(6)] |
|---|---|---|---|---|
| PIMCO Low Duration Portfolio | $ 2,315,662 | $ 8,135 | $ (49,531) | $ (41,396) |

(6) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals and treasury inflation-protected securities.

For the years ended December 31, 2015 and December 31, 2014, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

| | Fiscal Year Ended | Ordinary Income Distributions [(7)] | Long-Term Capital Gain Distributions | Return of Capital [(8)] |
|---|---|---|---|---|
| PIMCO Low Duration Portfolio | 12/31/2015 | $ 68,706 | $ — | $ — |
| | 12/31/2014 | $ 24,882 | $ — | $ — |

(7) Includes short-term capital gains, if any, distributed.
(8) A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform financial accounting to tax accounting.

# Report of Independent Registered Public Accounting Firm

**To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of PIMCO Low Duration Portfolio:**

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of PIMCO Low Duration Portfolio (one of the portfolios constituting PIMCO Variable Insurance Trust, hereinafter referred to as the "Portfolio") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 18, 2016

**Counterparty Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **BOA** | Bank of America N.A. | **GLM** | Goldman Sachs Bank USA | **NGF** | Nomura Global Financial Products, Inc. |
| **BPS** | BNP Paribas S.A. | **GST** | Goldman Sachs International | **SCX** | Standard Chartered Bank |
| **BRC** | Barclays Bank PLC | **HUS** | HSBC Bank USA N.A. | **SOG** | Societe Generale |
| **CBK** | Citibank N.A. | **JPM** | JPMorgan Chase Bank N.A. | **SSB** | State Street Bank and Trust Co. |
| **DUB** | Deutsche Bank AG | **MSB** | Morgan Stanley Bank, N.A | **UAG** | UBS AG Stamford |
| **FBF** | Credit Suisse International | **MYC** | Morgan Stanley Capital Services, Inc. | | |

**Currency Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **AUD** | Australian Dollar | **ILS** | Israeli Shekel | **PHP** | Philippine Peso |
| **BRL** | Brazilian Real | **INR** | Indian Rupee | **RUB** | Russian Ruble |
| **CHF** | Commercial Mortgage-Backed Index | **JPY** | Japanese Yen | **SGD** | Singapore Dollar |
| **CNH** | Chinese Renminbi (Offshore) | **KRW** | South Korean Won | **THB** | Thai Baht |
| **EUR** | Euro | **MXN** | Mexican Peso | **USD (or $)** | United States Dollar |
| **GBP** | British Pound | **MYR** | Malaysian Ringgit | | |

**Exchange Abbreviations:**

| | |
|---|---|
| **OTC** | Over the Counter |

**Index/Spread Abbreviations:**

| | | | |
|---|---|---|---|
| **CDX.IG** | Credit Derivatives Index - High Yield | **CMBX** | Commercial Mortgage-Backed Index |

**Other Abbreviations:**

| | | | | | |
|---|---|---|---|---|---|
| **ALT** | Alternate Loan Trust | **CLO** | Collateralized Loan Obligation | **REMIC** | Real Estate Mortgage Investment Conduit |
| **CDI** | Brazil Interbank Deposit Rate | **FDIC** | Federal Deposit Insurance Corp. | **TIIE** | Tasa de Interés Interbancaria de Equilibrio |
| **CDO** | Collateralized Debt Obligation | **LIBOR** | London Interbank Offered Rate | | |

## Management of the Trust

The charts below identify the Trustees and executive officers of the Trust. Unless otherwise indicated, the address of all persons below is 650 Newport Center Drive, Newport Beach, CA 92660.

The Portfolio's Statement of Additional Information includes more information about the Trustees and Officers. To request a free copy, call PIMCO at (888) 87-PIMCO or visit the Portfolio's website at pvit.pimco-funds.com.

| Name, Year of Birth and Position Held with Trust | Term of Office and Length of Time Served** | Principal Occupation(s) During Past 5 Years | Number of Funds in Fund Complex Overseen by Trustee | Other Public Company and Investment Company Directorships Held by Trustee During the Past 5 Years |
|---|---|---|---|---|
| **Interested Trustees*** | | | | |
| **Brent R. Harris (1959)** *Chairman of the Board and Trustee* | 08/1997 to present | Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO. | 168 | Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT; Director, StocksPLUS® Management, Inc; and member of Board of Governors, Investment Company Institute. |
| **Douglas M. Hodge (1957)** *Trustee* | 02/2010 to present | Managing Director, Chief Executive Officer, PIMCO (since 2/14); Chief Operating Officer, PIMCO (7/09 – 2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management. | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **Independent Trustees** | | | | |
| **George E. Borst (1948)** *Trustee* | 04/2015 to present | Executive Advisor, McKinsey & Company; Formerly, Executive Advisor, Toyota Financial Services; CEO, Toyota Financial Services. | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **E. Philip Cannon (1940)** *Trustee* | 05/2000 to present | Private Investor. Formerly, President, Houston Zoo. | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Formerly, Trustee, Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series. |
| **Jennifer Holden Dunbar (1963)** *Trustee* | 04/2015 to present | Managing Director, Dunbar Partners, LLC (business consulting and investments). | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation. |
| **Gary F. Kennedy (1955)** *Trustee* | 04/2015 to present | Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group). | 146 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust. |
| **Peter B. McCarthy (1950)** *Trustee* | 04/2015 to present | Formerly, Assistant Secretary and Chief Financial Officer, United States Department of Treasury; Deputy Managing Director, Institute of International Finance. | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. |
| **Ronald C. Parker (1951)** *Trustee* | 07/2009 to present | Director of Roseburg Forest Products Company. Formerly, Chairman of the Board, The Ford Family Foundation. Formerly President, Chief Executive Officer, Hampton Affiliates (forestry products). | 168 | Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. |

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations with PIMCO.
** Trustees serve until their successors are duly elected and qualified.

## Executive Officers

| Name, Year of Birth and Position Held with Trust | Term of Office and Length of Time Served | Principal Occupation(s) During Past 5 Years* |
|---|---|---|
| **Peter G. Strelow (1970)**<br>*President* | 01/2015 to present<br>Senior Vice President 11/2013 to 01/2015<br>Vice President 05/2008 to 11/2013 | Managing Director, PIMCO. President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **David C. Flattum (1964)**<br>*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)**<br>*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)**<br>*Senior Vice President* | 01/2015 to present<br>President 03/2009 to 01/2015 | Managing Director and current member of Executive Committee, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Douglas M. Hodge (1957)**<br>*Senior Vice President* | 05/2010 to present | Managing Director, Chief Executive Officer, PIMCO (since 2/14); Chief Operating Officer, PIMCO (7/09 – 2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Kevin M. Broadwater (1964)**<br>*Vice President - Senior Counsel* | 05/2012 to present | Executive Vice President and Deputy General Counsel, PIMCO. Vice President — Senior Counsel, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Joshua D. Ratner (1976)****<br>*Vice President - Senior Counsel, Secretary* | 11/2013 to present<br>Assistant Secretary 10/2007 to 01/2011 | Executive Vice President and Senior Counsel, PIMCO. Chief Legal Officer, PIMCO Investments LLC. Vice President — Senior Counsel, Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Vice President, Secretary and Chief Legal Officer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Ryan G. Leshaw (1980)**<br>*Assistant Secretary* | 05/2012 to present | Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Associate, Willkie Farr & Gallagher LLP. |
| **Stacie D. Anctil (1969)**<br>*Vice President* | 05/2015 to present<br>Assistant Treasurer 11/2003 to 05/2015 | Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **William G. Galipeau (1974)**<br>*Vice President* | 11/2013 to present | Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Vice President, Fidelity Investments. |
| **Eric D. Johnson (1970)****<br>*Vice President* | 05/2011 to present | Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Henrik P. Larsen (1970)**<br>*Vice President* | 02/1999 to present | Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. |
| **Greggory S. Wolf (1970)**<br>*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)**<br>*Treasurer* | 11/2013 to present<br>Assistant Treasurer 05/2007 to 11/2013 | Executive Vice President, PIMCO. Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Assistant Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Erik C. Brown (1967)**<br>*Assistant Treasurer* | 02/2001 to present | Executive Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. |
| **Jason J. Nagler (1982)****<br>*Assistant Treasurer* | 05/2015 to present | Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds. |

* The term "PIMCO Closed-End Funds" as used herein includes: PIMCO California Municipal Income Fund, PIMCO California Municipal Income Fund II, PIMCO California Municipal Income Fund III, PIMCO Municipal Income Fund, PIMCO Municipal Income Fund II, PIMCO Municipal Income Fund III, PIMCO New York Municipal Income Fund, PIMCO New York Municipal Income Fund II, PIMCO New York Municipal Income Fund III, PCM Fund Inc., PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO Dynamic Credit Income Fund, PIMCO Dynamic Income Fund, PIMCO Global StocksPLUS & Income Fund, PIMCO High Income Fund, PIMCO Income Opportunity Fund, PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II and PIMCO Strategic Income Fund, Inc.

** The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

# Privacy Policy[1]

The Trust[2] considers customer privacy to be a fundamental aspect of its relationships with shareholders and is committed to maintaining the confidentiality, integrity and security of its current, prospective and former shareholders' non-public personal information. The Trust has developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

### Obtaining Personal Information

In the course of providing shareholders with products and services, the Trust and certain service providers to the Trust, such as the Trust's investment advisers or sub-advisers ("Advisers"), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial advisor or consultant, and/or from information captured on applicable websites.

### Respecting Your Privacy

As a matter of policy, the Trust does not disclose any non-public personal information provided by shareholders or gathered by the Trust to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Trust. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. The Trust or its affiliates may also retain non-affiliated companies to market the Trust's shares or products which use the Trust's shares and enter into joint marketing arrangements with them and other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Trust may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

### Sharing Information with Third Parties

The Trust reserves the right to disclose or report personal or account information to non-affiliated third parties in limited circumstances where the Trust believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any fund advised by PIMCO in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder or a shareholder's accounts to a non-affiliated third party at the shareholder's request or with the consent of the shareholder.

### Sharing Information with Affiliates

The Trust may share shareholder information with its affiliates in connection with servicing shareholders' accounts, and subject to applicable law may provide shareholders with information about products and services that the Trust or its Advisers, distributors or their affiliates ("Service Affiliates") believe may be of interest to such shareholders. The information that the Trust may share may include, for example, a shareholder's participation in the Trust or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), information about the Trust's experiences or transactions with a shareholder, information captured on applicable websites, or other data about a shareholder's accounts, subject to applicable law. The Trust's Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

### Procedures to Safeguard Private Information

The Trust takes seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Trust has implemented procedures that are designed to restrict access to a shareholder's non-public personal information to internal personnel who need to know that information to perform their jobs, such as servicing shareholder accounts or notifying shareholders of new products or services. Physical, electronic and procedural safeguards are in place to guard a shareholder's non-public personal information.

### Information Collected from Websites

Websites maintained by the Trust or its service providers may use a variety of technologies to collect information that help the Trust and its service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. In addition, the Trust or its Service Affiliates may use third parties to place advertisements for the Trust on other websites, including banner advertisements. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information these third parties collect is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information such as name, address, phone number or email address.

You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly.

### Changes to the Privacy Policy

From time to time, the Trust may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

[1] Effective as of September 5, 2014.

[2] When distributing this Policy, the Trust may combine the distribution with any similar distribution of its investment adviser's privacy policy. The distributed, combined policy may be written in the first person (i.e., by using "we" instead of "the Trust").

## Approval of Renewal of the Amended and Restated Investment Advisory Contract, Supervision and Administration Agreement and Amended and Restated Asset Allocation Sub-Advisory Agreement

At a meeting held on August 10-11, 2015, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the Trustees who are not "interested persons" of the Trust under the Investment Company Act of 1940, as amended (the "Independent Trustees"), considered and unanimously approved the Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") between the Trust, on behalf of each of the Trust's series (the "Portfolios"), and Pacific Investment Management Company LLC ("PIMCO") for an additional one-year term through August 31, 2016. The Board also considered and unanimously approved for an additional one-year term through August 31, 2016, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO. In addition, the Board considered and unanimously approved the renewal of the Amended and Restated Asset Allocation Sub-Advisory Agreement (the "Asset Allocation Agreement") between PIMCO, on behalf of PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, and Research Affiliates, LLC ("Research Affiliates") for an additional one-year term through August 31, 2016.

The information, material factors and conclusions that formed the basis for the Board's approvals are summarized below.

## 1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of the past year, the Trustees received a wide variety of materials relating to the services provided by PIMCO and Research Affiliates to the Trust. At each of its quarterly meetings, the Board reviewed the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including shareholder services, valuation and custody, the Portfolios' compliance program and other information relating to the nature, extent and quality of services provided by PIMCO and Research Affiliates to the Trust. In considering whether to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board also reviewed supplementary information, including, but not limited to, comparative industry data with regard to investment performance, advisory and supervisory and administrative fees and expenses, financial information for PIMCO and, where relevant, Research Affiliates, information regarding the profitability to PIMCO of its relationship with the Portfolios, information about the personnel providing investment management services, other advisory services and supervisory and administrative services to the Portfolios, and information about the fees charged and services provided to other clients with similar investment mandates as the Portfolios (where applicable). In addition, the Board reviewed materials provided by counsel to the Trust and the Independent Trustees, which included, among other things, memoranda outlining legal duties of the Board in considering the continuation of the Agreements and the Asset Allocation Agreement.

(b) Review Process: In connection with the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed written materials prepared by PIMCO and, where applicable, Research Affiliates in response to requests from counsel to the Trust and the Independent Trustees. The Board requested and received assistance and advice regarding applicable legal standards from counsel to the Trust and the Independent Trustees, and reviewed comparative fee and performance data prepared at the Board's request by Lipper, Inc. ("Lipper"), an independent provider of investment company performance and fee and expense data. The Board heard oral presentations on matters related to the Agreements and the Asset Allocation Agreement and met both as a full Board and in a separate session of the Independent Trustees, without management present, at the August 10-11, 2015 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees on July 30, 2015 and executive sessions on August 10, 2015 to discuss the materials presented. In addition, the Independent Trustees requested and received from PIMCO additional information including, but not limited to, information related to profitability and comparative performance information.

The approval determinations were made on the basis of each Trustee's business judgment after consideration of all the information presented. Individual Trustees may have given different weights to certain factors and assigned various degrees of materiality to information received in connection with the approval process. In deciding to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board did not identify any single factor or particular information that, in isolation, was controlling. This summary describes the most important, but not all, of the factors considered by the Board.

## 2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in assets under management. The Board also considered the various services in addition to portfolio management that PIMCO provides under the Investment Advisory Contract. The Board noted that PIMCO makes available to its investment professionals a variety of resources and systems relating to investment management, compliance, trading, performance and portfolio accounting. The Board also noted PIMCO's commitment to investing in information technology supporting investment management and compliance, as well as PIMCO's continuing efforts to attract and retain qualified personnel and to maintain and enhance its resources and systems. The Board considered PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs, its oversight of matters that may involve conflicts of interest between the Portfolios' investments and those of other accounts managed by PIMCO, and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders. The Board also considered PIMCO's continuous investment in new disciplines and talented personnel, which has enhanced PIMCO's service to the Funds and has allowed PIMCO to introduce innovative new funds over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of applicable Portfolios.

The Trustees considered information they had received about the steps that PIMCO has taken in recent years with respect to active management of counterparty risk, such as implementing procedures requiring daily collateral adjustments and frequent communication between credit analysts and the counterparty risk committee, which oversees counterparty risk on a firm-wide basis, continually evaluating requests to add or remove approved counterparties as market needs and conditions warrant. The Trustees also considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of counterparties with which the Portfolios do business, to manage collateral and to protect portfolios from an unforeseen deterioration in the creditworthiness of trading counterparties. The Trustees noted that, consistent with its fiduciary duty, PIMCO executes transactions through a competitive best execution process and uses only those counterparties that meet its stringent and monitored criteria. The Trustees considered that PIMCO's collateral management team utilizes a counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

In addition, the Trustees considered new services and service enhancements that PIMCO has implemented since the Board renewed the Agreements in 2014, including, but not limited to: conducting a targeted review of quality and efficiency in the valuation process; expanding the analytical review of shareholder reports by State Street Bank and Trust Company, the Portfolios' custodian; developing a process for monthly forecasts of taxable and book income to enhance portfolio management of investment income; continuing the expansion of a proprietary performance reconciliation tool, which includes next-day comparison of daily internal performance to custodian bank performance to identify potential errors and guardrail net asset value calculations; developing and implementing the Global Process Monitor application, which includes real-time tracking and escalation protocols for critical activities; and implementing monthly cash flow reporting processes to support client and media demands for information about investor flows and assets under management data. The Trustees also considered the recent outflows from the Portfolios. The Trustees further considered whether the decline in the Portfolios' assets and the reduction in PIMCO's total assets under management materially impacted the service quality or resources available to the Portfolios. The Trustees concluded that there has been no adverse impact to service quality or resources available to the Portfolios.

Similarly, the Board considered the asset allocation services provided by Research Affiliates to the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio. The Board noted that the PIMCO All Asset All Authority Portfolio recently commenced operations. The Board also considered the depth and quality of Research Affiliates' investment management and research capabilities, the experience and capabilities of its portfolio management personnel and, in particular, the experience and capabilities of Robert Arnott, Research Affiliates' principal, and the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services proposed to be provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to benefit the Portfolios and their respective shareholders (as applicable).

(b) Other Services: The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and Administration Agreement. The Board noted that the Supervision and Administration Agreement was approved at the August 2008 Board meeting to replace the Trust's previous Administration Agreement. The purpose of the change was to reflect the increased scope and complexity of supervisory and administrative services that PIMCO had been providing to the Trust pursuant to the Administration Agreement.

The Board considered the terms of the Supervision and Administration Agreement, under which the Trust pays for the supervisory and administrative services provided pursuant to that agreement under what is essentially an all-in fee structure (the "unified fee"). In return, PIMCO provides or procures certain supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that the scope and complexity of the supervisory and administrative services provided by PIMCO under the Supervision and Administration Agreement continue to increase. The Board considered PIMCO's provision of these services and its supervision of the Trust's third party service providers to assure that these service providers continue to provide a high level of service relative to alternatives available in the market.

Ultimately, the Board concluded that the nature, extent and quality of the services provided by PIMCO has benefited, and will likely continue to benefit, the Portfolios and their shareholders.

## 3. INVESTMENT PERFORMANCE

The Board received and examined information from PIMCO concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 and other performance data, as available, over short- and long-term periods ended June 30, 2015 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 (the "Lipper Report").

The Board considered information regarding both the short-term and long-term investment performance of each Portfolio relative to its peer group and relevant benchmark index as provided to the Board in advance of each of its quarterly meetings throughout the year, including the PIMCO Report and Lipper Report, which were provided in advance of the August 10-11, 2015 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three-year and longer periods ended May 31, 2015.

The Board also noted that, as of May 31, 2015, the Administrative Class of 44%, 79% and 92% of the Portfolios outperformed its Lipper category median on a net-of-fees basis over the three-year, five-year and ten-year periods, respectively. The Trustees considered that other classes of each Portfolio would have substantially similar performance to that of the Administrative Class of the relevant Portfolio on a relative basis because all of the classes are invested in the same portfolio of investments and that differences in performance among classes could principally be attributed to differences in the supervisory and administrative fees and distribution and servicing expenses of each class. The Board also considered that the investment objectives of certain of the Portfolios may not always be identical to those of the other funds in their respective peer groups and that the Lipper categories do not: separate funds based upon maturity or duration; account for the applicable Portfolios' hedging strategies; distinguish between enhanced index and actively managed equity strategies; include as many subsets as the Portfolios offer (*i.e.*, Portfolios may be placed in a "catch-all" Lipper category to which they do not properly belong); or account for certain fee waivers. The Board noted that, due to these differences, performance comparisons between certain of the Portfolios and their so-called peers may not be particularly relevant to the consideration of Portfolio performance.

The Board noted that 63% or more of the assets of the Trust had outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods ending May 31, 2015 (based on the performance of the Administrative Class). The Board also noted that 8 of 14 Portfolios, representing 69% of the total assets of the Trust, had outperformed their respective benchmark indexes on a net-of-fees basis over the five-year period ending May 31, 2015. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are certain Portfolios that do not fit neatly into their respective Lipper classifications. The Board also discussed actions that have been taken by PIMCO to attempt to improve performance and took note of PIMCO's plans to monitor performance going forward. The Board also considered that the Trust's assets were over $20 billion as of December 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the management of a number of factors, including: varying maturities; prepayments; collateral management; counterparty management; pay-downs; credit events; workouts; derivatives; net new issuance in the bond market; and decreased market maker inventory levels. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages, including the Portfolios. Despite these challenges, the Board noted that PIMCO has generated "alpha" (*i.e.*, non-market correlated excess performance) for its clients over time, including the Trust.

The Board ultimately determined, within the context of all of its considerations in connection with the Agreements, that the Trust's overall investment performance was strong, and concluded that PIMCO's performance record and process in managing the Portfolios indicates that its continued management is likely to benefit the Portfolios and their shareholders, and merits the approval of the continuation of the Agreements.

## 4. ADVISORY FEES, SUPERVISORY AND ADMINISTRATIVE FEES AND TOTAL EXPENSES

The Board considered that PIMCO seeks to price funds to scale at the outset with reference to the total expense ratios of the respective Lipper median (if available), while providing a premium for innovative investment offerings. PIMCO reported to the Board that, in proposing fees for any Portfolio or class of shares, it considers a number of factors, including the type and complexity of the services provided, the cost of providing services, the risk assumed by PIMCO in the development of products and the provision of services, the impact on potential returns from different levels of fees, the competitive marketplace for financial products, and the attractiveness of potential Portfolio returns to current and potential investors. Fees charged to or proposed for different Portfolios for advisory services and supervisory and administrative services may vary in light of these various factors. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate. Further, the Board noted that PIMCO believes that the growth in the Trust's assets under management over the long-term and long-term positive net flows are important indicators of proper and effective pricing.

The Board reviewed the advisory fees, supervisory and administrative fees and total expenses of the Portfolios (each as a percentage of average net assets) and compared such amounts with the average and median fee and expense levels of other similar funds. The Board also reviewed information relating to the sub-advisory fees paid to Research Affiliates with respect to applicable Portfolios, taking into account that PIMCO compensates Research Affiliates from the advisory fees paid by such Portfolios to PIMCO. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in a "Peer Group" of comparable funds, as well as the universe of other similar funds. The Board noted that a number of Portfolios have total expense ratios that fall below the average and median expense ratios in their Peer Group and Lipper universe. In addition, the Board noted the fee waivers in place with respect to the fees that might result from investments by applicable Portfolios in their respective wholly-owned subsidiaries.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard fee rate PIMCO charges to separate accounts and as sub-adviser to other investment companies with a similar investment strategy, including differences in advisory services provided. The Board noted that advisory fees for most Portfolios were similar to the fee rates charged to separate account strategies with the same investment strategies as the Portfolios. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including differences in the advisory and other services provided by PIMCO to the Portfolios, the manner in which similar portfolios may be managed, different requirements with respect to liquidity management and the implementation of other regulatory requirements, and the fact that separate accounts may have other contractual arrangements that justify different levels of fees.

Regarding advisory fees charged by PIMCO in its capacity as sub-adviser to third-party/unaffiliated funds, the Trustees took into account that such fees may be lower than the fees charged by PIMCO to serve as adviser to the Portfolios. The Trustees also took into account that there are various reasons for any such difference in fees, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities on a contract-by-contract basis and different servicing requirements when it does not serve as the sponsor of a fund and is not principally responsible for all aspects of a fund's investment program and operations as compared to when PIMCO serves as investment adviser and sponsor.

The Board considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board also considered that as the Portfolios' business has become increasingly complex, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. In addition, the Board considered the Trust's unified fee structure, under which the Trust pays for the supervisory and administrative services it requires for one set fee and, in return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board further considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Trust's unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board also considered that the unified supervisory and administrative fee leads to Portfolio fees that are fixed, rather than variable. The Board noted that, although the unified fee structure does not have breakpoints, it implicitly reflects economies of scale by fixing the absolute level of Portfolio fees at competitive levels even if the Portfolios' operating costs rise when assets remain flat or decrease. The Board also considered that the Portfolios' unified fee structure meant that fees were not impacted by recent outflows in certain Portfolios, unlike funds without a unified fee structure, which may see increased expense ratios when fixed costs are passed through to a smaller asset base. The Board further noted that, with few exceptions, PIMCO has generally maintained Portfolio fees at the same level as implemented when the unified fee was adopted, and has reduced fees for a number of Portfolios in prior years. The Board concluded that the Portfolios' supervisory and administrative fees were reasonable in relation to the value of the services provided, including the services provided to different classes of shareholders, and that the expenses assumed contractually by PIMCO under the Supervision and Administration Agreement represent, in effect, a cap on overall Portfolio fees, which is beneficial to the Portfolios and their shareholders.

The Board considered the Portfolios' total expenses and discussed with PIMCO those Portfolios and/or classes of Portfolios that had above median total expenses. The Board noted that several Portfolios launched in recent years have been unique products that have few peers (if any), and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the "Peer Groups" provided by Lipper, the Board found total expenses of each Portfolio to be reasonable.

The Trustees also considered the advisory fees charged to the Portfolios that operate as funds of funds (the "Funds of Funds") and the advisory services provided in exchange for such fees. The Trustees determined that such services were in addition to the advisory services provided to the underlying funds in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying funds. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board determined, in the exercise of their business judgment, that the level of the advisory fees and supervisory and administrative fees charged by PIMCO under the Agreements, as well as the total expenses of each Portfolio, are reasonable.

## 5. ADVISER COSTS, LEVEL OF PROFITS AND ECONOMIES OF SCALE

The Board reviewed information regarding PIMCO's costs of providing services to the Portfolios as a whole, as well as the resulting level of profits to PIMCO, noting that those results were lower than in the previous year due to the impact of the Portfolios' overall outflows. To the extent applicable, the Board also reviewed information regarding the portion of a Portfolio's advisory fee retained by PIMCO, following the payment of sub-advisory fees to Research Affiliates, with respect to the Portfolio. Additionally, the Board noted that profit margins with respect to the Portfolios were within the ranges, although above the median, of publicly held investment management companies reported by Lipper and Strategic Insight (an independent provider of fund industry research). The Board noted that the PIMCO's profit margin with respect to the Trust shows that the Trust is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board also noted that it had received information regarding the structure and manner in which PIMCO's investment professionals were compensated, and PIMCO's view of the relationship of such compensation to the attraction and retention of quality personnel. The Board considered PIMCO's need to invest in technology, cyber security, information security, shareholder privacy, business continuity planning, infrastructure and staff to reinforce and offer new services and to accommodate changing regulatory requirements.

With respect to potential economies of scale, the Board noted that PIMCO shares the benefits of economies of scale with the Portfolios and their shareholders in a number of ways, including through the pricing of Portfolios to scale from inception and the enhancement of services provided to the Portfolios in return for fees paid. The Board reviewed the history of the Portfolios' fee structure. The Board considered that the Portfolios' unified fee rates had been set competitively and/or priced to scale from inception, had been held steady at that scaled competitive rate for most Portfolios as assets grew, or as assets declined in the case of some Portfolios, and continued to be competitive compared with peers. The Board also considered that the unified fee is a transparent means of informing Portfolio shareholders of the fees associated with the Portfolios, and that the Portfolios bear certain expenses that are not covered by the advisory fee or the unified fee.

The Trustees considered that the unified fee has provided inherent economies of scale because a Portfolio maintains competitive fixed unified fees even if the particular Portfolio's assets decline and/or operating costs rise. The Trustees further considered that, in contrast, breakpoints are a proxy for charging higher fees on lower asset levels and that when a fund's assets decline, breakpoints may reverse, which causes expense ratios to increase. The Trustees also considered that, unlike the Portfolios' unified fee structure, funds with "pass through" administrative fee structures may experience increased expense ratios when fixed dollar fees are charged against declining fund assets. The Trustees also considered that the unified fee protects shareholders from a rise in operating costs that may result from, among other things, PIMCO's investments in various business enhancements and infrastructure, including those referenced above. The Trustees noted that PIMCO's investments in these areas are extensive.

The Board concluded that the Portfolios' cost structures were reasonable and that the unified fee structure inherently involves the sharing of economies of scale between PIMCO and each of the Portfolios, to the benefit of their respective shareholders.

## 6. ANCILLARY BENEFITS

The Board considered other benefits received by PIMCO and its affiliates as a result of PIMCO's relationship with the Trust, including possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Trust. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their respective shareholders, for which they may be compensated through distribution and servicing fees paid pursuant to the Portfolios' Rule 12b-1 plans or otherwise. The Board reviewed PIMCO's soft dollar policies and procedures, noting that while PIMCO has the authority to receive the benefit of research provided by broker-dealers executing portfolio transactions on behalf of the Portfolios, it has adopted a policy not to enter into contractual soft dollar arrangements.

## 7. CONCLUSIONS

Based on their review, including their consideration of each of the factors summarized above, the Independent Trustees and the Board as a whole concluded that the nature, extent and quality of the services rendered to the Portfolios by PIMCO and Research Affiliates favored the renewal of the Agreements and the Asset Allocation Agreement. The Independent Trustees and the Board as a whole concluded that the Agreements and the Asset Allocation Agreement continued to be fair and reasonable to the Portfolios and their shareholders, that the Portfolios' shareholders received reasonable value in return for the fees paid to PIMCO by the Portfolios under the Agreements and the fees paid to Research Affiliates by PIMCO under the Asset Allocation Agreement, and that the renewal of the Agreements and the Asset Allocation Agreement was in the best interests of the Portfolios and their shareholders.

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## General Information

**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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Kansas City, MO 64105

**Transfer Agent**

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

**Legal Counsel**

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1900 K Street, N.W.
Washington, D.C. 20006

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pvit.pimco-funds.com

PIMCO

PVIT14AR_123115

# Principal Variable Contracts Funds, Inc.

Annual Report
December 31, 2015

# Table of Contents

# Economic & Financial Market Review

The Federal Reserve (the Fed) raised interest rates by 25 basis points in December, the first rate raise since 2006.[1] This move can be put in perspective when one considers that Facebook, Twitter, and LinkedIn were not yet public companies in 2006, and that Apple had not yet released the iPhone.

The move was based on the belief that the economy had reached full capacity in terms of the Fed's dual mandate to balance economic activity and maintain stability in inflation. The decision was largely based on the unemployment rate, which fell to 5.0 percent in November, as well as the likelihood of inflation rising back toward its 2 percent target. The forecast is a result of the transitory effects of energy prices and other "idiosyncratic" factors including medical care and non-market prices, which account for 24 percent of the Fed's preferred inflation measure.[2]

Looking forward, Chairwoman Janet Yellen stated that the Fed will assess labor market conditions and evaluate the actual pace of inflation. This is an important distinction as the December estimate of future inflation used a reversion to mean method (the theory that prices and returns eventually move back toward the average). It should be noted that the Fed went out of its way to suggest this policy would remain extremely accommodative. Currently, the market is expecting two to four rate hikes over the next year.

Missing from the statement was mention of international implications of a higher U.S. interest rate. The Fed commented previously that higher U.S. rates could lead to a stronger U.S. dollar, potentially hampering economic growth both domestically and abroad. After having appreciated in October and November, the dollar has largely held steady since the December rate rise. The dollar hit a multi-year peak against the euro following the European Central Bank actions to further ease its monetary policy on December 3, but showed little reaction to the Fed move. The bigger concern has been the impact on emerging economies, where a toxic stew of rising inflation and budget deficits created an environment of slow growth with little room for policy measures to manage the situation. Out of the leading emerging economies—the nations of Brazil, Russia, India, and China (BRIC)—only India has managed to successfully manage around a slowdown in economic growth.

A big question that has reemerged is the price of oil. The widespread market nervousness centers on the renewed oil price plunge and its negative ramifications for profits. Toward the end of the quarter, Saudi Arabia stated that it will no longer attempt to restrict the supply of oil, and stands ready to meet any additional demand, putting downward pressure on oil prices.

With this as a backdrop, 2015 will go down as a year to forget for most investors. The Dow Jones Industrial average fell slightly, and interest rates rose slightly. For the year, the S&P 500 returned 1.38 percent, with a small price loss made up for by dividend gains.

[1] Bloomberg.
[2] St. Louis Fed.

## Important Account Information

**The following information applies to all accounts shown in the annual report (unless noted):**

The line graphs on the following pages illustrate the growth of a hypothetical $10,000 investment. For each account, the illustration is based on performance of the Class 1 shares. The performance of the Class 2 shares will differ.

Investment results shown represent historical performance and do not guarantee future results. Your investment's returns and principal values will fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Performance shown does not account for fees, expenses, and charges of any variable insurance contract or retirement plan. If these fees were reflected, performance would be lower. Current performance may be lower or higher than the performance shown. For more information, including the most recent month-end performance, call your financial professional, or call 800-222-5852.

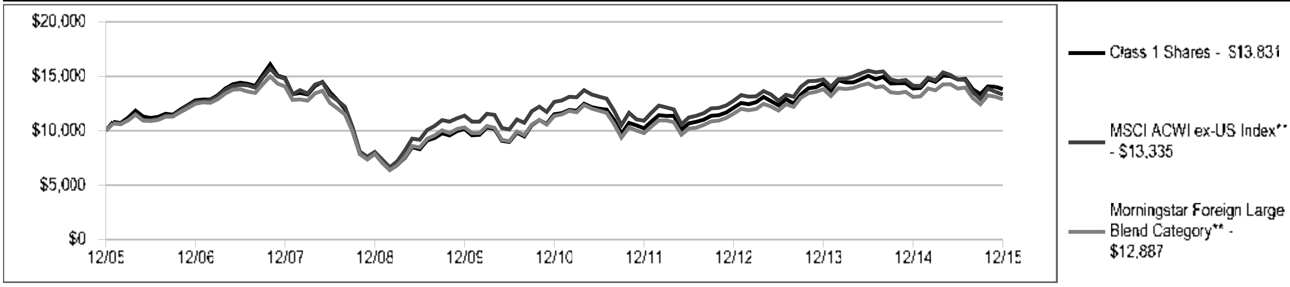
* Performance assumes reinvestment of all dividends and capital gains. Extended performance is calculated based on the historical performance of the Account's oldest share class, adjusted for the fees and expenses of the share class shown. Performance does not reflect the impact of federal, state, or municipal taxes. If it did, performance would be lower.

** Performance shown for the benchmark assumes reinvestment of all dividends and distributions. Indices are unmanaged, and individuals cannot invest directly in an index.

# Diversified International Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Principal Global Investors, LLC

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | Inception Date | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Class 1 Shares** | 05/02/1994 | -0.35% | 3.74% | 3.30% |
| **Class 2 Shares** | 01/08/2007 | -0.65% | 3.48% | 3.03% |

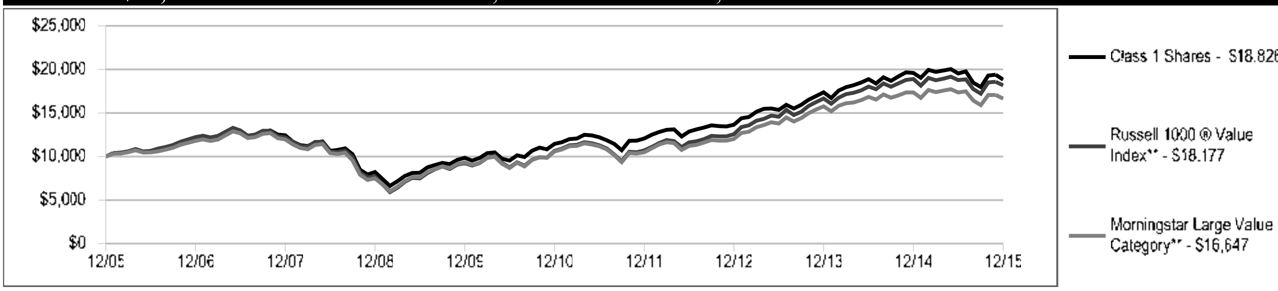
## What contributed to or detracted from Account performance during the fiscal year?

Stock selection in the UK contributed with an overweight in Taylor Wimpey, which continues to benefit from a solid macroeconomic backdrop with rising house prices, favorable mortgage rates, limited competition to purchase land, and supportive government initiatives such as Help to Buy. Stock selection in the consumer discretionary sector contributed, led by an overweight in Pandora, which has benefited from a shift toward selling through branded concept stores and new products. Stock selection in the financials sector contributed, driven by an overweight position in CK Hutchison, due to the well-received Cheung Kong Group restructuring into CK Hutchison Holdings and Cheung Kong Property Holdings. Stock selection in Japan detracted, led by an overweight in OMRON due to weakness from solar panels and smartphone backlights, as well as concerns of weakening industrial production numbers and the Purchasing Managers Index, particularly in China, which weighed on the stock. Stock selection in the consumer discretionary sector detracted from performance, driven by an overweight position in Aryzta, the global leader of par-baked bakery goods, whose third quarter trading results with underlying growth missed expectations. An overweight position in BB Seguridade detracted from performance due in part to concerns over Brazil losing investment grade status, weighing on the stock.

# Equity Income Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -3.93% | 10.45% | 6.53% |
| **Class 2 Shares** | -4.15% | 10.17% | 6.27% |

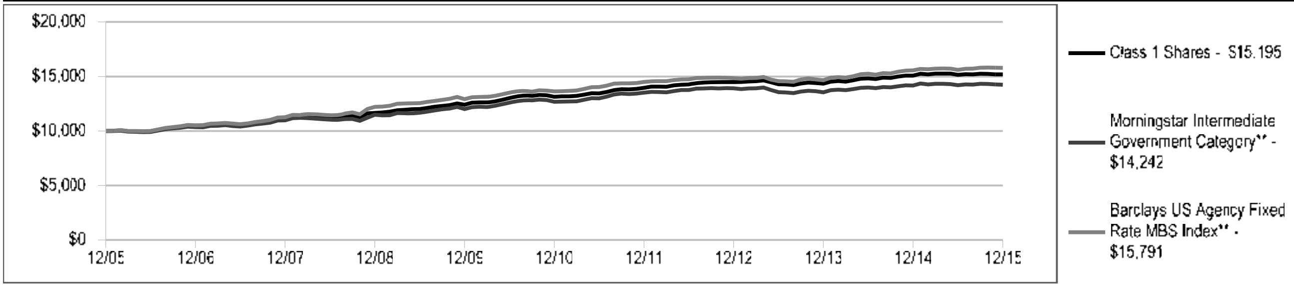
**What contributed to or detracted from Account performance during the fiscal year?**

Allocation to Kroger added to relative returns as the grocery retailer gained market share and improved earnings. Allocation to Digital Realty Trust (DLR) outperformed as a result of top and bottom-line growth and the acquisition of TelX. Allocation to Hasbro added to relative returns as a result of the profitable licensing business, which ties merchandise to box-office hits, driving growth higher than analyst expectations. Lack of allocation to General Electric detracted from relative returns as a result of the stock soaring, driven by strength in the company's core industrial businesses. Allocation to Kinder Morgan, a midstream energy company, detracted as it cut its dividend and underperformed after Moody's issued a negative outlook for its credit rating.   Allocation to integrated oil company Royal Dutch Shell detracted as a result of the fall in oil prices and a poorly received acquisition announcement for BP Group.

# Government & High Quality Bond Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | 0.79% | 2.96% | 4.27% |
| **Class 2 Shares** | 0.67% | 2.71% | 4.01% |

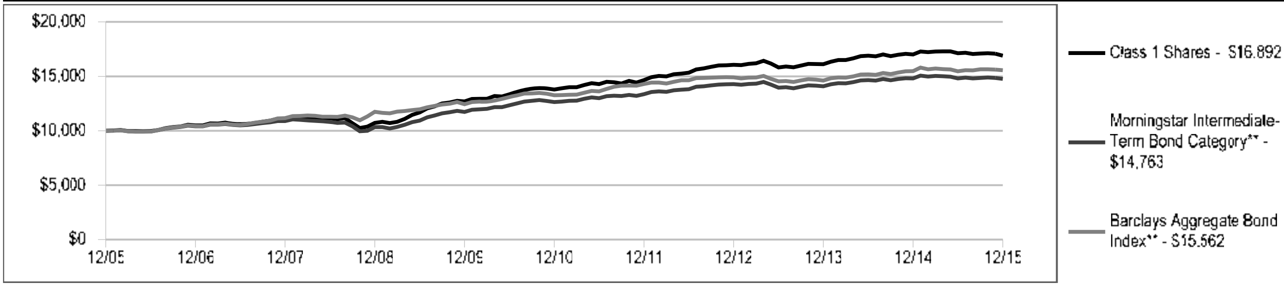
**What contributed to or detracted from Account performance during the fiscal year?**

Issue selection in Fannie Mae (FNMA) securities contributed to performance. An out-of-benchmark allocation to non-agency mortgage-backed securities (RMBS) aided performance. Issue selection in Freddie Mac (FHLMC) securities contributed to performance. An out-of-benchmark allocation to agency commercial mortgage-backed securities (CMBS) was the largest detractor from performance. An out-of-benchmark allocation to non-agency commercial mortgage-backed securities (CMBS) hindered performance. An allocation to U.S. Treasury securities detracted from performance.

# Income Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -0.71% | 4.14% | 5.38% |
| **Class 2 Shares** | -0.92% | 3.89% | 5.12% |

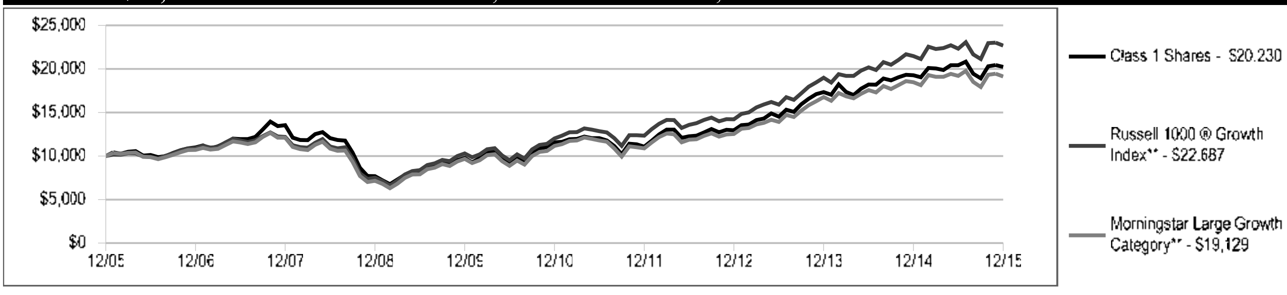
**What contributed to or detracted from Account performance during the fiscal year?**

An overweight to and issue selection in the consumer non-cyclical sector was a significant contributor to performance. An overweight to and issue selection in the banking sector was a significant contributor to performance. Issue selection in the capital goods sector was a significant contributor to performance. An overweight to and issue selection in the energy sector was the largest detractor from performance due to the impact from lower oil prices. With commodity prices falling, an overweight to and issue selection in the basic industry sector hindered performance. An underweight to and issue selection in U.S. Treasuries was a detractor from performance for the year as treasuries rallied over the year.

# LargeCap Growth Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Columbus Circle Investors

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | Inception Date | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Class 1 Shares** | 05/02/1994 | 4.98% | 11.82% | 7.30% |
| **Class 2 Shares** | 01/08/2007 | 4.73% | 11.55% | 7.04% |

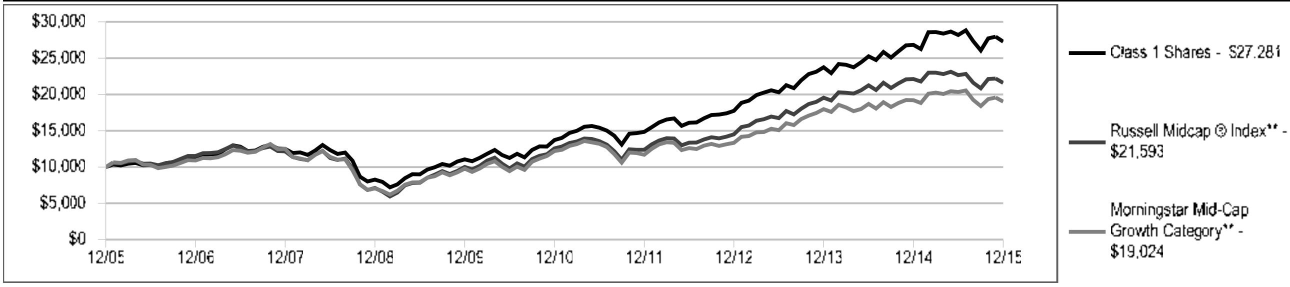
**What contributed to or detracted from Account performance during the fiscal year?**

Allocation to Ulta Salon contributed as a result of improved online sales, increased store traffic, expanded customer rewards programs, increased merchandise offerings, and expansion of in store boutiques such as Clinique and Lancome. Allocation to Nike contributed due to improved pricing, more efficient manufacturing, positive trends in footwear spending, market share gains, and increased sponsorship and licensing deals across all geographies. Allocation to Starbucks Corp. contributed due to comparable store sales, strong China and Japan results, and the proliferation of mobile ordering and rewards card membership. Allocation to PPG Industries Inc. detracted due to the impact of a slowing global economy, particularly in emerging markets such as China and Latin America, as well as poor weather hurting the company's paint business. Allocation to Morgan Stanley detracted as it was negatively impacted by capital markets volatility constraining its trading and underwriting businesses and the Federal Reserve's decision to postpone its initial rate increase until late 2015, which hurt net interest margins within the important wealth management franchise. Allocation to United Continental Holdings detracted due to profitability and volatility concerns and the company's CEO taking a temporary leave of absence for health reasons.

# MidCap Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Principal Global Investors, LLC

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | Inception Date | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Class 1 Shares** | 12/18/1987 | 1.64% | 14.75% | 10.56% |
| **Class 2 Shares** | 09/09/2009 | 1.37% | 14.45% | 10.26% |

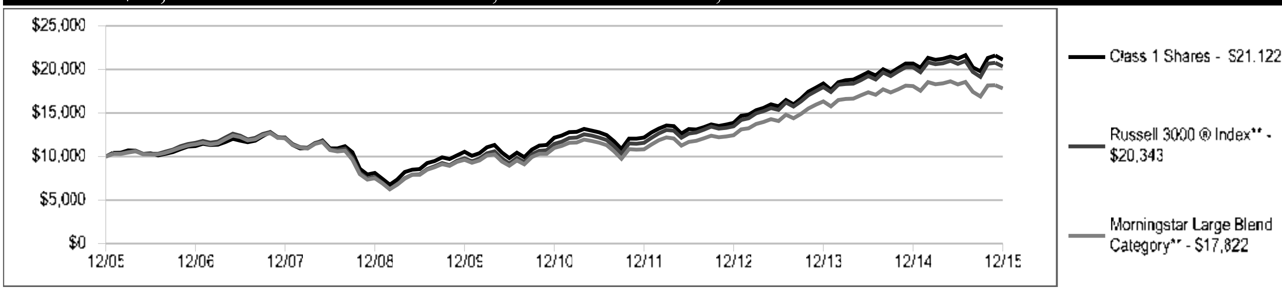
**What contributed to or detracted from Account performance during the fiscal year?**

Allocation to O'Reilly Automotive contributed as it continues to be well positioned as the average age of vehicles on the road increases. Allocation to Markel, a specialty insurance underwriter focusing on non-standard and hard to place risks, contributed. Allocation to VeriSign, which connects internet users to all .COM and .NET websites, contributed as the number of newly registered .COM and .NET domain names was higher than expected. Allocation to Colfax, a diversified industrial manufacturing company providing gas and fluid handling equipment, as well as welding related products, detracted due to weakness within end markets and the headwind of the strong U.S. dollar. Allocation to Platform Specialty detracted, as end markets for the company's products experienced cyclical weakness in the industrials and agricultural categories and the headwind attributed to the strong U.S. dollar. Allocation to CarMax, the largest used car retailer in the U.S. detracted as a result of same store sales coming in lower than forecasted.

# Principal Capital Appreciation Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | 2.18% | 11.68% | 7.76% |
| **Class 2 Shares** | 1.94% | 11.40% | 7.50% |

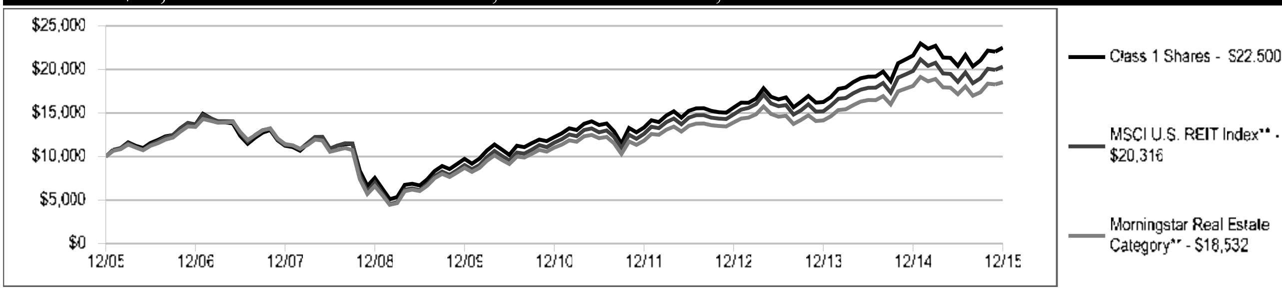
**What contributed to or detracted from Account performance during the fiscal year?**

Allocation to Starbucks contributed as the company continued to execute well operationally and financially. Allocation to NIKE in the consumer discretionary sector contributed due to earnings growth, with strong sales globally. Allocation to Adobe contributed as a result of execution of its strategic transition to the cloud, subscription growth, and an increase in recurring revenue. Allocation to Franklin Resources detracted due to weaker than expected revenues and net outflows as negative headlines and heightened volatility weighed on asset managers. Allocation to Nordstrom detracted as the retailer experienced a slowdown in sales which increased markdowns and resulted in margin compression. Allocation to Devon Energy detracted as the exploration and production (E&P) company suffered from depressed oil and gas prices.

# Real Estate Securities Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Principal Real Estate Investors, LLC.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | Inception Date | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Class 1 Shares** | 05/01/1998 | 4.21% | 12.96% | 8.45% |
| **Class 2 Shares** | 01/08/2007 | 4.00% | 12.69% | 8.18% |

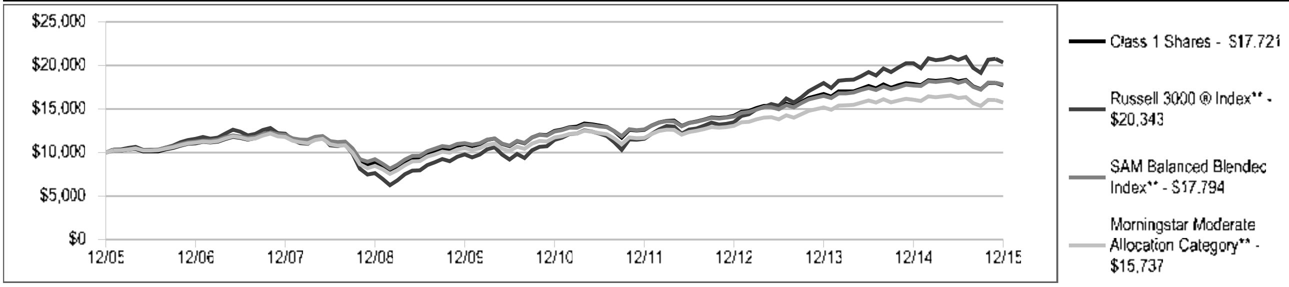
**What contributed to or detracted from Account performance during the fiscal year?**

Overweight to Public Storage contributed due to strong self-storage fundamentals driven by improving pricing power, limited new supply, accretive external opportunities, and its ability to handle rising interest rates due to its shorter lease duration. An overweight to CubeSmart contributed due to more room for occupancy gain, better portfolio quality, and more needle-moving external opportunities. Allocation to Essex Property Trust contributed as apartment fundamentals remained solid in 2015, driven by controllable new supply, robust job growth, rising household formations, and tighter credit standards pushing people to rental markets. Overweight to Pebblebrook Hotel Trust detracted due to weakening demand from transient travelers and overseas visitors. Overweight to Host Hotels & Resorts, Inc. was a top detractor as the company is facing the threat of companies like Airbnb pulling demand away from the sector. Lack of allocation to UDR Inc. was a top detractor due to improving market reaction towards special activities including a two year business plan, a west coast joint venture, and pick up in assets in the District of Columbia.

# SAM Balanced Portfolio

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -0.81% | 7.26% | 5.89% |
| **Class 2 Shares** | -1.08% | 6.98% | 5.63% |

**What contributed to or detracted from Portfolio performance during the fiscal year?**

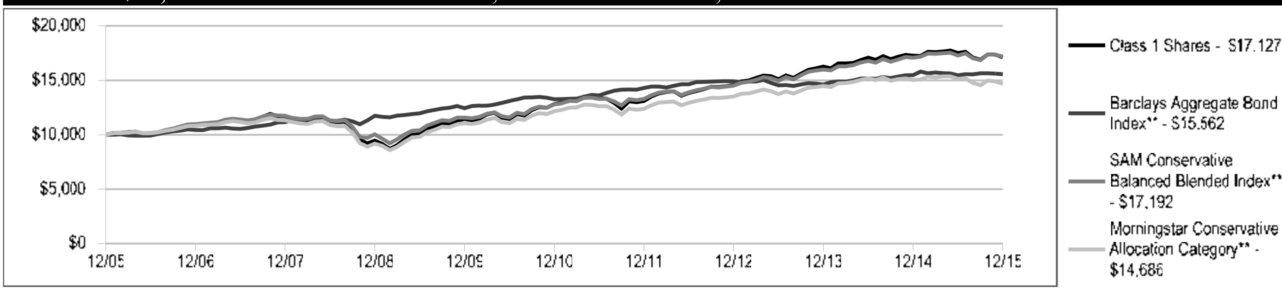
Principal Strategic Asset Management (SAM) Portfolios invest wholly in the shares of the underlying funds.

Strong security selection in large cap growth equities was the largest contributor to performance. Strong security selection in international emerging market equities aided performance. Strong security selection in mid cap growth equities contributed to performance. Strategic allocation to international emerging market equities was the largest detractor, as those equities lagged U.S. and international developed market equities in part due to global growth concerns and continued pressure on commodity prices. Security selection in large cap value equities detracted from performance. Strategic and tactical underweight to large cap growth equities, which outperformed other equity asset classes, detracted from performance.

# SAM Conservative Balanced Portfolio

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -0.78% | 5.98% | 5.53% |
| **Class 2 Shares** | -0.93% | 5.71% | 5.27% |

**What contributed to or detracted from Portfolio performance during the fiscal year?**

Principal Strategic Asset Management (SAM) Portfolios invest wholly in the shares of the underlying funds.

Strong security selection in large cap growth equities was the largest contributor. Strong security selection in investment grade corporate bonds contributed to performance. Strong security selection in mid cap value equities aided performance. Strategic and tactical allocation to high yield bonds detracted as they underperformed other fixed-income assets in part due to global growth concerns, low oil prices, and liquidity concerns. Strategic allocation to international emerging market equities hindered performance, as those equities lagged U.S. and international developed market equities, in part due to global growth concerns and continued pressure on commodity prices. Security selection in large cap value equities detracted from performance.

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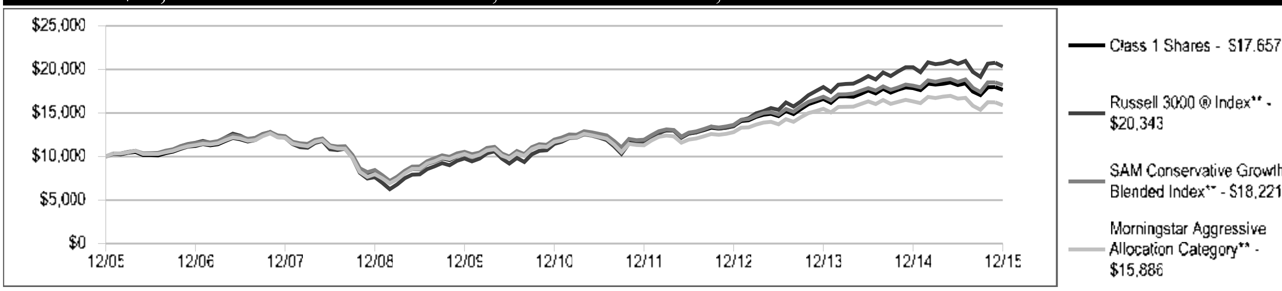
# SAM Conservative Growth Portfolio

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -1.09% | 8.25% | 5.85% |
| **Class 2 Shares** | -1.34% | 7.99% | 5.59% |

**What contributed to or detracted from Portfolio performance during the fiscal year?**

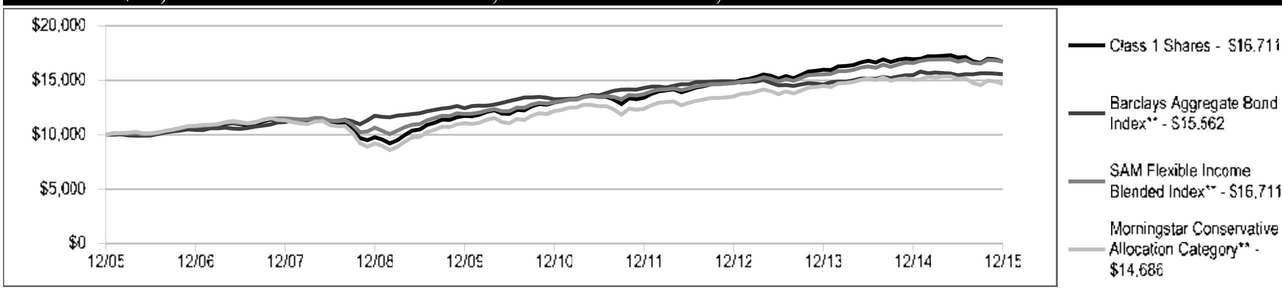
Principal Strategic Asset Management (SAM) Portfolios invest wholly in the shares of the underlying funds.

Strong security selection in large cap growth equities was the largest contributor to performance. Strong security selection in international emerging market equities aided performance. Strong security selection in mid cap growth equities contributed to performance. Strategic allocation to international emerging market equities was the largest detractor, as those equities lagged U.S. and international developed market equities, in part due to global growth concerns and continued pressure on commodity prices. Security selection in large cap value equities detracted from performance. Strategic and tactical allocation to master limited partnerships (MLPs) detracted in part due to low oil prices and liquidity concerns.

# SAM Flexible Income Portfolio

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -1.31% | 5.22% | 5.27% |
| **Class 2 Shares** | -1.55% | 4.96% | 5.01% |

**What contributed to or detracted from Portfolio performance during the fiscal year?**

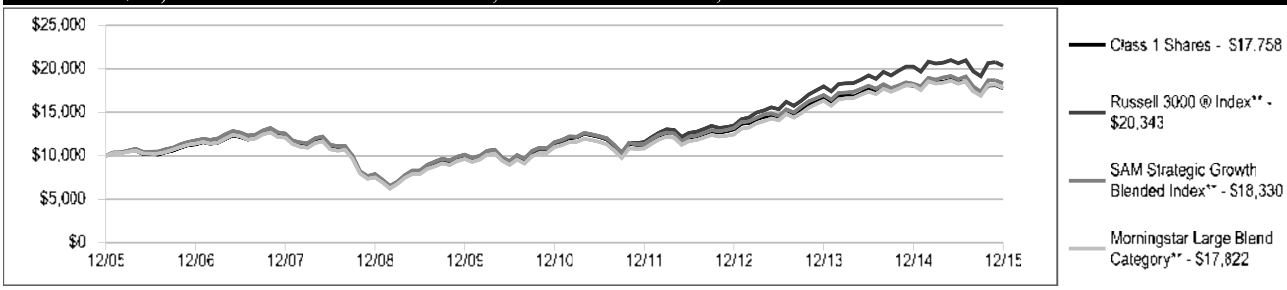
Principal Strategic Asset Management (SAM) Portfolios invest wholly in the shares of the underlying funds.

Strong security selection in investment-grade corporate bonds was the largest contributor to performance. Strong security selection in large cap growth equities contributed to performance. Security selection in high yield bonds aided performance. Strategic and tactical allocation to high yield bonds detracted the most as they underperformed other fixed-income assets due in part to global growth concerns, low oil prices and liquidity concerns. Strategic and tactical allocation to master limited partnerships (MLPs) detracted in part due to low oil prices and liquidity concerns. Strategic allocation to international emerging market equities hindered performance, as those equities lagged U.S. and international developed market equities in part due to global growth concerns and continued pressure on commodity prices.

# SAM Strategic Growth Portfolio

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | -1.62% | 9.07% | 5.91% |
| **Class 2 Shares** | -1.87% | 8.79% | 5.65% |

**What contributed to or detracted from Portfolio performance during the fiscal year?**

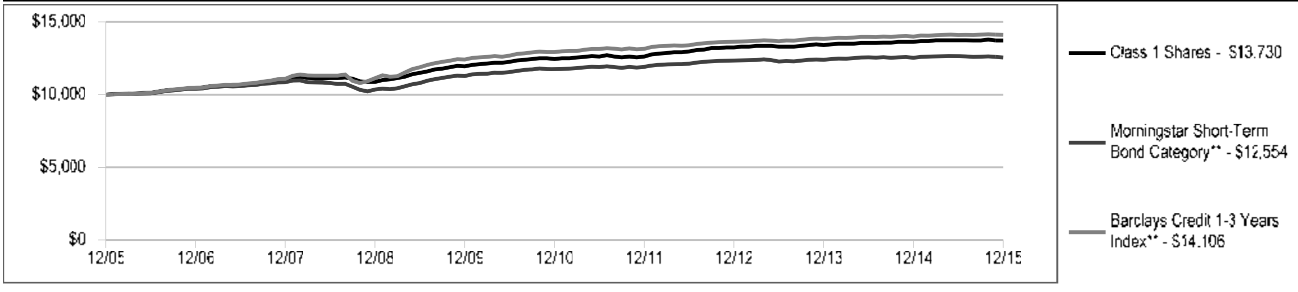
Principal Strategic Asset Management (SAM) Portfolios invest wholly in the shares of the underlying funds.

Strong security selection in large cap growth equities was the largest positive contributor. Strong security selection in international emerging market equities aided performance. Strong security selection in mid cap value equities aided performance. Strategic allocation to international emerging market equities was the largest detractor, as those equities lagged U.S. and international developed market equities, in part due to global growth concerns and continued pressure on commodity prices. Security selection in large cap value equities detracted. Strategic and tactical underweight in large cap growth equities, which outperformed other equity asset classes, detracted.

# Short-Term Income Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Edge Asset Management, Inc.

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| **Class 1 Shares** | 0.71% | 1.98% | 3.22% |
| **Class 2 Shares** | 0.59% | 1.69% | 2.95% |

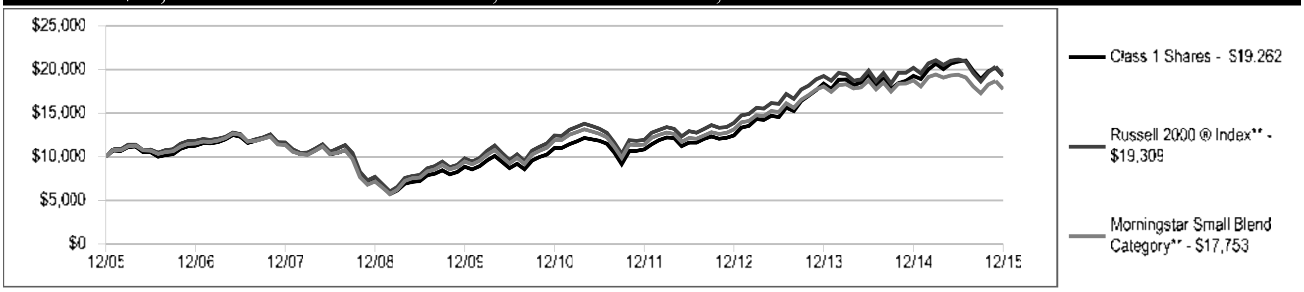
**What contributed to or detracted from Account performance during the fiscal year?**

Issue selection in U.S. government agency debt aided performance. Issue selection in the insurance sector contributed to performance. An allocation to non-agency mortgage-backed securities aided performance. An underweight to and issue selection in the banking sector was the largest detractor from performance. Issue selection in the energy sector detracted from performance. An allocation to student loan asset-backed securities detracted from performance.

# SmallCap Blend Account

Investment Advisor: Principal Management Corporation
Sub-Advisor: Principal Global Investors, LLC

**Value of a $10,000 Investment*** December 31, 2005 - December 31, 2015




**Average Annual Total Returns*** as of December 31, 2015

| | Inception Date | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Class 1 Shares** | 05/01/1998 | -0.10% | 11.85% | 6.78% |
| **Class 2 Shares** | 02/17/2015 | -0.35% | 11.58% | 6.52% |

**What contributed to or detracted from Account performance during the fiscal year?**

Allocation to Manhattan Associates, which provides retailers and wholesalers with software systems for supply-chain management, contributed. Allocation to PRA Health Sciences, a firm that conducts clinical trials for the biotechnology and pharmaceutical industries, contributed due to solid bookings for new business and improving operating margins. Allocation to Prestige Brands Holdings, which markets over-the-counter health and personal care products, contributed as the company continued to produce better-than-expected operating results and made acquisitions of smaller companies that were well received by the market. Allocation to Office Depot, the office product retailer, detracted as a result of the Federal Trade Commission's decision to block a proposed merger with rival Staples. Allocation to DeVry Education Group, a leading provider of for-profit educational services, detracted as a result of decelerating student enrollments. Allocation to TerraForm Global, which owns wind and solar power generation facilities operated under long-term contracts with utilities, detracted as investor sentiment turned sharply negative for the industry amid fears that rising capital costs would diminish growth prospects for all companies.

| Amounts in thousands, except per share amounts | Diversified International Account | Equity Income Account | Government & High Quality Bond Account |
|---|---|---|---|
| **Investment in securities--at cost** | $ 248,843 | $ 357,581 | $ 289,739 |
| **Foreign currency--at cost** | $ 9 | $ – | $ – |
| **Assets** | | | |
| Investment in securities--at value | $ 273,903 | $ 536,582 | $ 286,869 |
| Foreign currency--at value | 8 | – | – |
| Receivables: | | | |
| Dividends and interest | 1,018 | 1,566 | 1,449 |
| Fund shares sold | 129 | 197 | 553 |
| Investment securities sold | – | 1,932 | – |
| Total Assets | 275,058 | 540,277 | 288,871 |
| **Liabilities** | | | |
| Accrued management and investment advisory fees | 197 | 226 | 123 |
| Accrued distribution fees | – | 5 | – |
| Accrued custodian fees | 33 | – | – |
| Accrued directors' expenses | 1 | 2 | 1 |
| Accrued other expenses | 3 | 16 | 7 |
| Payables: | | | |
| Deferred foreign tax | 27 | – | – |
| Fund shares redeemed | 137 | 1,828 | 244 |
| Investment securities purchased | – | 1,859 | – |
| Total Liabilities | 398 | 3,936 | 375 |
| **Net Assets Applicable to Outstanding Shares** | $ 274,660 | $ 536,341 | $ 288,496 |
| **Net Assets Consist of:** | | | |
| Capital shares and additional paid-in-capital | $ 342,154 | $ 316,703 | $ 304,953 |
| Accumulated undistributed (overdistributed) net investment income (loss) | 5,527 | 17,695 | 9,104 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | (97,930) | 22,942 | (22,691) |
| Net unrealized appreciation (depreciation) of investments | 25,033 | 179,001 | (2,870) |
| Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency | (124) | – | – |
| Total Net Assets | $ 274,660 | $ 536,341 | $ 288,496 |
| **Capital Stock (par value: $.01 per share):** | | | |
| Shares authorized | 300,000 | 200,000 | 200,000 |
| **Net Asset Value Per Share:** | | | |
| Class 1: Net Assets | $ 273,300 | $ 513,126 | $ 286,659 |
| Shares issued and outstanding | 19,982 | 23,682 | 28,210 |
| Net Asset Value per share | $ 13.68 | $ 21.67 | $ 10.16 |
| Class 2: Net Assets | $ 1,360 | $ 23,215 | $ 1,837 |
| Shares issued and outstanding | 99 | 1,079 | 181 |
| Net Asset Value per share | $ 13.78 | $ 21.52 | $ 10.17 |

*See accompanying notes.*

| Amounts in thousands, except per share amounts | Income Account | LargeCap Growth Account | MidCap Account |
|---|---|---|---|
| **Investment in securities--at cost** | $ 254,574 | $ 92,114 | $ 458,245 |
| **Assets** | | | |
| Investment in securities--at value | $ 256,309 | $ 119,665 | $ 631,660 |
| Cash | – | – | 208 |
| Receivables: | | | |
| Dividends and interest | 2,391 | 60 | 260 |
| Fund shares sold | 15 | 33 | 34 |
| Investment securities sold | – | – | 2,619 |
| Total Assets | 258,715 | 119,758 | 634,781 |
| **Liabilities** | | | |
| Accrued management and investment advisory fees | 110 | 70 | 286 |
| Accrued distribution fees | – | – | 3 |
| Accrued directors' expenses | 1 | – | 2 |
| Accrued other expenses | 6 | 5 | 7 |
| Cash overdraft | 11 | – | – |
| Payables: | | | |
| Fund shares redeemed | 373 | 208 | 844 |
| Investment securities purchased | 1,018 | – | 959 |
| Total Liabilities | 1,519 | 283 | 2,101 |
| **Net Assets Applicable to Outstanding Shares** | $ 257,196 | $ 119,475 | $ 632,680 |
| **Net Assets Consist of:** | | | |
| Capital shares and additional paid-in-capital | $ 248,139 | $ 104,011 | $ 355,635 |
| Accumulated undistributed (overdistributed) net investment income (loss) | 9,295 | 285 | 3,426 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | (1,973) | (12,372) | 100,204 |
| Net unrealized appreciation (depreciation) of investments | 1,735 | 27,551 | 173,415 |
| Total Net Assets | $ 257,196 | $ 119,475 | $ 632,680 |
| **Capital Stock (par value: $.01 per share):** | | | |
| Shares authorized | 200,000 | 300,000 | 105,000 |
| **Net Asset Value Per Share:** | | | |
| Class 1: Net Assets | $ 254,751 | $ 118,385 | $ 617,437 |
| Shares issued and outstanding | 24,889 | 4,590 | 11,178 |
| Net Asset Value per share | $ 10.24 | $ 25.79 | $ 55.24 |
| Class 2: Net Assets | $ 2,445 | $ 1,090 | $ 15,243 |
| Shares issued and outstanding | 240 | 43 | 277 |
| Net Asset Value per share | $ 10.20 | $ 25.69 | $ 54.97 |

| Amounts in thousands, except per share amounts | Money Market Account | Principal Capital Appreciation Account | Real Estate Securities Account |
|---|---|---|---|
| **Investment in securities--at cost** | $ 285,266 | $ 130,215 | $ 115,252 |
| **Assets** | | | |
| Investment in securities--at value | $ 285,266 | $ 162,549 | $ 160,244 |
| Cash | 21 | 6 | – |
| Receivables: | | | |
| Dividends and interest | 13 | 260 | 909 |
| Expense reimbursement from Manager | 41 | – | – |
| Fund shares sold | 141 | 1 | 129 |
| Investment securities sold | – | 1,655 | 596 |
| Total Assets | 285,482 | 164,471 | 161,878 |
| **Liabilities** | | | |
| Accrued management and investment advisory fees | 107 | 88 | 119 |
| Accrued distribution fees | – | 2 | – |
| Accrued directors' expenses | 1 | 1 | 1 |
| Accrued other expenses | 10 | 13 | 6 |
| Payables: | | | |
| Fund shares redeemed | 389 | 1,405 | 44 |
| Investment securities purchased | – | 713 | 422 |
| Total Liabilities | 507 | 2,222 | 592 |
| **Net Assets Applicable to Outstanding Shares** | $ 284,975 | $ 162,249 | $ 161,286 |
| **Net Assets Consist of:** | | | |
| Capital shares and additional paid-in-capital | $ 284,983 | $ 128,201 | $ 100,287 |
| Accumulated undistributed (overdistributed) net investment income (loss) | – | 1,745 | 2,560 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | (8) | (31) | 13,447 |
| Net unrealized appreciation (depreciation) of investments | – | 32,334 | 44,992 |
| Total Net Assets | $ 284,975 | $ 162,249 | $ 161,286 |
| **Capital Stock (par value: $.01 per share):** | | | |
| Shares authorized | 1,500,000 | 200,000 | 300,000 |
| **Net Asset Value Per Share:** | | | |
| Class 1: Net Assets | $ 283,094 | $ 154,732 | $ 159,292 |
| Shares issued and outstanding | 283,103 | 6,922 | 7,174 |
| Net Asset Value per share | $ 1.00 | $ 22.35 | $ 22.20 |
| Class 2: Net Assets | $ 1,881 | $ 7,517 | $ 1,994 |
| Shares issued and outstanding | 1,881 | 339 | 89 |
| Net Asset Value per share | $ 1.00 | $ 22.14 | $ 22.29 |

*See accompanying notes.*

| Amounts in thousands, except per share amounts | SAM Balanced Portfolio | SAM Conservative Balanced Portfolio | SAM Conservative Growth Portfolio |
|---|---|---|---|
| **Investment in affiliated Accounts--at cost** | $ 776,265 | $ 203,619 | $ 284,583 |
| **Assets** | | | |
| Investment in affiliated Accounts--at value | $ 829,639 | $ 211,409 | $ 297,823 |
| Receivables: | | | |
| Dividends and interest | 251 | 119 | 25 |
| Fund shares sold | 188 | 14 | 124 |
| Investment securities sold | 1,073 | 483 | 12 |
| Total Assets | 831,151 | 212,025 | 297,984 |
| **Liabilities** | | | |
| Accrued management and investment advisory fees | 162 | 41 | 58 |
| Accrued distribution fees | 21 | 4 | 22 |
| Accrued directors' expenses | 3 | – | 1 |
| Accrued other expenses | 5 | 5 | 5 |
| Payables: | | | |
| Fund shares redeemed | 1,261 | 497 | 136 |
| Investment securities purchased | 251 | 119 | 25 |
| Total Liabilities | 1,703 | 666 | 247 |
| **Net Assets Applicable to Outstanding Shares** | $ 829,448 | $ 211,359 | $ 297,737 |
| **Net Assets Consist of:** | | | |
| Capital shares and additional paid-in-capital | $ 715,286 | $ 193,075 | $ 266,152 |
| Accumulated undistributed (overdistributed) net investment income (loss) | 16,475 | 5,188 | 4,017 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | 44,313 | 5,306 | 14,328 |
| Net unrealized appreciation (depreciation) of investments | 53,374 | 7,790 | 13,240 |
| Total Net Assets | $ 829,448 | $ 211,359 | $ 297,737 |
| **Capital Stock (par value: $.01 per share):** | | | |
| Shares authorized | 300,000 | 200,000 | 200,000 |
| **Net Asset Value Per Share:** | | | |
| Class 1: Net Assets | $ 732,937 | $ 193,585 | $ 193,966 |
| Shares issued and outstanding | 49,911 | 16,800 | 11,264 |
| Net Asset Value per share | $ 14.69 | $ 11.52 | $ 17.22 |
| Class 2: Net Assets | $ 96,511 | $ 17,774 | $ 103,771 |
| Shares issued and outstanding | 6,632 | 1,558 | 6,096 |
| Net Asset Value per share | $ 14.55 | $ 11.41 | $ 17.02 |

*See accompanying notes.*

| Amounts in thousands, except per share amounts | SAM Flexible Income Portfolio | SAM Strategic Growth Portfolio | Short-Term Income Account |
|---|---|---|---|
| **Investment in securities--at cost** | $ – | $ – | $ 160,704 |
| **Investment in affiliated Accounts--at cost** | $ 213,360 | $ 234,550 | $ – |
| **Assets** | | | |
| Investment in securities--at value | $ – | $ – | $ 159,724 |
| Investment in affiliated Accounts--at value | 221,990 | 238,075 | – |
| Cash | – | – | 9 |
| Receivables: | | | |
| Dividends and interest | 192 | – | 837 |
| Expense reimbursement from Manager | – | – | 1 |
| Fund shares sold | 16 | 87 | 1,839 |
| Investment securities sold | 352 | – | – |
| Total Assets | 222,550 | 238,162 | 162,410 |
| **Liabilities** | | | |
| Accrued management and investment advisory fees | 43 | 46 | 70 |
| Accrued distribution fees | 4 | 20 | – |
| Accrued directors' expenses | 1 | 1 | 1 |
| Accrued professional fees | – | – | 5 |
| Accrued other expenses | 5 | 5 | 2 |
| Payables: | | | |
| Fund shares redeemed | 368 | 13 | 14 |
| Investment securities purchased | 193 | 75 | – |
| Total Liabilities | 614 | 160 | 92 |
| **Net Assets Applicable to Outstanding Shares** | $ 221,936 | $ 238,002 | $ 162,318 |
| **Net Assets Consist of:** | | | |
| Capital shares and additional paid-in-capital | $ 204,799 | $ 219,612 | $ 176,649 |
| Accumulated undistributed (overdistributed) net investment income (loss) | 7,073 | 3,231 | 3,580 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | 1,434 | 11,634 | (16,931) |
| Net unrealized appreciation (depreciation) of investments | 8,630 | 3,525 | (980) |
| Total Net Assets | $ 221,936 | $ 238,002 | $ 162,318 |
| **Capital Stock (par value: $.01 per share):** | | | |
| Shares authorized | 200,000 | 200,000 | 400,000 |
| **Net Asset Value Per Share:** | | | |
| Class 1: Net Assets | $ 200,828 | $ 142,227 | $ 160,833 |
| Shares issued and outstanding | 16,366 | 7,607 | 63,361 |
| Net Asset Value per share | $ 12.27 | $ 18.70 | $ 2.54 |
| Class 2: Net Assets | $ 21,108 | $ 95,775 | $ 1,485 |
| Shares issued and outstanding | 1,734 | 5,176 | 588 |
| Net Asset Value per share | $ 12.17 | $ 18.50 | $ 2.53 |

*See accompanying notes.*

| Amounts in thousands, except per share amounts | | SmallCap Blend Account |
|---|---|---|
| **Investment in securities--at cost** | $ | 209,961 |
| **Assets** | | |
| Investment in securities--at value | $ | 209,763 |
| Receivables: | | |
| Dividends and interest | | 221 |
| Fund shares sold | | 278 |
| Total Assets | | 210,262 |
| **Liabilities** | | |
| Accrued management and investment advisory fees | | 149 |
| Accrued distribution fees | | 1 |
| Accrued directors' expenses | | 1 |
| Accrued professional fees | | 18 |
| Accrued other expenses | | 2 |
| Cash overdraft | | 1 |
| Payables: | | |
| Fund shares redeemed | | 1 |
| Investment securities purchased | | 222 |
| Total Liabilities | | 395 |
| **Net Assets Applicable to Outstanding Shares** | $ | 209,867 |
| **Net Assets Consist of:** | | |
| Capital shares and additional paid-in-capital | $ | 201,193 |
| Accumulated undistributed (overdistributed) net investment income (loss) | | 599 |
| Accumulated undistributed (overdistributed) net realized gain (loss) | | 8,273 |
| Net unrealized appreciation (depreciation) of investments | | (198) |
| Total Net Assets | $ | 209,867 |
| **Capital Stock (par value: $.01 per share):** | | |
| Shares authorized | | 200,000 |
| **Net Asset Value Per Share:** | | |
| Class 1: Net Assets | $ | 205,344 |
| Shares issued and outstanding | | 15,159 |
| Net Asset Value per share | $ | 13.55 |
| Class 2: Net Assets | $ | 4,523 |
| Shares issued and outstanding | | 334 |
| Net Asset Value per share | $ | 13.52 |

| Amounts in thousands | Diversified International Account | Equity Income Account | Government & High Quality Bond Account |
|---|---|---|---|
| **Net Investment Income (Loss)** | | | |
| Income: | | | |
| Dividends | $ 10,745 | $ 18,101 | $ – |
| Withholding tax | (1,176) | (248) | – |
| Interest | – | 2 | 9,499 |
| Total Income | 9,569 | 17,855 | 9,499 |
| Expenses: | | | |
| Management and investment advisory fees | 2,979 | 2,854 | 1,522 |
| Distribution Fees - Class 2 | 3 | 62 | 4 |
| Custodian fees | 117 | 20 | 5 |
| Directors' expenses | 9 | 12 | 8 |
| Professional fees | 33 | 3 | 3 |
| Other expenses | 3 | 1 | 1 |
| Total Expenses | 3,144 | 2,952 | 1,543 |
| Net Investment Income (Loss) | 6,425 | 14,903 | 7,956 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions | 30,655 | 28,857 | 1,203 |
| Foreign currency transactions | (367) | (5) | – |
| Change in unrealized appreciation/depreciation of: | | | |
| Investments (net of deferred foreign tax payable of $27, $0 and $0, respectively) | (32,638) | (66,010) | (6,505) |
| Translation of assets and liabilities in foreign currencies | (33) | – | – |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | (2,383) | (37,158) | (5,302) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ 4,042 | $ (22,255) | $ 2,654 |

| Amounts in thousands | Income Account | LargeCap Growth Account | MidCap Account |
|---|---|---|---|
| **Net Investment Income (Loss)** | | | |
| Income: | | | |
| Dividends | $ – | $ 1,139 | $ 6,221 |
| Withholding tax | – | (1) | (106) |
| Interest | 11,263 | – | – |
| Total Income | 11,263 | 1,138 | 6,115 |
| Expenses: | | | |
| Management and investment advisory fees | 1,364 | 841 | 3,579 |
| Distribution Fees - Class 2 | 7 | 2 | 40 |
| Custodian fees | 3 | 2 | 7 |
| Directors' expenses | 7 | 5 | 15 |
| Professional fees | 3 | 3 | 3 |
| Other expenses | 1 | – | 3 |
| Total Expenses | 1,385 | 853 | 3,647 |
| Net Investment Income (Loss) | 9,878 | 285 | 2,468 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions | 2,468 | 4,953 | 100,918 |
| Change in unrealized appreciation/depreciation of: | | | |
| Investments | (14,058) | 862 | (90,200) |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | (11,590) | 5,815 | 10,718 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ (1,712) | $ 6,100 | $ 13,186 |

| Amounts in thousands | Money Market Account | Principal Capital Appreciation Account | Real Estate Securities Account |
|---|---|---|---|
| **Net Investment Income (Loss)** | | | |
| Income: | | | |
| Dividends | $ – | $ 2,592 | $ 3,969 |
| Interest | 571 | 1 | – |
| Total Income | 571 | 2,593 | 3,969 |
| Expenses: | | | |
| Management and investment advisory fees | 1,251 | 825 | 1,440 |
| Distribution Fees - Class 2 | 5 | 18 | 4 |
| Custodian fees | 18 | 7 | 2 |
| Directors' expenses | 7 | 5 | 5 |
| Professional fees | 3 | 5 | 3 |
| Other expenses | 1 | – | 1 |
| Total Gross Expenses | 1,285 | 860 | 1,455 |
| Less: Reimbursement from Manager - Class 1 | 704 | – | – |
| Less: Reimbursement from Manager - Class 2 | 5 | – | – |
| Less: Reimbursement from Distributor - Class 2 | 5 | – | – |
| Total Net Expenses | 571 | 860 | 1,455 |
| Net Investment Income (Loss) | – | 1,733 | 2,514 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions | 2 | 1,188 | 14,073 |
| Change in unrealized appreciation/depreciation of: | | | |
| Investments | – | (2,462) | (10,156) |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | 2 | (1,274) | 3,917 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ 2 | $ 459 | $ 6,431 |

| Amounts in thousands | SAM Balanced Portfolio | SAM Conservative Balanced Portfolio | SAM Conservative Growth Portfolio |
|---|---|---|---|
| **Net Investment Income (Loss)** | | | |
| Income: | | | |
| Dividends from affiliated Accounts | $ 18,767 | $ 5,741 | $ 4,982 |
| Total Income | 18,767 | 5,741 | 4,982 |
| Expenses: | | | |
| Management and investment advisory fees | 2,015 | 498 | 690 |
| Distribution Fees - Class 2 | 248 | 45 | 263 |
| Directors' expenses | 19 | 6 | 8 |
| Professional fees | 3 | 3 | 3 |
| Other expenses | 2 | – | 1 |
| Total Expenses | 2,287 | 552 | 965 |
| Net Investment Income (Loss) | 16,480 | 5,189 | 4,017 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions | 8 | – | – |
| Investment transactions in affiliated Accounts | 28,530 | 4,297 | 7,736 |
| Capital gain distribution received from affiliated Accounts | 22,066 | 3,907 | 10,714 |
| Change in unrealized appreciation/depreciation of: | | | |
| Investments in affiliated Accounts | (73,516) | (14,940) | (25,979) |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | (22,912) | (6,736) | (7,529) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ (6,432) | $ (1,547) | $ (3,512) |

| Amounts in thousands | SAM Flexible Income Portfolio | SAM Strategic Growth Portfolio | Short-Term Income Account |
|---|---|---|---|
| **Net Investment Income (Loss)** | | | |
| Income: | | | |
| Dividends from affiliated Accounts | $ 7,664 | $ 4,031 | $ – |
| Interest | – | – | 4,664 |
| Total Income | 7,664 | 4,031 | 4,664 |
| Expenses: | | | |
| Management and investment advisory fees | 528 | 544 | 1,082 |
| Distribution Fees - Class 2 | 53 | 245 | 3 |
| Custodian fees | – | – | 8 |
| Directors' expenses | 6 | 7 | 6 |
| Professional fees | 3 | 3 | 3 |
| Other expenses | – | – | 1 |
| Total Gross Expenses | 590 | 799 | 1,103 |
| Less: Reimbursement from Manager - Class 1 | – | – | 22 |
| Total Net Expenses | 590 | 799 | 1,081 |
| Net Investment Income (Loss) | 7,074 | 3,232 | 3,583 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions | – | – | (32) |
| Investment transactions in affiliated Accounts | 3,586 | 6,445 | – |
| Capital gain distribution received from affiliated Accounts | 1,772 | 8,311 | – |
| Change in unrealized appreciation/depreciation of: | | | |
| Investments | – | – | (1,547) |
| Investments in affiliated Accounts | (15,437) | (22,288) | – |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | (10,079) | (7,532) | (1,579) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ (3,005) | $ (4,300) | $ 2,004 |

| Amounts in thousands | SmallCap Blend Account [a] |
|---|---|
| **Net Investment Income (Loss)** | |
| Income: | |
| Dividends | $ 2,083 |
| Interest | 1 |
| Securities lending - net | 1 |
| Total Income | 2,085 |
| Expenses: | |
| Management and investment advisory fees | 1,469 |
| Distribution Fees - Class 2 | 8 |
| Custodian fees | 15 |
| Directors' expenses | 6 |
| Professional fees | 5 |
| Other expenses | 1 |
| Total Expenses | 1,504 |
| Net Investment Income (Loss) | 581 |
| **Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures** | |
| Net realized gain (loss) from: | |
| Investment transactions | 8,415 |
| Futures contracts | 49 |
| Change in unrealized appreciation/depreciation of: | |
| Investments | (19,104) |
| Futures contracts | (38) |
| Net Realized and Unrealized Gain (Loss) on Investments, Foreign currencies, and Futures | (10,678) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | $ (10,097) |

[a] Class 2 shares commenced operations on February 17, 2015.

| Amounts in thousands | Diversified International Account | | Equity Income Account | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 6,425 | $ 7,938 | $ 14,903 | $ 16,715 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 30,288 | 31,940 | 28,852 | 48,459 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (32,671) | (54,005) | (66,010) | 12,687 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 4,042 | (14,127) | (22,255) | 77,861 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (7,388) | (10,543) | (13,573) | (15,060) |
| Class 2 | (32) | (25) | (555) | (542) |
| Total Dividends and Distributions | (7,420) | (10,568) | (14,128) | (15,602) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 16,905 | 18,555 | 37,699 | 27,917 |
| Class 2 | 348 | 112 | 1,801 | 712 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 7,388 | 10,543 | 13,573 | 15,060 |
| Class 2 | 32 | 25 | 555 | 542 |
| Shares redeemed: | | | | |
| Class 1 | (176,857) | (76,371) | (102,756) | (133,970) |
| Class 2 | (238) | (261) | (3,046) | (2,974) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | (152,422) | (47,397) | (52,174) | (92,713) |
| Total Increase (Decrease) | (155,800) | (72,092) | (88,557) | (30,454) |
| **Net Assets** | | | | |
| Beginning of period | 430,460 | 502,552 | 624,898 | 655,352 |
| End of period (including undistributed net investment income as set forth below) | $ 274,660 | $ 430,460 | $ 536,341 | $ 624,898 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 5,527 | $ 6,111 | $ 17,695 | $ 19,091 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 1,167 | 1,256 | 1,674 | 1,264 |
| Class 2 | 24 | 8 | 80 | 32 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 513 | 707 | 600 | 684 |
| Class 2 | 2 | 2 | 25 | 25 |
| Shares redeemed: | | | | |
| Class 1 | (12,171) | (5,196) | (4,521) | (6,039) |
| Class 2 | (16) | (18) | (136) | (136) |
| Net Increase (Decrease) | (10,481) | (3,241) | (2,278) | (4,170) |

| Amounts in thousands | Government & High Quality Bond Account | | Income Account | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 7,956 | $ 8,789 | $ 9,878 | $ 11,190 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 1,203 | 2,348 | 2,468 | 2,029 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (6,505) | 6,201 | (14,058) | 1,774 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2,654 | 17,338 | (1,712) | 14,993 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (9,930) | (12,571) | (11,705) | (12,529) |
| Class 2 | (58) | (31) | (108) | (128) |
| From net realized gain on investments: | | | | |
| Class 1 | (402) | – | – | – |
| Class 2 | (2) | – | – | – |
| Total Dividends and Distributions | (10,392) | (12,602) | (11,813) | (12,657) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 16,889 | 23,451 | 11,316 | 11,225 |
| Class 2 | 1,035 | 69 | 45 | 19 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 10,332 | 12,571 | 11,705 | 12,529 |
| Class 2 | 60 | 31 | 108 | 128 |
| Shares redeemed: | | | | |
| Class 1 | (47,392) | (105,587) | (30,469) | (19,783) |
| Class 2 | (115) | (128) | (617) | (541) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | (19,191) | (69,593) | (7,912) | 3,577 |
| Total Increase (Decrease) | (26,929) | (64,857) | (21,437) | 5,913 |
| **Net Assets** | | | | |
| Beginning of period | 315,425 | 380,282 | 278,633 | 272,720 |
| End of period (including undistributed net investment income as set forth below) | $ 288,496 | $ 315,425 | $ 257,196 | $ 278,633 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 9,104 | $ 9,984 | $ 9,295 | $ 10,170 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 1,625 | 2,244 | 1,049 | 1,028 |
| Class 2 | 98 | 7 | 4 | 2 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 1,018 | 1,219 | 1,129 | 1,165 |
| Class 2 | 6 | 3 | 10 | 12 |
| Shares redeemed: | | | | |
| Class 1 | (4,568) | (10,065) | (2,866) | (1,835) |
| Class 2 | (11) | (12) | (57) | (50) |
| Net Increase (Decrease) | (1,832) | (6,604) | (731) | 322 |

*See accompanying notes.*

| Amounts in thousands | LargeCap Growth Account | | MidCap Account | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 285 | $ 140 | $ 2,468 | $ 3,843 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 4,953 | 9,440 | 100,918 | 72,862 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | 862 | 2,705 | (90,200) | 3,163 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 6,100 | 12,285 | 13,186 | 79,868 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (173) | (664) | (3,384) | (3,218) |
| Class 2 | – | (2) | (44) | (44) |
| From net realized gain on investments: | | | | |
| Class 1 | – | – | (69,262) | (55,916) |
| Class 2 | – | – | (1,683) | (1,367) |
| Total Dividends and Distributions | (173) | (666) | (74,373) | (60,545) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 6,552 | 28,520 | 23,039 | 58,293 |
| Class 2 | 504 | 64 | 433 | 341 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 173 | 664 | 72,646 | 59,134 |
| Class 2 | – | 2 | 1,727 | 1,411 |
| Shares redeemed: | | | | |
| Class 1 | (17,325) | (17,781) | (95,380) | (109,369) |
| Class 2 | (108) | (188) | (1,394) | (1,335) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | (10,204) | 11,281 | 1,071 | 8,475 |
| Total Increase (Decrease) | (4,277) | 22,900 | (60,116) | 27,798 |
| **Net Assets** | | | | |
| Beginning of period | 123,752 | 100,852 | 692,796 | 664,998 |
| End of period (including undistributed net investment income as set forth below) | $ 119,475 | $ 123,752 | $ 632,680 | $ 692,796 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 285 | $ 173 | $ 3,426 | $ 4,503 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 256 | 1,243 | 381 | 987 |
| Class 2 | 20 | 3 | 7 | 6 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 7 | 28 | 1,237 | 1,037 |
| Class 2 | – | – | 30 | 25 |
| Shares redeemed: | | | | |
| Class 1 | (676) | (767) | (1,574) | (1,836) |
| Class 2 | (4) | (8) | (24) | (22) |
| Net Increase (Decrease) | (397) | 499 | 57 | 197 |

| Amounts in thousands | Money Market Account | | Principal Capital Appreciation Account | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ – | $ – | $ 1,733 | $ 378 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 2 | – | 1,188 | 3,036 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | – | – | (2,462) | 1,130 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2 | – | 459 | 4,544 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | – | – | (404) | (1,007) |
| Class 2 | – | – | (3) | (188) |
| From net realized gain on investments: | | | | |
| Class 1 | – | – | (2,851) | (5,104) |
| Class 2 | – | – | (134) | (1,024) |
| Total Dividends and Distributions | – | – | (3,392) | (7,323) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 168,145 | 146,475 | 3,759 | 1,823 |
| Class 2 | 8,402 | 295 | 702 | 496 |
| Shares issued in acquisition: | | | | |
| Class 1 | N/A | N/A | 139,230 | N/A |
| Class 2 | N/A | N/A | 1,001 | N/A |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | – | – | 3,255 | 6,111 |
| Class 2 | – | – | 137 | 1,212 |
| Shares redeemed: | | | | |
| Class 1 | (163,955) | (150,680) | (21,791) | (4,508) |
| Class 2 | (7,456) | (320) | (1,192) | (713) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 5,136 | (4,230) | 125,101 | 4,421 |
| Total Increase (Decrease) | 5,138 | (4,230) | 122,168 | 1,642 |
| **Net Assets** | | | | |
| Beginning of period | 279,837 | 284,067 | 40,081 | 38,439 |
| End of period (including undistributed net investment income as set forth below) | $ 284,975 | $ 279,837 | $ 162,249 | $ 40,081 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ – | $ – | $ 1,745 | $ 419 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 168,145 | 146,475 | 169 | 77 |
| Class 2 | 8,403 | 295 | 30 | 23 |
| Shares issued in acquisition: | | | | |
| Class 1 | N/A | N/A | 6,089 | N/A |
| Class 2 | N/A | N/A | 44 | N/A |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | – | – | 143 | 290 |
| Class 2 | – | – | 6 | 58 |
| Shares redeemed: | | | | |
| Class 1 | (163,955) | (150,680) | (967) | (191) |
| Class 2 | (7,456) | (320) | (53) | (31) |
| Net Increase (Decrease) | 5,137 | (4,230) | 5,461 | 226 |

| Amounts in thousands | Real Estate Securities Account | | SAM Balanced Portfolio | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 2,514 | $ 2,192 | $ 16,480 | $ 25,489 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 14,073 | 6,240 | 50,604 | 68,022 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (10,156) | 32,938 | (73,516) | (29,299) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 6,431 | 41,370 | (6,432) | 64,212 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (2,423) | (2,395) | (22,820) | (23,276) |
| Class 2 | (27) | (4) | (2,672) | (2,500) |
| From net realized gain on investments: | | | | |
| Class 1 | (4,938) | – | (58,520) | (120,112) |
| Class 2 | (56) | – | (7,497) | (14,177) |
| Total Dividends and Distributions | (7,444) | (2,399) | (91,509) | (160,065) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 18,700 | 21,401 | 24,942 | 20,836 |
| Class 2 | 1,699 | 189 | 9,886 | 5,050 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 7,361 | 2,395 | 81,340 | 143,388 |
| Class 2 | 83 | 4 | 10,169 | 16,677 |
| Shares redeemed: | | | | |
| Class 1 | (32,474) | (24,586) | (113,505) | (165,575) |
| Class 2 | (263) | (53) | (12,203) | (14,302) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | (4,894) | (650) | 629 | 6,074 |
| Total Increase (Decrease) | (5,907) | 38,321 | (97,312) | (89,779) |
| **Net Assets** | | | | |
| Beginning of period | 167,193 | 128,872 | 926,760 | 1,016,539 |
| End of period (including undistributed net investment income as set forth below) | $ 161,286 | $ 167,193 | $ 829,448 | $ 926,760 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 2,560 | $ 2,496 | $ 16,475 | $ 25,487 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 826 | 1,078 | 1,554 | 1,163 |
| Class 2 | 75 | 9 | 616 | 290 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 339 | 119 | 5,380 | 8,862 |
| Class 2 | 4 | – | 678 | 1,038 |
| Shares redeemed: | | | | |
| Class 1 | (1,458) | (1,258) | (7,117) | (9,257) |
| Class 2 | (12) | (3) | (762) | (812) |
| Net Increase (Decrease) | (226) | (55) | 349 | 1,284 |

| Amounts in thousands | SAM Conservative Balanced Portfolio | | SAM Conservative Growth Portfolio | |
|---|---|---|---|---|
| | **Year Ended December 31, 2015** | **Year Ended December 31, 2014** | **Year Ended December 31, 2015** | **Year Ended December 31, 2014** |
| **Operations** | | | | |
| Net investment income (loss) | $ 5,189 | $ 6,985 | $ 4,017 | $ 6,604 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 8,204 | 11,274 | 18,450 | 20,264 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (14,940) | (4,698) | (25,979) | (6,542) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (1,547) | 13,561 | (3,512) | 20,326 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (6,438) | (6,281) | (4,461) | (3,414) |
| Class 2 | (547) | (450) | (2,142) | (1,627) |
| From net realized gain on investments: | | | | |
| Class 1 | (9,390) | (17,846) | (12,644) | (22,853) |
| Class 2 | (857) | (1,393) | (6,779) | (12,440) |
| Total Dividends and Distributions | (17,232) | (25,970) | (26,026) | (40,334) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 18,108 | 18,269 | 20,596 | 26,377 |
| Class 2 | 4,029 | 1,589 | 13,112 | 7,412 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 15,828 | 24,127 | 17,105 | 26,267 |
| Class 2 | 1,404 | 1,843 | 8,921 | 14,067 |
| Shares redeemed: | | | | |
| Class 1 | (29,800) | (36,531) | (23,015) | (21,167) |
| Class 2 | (2,783) | (1,923) | (10,666) | (10,589) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 6,786 | 7,374 | 26,053 | 42,367 |
| Total Increase (Decrease) | (11,993) | (5,035) | (3,485) | 22,359 |
| **Net Assets** | | | | |
| Beginning of period | 223,352 | 228,387 | 301,222 | 278,863 |
| End of period (including undistributed net investment income as set forth below) | $ 211,359 | $ 223,352 | $ 297,737 | $ 301,222 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 5,188 | $ 6,984 | $ 4,017 | $ 6,603 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 1,476 | 1,378 | 1,102 | 1,338 |
| Class 2 | 326 | 124 | 708 | 378 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 1,341 | 1,943 | 958 | 1,416 |
| Class 2 | 120 | 150 | 505 | 766 |
| Shares redeemed: | | | | |
| Class 1 | (2,420) | (2,767) | (1,231) | (1,050) |
| Class 2 | (229) | (148) | (577) | (533) |
| Net Increase (Decrease) | 614 | 680 | 1,465 | 2,315 |

*See accompanying notes.*

| Amounts in thousands | SAM Flexible Income Portfolio | | SAM Strategic Growth Portfolio | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 7,074 | $ 8,281 | $ 3,232 | $ 5,217 |
| Net realized gain (loss) on investments, foreign currencies, and futures | 5,358 | 6,566 | 14,756 | 19,399 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (15,437) | (1,072) | (22,288) | (6,413) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (3,005) | 13,775 | (4,300) | 18,203 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (7,549) | (7,762) | (3,221) | (1,996) |
| Class 2 | (733) | (654) | (1,996) | (1,242) |
| From net realized gain on investments: | | | | |
| Class 1 | (5,112) | (12,001) | (10,578) | (21,163) |
| Class 2 | (529) | (1,089) | (7,305) | (15,284) |
| Total Dividends and Distributions | (13,923) | (21,506) | (23,100) | (39,685) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 16,242 | 20,434 | 22,084 | 21,352 |
| Class 2 | 7,048 | 1,049 | 10,077 | 7,817 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 12,661 | 19,763 | 13,799 | 23,159 |
| Class 2 | 1,262 | 1,743 | 9,301 | 16,526 |
| Shares redeemed: | | | | |
| Class 1 | (28,075) | (32,361) | (16,304) | (14,336) |
| Class 2 | (5,419) | (1,788) | (8,864) | (6,465) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 3,719 | 8,840 | 30,093 | 48,053 |
| Total Increase (Decrease) | (13,209) | 1,109 | 2,693 | 26,571 |
| **Net Assets** | | | | |
| Beginning of period | 235,145 | 234,036 | 235,309 | 208,738 |
| End of period (including undistributed net investment income as set forth below) | $ 221,936 | $ 235,145 | $ 238,002 | $ 235,309 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 7,073 | $ 8,281 | $ 3,231 | $ 5,216 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 1,243 | 1,498 | 1,080 | 959 |
| Class 2 | 536 | 78 | 498 | 354 |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 1,011 | 1,509 | 712 | 1,140 |
| Class 2 | 102 | 134 | 484 | 820 |
| Shares redeemed: | | | | |
| Class 1 | (2,174) | (2,366) | (798) | (626) |
| Class 2 | (416) | (129) | (442) | (289) |
| Net Increase (Decrease) | 302 | 724 | 1,534 | 2,358 |

*See accompanying notes.*

| Amounts in thousands | Short-Term Income Account | | SmallCap Blend Account | |
|---|---|---|---|---|
| | Year Ended December 31, 2015 | Year Ended December 31, 2014 | Year Ended December 31, 2015[(a)] | Year Ended December 31, 2014 |
| **Operations** | | | | |
| Net investment income (loss) | $ 3,583 | $ 4,463 | $ 581 | $ 103 |
| Net realized gain (loss) on investments, foreign currencies, and futures | (32) | 1,551 | 8,464 | 7,009 |
| Change in unrealized appreciation/depreciation of investments, futures, and translation of assets and liabilities in foreign currencies | (1,547) | (2,109) | (19,142) | (4,096) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2,004 | 3,905 | (10,097) | 3,016 |
| **Dividends and Distributions to Shareholders** | | | | |
| From net investment income: | | | | |
| Class 1 | (4,419) | (4,262) | (139) | (224) |
| Class 2 | (40) | (12) | (3) | N/A |
| From net realized gain on investments: | | | | |
| Class 1 | – | – | (6,835) | (1,866) |
| Class 2 | – | – | (147) | N/A |
| Total Dividends and Distributions | (4,459) | (4,274) | (7,124) | (2,090) |
| **Capital Share Transactions** | | | | |
| Shares sold: | | | | |
| Class 1 | 23,745 | 53,517 | 9,007 | 5,643 |
| Class 2 | 1,163 | 96 | 1,824 | N/A |
| Shares issued in acquisition: | | | | |
| Class 1 | N/A | N/A | 166,992 | N/A |
| Class 2 | N/A | N/A | 4,615 | N/A |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 4,419 | 4,262 | 6,974 | 2,090 |
| Class 2 | 40 | 12 | 150 | N/A |
| Shares redeemed: | | | | |
| Class 1 | (132,587) | (46,298) | (25,589) | (8,762) |
| Class 2 | (594) | (32) | (1,567) | N/A |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | (103,814) | 11,557 | 162,406 | (1,029) |
| Total Increase (Decrease) | (106,269) | 11,188 | 145,185 | (103) |
| **Net Assets** | | | | |
| Beginning of period | 268,587 | 257,399 | 64,682 | 64,785 |
| End of period (including undistributed net investment income as set forth below) | $ 162,318 | $ 268,587 | $ 209,867 | $ 64,682 |
| Undistributed (Overdistributed) Net Investment Income (Loss) | $ 3,580 | $ 4,456 | $ 599 | $ 115 |
| **Increase (Decrease) in Capital Shares** | | | | |
| Shares sold: | | | | |
| Class 1 | 9,199 | 20,614 | 627 | 414 |
| Class 2 | 449 | 38 | 121 | N/A |
| Shares issued in acquisition: | | | | |
| Class 1 | N/A | N/A | 11,187 | N/A |
| Class 2 | N/A | N/A | 309 | N/A |
| Shares issued in reinvestment of dividends and distributions: | | | | |
| Class 1 | 1,740 | 1,652 | 475 | 156 |
| Class 2 | 16 | 4 | 10 | N/A |
| Shares redeemed: | | | | |
| Class 1 | (51,006) | (17,795) | (1,754) | (643) |
| Class 2 | (231) | (12) | (106) | N/A |
| Net Increase (Decrease) | (39,833) | 4,501 | 10,869 | (73) |

[(a)] Period from February 17, 2015, date operations commenced, through December 31, 2015 for Class 2 shares.

## 1. Organization

Principal Variable Contracts Funds, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as an open-end management investment company and operates as a series fund in the mutual fund industry. The financial statements for Diversified International Account, Equity Income Account, Government & High Quality Bond Account, Income Account, LargeCap Growth Account, MidCap Account, Money Market Account, Principal Capital Appreciation Account, Real Estate Securities Account, SAM Balanced Portfolio, SAM Conservative Balanced Portfolio, SAM Conservative Growth Portfolio, SAM Flexible Income Portfolio, SAM Strategic Growth Portfolio, Short-Term Income Account, and SmallCap Blend Account, (known as the “Accounts”), are presented herein.

Each of the Accounts is an investment company and applies specialized accounting and reporting under Accounting Standards Codification Topic 946, *Financial Services - Investment Companies*. Each of the Accounts was an investment company at all times during the year. The Accounts have not provided financial support, and are not contractually required to provide financial support to any investee.

Effective February 17, 2015, the initial purchase of $10,000 of Class 2 shares of SmallCap Blend Account was made by Principal Management Corporation (the “Manager”).

Effective April 17, 2015, Principal Capital Appreciation Account acquired all the assets and assumed all the liabilities of LargeCap Blend Account II pursuant to a plan of acquisition approved by shareholders on April 10, 2015. The purpose of the acquisition was to combine two accounts managed by Principal Management Corporation with similar investment objectives, principal policies, and risks. The acquisition was accomplished by a tax-free exchange of 16,768,000 shares from LargeCap Blend Account II for 6,133,000 shares valued at $140,231,000 of Principal Capital Appreciation Account at an approximate exchange rate of .37 for Class 1 and Class 2 shares. The investment securities of LargeCap Blend Account II, with a fair value of approximately $133,987,000 and a cost of $121,386,000, were the primary asset acquired by Principal Capital Appreciation Account on April 17, 2015. For financial reporting purposes, assets received and shares issued by Principal Capital Appreciation Account were recorded at fair value; however the cost basis of the investments received from LargeCap Blend Account II was carried forward to align ongoing reporting of Principal Capital Appreciation Account. The aggregate net assets of LargeCap Blend Account II and Principal Capital Appreciation Account immediately prior to the acquisition in accordance with U.S. GAAP were approximately $140,231,000 ($1,448,000 of accumulated realized losses and $12,601,000 of unrealized appreciation) and $40,552,000, respectively. The aggregate net assets of Principal Capital Appreciation Account immediately following the acquisition were $180,783,000. In accordance with Sections 381-384 of the Internal Revenue Code, a portion of accumulated realized losses may be subject to limitation.

Assuming the acquisition had been completed on January 1, 2015, the beginning of the fiscal year for Principal Capital Appreciation Account, Principal Capital Appreciation Account’s pro forma results of operations for the year ended December 31, 2015, would have been $2,211,000 of net investment income, $139,000 of net realized and unrealized gain on investments, and $2,350,000 of net increase in net assets resulting from operations. Because the combined investment portfolios have been managed as a single integrated portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of LargeCap Blend Account II that have been included in Principal Capital Appreciation Account’s statement of operations since April 17, 2015.

Effective April 17, 2015, SmallCap Blend Account acquired all the assets and assumed all the liabilities of SmallCap Growth Account II and SmallCap Value Account I pursuant to a plan of acquisition approved by shareholders on April 10, 2015. The purpose of the acquisition was to combine three accounts managed by Principal Management Corporation with similar investment objectives, principal policies, and risks. The acquisition was accomplished by a tax-free exchange of 4,083,000 and 7,295,000 shares from SmallCap Growth Account II and SmallCap Value Account I, respectively for 4,587,000 and 6,909,000 shares valued at $68,471,000 and $103,136,000 of SmallCap Blend Account at an approximate exchange rate of 1.13 and 1.10 for Class 1 and Class 2 shares and .95 and .94 for Class 1 and Class 2 shares, respectively. The investment securities of SmallCap Growth Account II, with a fair value of approximately $65,319,000 and a cost of $64,126,000, and the investment securities of SmallCap Value Account I with a fair value of approximately $98,490,000 and a cost of $95,480,000 were the primary asset acquired by SmallCap Blend Account on April 17, 2015. For financial reporting purposes, assets received and shares issued by SmallCap Blend Account were recorded at fair value; however the cost basis of the investments received from SmallCap Growth Account II and SmallCap Value Account I were carried forward to align ongoing reporting of SmallCap Blend Account. The aggregate net assets of SmallCap Growth Account II, SmallCap Value Account I and SmallCap Blend Account immediately prior to the acquisition in accordance with U.S. GAAP were approximately $68,471,000 ($194,000 of accumulated realized gain and $1,193,000 of unrealized appreciation) $103,136,000 ($665,000 of accumulated realized losses and $3,010,000 of unrealized appreciation) and $68,436,000, respectively. The aggregate net assets of SmallCap Blend Account immediately following the acquisition were $240,043,000. In accordance with Sections 381-384 of the Internal Revenue Code, a portion of accumulated realized losses may be subject to limitation.

**1. Organization (Continued)**

Assuming the acquisition had been completed on January 1, 2015, the beginning of the fiscal year for SmallCap Blend Account, SmallCap Blend Account's pro forma results of operations for the year ended December 31, 2015, would have been $974,000 of net investment income, $4,922,000 of net realized and unrealized loss on investments, and $3,948,000 of net decrease in net assets resulting from operations. Because the combined investment portfolios have been managed as a single integrated portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of SmallCap Growth Account II and SmallCap Value Account I that have been included in SmallCap Blend Account's statement of operations since April 17, 2015.

All classes of shares for each of the Accounts represent interests in the same portfolio of investments, and will vote together as a single class except where otherwise required by law or as determined by the Fund's Board of Directors. In addition, the Board of Directors declares separate dividends on each class of shares.

**2. Significant Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The following summarizes the significant accounting policies of the Fund:

**Security Valuation.** SAM Balanced Portfolio, SAM Conservative Balanced Portfolio, SAM Conservative Growth Portfolio, SAM Flexible Income Portfolio, SAM Strategic Growth Portfolio (collectively, the "SAM Portfolios") invest in combinations of other series of Principal Variable Contracts Funds, Inc. and Principal Funds, Inc. (the "Underlying Funds"). Investments in the Underlying Funds are valued at the closing net asset value per share of each Underlying Fund on the day of valuation.

The Accounts (with the exception of Money Market Account and SAM Portfolios) value securities for which market quotations are readily available at fair value, which is determined using the last reported sale price. If no sales are reported, as is regularly the case for some securities traded over-the-counter, securities are valued using the last reported bid price, an evaluated bid price or, in the case of certain credit default swaps, a mean price provided by a pricing service. Pricing services use modeling techniques that incorporate security characteristics such as current quotations by broker/dealers, coupon, maturity, quality, type of issue, trading characteristics, other yield and risk factors, and other market conditions to determine an evaluated bid price. When reliable market quotations are not considered to be readily available, which may be the case, for example, with respect to restricted securities, certain debt securities, preferred stocks and foreign securities, the investments are valued at their fair value as determined in good faith by the Manager under procedures established and periodically reviewed by the Fund's Board of Directors.

The value of foreign securities used in computing the net asset value per share is generally determined as of the close of the foreign exchange where the security is principally traded. Events that occur after the close of the applicable foreign market or exchange but prior to the calculation of the Accounts' net asset values are reflected in the Accounts' net asset values and these securities are valued at fair value as determined in good faith by the Manager under procedures established and periodically reviewed by the Fund's Board of Directors. Many factors are reviewed in the course of making a good faith determination of a security's fair value, including, but not limited to, price movements in ADRs, futures contracts, industry indices, general indices and foreign currencies.

To the extent the Accounts invest in foreign securities listed on foreign exchanges which trade on days on which the Accounts do not determine their net asset values, for example weekends and other customary national U.S. holidays, the Accounts' net asset values could be significantly affected on days when the shareholders cannot purchase or redeem shares.

Certain securities issued by companies in emerging market countries may have more than one quoted valuation at any given point in time, sometimes referred to as a "local" price and a "premium" price. The premium price is often a negotiated price, which may not consistently represent a price at which a specific transaction can be effected. It is the policy of the Accounts to value such securities at prices at which it is expected those shares may be sold, and the Manager or any sub-advisor is authorized to make such determinations subject to such oversight by the Fund's Board of Directors as may occasionally be necessary.

Money Market Account values its securities, other than holdings of other publicly traded investment funds, at amortized cost as permitted under Rule 2a-7 of the Investment Company Act of 1940. Other publicly traded investment funds are valued at the funds' net asset value. Under the amortized cost method, a security is valued by applying a constant yield to maturity of the difference between the principal amount due at maturity and the cost of the security to the Account.

## 2. Significant Accounting Policies (Continued)

**Currency Translation.** Foreign holdings are translated to U.S. dollars using the exchange rate at the daily close of the New York Stock Exchange. The identified cost of the account holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when received or paid, with daily accruals of such amounts reported at approximate rates prevailing at the date of valuation. Since the carrying amount of the foreign securities is determined based on the exchange rate and market values at the close of the period, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the period.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between trade and settlement dates on security transactions, and the difference between the amount of dividends and foreign withholding taxes recorded on the books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies arise from changes in the exchange rate relating to assets and liabilities, other than investments in securities, purchased and held in non-U.S. denominated currencies.

The following Account held securities denominated in foreign currencies that exceeded 5% of net assets of the Account:

| Diversified International Account | |
|---|---|
| Euro | 23.3% |
| Japanese Yen | 15.1 |
| British Pound | 13.9 |
| Canadian Dollar | 10.6 |
| Swiss Franc | 6.1 |

**Income and Investment Transactions.** The Accounts record investment transactions on a trade date basis. Trade date for senior floating rate interests purchased in the primary market is considered the date on which the loan allocations are determined. Trade date for senior floating rate interests purchased in the secondary market is the date on which the transaction is entered into. The identified cost basis has been used in determining the net realized gain or loss from investment transactions and unrealized appreciation or depreciation of investments. The Accounts record dividend income on the ex-dividend date, except dividend income from foreign securities whereby the ex-dividend date has passed; such dividends are recorded as soon as the Accounts are informed of the ex-dividend date. Interest income is recognized on an accrual basis. Discounts and premiums on securities are accreted/amortized over the lives of the respective securities. The Accounts allocate daily all income and realized and unrealized gains or losses to each class of shares based upon the relative proportion of the value of shares outstanding (number of settled shares outstanding for Money Market Account) of each class.

**Expenses.** Expenses directly attributed to a particular Account are charged to that Account. Other Account expenses not directly attributed to an Account are apportioned among the registered investment companies managed by the Manager.

Management fees are allocated daily to each class of shares based upon the relative proportion of the value of shares outstanding (number of settled shares outstanding for Money Market Account) of each class. Expenses specifically attributable to a particular class are charged directly to such class and are included separately in the statements of operations.

In addition to the expenses that each of the SAM Portfolios bears directly, each of the SAM Portfolios indirectly bear a pro rata share of the fees and expenses of the Underlying Funds in which they invest. Because the Underlying Funds have varied expense levels and each of the SAM Portfolios may own different proportions of Underlying Funds at different times, the amount of expense incurred indirectly by each of the SAM Portfolios will vary. Expenses included in the statements of operations of the SAM Portfolios reflect the expenses of each SAM Portfolio and do not include any expenses associated with the Underlying Funds.

## 2. Significant Accounting Policies (Continued)

**Dividends and Distributions to Shareholders.** With respect to Money Market Account, all net investment income and any realized gains from investment transactions are declared as dividends daily to shareholders of record as of that day. Dividends and distributions to shareholders of the other accounts are recorded on the ex-dividend date. Dividends and distributions to shareholders from net investment income and net realized gain from investments and foreign currency transactions are determined in accordance with federal tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differing treatments for net operating losses, mortgage-backed securities, certain defaulted securities, expiring capital loss carry forwards, certain preferred securities, redemptions-in-kind, amortization of premiums and discounts, futures contracts, sales of Passive Foreign Investment Companies, losses deferred due to wash sales, swap agreements, and foreign currency transactions. Permanent book and tax basis differences are reclassified within the capital accounts based on federal tax-basis treatment; temporary differences do not require reclassification. Distributions which exceed current and accumulated earnings and profits for federal income tax purposes are reported as return of capital distributions.

Real Estate Securities Account receives distributions from holdings in Real Estate Investment Trusts ("REITs"). Distributions from REITs may be characterized as ordinary income, net capital gain, or a return of capital to the Account. The proper characterization of REIT distributions is generally not known until after the end of each calendar year. As such, estimates must be used in reporting the character of its income and distributions for financial statement purposes.

**Federal Income Taxes.** No provision for federal income taxes is considered necessary because each account is qualified as a "regulated investment company" under the Internal Revenue Code and intends to distribute each year substantially all of its net investment income and realized capital gains to shareholders.

Management evaluates tax positions taken or expected to be taken in the course of preparing the Accounts' tax returns to determine whether it is "more likely than not" that each tax position would be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. During the year ended December 31, 2015, the Accounts did not record any such tax benefit or expense in the accompanying financial statements. The statute of limitations remains open for the fiscal years from 2012-2015. No examinations are in progress at this time.

**Foreign Taxes.** Certain of the Accounts are subject to foreign income taxes imposed by certain countries in which they invest. Foreign income taxes are accrued by the Accounts as a reduction of income. These amounts are shown as withholding tax on foreign dividends on the statements of operations. In consideration of recent decisions rendered by European courts, the Funds have filed additional tax reclaims for taxes withheld in prior years. Due to the uncertainty and timing of these reclaims, a corresponding receivable will only be recorded when both the amount is known and there are no significant uncertainties regarding collectability.

Gains realized upon disposition of certain foreign securities held by the Accounts may be subject to capital gains tax, payable prior to repatriation of sale proceeds. The tax is computed on certain net realized gains and, if any, is shown on the statement of operations. Realized losses in excess of gains may be carried forward to offset future gains. In addition, the Accounts accrue an estimated deferred tax liability for future gains on certain foreign securities. Any accrued tax liability is shown on the statement of assets and liabilities. At December 31, 2015, Diversified International Account had no foreign tax refund receivable and had a deferred tax liability of $27,000 relating to foreign securities.

## 3. Operating Policies

**Borrowings.** Pursuant to an exemptive order issued by the Securities and Exchange Commission, the Accounts and other registered investment companies managed by the Manager may participate in an interfund lending facility ("Facility"). The Facility allows the Accounts to borrow money from or loan money to the other participants. Loans under the Facility are made to handle unusual and/or unanticipated short-term cash requirements. Interest paid and received on borrowings is the average of the current repurchase agreement rate and the bank loan rate (the higher of (i) the Federal Funds Rate or (ii) the One Month LIBOR rate plus 1.00%). During the year ended December 31, 2015, Diversified International Account, Government & High Quality Bond Account, MidCap Account, Real Estate Securities Account, Short-Term Income Account, and SmallCap Blend Account each borrowed from the Facility. Diversified International Account, Equity Income Account, Government & High Quality Bond Account, Income Account, LargeCap Growth Account, MidCap Account, Real Estate Securities Account, Short-Term Income Account, and SmallCap Blend Account each loaned to the Facility. The interest expense associated with these borrowings is included in other expenses on the statements of operations. The interest received is included in interest on the statements of operations. There were no outstanding borrowings as of December 31, 2015.

**3. Operating Policies (Continued)**

In addition, the Accounts participate with other registered investment companies managed by the Manager in an unsecured joint line of credit with a bank which allows the participants to borrow up to $75 million, collectively. Borrowings are made solely to facilitate the handling of unusual and/or unanticipated short-term cash requirements. Interest is charged to each participant, based on its borrowings, at a rate equal to the higher of the Federal Funds Rate or the One Month LIBOR rate plus 1.00%. Additionally, a commitment fee is charged at an annual rate of .10% on the amount of the line of credit. The Accounts did not borrow against the line of credit during the year ended December 31, 2015.

**Counterparties.** The Accounts may be exposed to counterparty risk, or the risk that another party with which the Accounts have unsettled or open transactions will fail to perform on their commitment. To the extent that unpaid amounts owed to the Accounts exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Accounts in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Accounts. If the unpaid amount owed to the Accounts subsequently decreases, the Accounts would be required to return all or a portion of the collateral.

Master Agreements may also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under the Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions governed under the relevant master agreement with a counterparty exceeds a specified threshold.

The financial instruments that are subject to Master Agreements or similar agreements may include right of setoff provisions. Derivative instruments include provisions to setoff positions covered under the agreements with the same counterparties and provisions to setoff positions outside of the agreements with the same counterparties in the event of default by one of the parties. Derivative instruments also include collateral provisions. Collateral received and pledged are generally settled daily with each counterparty.

**Futures Contracts.** The Accounts are subject to equity price risk, interest rate risk, and foreign currency exchange rate risk in the normal course of pursuing their investment objectives. The Accounts (with the exception of Money Market Account and SAM Portfolios) may enter into futures contracts to hedge against changes in or to gain exposure to, change in the value of equities, interest rates and foreign currencies. Initial margin deposits are made by cash deposits or segregation of specific securities as may be required by the exchange on which the transaction was conducted. Pursuant to the contracts, an account agrees to receive from or pay to the broker, an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the account as a variation margin receivable or payable on financial derivative instruments. During the period the futures contracts are open, daily changes in the fair value of the contracts are recognized as unrealized gains or losses. These unrealized gains or losses are included as a component of net unrealized appreciation (depreciation) of investments on the statements of assets and liabilities. When the contracts are closed, the account recognizes a realized gain or loss equal to the difference between the proceeds from, or cost of, the closing transaction and the account’s cost basis in the contract. There is minimal counterparty credit risk to the Accounts because futures are exchange traded and the exchange’s clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default.

**Illiquid Securities.** Illiquid securities generally cannot be sold or disposed of in the ordinary course of business (within seven calendar days) at approximately the value at which each of the Accounts has valued the investments. This may have an adverse effect on each of the Accounts’ ability to dispose of particular illiquid securities at fair value and may limit each of the Accounts’ ability to obtain accurate market quotations for purposes of valuing the securities.

**Indemnification.** Under the Fund’s by-laws, present and past officers, directors and employees are indemnified against certain liabilities arising out of the performance of their duties. In addition, in the normal course of business, the Fund may enter into a variety of contracts that may contain representations and warranties which provide general indemnifications. The Fund’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund.

**Joint Trading Account.** Certain of the Accounts may, pursuant to an exemptive order issued by the Securities and Exchange Commission, transfer uninvested funds into a joint trading account. The order permits the participating accounts’ cash balances to be deposited into a single joint account along with the cash of other registered investment companies managed by the Manager. These balances may be invested in one or more short-term instruments or repurchase agreements that are collateralized by U.S. government securities. Earnings from the joint trading account are allocated to each of the Accounts based on their pro rata participating ownership interest in the joint trading account.

**3. Operating Policies (Continued)**

**Mortgage Dollar Rolls.** Certain of the Accounts have entered into mortgage-dollar-roll transactions on “to-be-announced” securities (“TBA’s”), in which the Account sells mortgage-backed securities and simultaneously agrees to purchase similar securities in the future at a predetermined price. The proceeds of the securities sold in mortgage-dollar-roll transactions are invested in additional securities. The Account forgoes principal and interest paid on the securities, and is compensated by interest earned on the proceeds of the initial sale and by a lower price on the securities to be repurchased. The Accounts treat mortgage-dollar-roll transactions as purchases and sales; as such, these transactions may increase the Accounts' portfolio turnover ratio. Amounts to be received or paid in connection with open mortgage-dollar-rolls are included in Investment securities sold and Investment securities purchased on the statements of assets and liabilities.

**Rebates.** Subject to best execution, the Accounts may direct certain portfolio transactions to brokerage firms that, in turn, have agreed to rebate a portion of the related brokerage commission to the account in cash. Commission rebates are included as a component of realized gain from investment transactions in the statements of operations.

**Repurchase Agreements.** The Accounts may invest in repurchase agreements that are fully collateralized, typically by U.S. government or U.S. government agency securities. It is the Accounts’ policy that its custodian takes possession of the underlying collateral securities. The fair value of the collateral is at all times at least equal to the total amount of the repurchase obligation. In the event of default on the obligation to repurchase, the Accounts have the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event the seller of a repurchase agreement defaults, the Accounts could experience delays in the realization of the collateral.

**Restricted Securities.** Certain of the Accounts may invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult.

**Senior Floating Rate Interests.** The Accounts may invest in senior floating rate interests (bank loans). Senior floating rate interests hold the most senior position in the capital structure of a business entity (the “Borrower”), are typically secured by specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by subordinated debtholders and stockholders of the Borrower. Senior floating rate interests are typically structured and administered by a financial institution that acts as the agent of the lenders participating in the senior floating rate interest. Senior floating rate interests are typically rated below-investment-grade, which means they are more likely to default than investment-grade loans. A default could lead to non-payment of income which would result in a reduction of income to the account and there can be no assurance that the liquidation of any collateral would satisfy the Borrower’s obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated.

Senior floating rate interests pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR) or the prime rate offered by one or more major United States banks.

Senior floating rate interests generally are subject to mandatory and/or optional prepayment. Because of these mandatory prepayment conditions and because there may be significant economic incentives for the Borrower to repay, prepayments of senior floating rate interests may occur. As a result, the actual remaining maturity of senior floating rate interests may be substantially less than stated maturities shown in the schedules of investments.

In connection with the Senior floating rate interests, the Accounts may also enter into unfunded loan commitments (“commitments”). All or a portion of the commitments may be unfunded. The Accounts are obligated to fund these commitments at the borrower’s discretion. Therefore, the Accounts must have funds sufficient to cover its contractual obligation. These unfunded loan commitments which are marked to market daily, are footnoted in the schedules of investments, shown as a separate line item called unrealized gain or loss on unfunded loan commitments on the statements of assets and liabilities. As of December 31, 2015, the Accounts had no unfunded loan commitments outstanding.

## 3. Operating Policies (Continued)

**To Be Announced Securities.** The Accounts may trade portfolio securities on a "to-be-announced" ("TBA") or when-issued basis. In a TBA or when-issued transaction, the account commits to purchase or sell securities for which all specific information is not known at the time of the trade. Securities purchased on a TBA or when-issued basis are not settled until they are delivered to the account, normally 15 to 30 days later. These transactions are subject to market fluctuations and their current value is determined in the same manner as for other portfolio securities.

**Underlying Funds.** The performance and risks of each Principal LifeTime Account, SAM Portfolio, Diversified Balanced Account, Diversified Balanced Managed Volatility Account, Diversified Growth Account, Diversified Growth Managed Volatility Account, and Diversified Income Account (singly, "a fund of funds" and collectively, "the funds of funds") directly correspond to the performance and risks of the underlying funds in which the fund of funds invest. By investing in many underlying funds, the funds of funds have partial exposure to the risks of many different areas of the market. The more a fund of funds allocates to stock funds, the greater the expected risk.

An underlying fund to a fund of funds may experience relatively large redemptions or purchases as the fund of funds periodically reallocates or rebalances its assets. These transactions may accelerate the realization of taxable income if sales of portfolio securities result in gains and could increase transaction costs. In addition, when a fund of funds reallocates or redeems significant assets away from an underlying fund, the loss of assets to the underlying fund could result in increased expense ratios for that fund.

The Manager is the advisor to the Principal LifeTime Accounts, SAM Portfolios, Diversified Balanced Account, Diversified Balanced Managed Volatility Account, Diversified Growth Account, Diversified Growth Managed Volatility Account, Diversified Income Account, and each of the underlying funds. Principal Global Investors, LLC ("PGI") is Sub-Advisor to the Principal LifeTime Accounts and Edge Asset Management, Inc. ("Edge") is the Sub-Advisor to the SAM Portfolios. Either PGI or Edge also serves as Sub-Advisor to some or all of the underlying funds. The Manager, PGI, and Edge are committed to minimizing the potential impact of underlying fund risk on underlying funds to the extent consistent with pursuing the investment objectives of the fund of funds which it manages. Each may face conflicts of interest in fulfilling its responsibilities to all such funds.

As of December 31, 2015, the Principal LifeTime Accounts, Multi-Asset Income Account, SAM Portfolios, Diversified Balanced Account, Diversified Balanced Managed Volatility Account, Diversified Growth Account, Diversified Growth Managed Volatility Account, and Diversified Income Account owned the following percentages, in the aggregate, of the outstanding shares of the underlying funds listed below:

| Account | Total Percentage of Outstanding Shares Owned | Account | Total Percentage of Outstanding Shares Owned |
|---|---|---|---|
| Equity Income Account | 34.84% | MidCap Account | 13.47% |
| Government & High Quality Bond Account | 41.03 | Short-Term Income Account | 9.51 |
| Income Account | 96.07 | | |

## 3. Operating Policies (Continued)

**U.S. Government Agencies or Government-Sponsored Enterprises.** Certain of the Accounts may invest in U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of, and in certain cases, guaranteed by, the U.S. Government or its agencies. The U.S. Government does not guarantee the net asset value of the Accounts' shares. Some U.S. Government securities such as treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA") are supported by the full faith and credit of the U.S. Government. Other securities, such as those of the Federal Home Loan Bank are supported by the right of the issuer to borrow from the U.S. Department of the Treasury. Still other securities, such as those of the Federal National Mortgage Association ("FNMA") are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations.

Government related guarantors (those not backed by the full faith and credit of the United States Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC"). FNMA is a government sponsored corporation the common stock of which is owned entirely by private stockholders. FNMA purchases conventional residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks, credit unions, and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to the 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 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 Participation Certificates are not backed by the full faith and credit of the U.S. Government.

**Derivatives.** The following table provides information about where in the statements of operations information about derivatives can be found (amounts shown in thousands):

| Derivatives not accounted for as hedging instruments | Location of Gain or (Loss) on Derivatives Recognized in Statement of Operations | Realized Gain or (Loss) on Derivatives Recognized in Statement of Operations | Change in Unrealized Appreciation/(Depreciation) of Derivatives Recognized in Statement of Operations |
|---|---|---|---|
| **SmallCap Blend Account** | | | |
| Equity contracts | Net realized gain (loss) from Futures contracts/Change in unrealized appreciation/(depreciation) of Futures contracts | $ 49 | $ (38) |

Long equity futures contracts are used to obtain market exposure for the cash balances that are maintained by certain of the Accounts and the notional values of the futures contracts will vary in accordance with the changing cash balances. The level of derivative activity disclosed in the schedules of investments is representative of the level of derivative activity used in the Accounts throughout the year ended December 31, 2015.

## 4. Fair Value

Fair value is defined as the price that the Accounts would receive upon selling a security in a timely transaction to an independent buyer in the principal or most advantageous market of the security at the measurement date. In determining fair value, the Accounts use various valuation approaches, including market, income and/or cost approaches. A hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Accounts. Unobservable inputs are inputs that reflect the Accounts own assumptions about the assumptions market participants would use in pricing the asset or liability developed 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 are available in active markets for identical securities as of the reporting date. The type of securities included in Level 1 includes listed equities and listed derivatives.

●Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments speeds, credit risk, etc.). Investments which are generally included in this category include corporate bonds, senior floating rate interests, and municipal bonds.

●Level 3 – Significant unobservable inputs (including the Accounts' assumptions in determining the fair value of investments). Investments which are generally included in this category include certain corporate bonds and certain mortgage backed securities.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the market place, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Accounts in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market based measure considered from the perspective of a market participant who holds the asset rather than an entity specific measure. Therefore, even when market assumptions are not readily available, the Account's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Accounts use prices and inputs that are current as of the measurement date.

Investments which are generally included in the Level 3 category are primarily valued using quoted prices from brokers and dealers participating in the market for these investments. These investments are classified as Level 3 investments due to the lack of market transparency and market corroboration to support these quoted prices. Valuation models may be used as the pricing source for other investments classified as Level 3. Valuation models rely on one or more significant unobservable inputs such as prepayment rates, probability of default, or loss severity in the event of default. Significant increases in any of those inputs in isolation would result in a significantly lower fair value measurement.

The fair values of these entities are dependent on economic, political and other considerations. The values of the investments may be affected by significant changes in the economic conditions, changes in government policies, and other factors (e.g., natural disasters, accidents, conflicts, etc.).

## 4. Fair Value (Continued)

Fair value of these investments is determined in good faith by the Manager under procedures established and periodically reviewed by the Account's Board of Directors. The Manager has established a Valuation Committee of senior officers and employees, with the responsibility of overseeing the pricing and valuation of all securities, including securities where market quotations are not readily available. The Valuation Committee meets monthly and reports directly to the Board of Directors. The Pricing Group who reports to the Valuation Committee relies on the established Pricing Policies to determine fair valuation. Included in the Pricing Policies is an overview of the approved valuation technique established for each asset class. The Pricing Group will consider all appropriate information available when determining fair valuation.

The Pricing Group relies on externally provided valuation inputs to determine the value of Level 3 securities. Security values are updated as new information becomes available. Valuation data and changes in valuation amounts are reviewed on a daily basis based on specified criteria for the security, asset class, and other factors. In addition, valuation data is periodically compared to actual transactions executed by the Accounts (i.e., purchases/sales) and differences between transaction prices and prior period valuation data are investigated based on specified tolerances.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those instruments. For example, short-term securities held in Money Market Account are valued using amortized cost, as permitted under Rule 2a-7 of the Investment Company Act of 1940. Generally, amortized cost approximates the current fair value of these securities, but because the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

The beginning of the period timing recognition has been adopted for the significant transfers between levels of each Account's assets and liabilities. There were no significant purchases, sales, or transfers into or out of Level 3, except as noted in the Level 3 roll forward. There were no transfers between Level 1 and Level 2 as of December 31, 2015.

The following is a summary of the inputs used as of December 31, 2015 in valuing the Accounts' securities carried at value (amounts shown in thousands):

| Account | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Totals (Level 1,2,3) |
|---|---|---|---|---|
| **Diversified International Account** | | | | |
| **Common Stocks** | | | | |
| Basic Materials | $ — | $ 7,505 | $ — | $ 7,505 |
| Communications | 1,009 | 31,604 | — | 32,613 |
| Consumer, Cyclical | 10,638 | 38,576 | — | 49,214 |
| Consumer, Non-cyclical | 7,436 | 39,060 | — | 46,496 |
| Energy | 6,699 | 8,379 | — | 15,078 |
| Financial | 15,243 | 55,838 | — | 71,081 |
| Industrial | 4,057 | 24,128 | — | 28,185 |
| Technology | — | 14,898 | — | 14,898 |
| Utilities | — | 7,328 | — | 7,328 |
| **Investment Companies*** | 895 | — | — | 895 |
| **Preferred Stocks** | | | | |
| Basic Materials | — | 610 | — | 610 |
| **Total investments in securities** | $ 45,977 | $ 227,926 | $ — | $ 273,903 |
| **Equity Income Account** | | | | |
| **Common Stocks*** | $ 527,746 | $ — | $ — | $ 527,746 |
| **Investment Companies*** | 8,836 | — | — | 8,836 |
| **Total investments in securities** | $ 536,582 | $ — | $ — | $ 536,582 |
| **Government & High Quality Bond Account** | | | | |
| **Bonds*** | $ — | $ 89,305 | $ — | $ 89,305 |
| **Investment Companies*** | 2,750 | — | — | 2,750 |
| **U.S. Government & Government Agency Obligations*** | — | 194,814 | — | 194,814 |
| **Total investments in securities** | $ 2,750 | $ 284,119 | $ — | $ 286,869 |

## 4. Fair Value (Continued)

| Account | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Totals (Level 1,2,3) |
|---|---|---|---|---|
| **Income Account** | | | | |
| Bonds* | $ — | $ 158,877 | $ 2,341 | $ 161,218 |
| Common Stocks* | — | — | — | — |
| Investment Companies* | 7,887 | — | — | 7,887 |
| Senior Floating Rate Interests* | — | 183 | — | 183 |
| U.S. Government & Government Agency Obligations* | — | 87,021 | — | 87,021 |
| Total investments in securities | $ 7,887 | $ 246,081 | $ 2,341 | $ 256,309 |
| **LargeCap Growth Account** | | | | |
| Common Stocks* | $ 117,937 | $ — | $ — | $ 117,937 |
| Investment Companies* | 1,728 | — | — | 1,728 |
| Total investments in securities | $ 119,665 | $ — | $ — | $ 119,665 |
| **MidCap Account** | | | | |
| Common Stocks* | $ 629,910 | $ — | $ — | $ 629,910 |
| Investment Companies* | 1,750 | — | — | 1,750 |
| Total investments in securities | $ 631,660 | $ — | $ — | $ 631,660 |
| **Money Market Account** | | | | |
| Bonds* | $ — | $ 2,602 | $ — | $ 2,602 |
| Certificate of Deposit* | — | 9,700 | — | 9,700 |
| Commercial Paper* | — | 223,544 | — | 223,544 |
| Investment Companies* | 16,140 | — | — | 16,140 |
| Municipal Bonds* | — | 16,280 | — | 16,280 |
| Repurchase Agreements* | — | 8,000 | — | 8,000 |
| U.S. Government & Government Agency Obligations* | — | 9,000 | — | 9,000 |
| Total investments in securities | $ 16,140 | $ 269,126 | $ — | $ 285,266 |
| **Principal Capital Appreciation Account** | | | | |
| Common Stocks* | $ 159,996 | $ — | $ — | $ 159,996 |
| Investment Companies* | 2,553 | — | — | 2,553 |
| Total investments in securities | $ 162,549 | $ — | $ — | $ 162,549 |
| **Real Estate Securities Account** | | | | |
| Common Stocks* | $ 159,306 | $ — | $ — | $ 159,306 |
| Investment Companies* | 938 | — | — | 938 |
| Total investments in securities | $ 160,244 | $ — | $ — | $ 160,244 |
| **SAM Balanced Portfolio** | | | | |
| Investment Companies* | $ 829,639 | $ — | $ — | $ 829,639 |
| Total investments in securities | $ 829,639 | $ — | $ — | $ 829,639 |
| **SAM Conservative Balanced Portfolio** | | | | |
| Investment Companies* | $ 211,409 | $ — | $ — | $ 211,409 |
| Total investments in securities | $ 211,409 | $ — | $ — | $ 211,409 |
| **SAM Conservative Growth Portfolio** | | | | |
| Investment Companies* | $ 297,823 | $ — | $ — | $ 297,823 |
| Total investments in securities | $ 297,823 | $ — | $ — | $ 297,823 |

## 4. Fair Value (Continued)

| Account | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Totals (Level 1,2,3) |
|---|---|---|---|---|
| **SAM Flexible Income Portfolio** | | | | |
| **Investment Companies*** | $ 221,990 | $ — | $ — | $ 221,990 |
| **Total investments in securities** | $ 221,990 | $ — | $ — | $ 221,990 |
| **SAM Strategic Growth Portfolio** | | | | |
| **Investment Companies*** | $ 238,075 | $ — | $ — | $ 238,075 |
| **Total investments in securities** | $ 238,075 | $ — | $ — | $ 238,075 |
| **Short-Term Income Account** | | | | |
| **Bonds*** | $ — | $ 155,648 | $ — | $ 155,648 |
| **Investment Companies*** | 3,688 | — | — | 3,688 |
| **U.S. Government & Government Agency Obligations*** | — | 388 | — | 388 |
| **Total investments in securities** | $ 3,688 | $ 156,036 | $ — | $ 159,724 |
| **SmallCap Blend Account** | | | | |
| **Common Stocks** | | | | |
| Communications | $ 10,604 | $ — | $ 5 | $ 10,609 |
| Consumer, Cyclical | 32,078 | — | — | 32,078 |
| Consumer, Non-cyclical | 46,651 | 11 | — | 46,662 |
| Energy | 7,874 | — | — | 7,874 |
| Financial | 57,089 | — | — | 57,089 |
| Industrial | 19,462 | — | — | 19,462 |
| Technology | 27,121 | — | — | 27,121 |
| Utilities | 6,524 | — | — | 6,524 |
| **Investment Companies*** | 2,344 | — | — | 2,344 |
| **Total investments in securities** | $ 209,747 | $ 11 | $ 5 | $ 209,763 |

*For additional detail regarding sector classifications, please see the Schedules of Investments
**Futures are valued at the unrealized appreciation/(depreciation) of the instrument.

The changes in investments measured at fair value for which Level 3 inputs have been used to determine fair value are as follows (amounts in thousands):

| | Value December 31, 2014 | Realized Gain/ (Loss) | Accrued Discounts/ Premiums and Change in Unrealized Gain/(Loss) | Purchases | Proceeds from Sales | Transfers into Level 3* | Transfers Out of Level 3** | Value December 31, 2015 | Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at December 31, 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **Short-Term Income Account** | | | | | | | | | |
| **Bonds** | $ 2,909 | $ — | $ — | $ — | $ — | $ — | $ (2,909) | $ — | $ — |
| | $ 2,909 | $ — | $ — | $ — | $ — | $ — | $ (2,909) | $ — | $ — |

*Securities are transferred into Level 3 for a variety of reasons including, but not limited to:
1. Securities where trading has been halted,
2. Securities that have certain restrictions on trading,
3. Instances in which a security is not priced by pricing services
**Securities are transferred out of Level 3 for a variety of reasons including, but not limited to:
1. Securities where trading resumes,
2. Securities where trading restrictions have expired,
3. Instances in which a price becomes available from a pricing service

At the end of the period, there were no other Accounts which had a significant Level 3 balance. During the period, there were no significant purchases, sales or transfers into or out of Level 3, except as noted above.

## 5. Management Agreement and Transactions with Affiliates

**Management Services.** The Fund has agreed to pay investment advisory and management fees to the Manager (wholly owned by Principal Financial Services, Inc.) computed at an annual percentage rate of each account's average daily net assets. A portion of the management fee is paid by Principal Management Corporation to the sub-advisor of each of the Accounts, some of which are affiliates of the Manager. The annual rate paid by the SAM Portfolios is based upon the aggregate average daily net assets ("aggregate net assets") of the SAM Portfolios. The investment advisory and management fee schedule for the SAM Portfolios is .25% of aggregate net assets up to the first $1 billion and .20% of aggregate net assets over $1 billion. The annual rates used in this calculation for each of the other Accounts are as follows:

| | Net Assets of Accounts (in millions) | | | | |
|---|---|---|---|---|---|
| | First $100 | Next $100 | Next $100 | Next $100 | Thereafter |
| Equity Income Account | .60% | .55% | .50% | .45% | .40% |
| MidCap Account | .65 | .60 | .55 | .50 | .45 |
| Money Market Account | .50 | .45 | .40 | .35 | .30 |
| Real Estate Securities Account | .90 | .85 | .80 | .75 | .70 |
| SmallCap Blend Account | .85 | .80 | .75 | .70 | .65 |

| | Net Assets of Accounts (in millions) | | | | |
|---|---|---|---|---|---|
| | First $250 | Next $250 | Next $250 | Next $250 | Thereafter |
| Diversified International Account | .85% | .80% | .75% | .70% | .65% |

| | Net Assets of Account (in millions) | | |
|---|---|---|---|
| | First $200 | Next $300 | Over $500 |
| Short-Term Income Account | .50% | .45% | .40% |

| | Net Assets of Account (in millions) | |
|---|---|---|
| | First $500 | Over $500 |
| Principal Capital Appreciation Account | .625% | .50% |

| | Net Assets of Account | | | | |
|---|---|---|---|---|---|
| | First $500 million | Next $500 million | Next $1 billion | Next $1 billion | Over $3 billion |
| LargeCap Growth Account | .68% | .63% | .61% | .56% | .51% |

| | Net Assets of Accounts (in billions) | |
|---|---|---|
| | First $2 | Over $2 |
| Government & High Quality Bond Account | .50% | .45% |
| Income Account | .50 | .45 |

The Manager has contractually agreed to reduce Short-Term Income Account's expenses by .01% through the period ended April 30, 2016.

In addition, the Manager has voluntarily agreed to limit Money Market Account's expenses to the extent necessary to maintain a 0% yield. The voluntary limit may be terminated at any time.

Amounts owed to the Accounts under the terms of the expense limitation agreements are reflected in the statement of assets and liabilities as expense reimbursement from Manager and are settled monthly.

**Distribution and Shareholder Servicing Fees.** Class 2 shares of the Accounts bear distribution fees. The fee is computed at an annual rate of the average daily net assets attributable to Class 2 shares of each of the Accounts. Distribution fees are paid to Principal Funds Distributor, Inc., the principal distributor of the Accounts. A portion of the distribution fees may be paid to other selling dealers for providing certain services. The annual rate for Class 2 shares is .25%.

Effective June 9, 2015, Principal Funds Distributor, Inc. has contractually agreed to limit Money Market Account's distribution fees attributable to Class 2 shares through April 30, 2016. The limit will maintain the level of distribution fees not to exceed 0% for Class 2 shares. Prior to June 9, 2015, the expense limit was voluntary.

## 5. Management Agreement and Transactions with Affiliates (Continued)

**Affiliated Ownership.** At December 31, 2015, Principal Life Insurance Company (an affiliate of the Manager) and/or one or more separate accounts sponsored by Principal Life Insurance Company owned shares of the Accounts as follows (amounts in thousands):

| | Class 1 | Class 2 |
|---|---|---|
| Diversified International Account | 19,777 | 15 |
| Equity Income Account | 11,907 | 47 |
| Government & High Quality Bond Account | 16,090 | 99 |
| Income Account | 57 | 2 |
| LargeCap Growth Account | 4,191 | 17 |
| MidCap Account | 9,471 | — |
| Money Market Account | 280,986 | 1,381 |
| Principal Capital Appreciation Account | 6,003 | 29 |
| Real Estate Securities Account | 7,153 | 78 |
| SAM Balanced Portfolio | 46,024 | 258 |
| SAM Conservative Balanced Portfolio | 16,400 | 263 |
| SAM Conservative Growth Portfolio | 9,238 | 324 |
| SAM Flexible Income Portfolio | 15,491 | 363 |
| SAM Strategic Growth Portfolio | 6,961 | 89 |
| Short-Term Income Account | 56,681 | 306 |
| SmallCap Blend Account | 14,876 | 59 |

## 6. Investment Transactions

For the year ended December 31, 2015, the cost of investment securities purchased and proceeds from investment securities sold (not including short-term investments) by the Accounts were as follows (amounts shown in thousands):

| | Purchases | Sales |
|---|---|---|
| Diversified International Account | $170,500 | $324,370 |
| Equity Income Account | 61,164 | 105,914 |
| Government & High Quality Bond Account | 55,988 | 59,714 |
| Income Account | 26,273 | 38,233 |
| LargeCap Growth Account | 56,742 | 65,464 |
| MidCap Account | 178,887 | 252,768 |
| Principal Capital Appreciation Account | 28,205 | 41,183 |
| Real Estate Securities Account | 36,856 | 45,763 |
| SAM Balanced Portfolio | 232,172 | 284,513 |
| SAM Conservative Balanced Portfolio | 61,869 | 63,219 |
| SAM Conservative Growth Portfolio | 103,081 | 88,320 |
| SAM Flexible Income Portfolio | 58,808 | 60,165 |
| SAM Strategic Growth Portfolio | 109,270 | 90,729 |
| Short-Term Income Account | 119,457 | 215,856 |
| SmallCap Blend Account | 109,283 | 118,458 |

For the year ended December 31, 2015, the cost of U.S. government securities purchased and proceeds from U.S. government securities sold (not including short-term investments) by the Accounts were as follows (amounts shown in thousands):

| | Purchases | Sales |
|---|---|---|
| Government & High Quality Bond Account | $ 10,095 | $ 16,185 |
| Income Account | 6,446 | 18 |
| Short-Term Income Account | — | 1,999 |

## 6. Investment Transactions (Continued)

Diversified International Account and Short-Term Income Account had in-kind-redemptions during the year ended December 31, 2015. The in-kind-redemptions resulted in distributions of securities with a value of $84,478,000 and $77,560,000 and realized gains of $17,143,000 and $106,000, respectively. The realized gain is included in net realized gain (loss) from investment transactions on the statement of operations.

## 7. Federal Tax Information

**Distributions to Shareholders.** The federal income tax character of distributions paid for the years ended December 31, 2015 and December 31, 2014 were as follows (amounts in thousands):

| | Ordinary Income | | Long-Term Capital Gain* | | Section 1250 Gain^ | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Diversified International Account | $ 7,420 | $ 10,568 | $ — | $ — | $ — | $ — |
| Equity Income Account | 14,128 | 15,602 | — | — | — | — |
| Government & High Quality Bond Account | 9,988 | 12,602 | 404 | — | — | — |
| Income Account | 11,813 | 12,657 | — | — | — | — |
| LargeCap Growth Account | 173 | 666 | — | — | — | — |
| MidCap Account | 3,428 | 3,262 | 70,945 | 57,283 | — | — |
| Principal Capital Appreciation Account | 482 | 2,271 | 2,910 | 5,052 | — | — |
| Real Estate Securities Account | 2,450 | 2,399 | 4,755 | — | 239 | — |
| SAM Balanced Portfolio | 26,872 | 29,328 | 64,637 | 130,737 | — | — |
| SAM Conservative Balanced Portfolio | 7,193 | 7,045 | 10,039 | 18,925 | — | — |
| SAM Conservative Growth Portfolio | 6,858 | 5,041 | 19,168 | 35,293 | — | — |
| SAM Flexible Income Portfolio | 8,698 | 9,416 | 5,225 | 12,090 | — | — |
| SAM Strategic Growth Portfolio | 5,459 | 4,097 | 17,641 | 35,588 | — | — |
| Short-Term Income Account | 4,459 | 4,274 | — | — | — | — |
| SmallCap Blend Account | 476 | 224 | 6,648 | 1,866 | — | — |

* The Accounts designate these distributions as long-term capital gain dividends per IRC Sec. 852(b)(3)(C) in the 20-percent group (which may be taxed at a 20-percent rate, a 15-percent rate or a 0-percent rate, depending on the shareholder's taxable income).

^ Unrecaptured Section 1250 gains are gains from the sale of depreciable property that are subject to a maximum tax rate of 25%.

For U.S. federal income tax purposes, short-term capital gain distributions are considered ordinary income distributions.

## 7. Federal Tax Information (Continued)

**Distributable Earnings.** As of December 31, 2015, the components of distributable earnings on a federal tax basis were as follows (amounts in thousands):

| | Undistributed Ordinary Income | Undistributed Long-Term Capital Gains | Accumulated Losses | Net Unrealized Appreciation (Depreciation) | Other Temporary Differences* | Total Accumulated Earnings (Deficit) |
|---|---|---|---|---|---|---|
| Diversified International Account | $ 5,956 | $ — | $(97,737) | $ 24,287 | $ — | $ (67,494) |
| Equity Income Account | 14,477 | 26,547 | — | 178,614 | — | 219,638 |
| Government & High Quality Bond Account | 9,147 | — | (22,657) | (2,887) | (60) | (16,457) |
| Income Account | 10,626 | — | (1,973) | 404 | — | 9,057 |
| LargeCap Growth Account | 284 | — | (12,361) | 27,541 | — | 15,464 |
| MidCap Account | 2,759 | 100,852 | — | 173,434 | — | 277,045 |
| Money Market Account | — | — | (8) | — | — | (8) |
| Principal Capital Appreciation Account | 1,744 | 1,187 | — | 31,117 | — | 34,048 |
| Real Estate Securities Account | 2,560 | 13,725 | — | 44,714 | — | 60,999 |
| SAM Balanced Portfolio | 16,569 | 48,124 | — | 49,469 | — | 114,162 |
| SAM Conservative Balanced Portfolio | 5,225 | 7,819 | — | 5,240 | — | 18,284 |
| SAM Conservative Growth Portfolio | 4,022 | 15,685 | — | 11,878 | — | 31,585 |
| SAM Flexible Income Portfolio | 7,106 | 4,130 | — | 5,901 | — | 17,137 |
| SAM Strategic Growth Portfolio | 3,369 | 12,907 | — | 2,114 | — | 18,390 |
| Short-Term Income Account | 3,579 | — | (16,882) | (1,004) | (24) | (14,331) |
| SmallCap Blend Account | 620 | 8,408 | — | (354) | — | 8,674 |

*Represents book-to-tax accounting differences.

**Capital Loss Carryforwards.** For federal income tax purposes, capital loss carryforwards are losses that can be used to offset future capital gains of an account. At December 31, 2015, the following Accounts had approximate net capital loss carryforwards as follows (amounts in thousands):

| | Net Capital Loss Carryforward Expiring In: | | | No Expiration | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | Short-Term | Long-Term | Total |
| Diversified International Account | $ — | $ 97,737 | $ — | $ — | $ — | $ 97,737 |
| Government & High Quality Bond Account | 18,770 | 3,887 | — | — | — | 22,657 |
| Income Account | — | 389 | 1,584 | — | — | 1,973 |
| LargeCap Growth Account | — | 12,361 | — | — | — | 12,361 |
| Money Market Account | 4 | 4 | — | — | — | 8 |
| Short-Term Income Account | 8,447 | 8,298 | — | 137 | — | 16,882 |

Capital losses generated in taxable years beginning after the enactment date of the Regulated Investment Company Modernization Act of 2010, December 22, 2010, will be carried forward with no expiration and with the character of the loss retained. These capital losses must be fully utilized before the pre-enactment capital loss carryforwards listed in the table above.

## 7. Federal Tax Information (Continued)

As of December 31, 2015, the following Accounts utilized capital loss carryforwards as follows (amounts in thousands):

| | Utilized |
|---|---|
| Diversified International Account | $ 13,070 |
| Equity Income Account | 3,348 |
| Income Account | 1,409 |
| LargeCap Growth Account | 4,958 |
| Money Market Account | 1 |

**Late-Year Losses.** A regulated investment company may elect to treat any portion of its qualified late-year loss as arising on the first day of the next taxable year. Qualified late-year losses are certain capital and ordinary losses which occur during the portion of the Account's taxable year subsequent to October 31. For the taxable year ended December 31, 2015, the Accounts do not plan to defer any late-year losses.

**Reclassification of Capital Accounts.** The Accounts may record reclassifications in their capital accounts. These reclassifications have no impact on the total net assets of the Accounts. The reclassifications are a result of permanent differences between GAAP and tax accounting. Adjustments are made to reflect the impact these items have on current and future distributions to shareholders. Therefore, the source of the Accounts' distributions may be shown in the accompanying Statement of Changes in Net Assets as from net investment income, from net realized gains on investments or from capital depending on the type of book and tax differences that exist. For the year ended December 31, 2015, the Accounts recorded reclassifications as follows (amounts in thousands):

| | Accumulated Undistributed Net Investment Income | Accumulated Net Realized Gain on Investments | Paid in Capital |
|---|---|---|---|
| Diversified International Account | $ 411 | $ (17,215) | $ 16,804 |
| Equity Income Account | (2,171) | 2,172 | (1) |
| Government & High Quality Bond Account | 1,152 | (1,152) | — |
| Income Account | 1,060 | (1,060) | — |
| MidCap Account | (117) | 117 | — |
| Principal Capital Appreciation Account | — | (1,102) | 1,102 |
| Short-Term Income Account | — | (106) | 106 |
| SmallCap Blend Account | 45 | (150) | 105 |

## 7. Federal Tax Information (Continued)

**Federal Income Tax Basis.** At December 31, 2015, the net federal income tax unrealized appreciation (depreciation) and federal tax cost of investments held by the Accounts were as follows (amounts in thousands):

| | Unrealized Appreciation | Unrealized (Depreciation) | Net Unrealized Appreciation (Depreciation) | Cost for Federal Income Tax Purposes |
|---|---|---|---|---|
| Diversified International Account | $ 40,890 | $ (16,453) | $ 24,437 | $ 249,466 |
| Equity Income Account | 202,458 | (23,844) | 178,614 | 357,968 |
| Government & High Quality Bond Account | 5,217 | (8,104) | (2,887) | 289,756 |
| Income Account | 9,202 | (8,798) | 404 | 255,905 |
| LargeCap Growth Account | 29,752 | (2,211) | 27,541 | 92,124 |
| MidCap Account | 196,082 | (22,648) | 173,434 | 458,226 |
| Money Market Account | — | — | — | 285,266 |
| Principal Capital Appreciation Account | 38,224 | (7,107) | 31,117 | 131,432 |
| Real Estate Securities Account | 46,175 | (1,461) | 44,714 | 115,530 |
| SAM Balanced Portfolio | 76,195 | (26,726) | 49,469 | 780,170 |
| SAM Conservative Balanced Portfolio | 11,323 | (6,083) | 5,240 | 206,169 |
| SAM Conservative Growth Portfolio | 25,775 | (13,897) | 11,878 | 285,945 |
| SAM Flexible Income Portfolio | 11,747 | (5,846) | 5,901 | 216,089 |
| SAM Strategic Growth Portfolio | 17,295 | (15,181) | 2,114 | 235,961 |
| Short-Term Income Account | 689 | (1,693) | (1,004) | 160,728 |
| SmallCap Blend Account | 20,646 | (21,000) | (354) | 210,117 |

## 8. Subsequent Events

Management has evaluated events and transactions that have occurred through the date the financial statements were issued that would merit recognition or disclosure in the financial statements. There were no items requiring adjustment of the financial statements or additional disclosure.

| COMMON STOCKS - 99.17% | Shares Held | Value (000's) |
|---|---|---|
| **Advertising - 0.41%** | | |
| WPP PLC | 48,864 | $ 1,124 |
| **Aerospace & Defense - 0.93%** | | |
| Safran SA | 25,313 | 1,739 |
| Thales SA | 10,891 | 815 |
| | | $ 2,554 |
| **Agriculture - 1.05%** | | |
| Imperial Tobacco Group PLC | 26,569 | 1,403 |
| KT&G Corp | 16,604 | 1,476 |
| | | $ 2,879 |
| **Airlines - 1.35%** | | |
| International Consolidated Airlines Group SA | 116,052 | 1,040 |
| Ryanair Holdings PLC ADR | 30,707 | 2,655 |
| | | $ 3,695 |
| **Automobile Manufacturers - 4.46%** | | |
| Daimler AG | 22,631 | 1,891 |
| Fuji Heavy Industries Ltd | 43,600 | 1,796 |
| Maruti Suzuki India Ltd | 18,946 | 1,319 |
| Renault SA | 21,668 | 2,169 |
| Toyota Motor Corp | 82,363 | 5,072 |
| | | $ 12,247 |
| **Automobile Parts & Equipment - 1.44%** | | |
| Bridgestone Corp | 47,303 | 1,623 |
| Continental AG | 9,679 | 2,341 |
| | | $ 3,964 |
| **Banks - 11.93%** | | |
| Axis Bank Ltd | 178,579 | 1,205 |
| Bank of Ireland [(a)] | 2,500,338 | 916 |
| Bank of Kyoto Ltd/The | 70,726 | 656 |
| Bank of Montreal | 37,267 | 2,103 |
| Canadian Imperial Bank of Commerce/Canada | 18,200 | 1,199 |
| China Construction Bank Corp | 2,080,728 | 1,419 |
| Commonwealth Bank of Australia | 25,251 | 1,561 |
| Danske Bank A/S | 57,331 | 1,538 |
| HDFC Bank Ltd [(b)] | 15,377 | 309 |
| HDFC Bank Ltd ADR | 7,514 | 463 |
| KBC Groep NV | 22,987 | 1,437 |
| Mediobanca SpA | 152,612 | 1,463 |
| Mitsubishi UFJ Financial Group Inc | 489,449 | 3,032 |
| Mizuho Financial Group Inc | 1,308,970 | 2,618 |
| Nordea Bank AB | 204,756 | 2,247 |
| Royal Bank of Canada | 41,059 | 2,200 |
| Skandinaviska Enskilda Banken AB | 163,895 | 1,724 |
| Sumitomo Mitsui Financial Group Inc | 43,044 | 1,625 |
| Svenska Handelsbanken AB | 83,407 | 1,108 |
| Toronto-Dominion Bank/The | 82,608 | 3,238 |
| Yes Bank Ltd | 64,646 | 705 |
| | | $ 32,766 |
| **Beverages - 1.37%** | | |
| Ambev SA | 264,800 | 1,195 |
| Anheuser-Busch InBev SA/NV | 20,563 | 2,559 |
| | | $ 3,754 |
| **Biotechnology - 1.25%** | | |
| China Biologic Products Inc [(a)] | 5,252 | 748 |
| CSL Ltd | 19,203 | 1,464 |
| Genmab A/S [(a)] | 9,182 | 1,221 |
| | | $ 3,433 |
| **Building Materials - 1.22%** | | |
| CRH PLC | 74,655 | 2,153 |
| Kingspan Group PLC | 44,647 | 1,204 |
| | | $ 3,357 |
| **Chemicals - 1.71%** | | |
| Evonik Industries AG | 34,233 | 1,132 |
| Givaudan SA [(a)] | 663 | 1,203 |
| Lonza Group AG [(a)] | 9,186 | 1,494 |
| Yara International ASA | 19,987 | 860 |
| | | $ 4,689 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Commercial Services - 1.04%** | | |
| Ashtead Group PLC | 59,332 | $ 977 |
| Ritchie Bros Auctioneers Inc | 21,600 | 520 |
| TAL Education Group ADR[(a)] | 29,298 | 1,361 |
| | | $ 2,858 |
| **Computers - 0.52%** | | |
| Cap Gemini SA | 15,262 | 1,416 |
| **Diversified Financial Services - 2.23%** | | |
| Euronext NV [(c)] | 5,068 | 260 |
| Intermediate Capital Group PLC | 68,523 | 631 |
| Macquarie Group Ltd | 46,671 | 2,792 |
| ORIX Corp | 138,700 | 1,946 |
| Paragon Group of Cos PLC/The | 93,498 | 486 |
| | | $ 6,115 |
| **Electric - 2.14%** | | |
| Enel SpA | 357,272 | 1,498 |
| Iberdrola SA | 335,293 | 2,377 |
| Korea Electric Power Corp | 46,917 | 1,988 |
| | | $ 5,863 |
| **Electrical Components & Equipment - 0.28%** | | |
| Prysmian SpA | 35,729 | 781 |
| **Electronics - 2.74%** | | |
| Hon Hai Precision Industry Co Ltd | 1,038,996 | 2,543 |
| Hoya Corp | 55,896 | 2,286 |
| Murata Manufacturing Co Ltd | 18,659 | 2,684 |
| | | $ 7,513 |
| **Energy - Alternate Sources - 0.68%** | | |
| Vestas Wind Systems A/S | 26,703 | 1,865 |
| **Engineering & Construction - 1.55%** | | |
| Acciona SA | 8,726 | 747 |
| Promotora y Operadora de Infraestructura SAB de CV [(a)] | 57,493 | 676 |
| Skanska AB | 40,506 | 786 |
| Vinci SA | 32,032 | 2,053 |
| | | $ 4,262 |
| **Entertainment - 0.24%** | | |
| Betfair Group PLC | 11,346 | 652 |
| **Food - 3.56%** | | |
| Delhaize Group | 19,767 | 1,924 |
| Ezaki Glico Co Ltd | 17,111 | 924 |
| Greencore Group PLC | 130,835 | 683 |
| Gruma SAB de CV | 65,613 | 920 |
| JBS SA | 294,400 | 919 |
| Nestle SA | 50,566 | 3,754 |
| Uni-President Enterprises Corp | 397,280 | 662 |
| | | $ 9,786 |
| **Forest Products & Paper - 0.75%** | | |
| Mondi PLC | 77,616 | 1,521 |
| Smurfit Kappa Group PLC | 21,414 | 549 |
| | | $ 2,070 |
| **Hand & Machine Tools - 0.33%** | | |
| Fuji Electric Co Ltd | 218,263 | 915 |
| **Healthcare - Services - 1.27%** | | |
| Fresenius SE & Co KGaA | 32,040 | 2,282 |
| Netcare Ltd | 193,269 | 423 |
| Ramsay Health Care Ltd | 16,021 | 788 |
| | | $ 3,493 |
| **Home Builders - 2.99%** | | |
| Barratt Developments PLC | 223,029 | 2,055 |
| Persimmon PLC [(a)] | 39,677 | 1,184 |
| Sekisui House Ltd | 128,532 | 2,161 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Home Builders (continued)** | | |
| Taylor Wimpey PLC | 945,017 | $ 2,825 |
| | | $ 8,225 |
| **Home Furnishings - 1.08%** | | |
| Howden Joinery Group PLC | 137,736 | 1,067 |
| Steinhoff International Holdings NV | 374,758 | 1,903 |
| | | $ 2,970 |
| **Insurance - 7.14%** | | |
| AXA SA | 87,423 | 2,389 |
| BB Seguridade Participacoes SA | 159,700 | 982 |
| Direct Line Insurance Group PLC | 413,603 | 2,479 |
| Fairfax Financial Holdings Ltd | 2,488 | 1,181 |
| Hannover Rueck SE | 22,255 | 2,541 |
| Legal & General Group PLC | 410,851 | 1,621 |
| NN Group NV | 24,384 | 861 |
| PICC Property & Casualty Co Ltd | 342,225 | 676 |
| Prudential PLC | 84,787 | 1,910 |
| Sampo Oyj | 28,768 | 1,461 |
| SCOR SE | 33,591 | 1,257 |
| Tokio Marine Holdings Inc | 57,950 | 2,238 |
| | | $ 19,596 |
| **Internet - 1.96%** | | |
| Alibaba Group Holding Ltd ADR[(a)] | 12,421 | 1,009 |
| Auto Trader Group PLC [(a),(c)] | 172,056 | 1,122 |
| Tencent Holdings Ltd | 165,893 | 3,248 |
| | | $ 5,379 |
| **Investment Companies - 0.91%** | | |
| Investor AB | 68,219 | 2,507 |
| **Leisure Products & Services - 0.27%** | | |
| Yamaha Motor Co Ltd | 33,083 | 742 |
| **Media - 1.76%** | | |
| ITV PLC | 800,663 | 3,260 |
| ProSiebenSat.1 Media SE | 31,329 | 1,580 |
| | | $ 4,840 |
| **Mining - 0.27%** | | |
| BHP Billiton PLC | 66,883 | 746 |
| **Miscellaneous Manufacturers - 1.31%** | | |
| FUJIFILM Holdings Corp | 58,480 | 2,441 |
| Largan Precision Co Ltd | 17,000 | 1,163 |
| | | $ 3,604 |
| **Oil & Gas - 3.95%** | | |
| Bharat Petroleum Corp Ltd | 65,555 | 880 |
| Caltex Australia Ltd | 72,915 | 1,993 |
| Canadian Natural Resources Ltd | 68,400 | 1,494 |
| Lukoil PJSC ADR | 30,754 | 996 |
| Statoil ASA | 94,765 | 1,322 |
| Suncor Energy Inc | 71,270 | 1,840 |
| TOTAL SA | 51,735 | 2,319 |
| | | $ 10,844 |
| **Pharmaceuticals - 7.39%** | | |
| Actelion Ltd [(a)] | 9,861 | 1,370 |
| BTG PLC [(a)] | 89,546 | 907 |
| Novartis AG | 34,230 | 2,944 |
| Novo Nordisk A/S | 77,184 | 4,469 |
| Roche Holding AG | 21,313 | 5,906 |
| Shire PLC | 42,612 | 2,924 |
| Teva Pharmaceutical Industries Ltd ADR | 27,003 | 1,773 |
| | | $ 20,293 |
| **Pipelines - 0.86%** | | |
| Keyera Corp | 24,640 | 717 |
| TransCanada Corp | 50,573 | 1,652 |
| | | $ 2,369 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Private Equity - 0.49%** | | |
| 3i Group PLC | 191,096 | $ 1,354 |
| **Real Estate - 2.90%** | | |
| Brookfield Asset Management Inc | 122,913 | 3,877 |
| Cheung Kong Property Holdings Ltd | 146,160 | 946 |
| Deutsche Wohnen AG | 46,630 | 1,289 |
| Vonovia SE | 41,685 | 1,288 |
| Wheelock & Co Ltd | 135,369 | 568 |
| | | $ 7,968 |
| **REITS - 0.28%** | | |
| Segro PLC | 122,423 | 775 |
| **Retail - 6.09%** | | |
| Alimentation Couche-Tard Inc | 85,523 | 3,765 |
| CK Hutchison Holdings Ltd | 200,011 | 2,689 |
| Dollarama Inc | 45,184 | 2,610 |
| GS Retail Co Ltd | 17,588 | 801 |
| Next PLC | 12,249 | 1,315 |
| Pandora A/S | 26,459 | 3,336 |
| Travis Perkins PLC | 20,503 | 595 |
| Wal-Mart de Mexico SAB de CV | 637,222 | 1,608 |
| | | $ 16,719 |
| **Semiconductors - 3.21%** | | |
| ARM Holdings PLC | 90,436 | 1,378 |
| Dialog Semiconductor PLC [(a)] | 16,588 | 554 |
| Infineon Technologies AG | 103,004 | 1,502 |
| Samsung Electronics Co Ltd | 2,333 | 2,488 |
| Taiwan Semiconductor Manufacturing Co Ltd | 668,140 | 2,882 |
| | | $ 8,804 |
| **Software - 1.70%** | | |
| HCL Technologies Ltd | 58,046 | 749 |
| SAP SE | 28,766 | 2,283 |
| UBISOFT Entertainment [(a)] | 56,890 | 1,646 |
| | | $ 4,678 |
| **Telecommunications - 7.74%** | | |
| Bharti Infratel Ltd | 155,786 | 1,005 |
| BT Group PLC | 443,360 | 3,079 |
| China Mobile Ltd | 235,454 | 2,650 |
| China Telecom Corp Ltd | 2,792,556 | 1,303 |
| Deutsche Telekom AG | 165,901 | 2,980 |
| KDDI Corp | 89,662 | 2,329 |
| Nippon Telegraph & Telephone Corp | 74,713 | 2,973 |
| NTT DOCOMO Inc | 78,800 | 1,616 |
| Orange SA | 148,540 | 2,484 |
| Proximus SADP | 26,146 | 851 |
| | | $ 21,270 |
| **Transportation - 1.89%** | | |
| Canadian National Railway Co | 49,228 | 2,752 |
| East Japan Railway Co | 19,300 | 1,818 |
| Euronav NV | 45,901 | 629 |
| | | $ 5,199 |
| **Water - 0.53%** | | |
| Veolia Environnement SA | 61,732 | 1,465 |
| TOTAL COMMON STOCKS | | $ 272,398 |

| INVESTMENT COMPANIES - 0.33% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 0.33%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 895,461 | 895 |
| TOTAL INVESTMENT COMPANIES | | $ 895 |

| PREFERRED STOCKS - 0.22% | Shares Held | Value (000's) |
|---|---|---|
| **Chemicals - 0.22%** | | |
| FUCHS PETROLUB SE | 12,945 | $ 610 |
| TOTAL PREFERRED STOCKS | | $ 610 |
| **Total Investments** | | **$ 273,903** |
| **Other Assets in Excess of Liabilities, Net - 0.28%** | | **$ 757** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 274,660** |

*(a) Non-Income Producing Security*

*(b) Fair value of these investments is determined in good faith by the Manager under procedures established and periodically reviewed by the Board of Directors. At the end of the period, the fair value of these securities totaled $309 or 0.11% of net assets.*

*(c) 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. At the end of the period, the value of these securities totaled $1,382 or 0.50% of net assets.*

**Portfolio Summary (unaudited)**

| Country | Percent |
|---|---|
| Japan | 15.10% |
| United Kingdom | 12.31% |
| Canada | 10.61% |
| Germany | 7.89% |
| France | 7.20% |
| Switzerland | 6.08% |
| Denmark | 4.53% |
| Ireland | 4.03% |
| China | 3.56% |
| Australia | 3.41% |
| Sweden | 3.04% |
| Belgium | 2.69% |
| Taiwan, Province Of China | 2.64% |
| Hong Kong | 2.50% |
| Korea, Republic Of | 2.46% |
| India | 2.42% |
| South Africa | 1.39% |
| Italy | 1.36% |
| Mexico | 1.17% |
| Spain | 1.14% |
| Brazil | 1.13% |
| Norway | 0.79% |
| Israel | 0.65% |
| Finland | 0.53% |
| Netherlands | 0.40% |
| Russian Federation | 0.36% |
| United States | 0.33% |
| Other Assets in Excess of Liabilities, Net | 0.28% |
| **TOTAL NET ASSETS** | 100.00% |

| COMMON STOCKS - 98.40% | Shares Held | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 2.39%** | | |
| Lockheed Martin Corp | 29,848 | $ 6,481 |
| Raytheon Co | 50,716 | 6,316 |
| | | $ 12,797 |
| **Apparel - 1.02%** | | |
| VF Corp | 88,161 | 5,488 |
| **Automobile Manufacturers - 1.33%** | | |
| PACCAR Inc | 150,879 | 7,152 |
| **Automobile Parts & Equipment - 2.36%** | | |
| Autoliv Inc | 62,592 | 7,810 |
| Johnson Controls Inc | 122,223 | 4,826 |
| | | $ 12,636 |
| **Banks - 9.97%** | | |
| Australia & New Zealand Banking Group Ltd ADR | 19,221 | 389 |
| Bank of Nova Scotia/The | 109,900 | 4,444 |
| Grupo Financiero Santander Mexico SAB de CV ADR | 246,333 | 2,136 |
| JPMorgan Chase & Co | 200,491 | 13,238 |
| M&T Bank Corp | 34,420 | 4,171 |
| PNC Financial Services Group Inc/The | 115,709 | 11,028 |
| US Bancorp | 191,696 | 8,180 |
| Wells Fargo & Co | 181,712 | 9,878 |
| | | $ 53,464 |
| **Beverages - 0.81%** | | |
| Coca-Cola Co/The | 100,807 | 4,331 |
| **Chemicals - 1.88%** | | |
| Air Products & Chemicals Inc | 33,980 | 4,421 |
| EI du Pont de Nemours & Co | 58,776 | 3,914 |
| PPG Industries Inc | 17,556 | 1,735 |
| | | $ 10,070 |
| **Computers - 4.33%** | | |
| Accenture PLC - Class A | 17,741 | 1,854 |
| Apple Inc | 126,952 | 13,363 |
| EMC Corp/MA | 224,974 | 5,777 |
| International Business Machines Corp | 16,406 | 2,258 |
| | | $ 23,252 |
| **Distribution & Wholesale - 0.82%** | | |
| Genuine Parts Co | 50,956 | 4,377 |
| **Diversified Financial Services - 6.04%** | | |
| BlackRock Inc | 33,526 | 11,416 |
| Discover Financial Services | 172,757 | 9,263 |
| FNF Group | 338,521 | 11,737 |
| | | $ 32,416 |
| **Electric - 5.43%** | | |
| Eversource Energy | 143,302 | 7,318 |
| NextEra Energy Inc | 56,058 | 5,824 |
| WEC Energy Group Inc | 141,658 | 7,269 |
| Xcel Energy Inc | 242,868 | 8,721 |
| | | $ 29,132 |
| **Electrical Components & Equipment - 0.74%** | | |
| Emerson Electric Co | 83,605 | 3,999 |
| **Electronics - 1.24%** | | |
| Garmin Ltd | 59,172 | 2,199 |
| Honeywell International Inc | 42,829 | 4,436 |
| | | $ 6,635 |
| **Food - 3.12%** | | |
| Kraft Heinz Co/The | 77,941 | 5,671 |
| Kroger Co/The | 264,421 | 11,061 |
| | | $ 16,732 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Gas - 1.14%** | | |
| Sempra Energy | 65,151 | $ 6,125 |
| **Healthcare - Products - 2.30%** | | |
| Becton Dickinson and Co | 29,455 | 4,539 |
| Medtronic PLC | 101,616 | 7,816 |
| | | $ 12,355 |
| **Insurance - 6.40%** | | |
| ACE Ltd | 125,268 | 14,638 |
| Allstate Corp/The | 74,872 | 4,649 |
| Chubb Corp/The | 8,861 | 1,175 |
| MetLife Inc | 243,502 | 11,739 |
| Swiss Re AG ADR | 86,116 | 2,111 |
| | | $ 34,312 |
| **Machinery - Diversified - 2.09%** | | |
| Deere & Co | 147,211 | 11,228 |
| **Media - 0.20%** | | |
| Walt Disney Co/The | 10,336 | 1,086 |
| **Mining - 0.25%** | | |
| BHP Billiton Ltd ADR | 52,637 | 1,356 |
| **Miscellaneous Manufacturers - 1.97%** | | |
| 3M Co | 21,396 | 3,223 |
| Parker-Hannifin Corp | 75,603 | 7,332 |
| | | $ 10,555 |
| **Oil & Gas - 9.57%** | | |
| Chevron Corp | 68,995 | 6,207 |
| Cimarex Energy Co | 66,148 | 5,912 |
| Crescent Point Energy Corp | 42,920 | 500 |
| Exxon Mobil Corp | 95,899 | 7,475 |
| HollyFrontier Corp | 34,006 | 1,357 |
| Marathon Oil Corp | 31,043 | 391 |
| Marathon Petroleum Corp | 221,020 | 11,458 |
| Occidental Petroleum Corp | 143,871 | 9,727 |
| Royal Dutch Shell PLC - B shares ADR | 180,020 | 8,288 |
| | | $ 51,315 |
| **Pharmaceuticals - 10.69%** | | |
| Abbott Laboratories | 205,408 | 9,225 |
| GlaxoSmithKline PLC ADR | 26,484 | 1,069 |
| Johnson & Johnson | 63,849 | 6,559 |
| Merck & Co Inc | 163,819 | 8,653 |
| Novartis AG ADR | 74,117 | 6,377 |
| Pfizer Inc | 292,759 | 9,450 |
| Roche Holding AG ADR | 267,784 | 9,230 |
| Teva Pharmaceutical Industries Ltd ADR | 102,838 | 6,750 |
| | | $ 57,313 |
| **Pipelines - 2.36%** | | |
| Enterprise Products Partners LP | 349,458 | 8,939 |
| Kinder Morgan Inc/DE | 251,292 | 3,749 |
| | | $ 12,688 |
| **Private Equity - 1.10%** | | |
| KKR & Co LP | 378,433 | 5,900 |
| **REITS - 4.38%** | | |
| American Capital Agency Corp | 275,603 | 4,779 |
| Annaly Capital Management Inc | 567,013 | 5,319 |
| Digital Realty Trust Inc | 177,050 | 13,388 |
| | | $ 23,486 |
| **Retail - 1.97%** | | |
| Costco Wholesale Corp | 25,967 | 4,194 |
| Starbucks Corp | 90,506 | 5,433 |
| Tiffany & Co | 12,167 | 928 |
| | | $ 10,555 |
| **Semiconductors - 5.21%** | | |
| Applied Materials Inc | 385,220 | 7,192 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Semiconductors (continued)** | | |
| Maxim Integrated Products Inc | 116,756 | $ 4,437 |
| Microchip Technology Inc | 204,565 | 9,520 |
| Taiwan Semiconductor Manufacturing Co Ltd ADR | 298,043 | 6,781 |
| | | $ 27,930 |
| **Software - 0.99%** | | |
| Microsoft Corp | 95,393 | 5,292 |
| **Telecommunications - 2.38%** | | |
| BCE Inc | 184,494 | 7,125 |
| Verizon Communications Inc | 121,607 | 5,621 |
| | | $ 12,746 |
| **Toys, Games & Hobbies - 1.96%** | | |
| Hasbro Inc | 156,030 | 10,510 |
| **Transportation - 1.96%** | | |
| Norfolk Southern Corp | 38,780 | 3,280 |
| Union Pacific Corp | 51,730 | 4,045 |
| United Parcel Service Inc | 33,123 | 3,188 |
| | | $ 10,513 |
| TOTAL COMMON STOCKS | | $ 527,746 |
| **INVESTMENT COMPANIES - 1.65%** | **Shares Held** | **Value (000's)** |
| **Publicly Traded Investment Fund - 1.65%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 8,836,937 | 8,836 |
| TOTAL INVESTMENT COMPANIES | | $ 8,836 |
| **Total Investments** | | **$ 536,582** |
| **Liabilities in Excess of Other Assets, Net - (0.05)%** | | **$ (241)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 536,341** |

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 27.89% |
| Consumer, Non-cyclical | 16.92% |
| Energy | 11.93% |
| Technology | 10.53% |
| Industrial | 10.39% |
| Consumer, Cyclical | 9.46% |
| Utilities | 6.57% |
| Communications | 2.58% |
| Basic Materials | 2.13% |
| Exchange Traded Funds | 1.65% |
| Liabilities in Excess of Other Assets, Net | (0.05)% |
| **TOTAL NET ASSETS** | 100.00% |

| INVESTMENT COMPANIES - 0.95% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 0.95%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 2,750,964 | $ 2,750 |
| TOTAL INVESTMENT COMPANIES | | $ 2,750 |

| BONDS - 30.96% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Commercial Mortgage Backed Securities - 14.05%** | | |
| CFCRE Commercial Mortgage Trust 2011-C1 | | |
| 5.87%, 04/15/2044[(a),(b)] | $ 1,000 | $ 1,082 |
| Citigroup Commercial Mortgage Trust 2015-GC35 | | |
| 4.35%, 11/10/2048[(a)] | 700 | 710 |
| COMM 2014-UBS4 Mortgage Trust | | |
| 4.62%, 08/10/2047[(a)] | 1,000 | 943 |
| Ginnie Mae | | |
| 0.11%, 04/16/2053[(a)] | 8,898 | 227 |
| 0.48%, 05/16/2053[(a)] | 10,692 | 506 |
| 0.53%, 01/16/2054[(a)] | 20,355 | 964 |
| 0.57%, 02/16/2053[(a)] | 19,006 | 869 |
| 0.69%, 03/16/2049[(a)] | 8,151 | 328 |
| 0.71%, 04/16/2047[(a)] | 16,119 | 869 |
| 0.74%, 11/16/2045[(a)] | 26,084 | 1,443 |
| 0.77%, 09/16/2051[(a)] | 5,259 | 311 |
| 0.78%, 12/16/2053[(a)] | 14,632 | 847 |
| 0.80%, 02/16/2053[(a)] | 20,752 | 1,374 |
| 0.83%, 11/16/2052[(a)] | 17,199 | 1,083 |
| 0.84%, 10/16/2054[(a)] | 14,419 | 701 |
| 0.88%, 03/16/2052[(a)] | 16,824 | 1,231 |
| 0.88%, 02/16/2053[(a)] | 15,114 | 986 |
| 0.93%, 01/16/2053[(a)] | 9,140 | 652 |
| 0.95%, 07/16/2047[(a)] | 8,506 | 565 |
| 0.95%, 09/16/2053[(a)] | 11,620 | 461 |
| 0.95%, 02/16/2055[(a)] | 25,453 | 1,130 |
| 0.96%, 02/16/2046[(a)] | 13,168 | 803 |
| 0.96%, 09/16/2053[(a)] | 13,729 | 863 |
| 0.96%, 01/16/2057[(a)] | 8,026 | 641 |
| 1.01%, 10/16/2056[(a)] | 6,947 | 589 |
| 1.22%, 03/16/2049[(a)] | 29,528 | 1,844 |
| 2.27%, 03/16/2046[(a)] | 1,602 | 1,590 |
| 2.30%, 08/16/2041 | 1,766 | 1,790 |
| 2.63%, 09/16/2055[(a)] | 598 | 592 |
| 3.00%, 09/16/2049 | 350 | 332 |
| 3.49%, 07/16/2045[(a)] | 1,777 | 1,823 |
| GS Mortgage Securities Trust 2011-GC5 | | |
| 5.31%, 08/10/2044[(a),(b)] | 900 | 901 |
| GS Mortgage Securities Trust 2015-GC34 | | |
| 4.81%, 10/10/2048 | 900 | 864 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2011-C5 | | |
| 5.32%, 08/15/2046[(a),(b)] | 2,000 | 2,203 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2013-C10 | | |
| 3.37%, 12/15/2047[(a)] | 1,200 | 1,196 |
| JP Morgan Chase Commercial Mortgage Securities Trust 2013-C16 | | |
| 4.94%, 12/15/2046[(a)] | 1,800 | 1,935 |
| JPMBB Commercial Mortgage Securities Trust 2014-C25 | | |
| 4.45%, 11/15/2047[(a)] | 1,000 | 967 |
| WFRBS Commercial Mortgage Trust 2013-C14 | | |
| 4.00%, 06/15/2046[(a),(b)] | 1,000 | 897 |
| WFRBS Commercial Mortgage Trust 2014-C23 | | |
| 4.38%, 10/15/2057[(a)] | 1,000 | 1,026 |
| WFRBS Commercial Mortgage Trust 2014-LC14 | | |
| 4.34%, 03/15/2047[(a)] | 2,450 | 2,407 |
| | | $ 40,545 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Home Equity Asset Backed Securities - 1.11%** | | |
| ACE Securities Corp Mortgage Loan Trust Series 2007-D1 | | |
| 6.34%, 02/25/2038[(a),(b)] | $ 1,800 | $ 1,730 |
| 6.93%, 02/25/2038[(b)] | 1,476 | 1,456 |
| | | $ 3,186 |
| **Mortgage Backed Securities - 15.77%** | | |
| Citigroup Mortgage Loan Trust 2009-11 | | |
| 1.57%, 10/25/2035[(a),(b)] | 73 | 73 |
| Citigroup Mortgage Loan Trust 2010-10 | | |
| 2.56%, 02/25/2036[(a),(b)] | 1,400 | 1,379 |
| Fannie Mae Grantor Trust 2005-T1 | | |
| 0.77%, 05/25/2035[(a)] | 400 | 392 |
| Fannie Mae Interest Strip | | |
| 3.50%, 12/25/2043 | 2,733 | 490 |
| Fannie Mae REMICS | | |
| 2.00%, 02/25/2040[(a)] | 1,521 | 1,497 |
| 2.50%, 11/25/2041 | 1,051 | 1,056 |
| 3.00%, 04/25/2045 | 1,023 | 921 |
| 3.50%, 01/25/2028[(a)] | 5,241 | 615 |
| 3.50%, 01/25/2040[(a)] | 5,783 | 734 |
| 3.50%, 11/25/2042[(a)] | 6,220 | 1,157 |
| 4.00%, 12/25/2039 | 3,155 | 343 |
| 4.00%, 11/25/2042[(a)] | 3,263 | 774 |
| 7.00%, 04/25/2032 | 233 | 265 |
| 8.70%, 12/25/2019 | 2 | 2 |
| Freddie Mac REMICS | | |
| 1.50%, 04/15/2028 | 2,091 | 2,041 |
| 2.04%, 10/15/2040[(a)] | 6,419 | 450 |
| 2.50%, 11/15/2028[(a)] | 6,853 | 498 |
| 2.50%, 11/15/2032 | 1,621 | 1,590 |
| 2.50%, 01/15/2043[(a)] | 4,232 | 597 |
| 2.50%, 02/15/2043 | 1,560 | 1,512 |
| 3.00%, 11/15/2030[(a)] | 5,182 | 447 |
| 3.00%, 05/15/2033 | 2,700 | 2,657 |
| 3.00%, 06/15/2033[(a)] | 9,085 | 830 |
| 3.00%, 11/15/2035 | 950 | 932 |
| 3.00%, 06/15/2040 | 876 | 897 |
| 3.50%, 10/15/2027 | 7,162 | 830 |
| 3.50%, 08/15/2040[(a)] | 5,563 | 558 |
| 4.00%, 05/15/2039 | 4,200 | 4,377 |
| 4.00%, 10/15/2040 | 3,000 | 3,147 |
| 4.50%, 05/15/2037[(a)] | 960 | 995 |
| Freddie Mac Strips | | |
| 1.95%, 10/15/2037[(a)] | 18,870 | 1,285 |
| 2.01%, 02/15/2038[(a)] | 15,957 | 1,149 |
| 3.00%, 12/15/2032[(a)] | 9,693 | 1,164 |
| Ginnie Mae | | |
| 1.24%, 03/20/2041[(a)] | 5,765 | 256 |
| 3.50%, 12/20/2034[(a)] | 5,681 | 312 |
| 3.50%, 05/20/2039 | 382 | 395 |
| 3.50%, 05/20/2043[(a)] | 7,112 | 1,000 |
| 3.50%, 04/16/2044 | 618 | 608 |
| JP Morgan Mortgage Trust 2013-1 | | |
| 3.00%, 03/25/2043[(b)] | 1,485 | 1,452 |
| New Residential Mortgage Loan Trust 2014-1 | | |
| 5.00%, 01/25/2054[(a),(b)] | 1,854 | 1,990 |
| New Residential Mortgage Loan Trust 2014-3 | | |
| 4.75%, 11/25/2054[(a),(b)] | 1,290 | 1,357 |
| New Residential Mortgage Loan Trust 2015-2 | | |
| 5.60%, 08/25/2055[(a)] | 1,400 | 1,449 |
| Springleaf Mortgage Loan Trust 2013-3 | | |
| 3.79%, 09/25/2057[(a),(b)] | 1,000 | 1,010 |
| | | $ 45,483 |
| **Other Asset Backed Securities - 0.03%** | | |
| Chase Funding Trust Series 2004-1 | | |
| 0.88%, 12/25/2033[(a)] | 98 | 91 |
| TOTAL BONDS | | $ 89,305 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS - 67.53% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal Home Loan Mortgage Corporation (FHLMC) - 14.39%** | | |
| 2.00%, 02/01/2028 | $ 1,842 | $ 1,827 |
| 2.00%, 03/01/2028 | 468 | 464 |
| 2.48%, 09/01/2032[a] | 27 | 28 |
| 2.50%, 09/01/2027 | 670 | 682 |
| 2.50%, 02/01/2028 | 1,357 | 1,380 |
| 3.00%, 02/01/2027 | 513 | 530 |
| 3.00%, 08/01/2042 | 1,122 | 1,121 |
| 3.00%, 10/01/2042 | 1,543 | 1,544 |
| 3.00%, 10/01/2042 | 797 | 798 |
| 3.00%, 10/01/2042 | 1,435 | 1,436 |
| 3.00%, 05/01/2043 | 1,619 | 1,619 |
| 3.50%, 02/01/2032 | 2,153 | 2,251 |
| 3.50%, 04/01/2042 | 2,575 | 2,655 |
| 3.50%, 04/01/2042 | 611 | 630 |
| 3.50%, 05/01/2042 | 885 | 914 |
| 3.50%, 07/01/2042 | 3,178 | 3,279 |
| 3.50%, 09/01/2042 | 1,465 | 1,510 |
| 3.50%, 10/01/2042 | 906 | 935 |
| 3.50%, 02/01/2044 | 1,338 | 1,383 |
| 4.00%, 12/01/2040 | 618 | 657 |
| 4.00%, 07/01/2042 | 1,167 | 1,248 |
| 4.00%, 01/01/2043 | 1,832 | 1,945 |
| 4.00%, 06/01/2043 | 2,082 | 2,214 |
| 4.50%, 08/01/2033 | 81 | 87 |
| 4.50%, 07/01/2039 | 1,181 | 1,282 |
| 4.50%, 12/01/2040 | 1,253 | 1,352 |
| 4.50%, 05/01/2041 | 1,205 | 1,308 |
| 4.50%, 11/01/2043 | 1,594 | 1,755 |
| 5.00%, 10/01/2025 | 285 | 311 |
| 5.00%, 02/01/2033 | 354 | 391 |
| 5.00%, 06/01/2033 | 296 | 329 |
| 5.00%, 05/01/2035 | 126 | 138 |
| 5.00%, 07/01/2035 | 58 | 65 |
| 5.00%, 07/01/2035 | 25 | 27 |
| 5.00%, 07/01/2035 | 211 | 233 |
| 5.00%, 10/01/2035 | 98 | 109 |
| 5.50%, 04/01/2018 | 29 | 29 |
| 5.50%, 03/01/2024 | 16 | 18 |
| 5.50%, 03/01/2033 | 239 | 266 |
| 5.50%, 04/01/2038 | 18 | 20 |
| 5.50%, 05/01/2038 | 94 | 104 |
| 6.00%, 04/01/2017 | 10 | 10 |
| 6.00%, 04/01/2017 | 14 | 14 |
| 6.00%, 05/01/2017 | 11 | 11 |
| 6.00%, 07/01/2017 | 6 | 6 |
| 6.00%, 12/01/2023 | 8 | 9 |
| 6.00%, 05/01/2031 | 21 | 24 |
| 6.00%, 12/01/2031 | 26 | 29 |
| 6.00%, 09/01/2032 | 30 | 34 |
| 6.00%, 11/01/2033 | 52 | 59 |
| 6.00%, 11/01/2033 | 72 | 81 |
| 6.00%, 05/01/2034 | 341 | 381 |
| 6.00%, 05/01/2034 | 196 | 224 |
| 6.00%, 09/01/2034 | 107 | 122 |
| 6.00%, 02/01/2035 | 112 | 128 |
| 6.00%, 10/01/2036[a] | 108 | 123 |
| 6.00%, 03/01/2037 | 78 | 89 |
| 6.00%, 01/01/2038 | 172 | 195 |
| 6.00%, 01/01/2038[a] | 52 | 59 |
| 6.00%, 04/01/2038 | 85 | 96 |
| 6.50%, 11/01/2016 | 3 | 3 |
| 6.50%, 06/01/2017 | 17 | 17 |
| 6.50%, 06/01/2018 | 5 | 5 |
| 6.50%, 08/01/2021 | 5 | 5 |
| 6.50%, 12/01/2021 | 32 | 36 |
| 6.50%, 04/01/2022 | 35 | 40 |
| 6.50%, 05/01/2022 | 14 | 16 |
| 6.50%, 05/01/2023 | 19 | 20 |
| 6.50%, 04/01/2024 | 7 | 8 |
| 6.50%, 04/01/2026 | 5 | 6 |
| 6.50%, 05/01/2026 | 3 | 3 |
| 6.50%, 05/01/2026 | 6 | 7 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal Home Loan Mortgage Corporation (FHLMC) (continued)** | | |
| 6.50%, 12/01/2027 | $ 7 | $ 7 |
| 6.50%, 01/01/2028 | 8 | 9 |
| 6.50%, 03/01/2028 | 5 | 6 |
| 6.50%, 09/01/2028 | 2 | 2 |
| 6.50%, 10/01/2028 | 32 | 36 |
| 6.50%, 11/01/2028 | 7 | 8 |
| 6.50%, 12/01/2028 | 16 | 18 |
| 6.50%, 03/01/2029 | 7 | 8 |
| 6.50%, 07/01/2031 | 68 | 77 |
| 6.50%, 08/01/2031 | 6 | 7 |
| 6.50%, 10/01/2031 | 9 | 10 |
| 6.50%, 10/01/2031 | 16 | 19 |
| 6.50%, 12/01/2031 | 31 | 36 |
| 6.50%, 02/01/2032 | 28 | 32 |
| 6.50%, 05/01/2032 | 65 | 74 |
| 6.50%, 04/01/2035 | 10 | 12 |
| 7.00%, 09/01/2023 | 12 | 13 |
| 7.00%, 12/01/2023 | 5 | 6 |
| 7.00%, 01/01/2024 | 6 | 7 |
| 7.00%, 09/01/2027 | 7 | 8 |
| 7.00%, 01/01/2028 | 58 | 65 |
| 7.00%, 04/01/2028 | 32 | 38 |
| 7.00%, 05/01/2028 | 5 | 5 |
| 7.00%, 10/01/2031 | 13 | 16 |
| 7.00%, 10/01/2031 | 17 | 19 |
| 7.00%, 04/01/2032 | 96 | 113 |
| 7.50%, 10/01/2030 | 16 | 19 |
| 7.50%, 02/01/2031 | 7 | 7 |
| 7.50%, 02/01/2031 | 7 | 8 |
| 7.50%, 02/01/2031 | 14 | 16 |
| 8.00%, 10/01/2030 | 28 | 33 |
| 8.00%, 12/01/2030 | 2 | 2 |
| 8.50%, 07/01/2029 | 32 | 36 |
| | | $ 41,506 |
| **Federal National Mortgage Association (FNMA) - 35.95%** | | |
| 2.00%, 10/01/2027 | 675 | 669 |
| 2.00%, 10/01/2027 | 1,749 | 1,735 |
| 2.00%, 07/01/2030 | 1,432 | 1,408 |
| 2.32%, 12/01/2032[a] | 48 | 50 |
| 2.34%, 07/01/2034[a] | 66 | 70 |
| 2.48%, 12/01/2033[a] | 191 | 200 |
| 2.50%, 05/01/2027 | 1,755 | 1,784 |
| 2.50%, 06/01/2027 | 2,103 | 2,137 |
| 2.50%, 06/01/2027 | 1,662 | 1,689 |
| 2.50%, 05/01/2028 | 1,070 | 1,086 |
| 2.50%, 07/01/2028 | 783 | 786 |
| 3.00%, 05/01/2028 | 1,390 | 1,436 |
| 3.00%, 05/01/2029 | 1,617 | 1,672 |
| 3.00%, 10/01/2042 | 2,310 | 2,325 |
| 3.00%, 11/01/2042 | 790 | 789 |
| 3.00%, 11/01/2042 | 2,500 | 2,516 |
| 3.00%, 01/01/2043 | 1,062 | 1,069 |
| 3.00%, 02/01/2043 | 1,572 | 1,585 |
| 3.00%, 02/01/2043 | 1,623 | 1,630 |
| 3.00%, 04/01/2043 | 1,460 | 1,458 |
| 3.00%, 04/01/2045 | 965 | 966 |
| 3.50%, 02/01/2042 | 1,735 | 1,802 |
| 3.50%, 09/01/2042 | 3,041 | 3,150 |
| 3.50%, 11/01/2042 | 2,147 | 2,225 |
| 3.50%, 12/01/2042 | 2,214 | 2,294 |
| 3.50%, 02/01/2043 | 791 | 823 |
| 3.50%, 10/01/2044 | 920 | 955 |
| 3.50%, 11/01/2044 | 927 | 963 |
| 3.50%, 03/01/2045 | 2,263 | 2,342 |
| 3.50%, 03/01/2045 | 947 | 981 |
| 3.50%, 06/01/2045 | 1,629 | 1,692 |
| 3.50%, 09/01/2045 | 1,375 | 1,423 |
| 4.00%, 01/01/2034 | 1,003 | 1,073 |
| 4.00%, 11/01/2040 | 983 | 1,044 |
| 4.00%, 12/01/2040 | 940 | 1,003 |
| 4.00%, 01/01/2041 | 2,019 | 2,142 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal National Mortgage Association (FNMA) (continued)** | | |
| 4.00%, 02/01/2041 | $ 1,724 | $ 1,828 |
| 4.00%, 02/01/2041 | 2,352 | 2,510 |
| 4.00%, 03/01/2041 | 2,333 | 2,474 |
| 4.00%, 04/01/2041 | 1,868 | 1,982 |
| 4.00%, 11/01/2041 | 930 | 987 |
| 4.00%, 02/01/2042 | 1,457 | 1,555 |
| 4.00%, 04/01/2042 | 1,081 | 1,147 |
| 4.00%, 08/01/2043 | 808 | 867 |
| 4.00%, 10/01/2043 | 747 | 797 |
| 4.00%, 10/01/2043 | 796 | 845 |
| 4.00%, 08/01/2044 | 893 | 956 |
| 4.00%, 10/01/2044 | 2,756 | 2,931 |
| 4.00%, 09/01/2045 | 2,761 | 2,956 |
| 4.50%, 12/01/2019 | 40 | 42 |
| 4.50%, 01/01/2020 | 159 | 166 |
| 4.50%, 08/01/2039 | 769 | 846 |
| 4.50%, 09/01/2039 | 1,201 | 1,311 |
| 4.50%, 03/01/2042 | 774 | 852 |
| 4.50%, 09/01/2043 | 1,264 | 1,394 |
| 4.50%, 09/01/2043 | 3,026 | 3,338 |
| 4.50%, 10/01/2043 | 1,546 | 1,703 |
| 4.50%, 11/01/2043 | 1,720 | 1,896 |
| 4.50%, 05/01/2044 | 1,742 | 1,888 |
| 4.50%, 09/01/2044 | 894 | 986 |
| 5.00%, 01/01/2018 | 75 | 78 |
| 5.00%, 11/01/2018 | 64 | 67 |
| 5.00%, 05/01/2033 | 2,191 | 2,464 |
| 5.00%, 05/01/2034 | 370 | 409 |
| 5.00%, 04/01/2035 | 233 | 261 |
| 5.00%, 04/01/2035 | 183 | 205 |
| 5.00%, 07/01/2035 | 11 | 12 |
| 5.00%, 02/01/2038 | 599 | 673 |
| 5.00%, 03/01/2038 | 846 | 949 |
| 5.00%, 02/01/2040 | 2,446 | 2,759 |
| 5.00%, 07/01/2041 | 1,909 | 2,153 |
| 5.00%, 07/01/2041 | 1,090 | 1,213 |
| 5.50%, 08/01/2017 | 19 | 19 |
| 5.50%, 12/01/2017 | 16 | 17 |
| 5.50%, 01/01/2018 | 41 | 42 |
| 5.50%, 07/01/2019 | 32 | 34 |
| 5.50%, 08/01/2019 | 10 | 10 |
| 5.50%, 08/01/2019 | 8 | 8 |
| 5.50%, 08/01/2019 | 9 | 10 |
| 5.50%, 08/01/2019 | 73 | 77 |
| 5.50%, 08/01/2019 | 19 | 20 |
| 5.50%, 08/01/2019 | 9 | 9 |
| 5.50%, 09/01/2019 | 44 | 46 |
| 5.50%, 10/01/2019 | 19 | 20 |
| 5.50%, 05/01/2024 | 17 | 19 |
| 5.50%, 05/01/2033 | 35 | 38 |
| 5.50%, 06/01/2033 | 138 | 155 |
| 5.50%, 06/01/2033 | 108 | 121 |
| 5.50%, 09/01/2033 | 588 | 669 |
| 5.50%, 02/01/2037 | 15 | 16 |
| 5.50%, 03/01/2038 | 215 | 244 |
| 5.50%, 03/01/2038 | 316 | 355 |
| 5.50%, 08/01/2038 | 172 | 195 |
| 6.00%, 08/01/2016 | 1 | 1 |
| 6.00%, 12/01/2016 | 10 | 10 |
| 6.00%, 08/01/2017 | 28 | 28 |
| 6.00%, 06/01/2022 | 37 | 42 |
| 6.00%, 11/01/2028 | 22 | 25 |
| 6.00%, 08/01/2031 | 79 | 90 |
| 6.00%, 12/01/2031 | 18 | 21 |
| 6.00%, 01/01/2033 | 106 | 121 |
| 6.00%, 02/01/2034 | 28 | 31 |
| 6.00%, 05/01/2037 | 295 | 329 |
| 6.00%, 07/01/2037 | 254 | 287 |
| 6.00%, 11/01/2037 | 43 | 48 |
| 6.00%, 12/01/2037 | 20 | 22 |
| 6.00%, 03/01/2038 | 134 | 153 |
| 6.00%, 08/01/2038 | 673 | 765 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal National Mortgage Association (FNMA) (continued)** | | |
| 6.50%, 06/01/2016 | $ 2 | $ 2 |
| 6.50%, 08/01/2017 | 12 | 12 |
| 6.50%, 11/01/2023 | 26 | 30 |
| 6.50%, 05/01/2024 | 20 | 23 |
| 6.50%, 09/01/2024 | 22 | 26 |
| 6.50%, 07/01/2025 | 13 | 15 |
| 6.50%, 08/01/2025 | 34 | 38 |
| 6.50%, 02/01/2026 | 8 | 10 |
| 6.50%, 03/01/2026 | 2 | 2 |
| 6.50%, 05/01/2026 | 5 | 5 |
| 6.50%, 06/01/2026 | 3 | 3 |
| 6.50%, 07/01/2028 | 12 | 13 |
| 6.50%, 09/01/2028 | 20 | 23 |
| 6.50%, 02/01/2029 | 4 | 5 |
| 6.50%, 03/01/2029 | 11 | 12 |
| 6.50%, 04/01/2029 | 5 | 6 |
| 6.50%, 06/01/2031 | 10 | 12 |
| 6.50%, 06/01/2031 | 12 | 14 |
| 6.50%, 09/01/2031 | 18 | 21 |
| 6.50%, 01/01/2032 | 4 | 5 |
| 6.50%, 04/01/2032 | 64 | 73 |
| 6.50%, 08/01/2032 | 22 | 26 |
| 6.50%, 11/01/2032 | 33 | 37 |
| 6.50%, 02/01/2033 | 32 | 37 |
| 6.50%, 07/01/2034 | 134 | 154 |
| 6.50%, 12/01/2036 | 82 | 94 |
| 6.50%, 07/01/2037 | 57 | 67 |
| 6.50%, 07/01/2037 | 41 | 47 |
| 6.50%, 02/01/2038 | 43 | 50 |
| 7.00%, 01/01/2027 | 2 | 2 |
| 7.00%, 11/01/2027 | 8 | 8 |
| 7.00%, 08/01/2028 | 28 | 31 |
| 7.00%, 12/01/2028 | 23 | 26 |
| 7.00%, 10/01/2029 | 29 | 33 |
| 7.00%, 05/01/2031 | 5 | 5 |
| 7.00%, 11/01/2031 | 56 | 63 |
| 7.50%, 04/01/2022 | 1 | 1 |
| 7.50%, 11/01/2029 | 15 | 16 |
| 8.00%, 05/01/2027 | 24 | 25 |
| 8.00%, 09/01/2027 | 11 | 11 |
| 8.00%, 06/01/2030 | 4 | 4 |
| 8.50%, 10/01/2027 | 33 | 35 |
| 9.00%, 09/01/2030 | 9 | 11 |
| | | $ 103,702 |
| **Government National Mortgage Association (GNMA) - 7.36%** | | |
| 3.00%, 04/15/2027 | 1,057 | 1,097 |
| 3.00%, 11/15/2042 | 1,593 | 1,617 |
| 3.00%, 12/15/2042 | 2,992 | 3,044 |
| 3.00%, 02/15/2043 | 2,359 | 2,407 |
| 3.50%, 12/20/2041 | 1,616 | 1,690 |
| 3.50%, 01/15/2043 | 1,852 | 1,938 |
| 3.50%, 06/20/2043 | 1,249 | 1,310 |
| 4.00%, 03/20/2040 | 1,587 | 1,700 |
| 4.00%, 08/15/2041 | 1,603 | 1,729 |
| 4.50%, 07/15/2040 | 1,307 | 1,425 |
| 5.00%, 09/15/2033 | 10 | 11 |
| 5.00%, 02/15/2034 | 581 | 647 |
| 5.00%, 09/15/2039 | 86 | 95 |
| 5.50%, 07/20/2033 | 261 | 292 |
| 5.50%, 11/15/2033 | 47 | 53 |
| 5.50%, 03/20/2034 | 282 | 315 |
| 5.50%, 05/20/2035 | 246 | 274 |
| 5.50%, 01/15/2039 | 83 | 93 |
| 5.50%, 03/15/2039 | 192 | 214 |
| 6.00%, 06/20/2024 | 53 | 59 |
| 6.00%, 02/20/2026 | 6 | 6 |
| 6.00%, 04/20/2026 | 9 | 11 |
| 6.00%, 05/20/2026 | 5 | 6 |
| 6.00%, 06/20/2026 | 10 | 11 |
| 6.00%, 06/20/2026 | 7 | 8 |
| 6.00%, 07/20/2026 | 5 | 6 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Government National Mortgage Association (GNMA) (continued)** | | |
| 6.00%, 09/20/2026 | $ 9 | $ 10 |
| 6.00%, 03/20/2027 | 23 | 25 |
| 6.00%, 01/20/2028 | 7 | 8 |
| 6.00%, 03/20/2028 | 4 | 5 |
| 6.00%, 06/20/2028 | 25 | 28 |
| 6.00%, 07/20/2028 | 16 | 18 |
| 6.00%, 02/20/2029 | 15 | 18 |
| 6.00%, 03/20/2029 | 30 | 34 |
| 6.00%, 07/20/2029 | 32 | 36 |
| 6.00%, 05/20/2032[(a)] | 52 | 60 |
| 6.00%, 07/20/2033 | 206 | 234 |
| 6.50%, 12/20/2025 | 13 | 15 |
| 6.50%, 01/20/2026 | 22 | 23 |
| 6.50%, 02/20/2026 | 13 | 15 |
| 6.50%, 03/20/2031 | 18 | 21 |
| 6.50%, 04/20/2031 | 20 | 23 |
| 7.00%, 01/15/2028 | 2 | 3 |
| 7.00%, 01/15/2028 | 5 | 5 |
| 7.00%, 01/15/2028 | 1 | 2 |
| 7.00%, 01/15/2028 | 9 | 10 |
| 7.00%, 01/15/2028 | 1 | 2 |
| 7.00%, 03/15/2028 | 107 | 118 |
| 7.00%, 05/15/2028 | 53 | 58 |
| 7.00%, 01/15/2029 | 18 | 19 |
| 7.00%, 03/15/2029 | 6 | 6 |
| 7.00%, 05/15/2031 | 14 | 17 |
| 7.00%, 06/20/2031 | 14 | 16 |
| 7.00%, 09/15/2031 | 41 | 47 |
| 7.00%, 06/15/2032 | 216 | 250 |
| 7.50%, 01/15/2023 | 1 | 1 |
| 7.50%, 01/15/2023 | 1 | 1 |
| 7.50%, 02/15/2023 | 1 | 1 |
| 7.50%, 02/15/2023 | 2 | 2 |
| 7.50%, 04/15/2023 | 14 | 15 |
| 7.50%, 06/15/2023 | 1 | 1 |
| 7.50%, 07/15/2023 | 1 | 1 |
| 7.50%, 09/15/2023 | 3 | 3 |
| 7.50%, 09/15/2023 | 4 | 4 |
| 7.50%, 10/15/2023 | 7 | 8 |
| 7.50%, 11/15/2023 | 7 | 7 |
| 8.00%, 07/15/2026 | 2 | 2 |
| 8.00%, 08/15/2026 | 4 | 4 |
| 8.00%, 01/15/2027 | 1 | 2 |
| 8.00%, 02/15/2027 | 1 | 1 |
| | | $ 21,237 |
| **U.S. Treasury - 9.83%** | | |
| 2.25%, 11/30/2017 | 5,000 | 5,110 |
| 3.00%, 11/15/2044 | 3,800 | 3,786 |
| 3.13%, 05/15/2021 | 7,000 | 7,445 |
| 4.25%, 11/15/2040 | 2,800 | 3,462 |
| 5.25%, 11/15/2028 | 3,000 | 3,920 |
| 6.25%, 08/15/2023 | 3,600 | 4,646 |
| | | $ 28,369 |
| TOTAL U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS | | $ 194,814 |
| **Total Investments** | | **$ 286,869** |
| **Other Assets in Excess of Liabilities, Net - 0.56%** | | **$ 1,627** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 288,496** |

*(a) Variable Rate. Rate shown is in effect at December 31, 2015.*

*(b) 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. At the end of the period, the value of these securities totaled $15,530 or 5.38% of net assets.*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Mortgage Securities | 87.52% |
| Government | 9.83% |
| Asset Backed Securities | 1.14% |
| Exchange Traded Funds | 0.95% |
| Other Assets in Excess of Liabilities, Net | 0.56% |
| **TOTAL NET ASSETS** | 100.00% |

| COMMON STOCKS - 0.00% | Shares Held | Value (000's) |
|---|---|---|
| **Computers - 0.00%** | | |
| SONICblue Inc [(a),(b)] | 500,000 | $ — |
| **Transportation - 0.00%** | | |
| Trailer Bridge Inc [(a),(b)] | 1,186 | — |
| TOTAL COMMON STOCKS | | $ — |

| INVESTMENT COMPANIES - 3.07% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 3.07%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 7,886,645 | 7,887 |
| TOTAL INVESTMENT COMPANIES | | $ 7,887 |

| BONDS - 62.68% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 0.43%** | | |
| Boeing Co/The | | |
| 8.75%, 08/15/2021 | $ 850 | $ 1,119 |
| **Airlines - 0.01%** | | |
| Southwest Airlines Co 1994-A Pass Through Trust | | |
| 9.15%, 07/01/2016 | 24 | 24 |
| **Automobile Floor Plan Asset Backed Securities - 3.87%** | | |
| Ally Master Owner Trust | | |
| 0.78%, 04/15/2018[(c)] | 2,000 | 1,999 |
| BMW Floorplan Master Owner Trust | | |
| 0.83%, 07/15/2020[(c),(d)] | 1,500 | 1,491 |
| CNH Wholesale Master Note Trust | | |
| 0.93%, 08/15/2019[(c),(d)] | 2,000 | 1,997 |
| Ford Credit Floorplan Master Owner Trust A | | |
| 0.71%, 01/15/2018[(c)] | 1,000 | 1,000 |
| 0.73%, 02/15/2019[(c)] | 500 | 498 |
| Nissan Master Owner Trust Receivables | | |
| 0.63%, 02/15/2018[(c)] | 1,000 | 1,000 |
| Volkswagen Credit Auto Master Trust | | |
| 0.75%, 07/22/2019[(c),(d)] | 2,000 | 1,978 |
| | | $ 9,963 |
| **Automobile Manufacturers - 1.18%** | | |
| American Honda Finance Corp | | |
| 0.82%, 10/07/2016[(c)] | 500 | 501 |
| Ford Motor Credit Co LLC | | |
| 3.98%, 06/15/2016 | 2,000 | 2,022 |
| General Motors Co | | |
| 4.88%, 10/02/2023 | 500 | 511 |
| | | $ 3,034 |
| **Banks - 8.47%** | | |
| Bank of America Corp | | |
| 5.42%, 03/15/2017 | 800 | 833 |
| 8.00%, 07/29/2049[(c),(e)] | 1,000 | 1,017 |
| 8.13%, 12/29/2049[(c),(e)] | 1,000 | 1,018 |
| Bank of New York Mellon Corp/The | | |
| 2.60%, 08/17/2020 | 500 | 502 |
| Citigroup Inc | | |
| 3.88%, 03/26/2025 | 1,000 | 973 |
| 4.50%, 01/14/2022 | 1,000 | 1,071 |
| Goldman Sachs Group Inc/The | | |
| 3.63%, 02/07/2016 | 500 | 501 |
| 5.38%, 03/15/2020 | 2,000 | 2,197 |
| ING Bank NV | | |
| 5.00%, 06/09/2021[(d)] | 1,000 | 1,101 |
| JPMorgan Chase & Co | | |
| 3.63%, 05/13/2024 | 1,000 | 1,015 |
| 7.90%, 04/29/2049[(c),(e)] | 1,000 | 1,018 |
| Morgan Stanley | | |
| 5.50%, 07/28/2021 | 1,000 | 1,120 |
| 6.25%, 08/09/2026 | 850 | 995 |
| PNC Financial Services Group Inc/The | | |
| 6.75%, 07/29/2049[(c),(e)] | 2,000 | 2,128 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Banks (continued)** | | |
| SunTrust Bank/Atlanta GA | | |
| 2.75%, 05/01/2023 | $ 1,000 | $ 956 |
| US Bancorp | | |
| 1.65%, 05/15/2017 | 3,000 | 3,009 |
| 3.60%, 09/11/2024 | 250 | 254 |
| Wells Fargo & Co | | |
| 7.98%, 12/31/2049[(c),(e)] | 2,000 | 2,078 |
| | | $ 21,786 |
| **Beverages - 1.18%** | | |
| Anheuser-Busch InBev Worldwide Inc | | |
| 2.50%, 07/15/2022 | 750 | 721 |
| 7.75%, 01/15/2019 | 1,000 | 1,156 |
| Innovation Ventures LLC / Innovation Ventures Finance Corp | | |
| 9.50%, 08/15/2019[(d)] | 1,114 | 1,156 |
| | | $ 3,033 |
| **Biotechnology - 1.82%** | | |
| Amgen Inc | | |
| 3.63%, 05/15/2022 | 500 | 514 |
| 3.88%, 11/15/2021 | 2,000 | 2,084 |
| Gilead Sciences Inc | | |
| 3.65%, 03/01/2026 | 1,000 | 1,008 |
| 4.40%, 12/01/2021 | 1,000 | 1,080 |
| | | $ 4,686 |
| **Chemicals - 0.57%** | | |
| Airgas Inc | | |
| 1.65%, 02/15/2018 | 1,000 | 996 |
| Eagle Spinco Inc | | |
| 4.63%, 02/15/2021 | 500 | 460 |
| | | $ 1,456 |
| **Commercial Services - 0.89%** | | |
| ERAC USA Finance LLC | | |
| 6.38%, 10/15/2017[(d)] | 1,000 | 1,074 |
| 7.00%, 10/15/2037[(d)] | 1,000 | 1,219 |
| | | $ 2,293 |
| **Computers - 0.66%** | | |
| Apple Inc | | |
| 2.40%, 05/03/2023 | 1,750 | 1,705 |
| **Credit Card Asset Backed Securities - 0.90%** | | |
| Cabela's Credit Card Master Note Trust | | |
| 0.68%, 03/16/2020[(c)] | 1,325 | 1,322 |
| 0.88%, 10/15/2019[(c),(d)] | 500 | 500 |
| 1.00%, 07/17/2023[(c)] | 500 | 501 |
| | | $ 2,323 |
| **Diversified Financial Services - 1.87%** | | |
| GE Capital International Funding Co | | |
| 2.34%, 11/15/2020[(d)] | 413 | 410 |
| General Electric Capital Corp | | |
| 1.51%, 03/15/2023[(c)] | 1,000 | 985 |
| 5.30%, 02/11/2021 | 144 | 162 |
| International Lease Finance Corp | | |
| 8.75%, 03/15/2017[(c)] | 1,000 | 1,065 |
| Jefferies Group LLC | | |
| 6.25%, 01/15/2036 | 1,425 | 1,316 |
| 8.50%, 07/15/2019 | 750 | 874 |
| | | $ 4,812 |
| **Electric - 5.35%** | | |
| Exelon Generation Co LLC | | |
| 6.20%, 10/01/2017 | 1,000 | 1,067 |
| GenOn Americas Generation LLC | | |
| 8.50%, 10/01/2021 | 1,250 | 916 |
| GenOn Energy Inc | | |
| 9.88%, 10/15/2020 | 750 | 555 |
| LG&E and KU Energy LLC | | |
| 4.38%, 10/01/2021 | 1,000 | 1,057 |
| Metropolitan Edison Co | | |
| 3.50%, 03/15/2023[(d)] | 1,000 | 982 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Electric (continued)** | | |
| Oncor Electric Delivery Co LLC | | |
| 7.00%, 09/01/2022 | $ 2,000 | $ 2,402 |
| PacifiCorp | | |
| 5.25%, 06/15/2035 | 850 | 949 |
| 6.25%, 10/15/2037 | 500 | 618 |
| Solar Star Funding LLC | | |
| 5.38%, 06/30/2035(d) | 1,500 | 1,666 |
| Southwestern Electric Power Co | | |
| 3.55%, 02/15/2022 | 1,000 | 1,015 |
| TransAlta Corp | | |
| 4.50%, 11/15/2022 | 1,750 | 1,520 |
| Tucson Electric Power Co | | |
| 3.85%, 03/15/2023 | 1,000 | 1,001 |
| | | $ 13,748 |
| **Electronics - 0.49%** | | |
| Corning Inc | | |
| 4.75%, 03/15/2042 | 750 | 704 |
| 6.63%, 05/15/2019 | 500 | 561 |
| | | $ 1,265 |
| **Entertainment - 0.20%** | | |
| Greektown Holdings LLC/Greektown Mothership Corp | | |
| 8.88%, 03/15/2019(d) | 250 | 252 |
| Peninsula Gaming LLC / Peninsula Gaming Corp | | |
| 8.38%, 02/15/2018(d) | 250 | 254 |
| | | $ 506 |
| **Environmental Control - 0.98%** | | |
| ADS Waste Holdings Inc | | |
| 8.25%, 10/01/2020 | 1,500 | 1,511 |
| Republic Services Inc | | |
| 3.55%, 06/01/2022 | 1,000 | 1,021 |
| | | $ 2,532 |
| **Food - 0.20%** | | |
| Kraft Heinz Foods Co | | |
| 3.95%, 07/15/2025(d) | 500 | 505 |
| **Forest Products & Paper - 0.83%** | | |
| Plum Creek Timberlands LP | | |
| 4.70%, 03/15/2021 | 2,000 | 2,128 |
| **Healthcare - Services - 1.85%** | | |
| HCA Inc | | |
| 7.50%, 11/06/2033 | 250 | 266 |
| HealthSouth Corp | | |
| 5.75%, 11/01/2024 | 500 | 477 |
| 7.75%, 09/15/2022 | 546 | 568 |
| Roche Holdings Inc | | |
| 0.94%, 09/30/2019(c),(d) | 2,000 | 1,978 |
| Vantage Oncology LLC / Vantage Oncology Finance Co | | |
| 9.50%, 06/15/2017(d) | 1,750 | 1,479 |
| | | $ 4,768 |
| **Insurance - 2.69%** | | |
| Fidelity National Financial Inc | | |
| 6.60%, 05/15/2017 | 2,500 | 2,638 |
| First American Financial Corp | | |
| 4.30%, 02/01/2023 | 2,000 | 1,986 |
| Prudential Financial Inc | | |
| 7.38%, 06/15/2019 | 1,000 | 1,160 |
| 8.88%, 06/15/2068(c) | 1,000 | 1,125 |
| | | $ 6,909 |
| **Iron & Steel - 1.20%** | | |
| Allegheny Technologies Inc | | |
| 5.95%, 01/15/2021 | 2,000 | 1,180 |
| 7.63%, 08/15/2023(c) | 500 | 295 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Iron & Steel (continued)** | | |
| ArcelorMittal | | |
| 6.50%, 03/01/2021(c) | $ 2,000 | $ 1,610 |
| | | $ 3,085 |
| **Leisure Products & Services - 1.10%** | | |
| Carnival Corp | | |
| 7.20%, 10/01/2023 | 1,475 | 1,756 |
| Royal Caribbean Cruises Ltd | | |
| 7.25%, 03/15/2018 | 1,000 | 1,080 |
| | | $ 2,836 |
| **Lodging - 0.30%** | | |
| Boyd Gaming Corp | | |
| 6.88%, 05/15/2023 | 750 | 771 |
| **Media - 2.74%** | | |
| 21st Century Fox America Inc | | |
| 6.40%, 12/15/2035 | 1,000 | 1,152 |
| 8.00%, 10/17/2016 | 1,000 | 1,052 |
| Comcast Corp | | |
| 6.45%, 03/15/2037 | 2,000 | 2,489 |
| Historic TW Inc | | |
| 9.15%, 02/01/2023 | 250 | 324 |
| Time Warner Cable Inc | | |
| 6.55%, 05/01/2037 | 1,500 | 1,518 |
| 6.75%, 06/15/2039 | 500 | 502 |
| | | $ 7,037 |
| **Oil & Gas - 5.58%** | | |
| BG Energy Capital PLC | | |
| 4.00%, 10/15/2021(d) | 2,000 | 2,076 |
| BP Capital Markets PLC | | |
| 3.25%, 05/06/2022 | 1,000 | 987 |
| 4.75%, 03/10/2019 | 2,000 | 2,139 |
| Linn Energy LLC / Linn Energy Finance Corp | | |
| 6.50%, 05/15/2019 | 1,000 | 175 |
| Nabors Industries Inc | | |
| 5.00%, 09/15/2020 | 1,000 | 877 |
| Petro-Canada | | |
| 9.25%, 10/15/2021 | 1,075 | 1,370 |
| Phillips 66 | | |
| 4.30%, 04/01/2022 | 1,000 | 1,029 |
| Rowan Cos Inc | | |
| 4.88%, 06/01/2022 | 750 | 552 |
| 5.00%, 09/01/2017 | 2,000 | 1,985 |
| W&T Offshore Inc | | |
| 8.50%, 06/15/2019 | 2,500 | 875 |
| Whiting Petroleum Corp | | |
| 5.75%, 03/15/2021 | 1,250 | 911 |
| XTO Energy Inc | | |
| 6.75%, 08/01/2037 | 1,000 | 1,373 |
| | | $ 14,349 |
| **Oil & Gas Services - 1.72%** | | |
| Archrock Partners LP / Archrock Partners Finance Corp | | |
| 6.00%, 04/01/2021 | 2,000 | 1,645 |
| Schlumberger Holdings Corp | | |
| 3.63%, 12/21/2022(d) | 500 | 494 |
| 4.00%, 12/21/2025(d) | 500 | 493 |
| Weatherford International Ltd/Bermuda | | |
| 4.50%, 04/15/2022 | 250 | 180 |
| 5.13%, 09/15/2020 | 2,000 | 1,620 |
| | | $ 4,432 |
| **Other Asset Backed Securities - 1.40%** | | |
| Drug Royalty II LP 2 | | |
| 3.48%, 07/15/2023(c),(d) | 1,607 | 1,619 |
| PFS Financing Corp | | |
| 0.88%, 02/15/2018(c),(d) | 1,000 | 999 |
| 0.95%, 04/15/2020(c),(d) | 1,000 | 983 |
| | | $ 3,601 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Packaging & Containers - 0.40%** | | |
| Sealed Air Corp | | |
| 6.88%, 07/15/2033(d) | $ 1,000 | $ 1,023 |
| **Pharmaceuticals - 1.05%** | | |
| AbbVie Inc | | |
| 2.90%, 11/06/2022 | 1,000 | 967 |
| Actavis Funding SCS | | |
| 3.80%, 03/15/2025 | 1,000 | 995 |
| 4.55%, 03/15/2035 | 750 | 729 |
| | | $ 2,691 |
| **Pipelines - 2.60%** | | |
| ANR Pipeline Co | | |
| 9.63%, 11/01/2021 | 1,000 | 1,294 |
| Buckeye Partners LP | | |
| 4.35%, 10/15/2024 | 500 | 421 |
| Columbia Pipeline Group Inc | | |
| 4.50%, 06/01/2025(d) | 1,000 | 906 |
| El Paso Natural Gas Co LLC | | |
| 7.50%, 11/15/2026 | 2,100 | 2,088 |
| Express Pipeline LLC | | |
| 7.39%, 12/31/2019(d) | 396 | 417 |
| Southeast Supply Header LLC | | |
| 4.25%, 06/15/2024(d) | 750 | 719 |
| Southern Natural Gas Co LLC | | |
| 8.00%, 03/01/2032 | 850 | 835 |
| | | $ 6,680 |
| **REITS - 6.55%** | | |
| Alexandria Real Estate Equities Inc | | |
| 4.30%, 01/15/2026 | 1,000 | 986 |
| 4.60%, 04/01/2022 | 1,250 | 1,297 |
| BioMed Realty LP | | |
| 4.25%, 07/15/2022 | 1,000 | 994 |
| 6.13%, 04/15/2020 | 1,000 | 1,085 |
| CubeSmart LP | | |
| 4.80%, 07/15/2022 | 1,750 | 1,864 |
| HCP Inc | | |
| 3.75%, 02/01/2019 | 1,000 | 1,032 |
| Hospitality Properties Trust | | |
| 4.65%, 03/15/2024 | 750 | 738 |
| 5.00%, 08/15/2022 | 750 | 770 |
| Kimco Realty Corp | | |
| 6.88%, 10/01/2019 | 2,000 | 2,297 |
| Omega Healthcare Investors Inc | | |
| 5.25%, 01/15/2026(d) | 500 | 510 |
| Simon Property Group LP | | |
| 10.35%, 04/01/2019 | 2,000 | 2,454 |
| Ventas Realty LP / Ventas Capital Corp | | |
| 3.25%, 08/15/2022 | 1,750 | 1,704 |
| Welltower Inc | | |
| 6.13%, 04/15/2020 | 1,000 | 1,120 |
| | | $ 16,851 |
| **Savings & Loans - 0.23%** | | |
| First Niagara Financial Group Inc | | |
| 7.25%, 12/15/2021 | 500 | 585 |
| **Software - 0.76%** | | |
| Oracle Corp | | |
| 2.50%, 05/15/2022 | 1,000 | 982 |
| 2.95%, 05/15/2025 | 1,000 | 974 |
| | | $ 1,956 |
| **Telecommunications - 0.81%** | | |
| Qwest Corp | | |
| 6.75%, 12/01/2021 | 2,000 | 2,095 |
| **Transportation - 1.01%** | | |
| Navios Maritime Holdings Inc / Navios Maritime Finance II US Inc | | |
| 7.38%, 01/15/2022(d) | 500 | 250 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Transportation (continued)** | | |
| Trailer Bridge Inc | | |
| 0.00%, 11/15/2016(a),(b),(f) | $ 2,000 | $ — |
| 16.50%, PIK 17.00%, 03/31/2017(b),(c),(f),(g) | 2,605 | 2,341 |
| | | $ 2,591 |
| **Trucking & Leasing - 0.79%** | | |
| Penske Truck Leasing Co Lp / PTL Finance Corp | | |
| 3.75%, 05/11/2017(d) | 2,000 | 2,040 |
| TOTAL BONDS | | $ 161,218 |

| SENIOR FLOATING RATE INTERESTS - 0.07% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Transportation - 0.07%** | | |
| Trailer Bridge Inc, Term Loan | | |
| 10.00%, 04/02/2016(b),(c),(f) | $ 183 | $ 183 |
| TOTAL SENIOR FLOATING RATE INTERESTS | | $ 183 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS - 33.84% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal Home Loan Mortgage Corporation (FHLMC) - 6.34%** | | |
| 3.00%, 10/01/2042 | $ 1,594 | $ 1,595 |
| 3.00%, 10/01/2042 | 797 | 798 |
| 3.00%, 11/01/2042 | 789 | 790 |
| 3.00%, 12/01/2042 | 359 | 359 |
| 3.50%, 10/01/2041 | 927 | 956 |
| 3.50%, 04/01/2042 | 2,033 | 2,096 |
| 3.50%, 04/01/2042 | 1,221 | 1,260 |
| 3.50%, 04/01/2045 | 984 | 1,016 |
| 4.00%, 02/01/2045 | 890 | 942 |
| 4.50%, 08/01/2033 | 299 | 323 |
| 4.50%, 05/01/2039 | 648 | 699 |
| 4.50%, 06/01/2039 | 381 | 417 |
| 4.50%, 07/01/2039 | 1,282 | 1,398 |
| 4.50%, 12/01/2040 | 671 | 724 |
| 4.50%, 10/01/2041 | 781 | 843 |
| 5.00%, 08/01/2019 | 152 | 157 |
| 5.00%, 08/01/2035 | 938 | 1,032 |
| 5.50%, 11/01/2017 | 22 | 23 |
| 5.50%, 01/01/2018 | 10 | 10 |
| 5.50%, 05/01/2031 | 41 | 46 |
| 5.50%, 06/01/2035 | 67 | 74 |
| 5.50%, 01/01/2036 | 211 | 238 |
| 5.50%, 04/01/2036 | 139 | 156 |
| 6.00%, 03/01/2031 | 22 | 25 |
| 6.00%, 05/01/2032 | 43 | 49 |
| 6.00%, 06/01/2038 | 189 | 216 |
| 6.50%, 06/01/2029 | 16 | 18 |
| 6.50%, 08/01/2029 | 21 | 24 |
| 7.00%, 01/01/2032 | 13 | 13 |
| 9.00%, 01/01/2025 | 4 | 4 |
| | | $ 16,301 |
| **Federal National Mortgage Association (FNMA) - 15.71%** | | |
| 3.00%, 03/01/2042 | 1,376 | 1,381 |
| 3.00%, 03/01/2042 | 1,415 | 1,421 |
| 3.00%, 05/01/2042 | 753 | 756 |
| 3.00%, 06/01/2042 | 1,383 | 1,389 |
| 3.00%, 06/01/2042 | 693 | 696 |
| 3.00%, 08/01/2042 | 706 | 709 |
| 3.50%, 12/01/2040 | 1,154 | 1,194 |
| 3.50%, 12/01/2041 | 414 | 428 |
| 3.50%, 03/01/2042 | 689 | 713 |
| 3.50%, 04/01/2042 | 1,281 | 1,324 |
| 3.50%, 02/01/2043 | 849 | 879 |
| 3.50%, 06/01/2043 | 1,302 | 1,347 |
| 3.50%, 03/01/2045 | 947 | 980 |
| 4.00%, 03/01/2039 | 887 | 939 |
| 4.00%, 08/01/2040 | 721 | 765 |
| 4.00%, 09/01/2040 | 1,644 | 1,750 |
| 4.00%, 11/01/2040 | 856 | 908 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal National Mortgage Association (FNMA) (continued)** | | |
| 4.00%, 10/01/2041 | $ 704 | $ 746 |
| 4.00%, 10/01/2041 | 950 | 1,008 |
| 4.00%, 11/01/2041 | 1,036 | 1,099 |
| 4.00%, 04/01/2042 | 623 | 660 |
| 4.00%, 11/01/2043 | 1,998 | 2,132 |
| 4.00%, 11/01/2043 | 776 | 824 |
| 4.00%, 01/01/2044 | 1,779 | 1,890 |
| 4.00%, 02/01/2044 | 2,397 | 2,552 |
| 4.00%, 09/01/2044 | 827 | 876 |
| 4.50%, 06/01/2039 | 264 | 286 |
| 4.50%, 08/01/2039 | 353 | 387 |
| 4.50%, 05/01/2040 | 1,106 | 1,203 |
| 4.50%, 08/01/2040 | 1,238 | 1,340 |
| 4.50%, 10/01/2040 | 1,202 | 1,301 |
| 4.50%, 12/01/2040 | 699 | 760 |
| 4.50%, 08/01/2041 | 857 | 928 |
| 4.50%, 05/01/2044 | 1,288 | 1,396 |
| 5.00%, 01/01/2018 | 35 | 36 |
| 5.00%, 08/01/2035 | 399 | 440 |
| 5.00%, 04/01/2039 | 240 | 268 |
| 5.00%, 12/01/2039 | 259 | 285 |
| 5.00%, 04/01/2040 | 723 | 808 |
| 5.00%, 06/01/2040 | 628 | 701 |
| 5.50%, 03/01/2033 | 40 | 44 |
| 5.50%, 06/01/2033 | 202 | 228 |
| 5.50%, 02/01/2035 | 391 | 440 |
| 6.00%, 04/01/2032 | 50 | 57 |
| 6.50%, 05/01/2031 | 5 | 6 |
| 6.50%, 04/01/2032 | 73 | 83 |
| 6.50%, 05/01/2032 | 30 | 35 |
| 7.00%, 01/01/2030 | 2 | 2 |
| | | $ 40,400 |
| **Government National Mortgage Association (GNMA) - 0.05%** | | |
| 6.00%, 05/20/2032[(c)] | 45 | 52 |
| 7.00%, 06/20/2031 | 50 | 60 |
| 9.00%, 02/15/2025 | 3 | 3 |
| | | $ 115 |
| **U.S. Treasury - 11.74%** | | |
| 0.75%, 10/31/2017 | 1,000 | 995 |
| 0.88%, 02/28/2017 | 1,000 | 1,000 |
| 1.38%, 11/30/2018 | 1,000 | 1,002 |
| 1.63%, 11/15/2022 | 2,000 | 1,943 |
| 1.75%, 05/15/2022 | 2,000 | 1,967 |
| 2.00%, 11/15/2021 | 2,000 | 2,006 |
| 2.38%, 05/31/2018 | 1,000 | 1,028 |
| 2.50%, 05/15/2024 | 1,000 | 1,022 |
| 2.63%, 11/15/2020 | 2,000 | 2,078 |
| 2.75%, 02/15/2019 | 1,000 | 1,042 |
| 2.75%, 02/15/2024 | 1,000 | 1,042 |
| 2.88%, 05/15/2043 | 1,000 | 975 |
| 3.00%, 11/15/2044 | 1,000 | 996 |
| 3.13%, 05/15/2019 | 2,000 | 2,110 |
| 3.13%, 05/15/2021 | 1,000 | 1,063 |
| 3.13%, 08/15/2044 | 1,000 | 1,022 |
| 3.38%, 05/15/2044 | 1,000 | 1,073 |
| 3.50%, 02/15/2039 | 1,000 | 1,106 |
| 3.63%, 02/15/2020 | 2,000 | 2,157 |
| 3.63%, 02/15/2044 | 1,000 | 1,125 |
| 3.75%, 08/15/2041 | 1,000 | 1,149 |
| 3.75%, 11/15/2043 | 2,000 | 2,304 |
| | | $ 30,205 |
| TOTAL U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS | | $ 87,021 |
| **Total Investments** | | **$ 256,309** |
| **Other Assets in Excess of Liabilities, Net - 0.34%** | | **$ 887** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 257,196** |

*(a) Non-Income Producing Security*

*(b) Fair value of these investments is determined in good faith by the Manager under procedures established and periodically reviewed by the Board of Directors. At the end of the period, the fair value of these securities totaled $2,524 or 0.98% of net assets.*

*(c) Variable Rate. Rate shown is in effect at December 31, 2015.*

*(d) 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. At the end of the period, the value of these securities totaled $30,571 or 11.89% of net assets.*

*(e) Perpetual security. Perpetual securities pay an indefinite stream of interest, but they may be called by the issuer at an earlier date.*

*(f) Security is Illiquid. At the end of the period, the value of these securities totaled $2,524 or 0.98% of net assets.*

*(g) Payment in kind; the issuer has the option of paying additional securities in lieu of cash.*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Mortgage Securities | 22.10% |
| Financial | 19.81% |
| Government | 11.74% |
| Energy | 9.90% |
| Consumer, Non-cyclical | 6.99% |
| Asset Backed Securities | 6.17% |
| Utilities | 5.34% |
| Industrial | 4.18% |
| Communications | 3.55% |
| Exchange Traded Funds | 3.07% |
| Consumer, Cyclical | 2.79% |
| Basic Materials | 2.60% |
| Technology | 1.42% |
| Other Assets in Excess of Liabilities, Net | 0.34% |
| **TOTAL NET ASSETS** | 100.00% |

## Schedule of Investments
## LargeCap Growth Account
## December 31, 2015

| COMMON STOCKS - 98.71% | Shares Held | Value (000's) |
|---|---|---|
| **Airlines - 4.65%** | | |
| Delta Air Lines Inc | 57,314 | $ 2,905 |
| United Continental Holdings Inc [(a)] | 46,255 | 2,651 |
| | | $ 5,556 |
| **Apparel - 5.26%** | | |
| NIKE Inc | 76,540 | 4,784 |
| Under Armour Inc [(a)] | 18,600 | 1,499 |
| | | $ 6,283 |
| **Banks - 2.64%** | | |
| Capital One Financial Corp | 43,688 | 3,153 |
| **Beverages - 1.85%** | | |
| Constellation Brands Inc | 15,511 | 2,209 |
| **Biotechnology - 5.93%** | | |
| Alexion Pharmaceuticals Inc [(a)] | 9,733 | 1,857 |
| Gilead Sciences Inc | 51,627 | 5,224 |
| | | $ 7,081 |
| **Building Materials - 1.24%** | | |
| Masco Corp | 52,200 | 1,477 |
| **Chemicals - 3.42%** | | |
| PPG Industries Inc | 41,333 | 4,085 |
| **Commercial Services - 3.97%** | | |
| FleetCor Technologies Inc [(a)] | 11,693 | 1,671 |
| McGraw Hill Financial Inc | 19,292 | 1,902 |
| PayPal Holdings Inc [(a)] | 32,400 | 1,173 |
| | | $ 4,746 |
| **Computers - 5.71%** | | |
| Apple Inc | 64,822 | 6,823 |
| **Diversified Financial Services - 8.16%** | | |
| MasterCard Inc | 42,898 | 4,176 |
| Synchrony Financial [(a)] | 43,298 | 1,317 |
| Visa Inc | 54,840 | 4,253 |
| | | $ 9,746 |
| **Food - 1.04%** | | |
| Mondelez International Inc | 27,837 | 1,248 |
| **Healthcare - Products - 3.05%** | | |
| Edwards Lifesciences Corp [(a)] | 27,984 | 2,210 |
| Intuitive Surgical Inc [(a)] | 2,637 | 1,440 |
| | | $ 3,650 |
| **Internet - 15.65%** | | |
| Alphabet Inc - A Shares [(a)] | 6,141 | 4,778 |
| Amazon.com Inc [(a)] | 6,580 | 4,447 |
| Facebook Inc [(a)] | 44,782 | 4,687 |
| Netflix Inc [(a)] | 9,820 | 1,123 |
| Priceline Group Inc/The [(a)] | 1,887 | 2,406 |
| Splunk Inc [(a)] | 21,362 | 1,256 |
| | | $ 18,697 |
| **Leisure Products & Services - 2.61%** | | |
| Royal Caribbean Cruises Ltd | 30,762 | 3,114 |
| **Lodging - 1.29%** | | |
| Hilton Worldwide Holdings Inc | 72,033 | 1,542 |
| **Pharmaceuticals - 10.54%** | | |
| Allergan plc [(a)] | 6,455 | 2,017 |
| AmerisourceBergen Corp | 12,760 | 1,323 |
| Bristol-Myers Squibb Co | 56,875 | 3,913 |
| DexCom Inc [(a)] | 12,610 | 1,033 |
| Eli Lilly & Co | 23,225 | 1,957 |
| McKesson Corp | 11,935 | 2,354 |
| | | $ 12,597 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Retail - 12.11%** | | |
| L Brands Inc | 24,306 | $ 2,329 |
| McDonald's Corp | 8,098 | 957 |
| Starbucks Corp | 55,518 | 3,333 |
| Target Corp | 38,622 | 2,804 |
| TJX Cos Inc/The | 22,900 | 1,624 |
| Ulta Salon Cosmetics & Fragrance Inc [(a)] | 18,516 | 3,425 |
| | | $ 14,472 |
| **Semiconductors - 3.97%** | | |
| Avago Technologies Ltd | 8,060 | 1,170 |
| Lam Research Corp | 22,426 | 1,781 |
| NXP Semiconductors NV [(a)] | 21,246 | 1,790 |
| | | $ 4,741 |
| **Software - 4.32%** | | |
| Activision Blizzard Inc | 46,536 | 1,801 |
| ServiceNow Inc [(a)] | 23,093 | 1,999 |
| Tableau Software Inc [(a)] | 14,434 | 1,360 |
| | | $ 5,160 |
| **Telecommunications - 1.30%** | | |
| Palo Alto Networks Inc [(a)] | 8,837 | 1,557 |
| TOTAL COMMON STOCKS | | $ 117,937 |

| INVESTMENT COMPANIES - 1.45% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 1.45%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 1,728,008 | 1,728 |
| TOTAL INVESTMENT COMPANIES | | $ 1,728 |
| **Total Investments** | | **$ 119,665** |
| **Liabilities in Excess of Other Assets, Net - (0.16)%** | | **$ (190)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 119,475** |

*(a) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Consumer, Non-cyclical | 26.38% |
| Consumer, Cyclical | 25.92% |
| Communications | 16.95% |
| Technology | 14.00% |
| Financial | 10.80% |
| Basic Materials | 3.42% |
| Exchange Traded Funds | 1.45% |
| Industrial | 1.24% |
| Liabilities in Excess of Other Assets, Net | (0.16)% |
| **TOTAL NET ASSETS** | 100.00% |

**Schedule of Investments**
**MidCap Account**
**December 31, 2015**

| COMMON STOCKS - 99.56% | Shares Held | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 2.11%** | | |
| TransDigm Group Inc [(a)] | 58,397 | $ 13,341 |
| **Banks - 1.15%** | | |
| M&T Bank Corp | 59,890 | 7,257 |
| **Building Materials - 1.55%** | | |
| Armstrong World Industries Inc [(a)] | 62,843 | 2,874 |
| Martin Marietta Materials Inc | 50,572 | 6,907 |
| | | $ 9,781 |
| **Chemicals - 3.69%** | | |
| Air Products & Chemicals Inc | 81,879 | 10,653 |
| Airgas Inc | 37,551 | 5,194 |
| Ecolab Inc | 37,821 | 4,326 |
| Platform Specialty Products Corp [(a)] | 247,424 | 3,175 |
| | | $ 23,348 |
| **Commercial Services - 9.83%** | | |
| KAR Auction Services Inc | 206,587 | 7,650 |
| Live Nation Entertainment Inc [(a)] | 199,218 | 4,895 |
| Macquarie Infrastructure Corp | 106,188 | 7,709 |
| McGraw Hill Financial Inc | 115,316 | 11,368 |
| Moody's Corp | 127,437 | 12,787 |
| PayPal Holdings Inc [(a)] | 138,106 | 5,000 |
| Robert Half International Inc | 52,317 | 2,466 |
| Verisk Analytics Inc [(a)] | 134,562 | 10,345 |
| | | $ 62,220 |
| **Distribution & Wholesale - 0.83%** | | |
| Fastenal Co | 66,498 | 2,714 |
| HD Supply Holdings Inc [(a)] | 83,432 | 2,506 |
| | | $ 5,220 |
| **Diversified Financial Services - 3.74%** | | |
| AerCap Holdings NV [(a)] | 144,000 | 6,215 |
| FNF Group | 332,166 | 11,516 |
| FNFV Group [(a)] | 98,695 | 1,109 |
| LPL Financial Holdings Inc | 113,620 | 4,846 |
| | | $ 23,686 |
| **Electric - 1.39%** | | |
| Brookfield Infrastructure Partners LP | 195,455 | 7,410 |
| Brookfield Renewable Energy Partners LP/CA | 51,998 | 1,361 |
| | | $ 8,771 |
| **Electronics - 0.80%** | | |
| Sensata Technologies Holding NV [(a)] | 110,061 | 5,069 |
| **Engineering & Construction - 2.80%** | | |
| SBA Communications Corp [(a)] | 168,794 | 17,735 |
| **Healthcare - Products - 2.55%** | | |
| Becton Dickinson and Co | 45,571 | 7,022 |
| CR Bard Inc | 48,149 | 9,121 |
| | | $ 16,143 |
| **Healthcare - Services - 1.02%** | | |
| DaVita HealthCare Partners Inc [(a)] | 92,962 | 6,480 |
| **Holding Companies - Diversified - 0.89%** | | |
| Leucadia National Corp | 322,789 | 5,613 |
| **Home Builders - 0.54%** | | |
| Lennar Corp - A Shares | 69,300 | 3,389 |
| **Insurance - 12.38%** | | |
| Alleghany Corp [(a)] | 5,603 | 2,678 |
| Aon PLC | 199,016 | 18,351 |
| Arch Capital Group Ltd [(a)] | 50,497 | 3,522 |
| Brown & Brown Inc | 215,189 | 6,908 |
| Loews Corp | 267,362 | 10,267 |
| Markel Corp [(a)] | 25,108 | 22,179 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Insurance (continued)** | | |
| Progressive Corp/The | 109,442 | $ 3,480 |
| White Mountains Insurance Group Ltd | 6,793 | 4,937 |
| Willis Group Holdings PLC | 124,205 | 6,033 |
| | | $ 78,355 |
| **Internet - 3.42%** | | |
| Liberty Ventures [(a)] | 199,927 | 9,019 |
| VeriSign Inc [(a)] | 144,481 | 12,622 |
| | | $ 21,641 |
| **Leisure Products & Services - 0.65%** | | |
| Liberty TripAdvisor Holdings Inc [(a)] | 135,425 | 4,109 |
| **Machinery - Diversified - 2.22%** | | |
| Roper Technologies Inc | 73,877 | 14,021 |
| **Media - 6.33%** | | |
| Charter Communications Inc [(a)] | 8,300 | 1,520 |
| FactSet Research Systems Inc | 21,795 | 3,543 |
| Liberty Broadband Corp - A Shares [(a)] | 46,802 | 2,417 |
| Liberty Broadband Corp - C Shares [(a)] | 126,895 | 6,581 |
| Liberty Global PLC - A Shares [(a)] | 77,050 | 3,264 |
| Liberty Global PLC - C Shares [(a)] | 233,651 | 9,526 |
| Liberty Global Plc LiLAC [(a)] | 11,522 | 496 |
| Liberty Global Plc LiLAC - A Shares [(a)] | 3,852 | 159 |
| Liberty Media Corp - A Shares [(a)] | 92,359 | 3,625 |
| Liberty Media Corp - C Shares [(a)] | 234,480 | 8,929 |
| | | $ 40,060 |
| **Miscellaneous Manufacturers - 1.03%** | | |
| Colfax Corp [(a)] | 278,576 | 6,505 |
| **Packaging & Containers - 0.25%** | | |
| WestRock Co | 34,995 | 1,596 |
| **Pharmaceuticals - 3.56%** | | |
| Mead Johnson Nutrition Co | 102,755 | 8,112 |
| Zoetis Inc | 300,473 | 14,399 |
| | | $ 22,511 |
| **Private Equity - 1.00%** | | |
| KKR & Co LP | 130,101 | 2,028 |
| Onex Corp | 70,341 | 4,328 |
| | | $ 6,356 |
| **Real Estate - 7.75%** | | |
| Brookfield Asset Management Inc | 898,566 | 28,332 |
| Brookfield Property Partners LP | 106,622 | 2,478 |
| CBRE Group Inc [(a)] | 213,528 | 7,384 |
| Forest City Enterprises Inc [(a)] | 276,046 | 6,054 |
| Howard Hughes Corp/The [(a)] | 42,556 | 4,815 |
| | | $ 49,063 |
| **REITS - 2.14%** | | |
| Crown Castle International Corp | 86,347 | 7,465 |
| Equinix Inc | 20,125 | 6,086 |
| | | $ 13,551 |
| **Retail - 16.38%** | | |
| AutoZone Inc [(a)] | 14,843 | 11,012 |
| CarMax Inc [(a)] | 247,188 | 13,341 |
| Copart Inc [(a)] | 120,315 | 4,573 |
| Dollar General Corp | 50,847 | 3,654 |
| Dollar Tree Inc [(a)] | 136,613 | 10,549 |
| Liberty Interactive Corp QVC Group [(a)] | 361,233 | 9,869 |
| O'Reilly Automotive Inc [(a)] | 63,251 | 16,029 |
| Restaurant Brands International Inc | 256,942 | 9,599 |
| Ross Stores Inc | 216,283 | 11,638 |
| Signet Jewelers Ltd | 62,288 | 7,705 |
| TJX Cos Inc/The | 79,775 | 5,657 |
| | | $ 103,626 |

*See accompanying notes.*

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Semiconductors - 1.20%** | | |
| Microchip Technology Inc | 162,552 | $ 7,565 |
| **Software - 5.48%** | | |
| Autodesk Inc [(a)] | 169,165 | 10,307 |
| CDK Global Inc | 70,775 | 3,360 |
| Fidelity National Information Services Inc | 143,549 | 8,699 |
| Intuit Inc | 76,465 | 7,379 |
| MSCI Inc | 68,127 | 4,914 |
| | | $ 34,659 |
| **Telecommunications - 1.54%** | | |
| EchoStar Corp [(a)] | 69,871 | 2,733 |
| Motorola Solutions Inc | 102,303 | 7,002 |
| | | $ 9,735 |
| **Textiles - 1.34%** | | |
| Mohawk Industries Inc [(a)] | 44,903 | 8,504 |
| TOTAL COMMON STOCKS | | $ 629,910 |
| **INVESTMENT COMPANIES - 0.28%** | **Shares Held** | **Value (000's)** |
| **Publicly Traded Investment Fund - 0.28%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 1,749,686 | 1,750 |
| TOTAL INVESTMENT COMPANIES | | $ 1,750 |
| **Total Investments** | | **$ 631,660** |
| **Other Assets in Excess of Liabilities, Net - 0.16%** | | **$ 1,020** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 632,680** |

*(a) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 28.16% |
| Consumer, Cyclical | 19.74% |
| Consumer, Non-cyclical | 16.96% |
| Communications | 11.29% |
| Industrial | 10.76% |
| Technology | 6.68% |
| Basic Materials | 3.69% |
| Utilities | 1.39% |
| Diversified | 0.89% |
| Exchange Traded Funds | 0.28% |
| Other Assets in Excess of Liabilities, Net | 0.16% |
| **TOTAL NET ASSETS** | 100.00% |

| **INVESTMENT COMPANIES - 5.66%** | **Shares Held** | **Value (000's)** |
|---|---|---|
| **Publicly Traded Investment Fund - 5.66%** | | |
| BlackRock Liquidity Funds TempFund Portfolio | 3,240,000 | $ 3,240 |
| Deutsche Money Market Series | 4,900,000 | 4,900 |
| Morgan Stanley Institutional Liquidity Funds - Government Portfolio | 2,700,000 | 2,700 |
| STIT - Liquid Assets Portfolio | 5,300,000 | 5,300 |
| | | $ 16,140 |
| TOTAL INVESTMENT COMPANIES | | $ 16,140 |

| **BONDS - 0.91%** | **Principal Amount (000's)** | **Value (000's)** |
|---|---|---|
| **Automobile Asset Backed Securities - 0.14%** | | |
| ARI Fleet Lease Trust 2015-A | | |
| 0.40%, 04/15/2016[a] | $ 200 | $ 200 |
| Huntington Auto Trust 2015-1 | | |
| 0.35%, 06/15/2016 | 148 | 148 |
| SunTrust Auto Receivables Trust 2015-1 | | |
| 0.40%, 06/15/2016[a],[b] | 65 | 65 |
| | | $ 413 |
| **Banks - 0.63%** | | |
| Wells Fargo Bank NA | | |
| 0.77%, 05/20/2016[b] | 1,800 | 1,800 |
| **Other Asset Backed Securities - 0.14%** | | |
| MMAF Equipment Finance LLC 2015-A | | |
| 0.39%, 06/03/2016[a],[b] | 389 | 389 |
| TOTAL BONDS | | $ 2,602 |

| **MUNICIPAL BONDS - 5.71%** | **Principal Amount (000's)** | **Value (000's)** |
|---|---|---|
| **California - 0.58%** | | |
| California Statewide Communities Development Authority (credit support from Fannie Mae) | | |
| 0.50%, 01/08/2016[c] | $ 140 | $ 140 |
| San Francisco City & County Redevelopment Agency (credit support from Fannie Mae) | | |
| 0.40%, 01/08/2016[c] | 1,500 | 1,500 |
| | | $ 1,640 |
| **Colorado - 0.25%** | | |
| Colorado Housing & Finance Authority (credit support from Federal Home Loan Bank) | | |
| 0.37%, 01/08/2016[b],[c] | 700 | 700 |
| **Illinois - 0.03%** | | |
| Memorial Health System/IL (credit support from JP Morgan Chase & Co) | | |
| 0.30%, 01/08/2016[c] | 100 | 100 |
| **Iowa - 0.18%** | | |
| Iowa Finance Authority (credit support from FHLB 100%, Fannie Mae 78.25% and Ginnie Mae 21.75%) | | |
| 0.38%, 01/08/2016[c] | 500 | 500 |
| **Minnesota - 0.35%** | | |
| Minnesota Housing Finance Agency (credit support from Wells Fargo) | | |
| 0.42%, 01/08/2016[c] | 1,000 | 1,000 |
| **New Mexico - 0.39%** | | |
| Village of Los Lunas NM (credit support from Wells Fargo) | | |
| 0.47%, 01/08/2016[c] | 1,100 | 1,100 |

| **MUNICIPAL BONDS (continued)** | **Principal Amount (000's)** | **Value (000's)** |
|---|---|---|
| **New York - 2.85%** | | |
| Housing Development Corp/NY (credit support from Fannie Mae) | | |
| 0.40%, 01/08/2016[c] | $ 2,150 | $ 2,150 |
| Housing Development Corp/NY (credit support from Freddie Mac) | | |
| 0.40%, 01/08/2016[c] | 1,120 | 1,120 |
| New York State Housing Finance Agency (credit support from Fannie Mae) | | |
| 0.35%, 01/08/2016[c] | 1,200 | 1,200 |
| 0.38%, 01/08/2016[c] | 900 | 900 |
| 0.42%, 01/08/2016[c] | 1,560 | 1,560 |
| New York State Housing Finance Agency (credit support from Freddie Mac) | | |
| 0.38%, 01/08/2016[c] | 1,200 | 1,200 |
| | | $ 8,130 |
| **North Carolina - 0.29%** | | |
| City of Raleigh NC (credit support from Wells Fargo) | | |
| 0.42%, 01/08/2016[c] | 840 | 840 |
| **Pennsylvania - 0.23%** | | |
| Luzerne County Industrial Development Authority (credit support from Wells Fargo) | | |
| 0.47%, 01/08/2016[c] | 670 | 670 |
| **Texas - 0.56%** | | |
| South Central Texas Industrial Development Corp (credit support from JP Morgan Chase & Co) | | |
| 0.38%, 01/08/2016[c] | 1,600 | 1,600 |
| TOTAL MUNICIPAL BONDS | | $ 16,280 |

| **U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS - 3.16%** | **Principal Amount (000's)** | **Value (000's)** |
|---|---|---|
| **U.S. Treasury Bill - 3.16%** | | |
| 0.12%, 01/07/2016 | $ 9,000 | $ 9,000 |
| TOTAL U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS | | $ 9,000 |

| **COMMERCIAL PAPER - 78.44%** | **Principal Amount (000's)** | **Value (000's)** |
|---|---|---|
| **Automobile Manufacturers - 4.54%** | | |
| PACCAR Financial Corp (credit support from PACCAR Inc) | | |
| 0.15%, 01/04/2016[c] | $ 2,100 | $ 2,100 |
| 0.52%, 02/11/2016[c] | 2,000 | 1,999 |
| 0.60%, 03/16/2016[c] | 2,049 | 2,046 |
| Toyota Financial Services de Puerto Rico Inc (credit support from Toyota Financial Services) | | |
| 0.20%, 01/11/2016[c] | 2,000 | 2,000 |
| 0.28%, 02/01/2016[c] | 2,000 | 2,000 |
| 0.45%, 02/05/2016[c] | 1,400 | 1,399 |
| Toyota Motor Credit Corp (credit support from Toyota Financial Services) | | |
| 0.23%, 02/09/2016[c] | 1,400 | 1,400 |
| | | $ 12,944 |
| **Banks - 23.43%** | | |
| Bank of Nova Scotia/The | | |
| 0.40%, 02/22/2016[a],[d] | 1,900 | 1,899 |
| Bank of Tokyo-Mitsubishi UFJ Ltd/New York NY | | |
| 0.29%, 01/04/2016 | 2,000 | 2,000 |
| 0.48%, 03/03/2016 | 2,200 | 2,198 |
| BNP Paribas SA/New York NY | | |
| 0.20%, 01/04/2016 | 3,000 | 3,000 |
| 0.25%, 01/29/2016 | 2,000 | 2,000 |
| CAFCO LLC | | |
| 0.60%, 03/21/2016[a] | 2,000 | 1,997 |

| COMMERCIAL PAPER (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Banks (continued)** | | |
| Credit Suisse AG/New York NY | | |
| 0.40%, 01/14/2016 | $ 2,000 | $ 2,000 |
| DBS Bank Ltd | | |
| 0.47%, 01/28/2016[(a),(d)] | 2,000 | 1,999 |
| 0.64%, 03/22/2016[(a),(d)] | 2,000 | 1,997 |
| ING US Funding LLC (credit support from ING Bank) | | |
| 0.37%, 03/02/2016[(c)] | 1,500 | 1,499 |
| 0.42%, 03/15/2016[(c)] | 2,000 | 1,998 |
| KFW (credit support from Republic of Germany) | | |
| 0.20%, 01/14/2016[(a),(c),(d)] | 2,100 | 2,100 |
| Manhattan Asset Funding Co LLC | | |
| 0.34%, 01/12/2016[(a)] | 2,000 | 2,000 |
| 0.45%, 01/28/2016[(a)] | 2,500 | 2,499 |
| 0.45%, 02/01/2016[(a)] | 2,300 | 2,299 |
| Mitsubishi UFJ Trust & Banking Corp/NY | | |
| 0.50%, 03/01/2016 | 2,000 | 1,998 |
| Mizuho Bank Ltd/NY | | |
| 0.29%, 01/06/2016[(a)] | 2,300 | 2,300 |
| 0.29%, 01/20/2016[(a)] | 1,800 | 1,800 |
| 0.31%, 02/04/2016[(a)] | 2,000 | 1,999 |
| Nordea Bank AB | | |
| 0.23%, 01/21/2016[(a),(d)] | 1,000 | 1,000 |
| 0.56%, 04/04/2016[(a),(d)] | 2,300 | 2,297 |
| Oversea-Chinese Banking Corp Ltd | | |
| 0.30%, 02/04/2016[(d)] | 2,200 | 2,199 |
| Sheffield Receivables Co LLC | | |
| 0.42%, 02/03/2016[(a)] | 2,000 | 1,999 |
| 0.75%, 03/17/2016[(a)] | 2,000 | 1,997 |
| Skandinaviska Enskilda Banken AB | | |
| 0.33%, 02/16/2016[(a),(d)] | 1,800 | 1,799 |
| Societe Generale SA | | |
| 0.47%, 02/26/2016[(a),(d)] | 2,000 | 1,999 |
| 0.49%, 02/01/2016[(a),(d)] | 2,000 | 1,999 |
| Standard Chartered Bank/New York | | |
| 0.42%, 02/25/2016[(a)] | 2,200 | 2,199 |
| 0.65%, 04/04/2016[(a)] | 2,300 | 2,296 |
| Sumitomo Mitsui Banking Corp | | |
| 0.23%, 01/08/2016[(a),(d)] | 2,200 | 2,200 |
| 0.48%, 02/23/2016[(a),(d)] | 2,000 | 1,999 |
| 0.65%, 03/16/2016[(a),(d)] | 2,200 | 2,197 |
| United Overseas Bank Ltd | | |
| 0.52%, 02/24/2016[(a),(d)] | 1,000 | 999 |
| | | $ 66,761 |
| **Beverages - 1.33%** | | |
| Brown-Forman Corp | | |
| 0.45%, 01/07/2016[(a)] | 1,800 | 1,800 |
| 0.60%, 01/22/2016[(a)] | 2,000 | 1,999 |
| | | $ 3,799 |
| **Commercial Services - 2.66%** | | |
| Catholic Health Initiatives | | |
| 0.35%, 01/05/2016 | 2,000 | 2,000 |
| 0.48%, 01/20/2016 | 2,000 | 1,999 |
| 0.48%, 02/11/2016 | 2,750 | 2,749 |
| Salvation Army/United States | | |
| 0.45%, 03/10/2016 | 830 | 829 |
| | | $ 7,577 |
| **Computers - 0.77%** | | |
| International Business Machines Corp | | |
| 0.42%, 03/23/2016[(a)] | 2,200 | 2,198 |
| **Consumer Products - 0.70%** | | |
| Reckitt Benckiser Treasury Services PLC (credit support from Reckitt Benckiser Group) | | |
| 0.40%, 01/11/2016[(a),(c)] | 2,000 | 2,000 |

| COMMERCIAL PAPER (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Diversified Financial Services - 23.05%** | | |
| Anglesea Funding LLC | | |
| 0.38%, 01/04/2016[(a)] | $ 2,000 | $ 2,000 |
| AXA Financial Inc (credit support from AXA SA) | | |
| 0.35%, 01/12/2016[(a),(c)] | 1,400 | 1,400 |
| CRC Funding LLC | | |
| 0.32%, 02/22/2016[(a)] | 2,000 | 1,999 |
| DCAT LLC | | |
| 0.40%, 01/05/2016 | 2,000 | 2,000 |
| 0.42%, 01/15/2016 | 2,200 | 2,199 |
| 0.45%, 01/07/2016 | 2,100 | 2,100 |
| Fairway Finance LLC | | |
| 0.23%, 01/22/2016[(a)] | 2,100 | 2,100 |
| 0.31%, 01/08/2016[(a)] | 2,000 | 2,000 |
| 0.32%, 03/07/2016[(a)] | 900 | 899 |
| Gotham Funding Corp | | |
| 0.28%, 01/26/2016[(a)] | 1,500 | 1,500 |
| 0.33%, 01/25/2016[(a)] | 2,000 | 1,999 |
| 0.35%, 01/11/2016[(a)] | 2,000 | 2,000 |
| 0.48%, 01/26/2016[(a)] | 1,500 | 1,499 |
| Intercontinental Exchange Inc | | |
| 0.38%, 01/04/2016[(a)] | 1,000 | 1,000 |
| 0.42%, 01/05/2016[(a)] | 2,000 | 2,000 |
| 0.58%, 01/06/2016[(a)] | 1,700 | 1,700 |
| 0.60%, 01/12/2016[(a)] | 2,000 | 1,999 |
| JP Morgan Securities LLC | | |
| 0.30%, 01/05/2016 | 2,000 | 2,000 |
| Jupiter Securitization Co LLC | | |
| 0.42%, 01/13/2016[(a)] | 2,300 | 2,300 |
| Liberty Street Funding LLC | | |
| 0.46%, 02/08/2016[(a)] | 2,000 | 1,999 |
| 0.58%, 03/14/2016[(a)] | 2,000 | 1,998 |
| National Rural Utilities Cooperative Finance Corp | | |
| 0.40%, 02/03/2016 | 2,300 | 2,299 |
| 0.41%, 02/04/2016 | 2,000 | 1,999 |
| Nieuw Amsterdam Receivables Corp | | |
| 0.19%, 01/07/2016[(a)] | 2,100 | 2,100 |
| 0.27%, 01/13/2016[(a)] | 2,000 | 2,000 |
| 0.46%, 02/02/2016[(a)] | 2,300 | 2,299 |
| Ontario Teachers' Finance Trust (credit support from Ontario Teachers Pension Plan Board) | | |
| 0.41%, 02/05/2016[(a),(c)] | 2,200 | 2,199 |
| 0.64%, 03/21/2016[(a),(c)] | 2,200 | 2,197 |
| 0.65%, 04/01/2016[(a),(c)] | 2,000 | 1,997 |
| Regency Markets No. 1 LLC | | |
| 0.40%, 01/13/2016[(a)] | 2,100 | 2,100 |
| 0.40%, 01/15/2016[(a)] | 1,700 | 1,700 |
| 0.42%, 01/15/2016[(a)] | 2,200 | 2,199 |
| Thunder Bay Funding LLC | | |
| 0.22%, 01/14/2016[(a)] | 1,800 | 1,800 |
| 0.36%, 01/15/2016[(a)] | 2,100 | 2,100 |
| | | $ 65,680 |
| **Electric - 3.40%** | | |
| GDF Suez | | |
| 0.29%, 01/06/2016[(a)] | 2,100 | 2,100 |
| 0.30%, 01/07/2016[(a)] | 2,000 | 2,000 |
| 0.50%, 02/23/2016[(a)] | 2,200 | 2,198 |
| Oglethorpe Power Corp | | |
| 0.30%, 01/04/2016[(a)] | 1,400 | 1,400 |
| 0.50%, 01/04/2016[(a)] | 2,000 | 2,000 |
| | | $ 9,698 |
| **Electrical Components & Equipment - 0.70%** | | |
| Emerson Electric Co | | |
| 0.42%, 01/22/2016[(a)] | 2,000 | 1,999 |
| **Healthcare - Products - 0.70%** | | |
| Danaher Corp | | |
| 0.40%, 01/04/2016[(a)] | 2,000 | 2,000 |

*See accompanying notes.*

| COMMERCIAL PAPER (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Insurance - 1.16%** | | |
| Prudential PLC | | |
| 0.32%, 02/17/2016[(a)] | $ 1,800 | $ 1,799 |
| 0.37%, 02/02/2016[(a)] | 1,500 | 1,500 |
| | | $ 3,299 |
| **Machinery - Construction & Mining - 1.44%** | | |
| Caterpillar Financial Services Corp (credit support from Caterpillar Inc) | | |
| 0.45%, 01/06/2016[(c)] | 1,900 | 1,900 |
| 0.47%, 02/09/2016[(c)] | 2,200 | 2,199 |
| | | $ 4,099 |
| **Machinery - Diversified - 1.96%** | | |
| John Deere Capital Corp | | |
| 0.35%, 01/15/2016[(a)] | 2,000 | 2,000 |
| John Deere Financial Inc (credit support from John Deere Capital Corp) | | |
| 0.50%, 02/18/2016[(a),(c)] | 2,100 | 2,098 |
| John Deere Financial Ltd (credit support from John Deere Capital Corp) | | |
| 0.19%, 01/14/2016[(a),(c)] | 1,500 | 1,500 |
| | | $ 5,598 |
| **Media - 0.53%** | | |
| Walt Disney Co/The | | |
| 0.32%, 01/20/2016[(a)] | 1,500 | 1,500 |
| **Miscellaneous Manufacturers - 0.53%** | | |
| Illinois Tool Works Inc | | |
| 0.28%, 01/07/2016[(a)] | 1,500 | 1,500 |
| **Oil & Gas - 4.07%** | | |
| BP Capital Markets PLC (credit support from BP PLC) | | |
| 0.39%, 01/27/2016[(a),(c)] | 2,000 | 1,999 |
| Chevron Corp | | |
| 0.32%, 01/19/2016[(a)] | 1,600 | 1,600 |
| Exxon Mobil Corp | | |
| 0.33%, 02/02/2016 | 2,000 | 1,999 |
| 0.38%, 03/02/2016 | 2,000 | 1,999 |
| Total Capital Canada Ltd (credit support from Total SA) | | |
| 0.20%, 01/25/2016[(a),(c)] | 2,000 | 2,000 |
| 0.45%, 01/21/2016[(a),(c)] | 2,000 | 1,999 |
| | | $ 11,596 |
| **Pharmaceuticals - 0.42%** | | |
| AstraZeneca PLC | | |
| 0.22%, 01/27/2016[(a)] | 1,200 | 1,200 |
| **Pipelines - 1.47%** | | |
| Questar Corp | | |
| 0.45%, 01/04/2016[(a)] | 2,200 | 2,200 |
| 0.50%, 01/08/2016[(a)] | 2,000 | 2,000 |
| | | $ 4,200 |
| **REITS - 2.07%** | | |
| Simon Property Group LP | | |
| 0.22%, 01/04/2016[(a)] | 1,600 | 1,600 |
| 0.25%, 01/19/2016[(a)] | 2,300 | 2,300 |
| 0.52%, 02/19/2016[(a)] | 2,000 | 1,998 |
| | | $ 5,898 |
| **Supranational Bank - 2.11%** | | |
| Corp Andina de Fomento | | |
| 0.18%, 01/08/2016[(a)] | 1,800 | 1,800 |
| 0.24%, 01/04/2016[(a)] | 2,000 | 2,000 |
| 0.44%, 01/12/2016[(a)] | 2,200 | 2,200 |
| | | $ 6,000 |
| **Telecommunications - 1.40%** | | |
| Telstra Corp Ltd | | |
| 0.37%, 02/16/2016[(a)] | 2,000 | 1,999 |

| COMMERCIAL PAPER (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Telecommunications (continued)** | | |
| Telstra Corp Ltd (continued) | | |
| 0.37%, 02/24/2016[(a)] | $ 2,000 | $ 1,999 |
| | | $ 3,998 |
| TOTAL COMMERCIAL PAPER | | $ 223,544 |

| CERTIFICATE OF DEPOSIT - 3.41% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Banks - 3.41%** | | |
| Bank of America NA | | |
| 0.31%, 02/10/2016 | 2,000 | 2,000 |
| 0.34%, 01/19/2016 | 2,300 | 2,300 |
| 0.34%, 02/29/2016 | 2,000 | 2,000 |
| Bank of Nova Scotia/Houston | | |
| 0.52%, 05/11/2016[(b),(d)] | 1,400 | 1,400 |
| Citibank NA | | |
| 0.50%, 03/09/2016 | 2,000 | 2,000 |
| | | $ 9,700 |
| TOTAL CERTIFICATE OF DEPOSIT | | $ 9,700 |

| REPURCHASE AGREEMENTS - 2.81% | Maturity Amount (000's) | Value (000's) |
|---|---|---|
| **Banks - 2.81%** | | |
| Merrill Lynch Repurchase Agreement; 0.30% dated 12/31/2015 maturing 01/04/2016 (collateralized by US Government Security; $8,160,511; 0.00%; dated 7/15/2032) | $ 8,000 | $ 8,000 |
| TOTAL REPURCHASE AGREEMENTS | | $ 8,000 |
| **Total Investments** | | **$ 285,266** |
| **Liabilities in Excess of Other Assets, Net - (0.10)%** | | **$ (291)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 284,975** |

*(a) 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. At the end of the period, the value of these securities totaled $164,091 or 57.58% of net assets.*
*(b) Variable Rate. Rate shown is in effect at December 31, 2015.*
*(c) Credit support indicates investments that benefit from credit enhancement or liquidity support provided by a third party bank, institution, or government agency.*
*(d) Security issued by foreign bank and denominated in USD.*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 57.26% |
| Consumer, Non-cyclical | 5.81% |
| Insured | 5.71% |
| Exchange Traded Funds | 5.66% |
| Energy | 5.54% |
| Industrial | 4.63% |
| Government | 4.57% |
| Consumer, Cyclical | 4.54% |
| Utilities | 3.40% |
| Communications | 1.93% |
| Technology | 0.77% |
| Asset Backed Securities | 0.28% |
| Liabilities in Excess of Other Assets, Net | (0.10)% |
| **TOTAL NET ASSETS** | 100.00% |

| COMMON STOCKS - 98.61% | Shares Held | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 3.25%** | | |
| Boeing Co/The | 17,202 | $ 2,487 |
| Northrop Grumman Corp | 10,322 | 1,949 |
| Teledyne Technologies Inc [(a)] | 9,512 | 844 |
| | | $ 5,280 |
| **Airlines - 0.52%** | | |
| Alaska Air Group Inc | 10,530 | 848 |
| **Apparel - 1.61%** | | |
| Deckers Outdoor Corp [(a)] | 7,760 | 366 |
| NIKE Inc | 35,992 | 2,250 |
| | | $ 2,616 |
| **Automobile Manufacturers - 0.72%** | | |
| PACCAR Inc | 24,640 | 1,168 |
| **Automobile Parts & Equipment - 1.25%** | | |
| Autoliv Inc | 5,277 | 658 |
| Johnson Controls Inc | 34,888 | 1,378 |
| | | $ 2,036 |
| **Banks - 7.40%** | | |
| East West Bancorp Inc | 24,282 | 1,009 |
| Goldman Sachs Group Inc/The | 4,392 | 792 |
| JPMorgan Chase & Co | 29,071 | 1,920 |
| PNC Financial Services Group Inc/The | 22,387 | 2,134 |
| State Street Corp | 6,274 | 416 |
| SVB Financial Group [(a)] | 7,212 | 857 |
| US Bancorp | 36,014 | 1,537 |
| Wells Fargo & Co | 61,534 | 3,345 |
| | | $ 12,010 |
| **Beverages - 1.67%** | | |
| Brown-Forman Corp - B Shares | 5,743 | 570 |
| Coca-Cola Co/The | 28,762 | 1,236 |
| PepsiCo Inc | 9,118 | 911 |
| | | $ 2,717 |
| **Biotechnology - 0.75%** | | |
| Gilead Sciences Inc | 11,964 | 1,211 |
| **Building Materials - 0.32%** | | |
| Apogee Enterprises Inc | 11,823 | 514 |
| **Chemicals - 2.19%** | | |
| EI du Pont de Nemours & Co | 8,476 | 565 |
| FMC Corp | 9,763 | 382 |
| Innospec Inc | 5,859 | 318 |
| International Flavors & Fragrances Inc | 8,786 | 1,051 |
| PPG Industries Inc | 12,592 | 1,244 |
| | | $ 3,560 |
| **Commercial Services - 0.93%** | | |
| PayPal Holdings Inc [(a)] | 13,047 | 472 |
| Robert Half International Inc | 10,546 | 497 |
| TrueBlue Inc [(a)] | 20,831 | 537 |
| | | $ 1,506 |
| **Computers - 4.76%** | | |
| Apple Inc | 50,491 | 5,315 |
| EMC Corp/MA | 58,512 | 1,502 |
| International Business Machines Corp | 6,592 | 907 |
| | | $ 7,724 |
| **Consumer Products - 0.82%** | | |
| Kimberly-Clark Corp | 5,564 | 708 |
| WD-40 Co | 6,294 | 621 |
| | | $ 1,329 |
| **Cosmetics & Personal Care - 0.66%** | | |
| Procter & Gamble Co/The | 13,473 | 1,070 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Distribution & Wholesale - 0.31%** | | |
| Pool Corp | 6,130 | $ 495 |
| **Diversified Financial Services - 3.28%** | | |
| Ameriprise Financial Inc | 6,517 | 694 |
| Charles Schwab Corp/The | 49,569 | 1,632 |
| FNF Group | 30,623 | 1,062 |
| Franklin Resources Inc | 33,282 | 1,225 |
| T Rowe Price Group Inc | 9,894 | 707 |
| | | $ 5,320 |
| **Electric - 2.21%** | | |
| Duke Energy Corp | 10,784 | 770 |
| NextEra Energy Inc | 5,581 | 580 |
| Xcel Energy Inc | 62,118 | 2,230 |
| | | $ 3,580 |
| **Electronics - 2.50%** | | |
| Corning Inc | 30,720 | 562 |
| FEI Co | 6,791 | 542 |
| FLIR Systems Inc | 6,709 | 188 |
| Trimble Navigation Ltd [(a)] | 36,984 | 793 |
| Waters Corp [(a)] | 14,634 | 1,969 |
| | | $ 4,054 |
| **Environmental Control - 1.14%** | | |
| Stericycle Inc [(a)] | 3,012 | 363 |
| Waste Connections Inc | 26,402 | 1,487 |
| | | $ 1,850 |
| **Food - 2.76%** | | |
| General Mills Inc | 21,922 | 1,264 |
| Kroger Co/The | 37,084 | 1,551 |
| McCormick & Co Inc/MD | 13,342 | 1,141 |
| Safeway, Inc. - CVR - Casa Ley [(a),(b)] | 825 | — |
| Safeway, Inc. - CVR - Property Development Centers [(a),(b),(c)] | 825 | — |
| Whole Foods Market Inc | 15,360 | 515 |
| | | $ 4,471 |
| **Gas - 0.96%** | | |
| Sempra Energy | 16,604 | 1,561 |
| **Healthcare - Products - 4.05%** | | |
| Becton Dickinson and Co | 10,085 | 1,554 |
| Bio-Techne Corp | 9,014 | 811 |
| Edwards Lifesciences Corp [(a)] | 10,435 | 824 |
| Medtronic PLC | 7,704 | 593 |
| Thermo Fisher Scientific Inc | 14,894 | 2,113 |
| Varian Medical Systems Inc [(a)] | 8,460 | 683 |
| | | $ 6,578 |
| **Healthcare - Services - 1.57%** | | |
| DaVita HealthCare Partners Inc [(a)] | 18,235 | 1,271 |
| Universal Health Services Inc | 10,617 | 1,269 |
| | | $ 2,540 |
| **Housewares - 0.30%** | | |
| Tupperware Brands Corp | 8,608 | 479 |
| **Insurance - 2.19%** | | |
| ACE Ltd | 14,480 | 1,692 |
| Chubb Corp/The | 1,318 | 175 |
| MetLife Inc | 12,335 | 594 |
| XL Group PLC | 27,815 | 1,090 |
| | | $ 3,551 |
| **Internet - 4.92%** | | |
| Alphabet Inc - A Shares [(a)] | 3,668 | 2,854 |
| Alphabet Inc - C Shares [(a)] | 1,372 | 1,041 |
| Amazon.com Inc [(a)] | 3,069 | 2,074 |
| comScore Inc [(a)] | 8,659 | 356 |
| eBay Inc [(a)] | 12,056 | 331 |
| Facebook Inc [(a)] | 8,701 | 911 |
| LinkedIn Corp [(a)] | 1,847 | 416 |
| | | $ 7,983 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Iron & Steel - 0.49%** | | |
| Reliance Steel & Aluminum Co | 13,586 | $ 787 |
| **Leisure Products & Services - 0.56%** | | |
| Carnival Corp | 4,875 | 266 |
| Harley-Davidson Inc | 14,309 | 649 |
| | | $ 915 |
| **Machinery - Diversified - 0.99%** | | |
| Deere & Co | 18,489 | 1,410 |
| Tennant Co | 3,549 | 200 |
| | | $ 1,610 |
| **Media - 3.11%** | | |
| Comcast Corp - Class A | 21,693 | 1,224 |
| Sirius XM Holdings Inc [(a)] | 122,905 | 500 |
| Viacom Inc | 18,367 | 756 |
| Walt Disney Co/The | 24,351 | 2,559 |
| | | $ 5,039 |
| **Miscellaneous Manufacturers - 2.27%** | | |
| AptarGroup Inc | 16,611 | 1,207 |
| Crane Co | 9,001 | 430 |
| Donaldson Co Inc | 13,217 | 379 |
| General Electric Co | 53,407 | 1,664 |
| | | $ 3,680 |
| **Oil & Gas - 4.33%** | | |
| Chevron Corp | 19,640 | 1,767 |
| Cimarex Energy Co | 9,500 | 849 |
| Devon Energy Corp | 12,395 | 397 |
| Energen Corp | 12,790 | 524 |
| Exxon Mobil Corp | 26,816 | 2,090 |
| HollyFrontier Corp | 20,666 | 825 |
| Occidental Petroleum Corp | 8,478 | 573 |
| | | $ 7,025 |
| **Oil & Gas Services - 0.94%** | | |
| Schlumberger Ltd | 21,958 | 1,532 |
| **Pharmaceuticals - 7.68%** | | |
| Abbott Laboratories | 26,682 | 1,198 |
| AbbVie Inc | 14,066 | 833 |
| Allergan plc [(a)] | 6,833 | 2,135 |
| Bristol-Myers Squibb Co | 16,136 | 1,110 |
| Johnson & Johnson | 22,932 | 2,356 |
| McKesson Corp | 12,307 | 2,427 |
| Perrigo Co PLC | 7,429 | 1,075 |
| Teva Pharmaceutical Industries Ltd ADR | 9,032 | 593 |
| VCA Inc [(a)] | 13,448 | 740 |
| | | $ 12,467 |
| **Pipelines - 0.69%** | | |
| Magellan Midstream Partners LP | 16,584 | 1,126 |
| **REITS - 3.11%** | | |
| Alexandria Real Estate Equities Inc | 12,214 | 1,104 |
| Essex Property Trust Inc | 3,958 | 948 |
| HCP Inc | 15,795 | 604 |
| Plum Creek Timber Co Inc | 20,458 | 976 |
| Ventas Inc | 19,397 | 1,095 |
| Weyerhaeuser Co | 10,526 | 315 |
| | | $ 5,042 |
| **Retail - 6.75%** | | |
| Copart Inc [(a)] | 25,602 | 973 |
| Costco Wholesale Corp | 11,295 | 1,824 |
| CVS Health Corp | 21,931 | 2,144 |
| Dollar General Corp | 12,835 | 923 |
| Home Depot Inc/The | 12,176 | 1,610 |
| Nordstrom Inc | 23,539 | 1,173 |
| Starbucks Corp | 38,313 | 2,300 |
| | | $ 10,947 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Savings & Loans - 0.44%** | | |
| Washington Federal Inc | 29,750 | $ 709 |
| **Semiconductors - 3.11%** | | |
| Applied Materials Inc | 39,241 | 733 |
| Avago Technologies Ltd | 3,669 | 533 |
| Intel Corp | 29,427 | 1,014 |
| Lam Research Corp | 12,646 | 1,004 |
| Microchip Technology Inc | 25,652 | 1,194 |
| QUALCOMM Inc | 11,533 | 576 |
| | | $ 5,054 |
| **Software - 6.87%** | | |
| Adobe Systems Inc [(a)] | 22,587 | 2,122 |
| Autodesk Inc [(a)] | 12,277 | 748 |
| Fair Isaac Corp | 13,781 | 1,298 |
| Fidelity National Information Services Inc | 7,928 | 480 |
| Microsoft Corp | 68,981 | 3,827 |
| Omnicell Inc [(a)] | 22,291 | 693 |
| Oracle Corp | 34,082 | 1,245 |
| Tyler Technologies Inc [(a)] | 4,188 | 730 |
| | | $ 11,143 |
| **Telecommunications - 2.32%** | | |
| Cisco Systems Inc | 33,171 | 901 |
| Verizon Communications Inc | 62,071 | 2,869 |
| | | $ 3,770 |
| **Toys, Games & Hobbies - 0.53%** | | |
| Hasbro Inc | 12,708 | 856 |
| **Transportation - 1.31%** | | |
| Expeditors International of Washington Inc | 23,800 | 1,073 |
| Union Pacific Corp | 13,529 | 1,058 |
| | | $ 2,131 |
| **Trucking & Leasing - 0.07%** | | |
| Greenbrier Cos Inc/The | 3,419 | 112 |
| TOTAL COMMON STOCKS | | $ 159,996 |

| INVESTMENT COMPANIES - 1.57% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 1.57%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 2,552,785 | 2,553 |
| TOTAL INVESTMENT COMPANIES | | $ 2,553 |
| **Total Investments** | | **$ 162,549** |
| **Liabilities in Excess of Other Assets, Net - (0.18)%** | | **$ (300)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 162,249** |

*(a) Non-Income Producing Security*
*(b) Fair value of these investments is determined in good faith by the Manager under procedures established and periodically reviewed by the Board of Directors. At the end of the period, the fair value of these securities totaled $0 or 0.00% of net assets.*
*(c) Security is Illiquid. At the end of the period, the value of these securities totaled $0 or 0.00% of net assets.*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Consumer, Non-cyclical | 20.89% |
| Financial | 16.42% |
| Technology | 14.74% |
| Consumer, Cyclical | 12.56% |
| Industrial | 11.85% |
| Communications | 10.35% |
| Energy | 5.96% |
| Utilities | 3.17% |
| Basic Materials | 2.67% |
| Exchange Traded Funds | 1.57% |
| Liabilities in Excess of Other Assets, Net | (0.18)% |
| **TOTAL NET ASSETS** | 100.00% |

| COMMON STOCKS - 98.77% | Shares Held | Value (000's) |
|---|---|---|
| **REITS - 98.77%** | | |
| Alexandria Real Estate Equities Inc | 33,700 | $ 3,045 |
| American Tower Corp | 25,149 | 2,438 |
| Apartment Investment & Management Co | 110,120 | 4,408 |
| AvalonBay Communities Inc | 41,385 | 7,620 |
| Boston Properties Inc | 59,042 | 7,530 |
| Care Capital Properties Inc | 5,154 | 158 |
| Crown Castle International Corp | 23,280 | 2,013 |
| CubeSmart | 131,042 | 4,013 |
| DDR Corp | 152,289 | 2,565 |
| Duke Realty Corp | 131,180 | 2,757 |
| Education Realty Trust Inc | 42,288 | 1,602 |
| EPR Properties | 48,029 | 2,807 |
| Equinix Inc | 24,010 | 7,261 |
| Equity One Inc | 112,199 | 3,046 |
| Equity Residential | 115,877 | 9,454 |
| Essex Property Trust Inc | 37,406 | 8,955 |
| Extra Space Storage Inc | 20,190 | 1,781 |
| Federal Realty Investment Trust | 22,368 | 3,268 |
| First Industrial Realty Trust Inc | 145,752 | 3,226 |
| General Growth Properties Inc | 262,234 | 7,135 |
| GEO Group Inc/The | 8,073 | 233 |
| Host Hotels & Resorts Inc | 242,457 | 3,719 |
| Hudson Pacific Properties Inc | 51,555 | 1,451 |
| Kilroy Realty Corp | 25,286 | 1,600 |
| Pebblebrook Hotel Trust | 98,740 | 2,767 |
| Prologis Inc | 161,953 | 6,951 |
| Public Storage | 45,927 | 11,376 |
| Saul Centers Inc | 32,164 | 1,649 |
| Simon Property Group Inc | 99,947 | 19,434 |
| SL Green Realty Corp | 46,540 | 5,258 |
| STORE Capital Corp | 58,986 | 1,369 |
| Sun Communities Inc | 40,532 | 2,778 |
| Sunstone Hotel Investors Inc | 179,994 | 2,248 |
| Ventas Inc | 91,234 | 5,148 |
| VEREIT Inc | 110,728 | 877 |
| Vornado Realty Trust | 20,793 | 2,078 |
| Welltower Inc | 77,733 | 5,288 |
| | | $ 159,306 |
| TOTAL COMMON STOCKS | | $ 159,306 |

| INVESTMENT COMPANIES - 0.58% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 0.58%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 937,556 | 938 |
| TOTAL INVESTMENT COMPANIES | | $ 938 |
| **Total Investments** | | **$ 160,244** |
| **Other Assets in Excess of Liabilities, Net - 0.65%** | | **$ 1,042** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 161,286** |

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 98.77% |
| Exchange Traded Funds | 0.58% |
| Other Assets in Excess of Liabilities, Net | 0.65% |
| **TOTAL NET ASSETS** | 100.00% |

*See accompanying notes.*

| INVESTMENT COMPANIES - 100.02% | Shares Held | Value (000's) |
|---|---|---|
| **Principal Funds, Inc. Institutional Class - 61.70%** | | |
| Blue Chip Fund [(a)] | 2,440,914 | $ 38,225 |
| Diversified International Fund [(a)] | 6,588,088 | 73,523 |
| EDGE MidCap Fund [(a)] | 1,131,594 | 11,463 |
| Global Diversified Income Fund [(a)] | 1,256,285 | 16,332 |
| Global Multi-Strategy Fund [(a)] | 5,995,036 | 63,427 |
| Global Real Estate Securities Fund [(a)] | 1,883,207 | 16,817 |
| High Yield Fund [(a)] | 2,999,235 | 20,155 |
| Inflation Protection Fund [(a)] | 1,824,644 | 14,980 |
| International Emerging Markets Fund [(a)] | 734,130 | 14,536 |
| LargeCap Growth Fund [(a)] | 7,549,511 | 77,307 |
| LargeCap Value Fund [(a)] | 4,231,177 | 48,489 |
| MidCap Value Fund I [(a)] | 1,262,939 | 15,648 |
| Preferred Securities Fund [(a)] | 349,401 | 3,529 |
| Principal Capital Appreciation Fund [(a)] | 511,378 | 28,852 |
| Short-Term Income Fund [(a)] | 3,041,351 | 36,740 |
| SmallCap Growth Fund I [(a),(b)] | 80,537 | 887 |
| SmallCap Value Fund II [(a)] | 522,130 | 5,785 |
| Small-MidCap Dividend Income Fund [(a)] | 1,969,184 | 25,048 |
| | | $ 511,743 |
| **Principal Variable Contracts Funds, Inc. Class 1 - 38.32%** | | |
| Equity Income Account [(a)] | 4,025,769 | 87,238 |
| Government & High Quality Bond Account [(a)] | 6,027,135 | 61,236 |
| Income Account [(a)] | 11,505,107 | 117,812 |
| MidCap Account [(a)] | 934,285 | 51,610 |
| | | $ 317,896 |
| TOTAL INVESTMENT COMPANIES | | $ 829,639 |
| **Total Investments** | | **$ 829,639** |
| **Liabilities in Excess of Other Assets, Net - (0.02)%** | | **$ (191)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 829,448** |

*(a) Affiliated Security. Please see Affiliated Sub-Schedule for transactional information.*
*(b) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Fund Type | Percent |
|---|---|
| Domestic Equity Funds | 47.09% |
| Fixed Income Funds | 30.67% |
| International Equity Funds | 12.64% |
| Specialty Funds | 9.62% |
| Liabilities in Excess of Other Assets, Net | (0.02)% |
| **TOTAL NET ASSETS** | 100.00% |

## Schedule of Investments
## SAM Balanced Portfolio
## December 31, 2015

| Affiliated Securities | December 31, 2014 Shares | December 31, 2014 Cost | Purchases Shares | Purchases Cost | Sales Shares | Sales Proceeds | December 31, 2015 Shares | December 31, 2015 Cost |
|---|---|---|---|---|---|---|---|---|
| Blue Chip Fund | 2,782,489 | $ 39,000 | 68,260 | $ 1,070 | 409,835 | $ 6,535 | 2,440,914 | $ 33,609 |
| Diversified International Account | 5,052,004 | 53,927 | 4,095 | 62 | 5,056,099 | 73,622 | — | — |
| Diversified International Fund | — | — | 6,742,149 | 80,967 | 154,061 | 1,756 | 6,588,088 | 79,090 |
| EDGE MidCap Fund | — | — | 1,131,594 | 11,323 | — | — | 1,131,594 | 11,323 |
| Equity Income Account | 4,692,543 | 52,332 | 118,270 | 2,664 | 785,044 | 17,726 | 4,025,769 | 44,250 |
| Global Diversified Income Fund | 1,338,732 | 18,057 | 79,059 | 1,081 | 161,506 | 2,233 | 1,256,285 | 16,854 |
| Global Multi-Strategy Fund | 4,448,034 | 46,633 | 1,920,583 | 21,074 | 373,581 | 4,112 | 5,995,036 | 63,524 |
| Global Real Estate Securities Fund | 1,013,697 | 8,193 | 1,111,343 | 10,610 | 241,833 | 2,206 | 1,883,207 | 16,452 |
| Government & High Quality Bond Account | 6,654,476 | 65,657 | 254,807 | 2,596 | 882,148 | 9,147 | 6,027,135 | 59,077 |
| High Yield Fund | 2,590,684 | 17,625 | 581,503 | 4,256 | 172,952 | 1,225 | 2,999,235 | 20,587 |
| Income Account | 12,440,973 | 121,674 | 558,985 | 5,799 | 1,494,851 | 15,892 | 11,505,107 | 111,522 |
| Inflation Protection Fund | 1,295,128 | 11,148 | 642,978 | 5,430 | 113,462 | 953 | 1,824,644 | 15,601 |
| International Emerging Markets Fund | 655,350 | 15,441 | 312,714 | 7,333 | 233,934 | 5,408 | 734,130 | 17,239 |
| LargeCap Growth Fund | 7,813,229 | 84,220 | 779,585 | 8,069 | 1,043,303 | 11,814 | 7,549,511 | 80,561 |
| LargeCap Value Fund | 8,194,515 | 106,259 | 416,416 | 4,874 | 4,379,754 | 55,696 | 4,231,177 | 53,947 |
| MidCap Account | 905,088 | 39,930 | 107,799 | 6,333 | 78,602 | 4,843 | 934,285 | 41,596 |
| MidCap Value Fund I | 242,199 | 3,953 | 1,020,740 | 14,667 | — | — | 1,262,939 | 18,620 |
| Preferred Securities Fund | 371,056 | 2,083 | 21,457 | 219 | 43,112 | 442 | 349,401 | 1,926 |
| Principal Capital Appreciation Fund | 874,988 | 44,541 | 30,780 | 1,756 | 394,390 | 22,944 | 511,378 | 26,010 |
| Short-Term Income Account | 16,080,585 | 40,843 | 76,499 | 199 | 16,157,084 | 42,151 | — | — |
| Short-Term Income Fund | — | — | 3,258,619 | 39,747 | 217,268 | 2,642 | 3,041,351 | 37,097 |
| SmallCap Growth Fund I | 73,759 | 747 | 6,778 | 74 | — | — | 80,537 | 821 |
| SmallCap Value Fund II | 498,756 | 5,013 | 55,999 | 623 | 32,625 | 436 | 522,130 | 5,225 |
| Small-MidCap Dividend Income Fund | 2,065,534 | 22,800 | 103,935 | 1,346 | 200,285 | 2,730 | 1,969,184 | 21,334 |
| | | $ 800,076 | | $ 232,172 | | $ 284,513 | | $ 776,265 |

| | Income | Realized Gain/Loss on Investments | Realized Gain from Capital Gain Distributions |
|---|---|---|---|
| Blue Chip Fund | $ 186 | $ 74 | $ 717 |
| Diversified International Account | — | 19,633 | — |
| Diversified International Fund | 1,103 | (121) | — |
| EDGE MidCap Fund | 46 | — | — |
| Equity Income Account | 2,375 | 6,980 | — |
| Global Diversified Income Fund | 877 | (51) | — |
| Global Multi-Strategy Fund | 577 | (71) | 1,302 |
| Global Real Estate Securities Fund | 455 | (145) | 296 |
| Government & High Quality Bond Account | 2,160 | (29) | 87 |
| High Yield Fund | 1,291 | (69) | — |
| Income Account | 5,476 | (59) | — |
| Inflation Protection Fund | 124 | (24) | — |
| International Emerging Markets Fund | 131 | (127) | — |
| LargeCap Growth Fund | 212 | 86 | 7,393 |
| LargeCap Value Fund | 1,211 | (1,490) | 3,237 |
| MidCap Account | 278 | 176 | 5,684 |
| MidCap Value Fund I | 487 | — | 1,098 |
| Preferred Securities Fund | 189 | 66 | 31 |
| Principal Capital Appreciation Fund | 441 | 2,657 | 1,143 |
| Short-Term Income Account | — | 1,109 | — |
| Short-Term Income Fund | 344 | (8) | — |
| SmallCap Growth Fund I | — | — | 74 |
| SmallCap Value Fund II | 110 | 25 | 512 |
| Small-MidCap Dividend Income Fund | 694 | (82) | 492 |
| | $ 18,767 | $ 28,530 | $ 22,066 |

*Amounts in thousands except shares*

| **INVESTMENT COMPANIES - 100.02%** | **Shares Held** | **Value (000's)** |
|---|---|---|
| **Principal Funds, Inc. Institutional Class - 54.16%** | | |
| Blue Chip Fund [(a)] | 381,066 | $ 5,967 |
| Diversified International Fund [(a)] | 1,135,539 | 12,673 |
| EDGE MidCap Fund [(a)] | 200,025 | 2,026 |
| Global Diversified Income Fund [(a)] | 527,156 | 6,853 |
| Global Multi-Strategy Fund [(a)] | 1,057,639 | 11,190 |
| Global Real Estate Securities Fund [(a)] | 336,575 | 3,006 |
| High Yield Fund [(a)] | 1,493,780 | 10,038 |
| Inflation Protection Fund [(a)] | 640,200 | 5,256 |
| International Emerging Markets Fund [(a)] | 131,490 | 2,603 |
| LargeCap Growth Fund [(a)] | 1,414,555 | 14,485 |
| LargeCap Value Fund [(a)] | 745,921 | 8,548 |
| MidCap Value Fund I [(a)] | 323,163 | 4,004 |
| Preferred Securities Fund [(a)] | 105,822 | 1,069 |
| Principal Capital Appreciation Fund [(a)] | 96,117 | 5,423 |
| Short-Term Income Fund [(a)] | 1,317,268 | 15,913 |
| SmallCap Growth Fund I [(a),(b)] | 22,814 | 251 |
| SmallCap Value Fund II [(a)] | 78,572 | 871 |
| Small-MidCap Dividend Income Fund [(a)] | 338,795 | 4,309 |
| | | $ 114,485 |
| **Principal Variable Contracts Funds, Inc. Class 1 - 45.86%** | | |
| Bond & Mortgage Securities Account [(a)] | 361,536 | 3,995 |
| Equity Income Account [(a)] | 647,180 | 14,024 |
| Government & High Quality Bond Account [(a)] | 2,583,126 | 26,245 |
| Income Account [(a)] | 4,371,893 | 44,768 |
| MidCap Account [(a)] | 142,866 | 7,892 |
| | | $ 96,924 |
| TOTAL INVESTMENT COMPANIES | | $ 211,409 |
| **Total Investments** | | **$ 211,409** |
| **Liabilities in Excess of Other Assets, Net - (0.02)%** | | **$ (50)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 211,359** |

*(a) Affiliated Security. Please see Affiliated Sub-Schedule for transactional information.*
*(b) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Fund Type | Percent |
|---|---|
| Fixed Income Funds | 50.77% |
| Domestic Equity Funds | 32.07% |
| International Equity Funds | 8.65% |
| Specialty Funds | 8.53% |
| Liabilities in Excess of Other Assets, Net | (0.02)% |
| **TOTAL NET ASSETS** | 100.00% |

**Schedule of Investments**
**SAM Conservative Balanced Portfolio**
**December 31, 2015**

| Affiliated Securities | December 31, 2014 Shares | December 31, 2014 Cost | Purchases Shares | Purchases Cost | Sales Shares | Sales Proceeds | December 31, 2015 Shares | December 31, 2015 Cost |
|---|---|---|---|---|---|---|---|---|
| Blue Chip Fund | 397,512 | $ 5,444 | 36,845 | $ 581 | 53,291 | $ 852 | 381,066 | $ 5,182 |
| Bond & Mortgage Securities Account | 396,098 | 4,603 | 16,267 | 181 | 50,829 | 580 | 361,536 | 4,188 |
| Diversified International Account | 796,751 | 8,228 | 10,836 | 164 | 807,587 | 11,752 | — | — |
| Diversified International Fund | — | — | 1,164,671 | 13,958 | 29,132 | 335 | 1,135,539 | 13,602 |
| EDGE MidCap Fund | — | — | 200,025 | 2,004 | — | — | 200,025 | 2,004 |
| Equity Income Account | 666,857 | 7,436 | 64,225 | 1,422 | 83,902 | 1,921 | 647,180 | 7,385 |
| Global Diversified Income Fund | 528,519 | 7,176 | 52,715 | 726 | 54,078 | 750 | 527,156 | 7,128 |
| Global Multi-Strategy Fund | 897,556 | 9,492 | 234,025 | 2,571 | 73,942 | 817 | 1,057,639 | 11,233 |
| Global Real Estate Securities Fund | 281,701 | 2,288 | 137,705 | 1,298 | 82,831 | 760 | 336,575 | 2,793 |
| Government & High Quality Bond Account | 2,670,835 | 26,905 | 221,549 | 2,288 | 309,258 | 3,206 | 2,583,126 | 25,967 |
| High Yield Fund | 1,364,721 | 9,477 | 269,993 | 1,965 | 140,934 | 1,031 | 1,493,780 | 10,355 |
| Income Account | 4,494,303 | 44,866 | 383,663 | 4,053 | 506,073 | 5,402 | 4,371,893 | 43,482 |
| Inflation Protection Fund | 412,086 | 3,547 | 256,099 | 2,178 | 27,985 | 233 | 640,200 | 5,483 |
| International Emerging Markets Fund | 109,246 | 2,563 | 66,672 | 1,546 | 44,428 | 1,027 | 131,490 | 3,058 |
| LargeCap Growth Fund | 1,376,642 | 14,994 | 193,237 | 2,029 | 155,324 | 1,751 | 1,414,555 | 15,174 |
| LargeCap Value Fund | 1,313,046 | 16,996 | 123,545 | 1,484 | 690,670 | 8,829 | 745,921 | 9,462 |
| MidCap Account | 127,557 | 5,216 | 29,149 | 1,710 | 13,840 | 856 | 142,866 | 6,086 |
| MidCap Value Fund I | 117,560 | 1,898 | 206,690 | 2,947 | 1,087 | 15 | 323,163 | 4,827 |
| Preferred Securities Fund | 110,275 | 619 | 6,563 | 67 | 11,016 | 112 | 105,822 | 584 |
| Principal Capital Appreciation Fund | 156,440 | 7,964 | 8,950 | 509 | 69,273 | 3,988 | 96,117 | 4,887 |
| Short-Term Income Account | 6,529,387 | 16,430 | 225,670 | 589 | 6,755,057 | 17,623 | — | — |
| Short-Term Income Fund | — | — | 1,389,432 | 16,947 | 72,164 | 878 | 1,317,268 | 16,067 |
| SmallCap Growth Fund I | 20,894 | 212 | 1,920 | 21 | — | — | 22,814 | 233 |
| SmallCap Value Fund II | 73,229 | 726 | 8,506 | 95 | 3,163 | 39 | 78,572 | 781 |
| Small-MidCap Dividend Income Fund | 331,050 | 3,592 | 41,254 | 536 | 33,509 | 462 | 338,795 | 3,658 |
| | | $ 200,672 | | $ 61,869 | | $ 63,219 | | $ 203,619 |

| | Income | Realized Gain/Loss on Investments | Realized Gain from Capital Gain Distributions |
|---|---|---|---|
| Blue Chip Fund | $ 29 | $ 9 | $ 112 |
| Bond & Mortgage Securities Account | 130 | (16) | — |
| Diversified International Account | — | 3,360 | — |
| Diversified International Fund | 190 | (21) | — |
| EDGE MidCap Fund | 9 | — | — |
| Equity Income Account | 353 | 448 | — |
| Global Diversified Income Fund | 357 | (24) | — |
| Global Multi-Strategy Fund | 102 | (13) | 229 |
| Global Real Estate Securities Fund | 83 | (33) | 53 |
| Government & High Quality Bond Account | 905 | (20) | 37 |
| High Yield Fund | 647 | (56) | — |
| Income Account | 2,030 | (35) | — |
| Inflation Protection Fund | 43 | (9) | — |
| International Emerging Markets Fund | 24 | (24) | — |
| LargeCap Growth Fund | 40 | (98) | 1,384 |
| LargeCap Value Fund | 213 | (189) | 570 |
| MidCap Account | 41 | 16 | 834 |
| MidCap Value Fund I | 124 | (3) | 281 |
| Preferred Securities Fund | 58 | 10 | 9 |
| Principal Capital Appreciation Fund | 83 | 402 | 215 |
| Short-Term Income Account | — | 604 | — |
| Short-Term Income Fund | 147 | (2) | — |
| SmallCap Growth Fund I | — | — | 21 |
| SmallCap Value Fund II | 17 | (1) | 78 |
| Small-MidCap Dividend Income Fund | 116 | (8) | 84 |
| | $ 5,741 | $ 4,297 | $ 3,907 |

*Amounts in thousands except shares*

**Schedule of Investments**
**SAM Conservative Growth Portfolio**
**December 31, 2015**

| INVESTMENT COMPANIES - 100.03% | Shares Held | Value (000's) |
|---|---|---|
| **Principal Funds, Inc. Institutional Class - 72.70%** | | |
| Blue Chip Fund (a) | 1,111,025 | $ 17,399 |
| Diversified International Fund (a) | 3,025,803 | 33,768 |
| Diversified Real Asset Fund (a) | 920,741 | 9,640 |
| EDGE MidCap Fund (a) | 537,208 | 5,442 |
| Global Multi-Strategy Fund (a) | 2,773,301 | 29,342 |
| Global Real Estate Securities Fund (a) | 854,024 | 7,626 |
| High Yield Fund (a) | 261,726 | 1,759 |
| LargeCap Growth Fund (a) | 3,610,714 | 36,973 |
| LargeCap Value Fund (a) | 2,359,440 | 27,039 |
| MidCap Value Fund I (a) | 610,988 | 7,570 |
| Origin Emerging Markets Fund (a) | 714,892 | 5,812 |
| Preferred Securities Fund (a) | 31,551 | 319 |
| Principal Capital Appreciation Fund (a) | 267,670 | 15,102 |
| Short-Term Income Fund (a) | 377,762 | 4,563 |
| SmallCap Growth Fund I (a),(b) | 54,690 | 602 |
| SmallCap Value Fund II (a) | 135,728 | 1,504 |
| Small-MidCap Dividend Income Fund (a) | 943,024 | 11,995 |
| | | $ 216,455 |
| **Principal Variable Contracts Funds, Inc. Class 1 - 27.33%** | | |
| Equity Income Account (a) | 1,513,545 | 32,799 |
| Government & High Quality Bond Account (a) | 714,463 | 7,259 |
| Income Account (a) | 1,518,855 | 15,553 |
| MidCap Account (a) | 466,280 | 25,757 |
| | | $ 81,368 |
| TOTAL INVESTMENT COMPANIES | | $ 297,823 |
| **Total Investments** | | **$ 297,823** |
| **Liabilities in Excess of Other Assets, Net - (0.03)%** | | **$ (86)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 297,737** |

*(a) Affiliated Security. Please see Affiliated Sub-Schedule for transactional information.*
*(b) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Fund Type | Percent |
|---|---|
| Domestic Equity Funds | 61.19% |
| International Equity Funds | 15.85% |
| Specialty Funds | 13.10% |
| Fixed Income Funds | 9.89% |
| Liabilities in Excess of Other Assets, Net | (0.03)% |
| **TOTAL NET ASSETS** | 100.00% |

**Schedule of Investments**
**SAM Conservative Growth Portfolio**
**December 31, 2015**

| Affiliated Securities | December 31, 2014 Shares | December 31, 2014 Cost | Purchases Shares | Purchases Cost | Sales Shares | Sales Proceeds | December 31, 2015 Shares | December 31, 2015 Cost |
|---|---|---|---|---|---|---|---|---|
| Blue Chip Fund | 1,121,994 | $ 15,701 | 81,226 | $ 1,277 | 92,195 | $ 1,477 | 1,111,025 | $ 15,518 |
| Diversified International Account | 2,094,008 | 26,131 | 35,193 | 528 | 2,129,201 | 31,025 | — | — |
| Diversified International Fund | — | — | 3,056,577 | 36,676 | 30,774 | 351 | 3,025,803 | 36,301 |
| Diversified Real Asset Fund | 871,224 | 10,211 | 74,393 | 848 | 24,876 | 301 | 920,741 | 10,746 |
| EDGE MidCap Fund | — | — | 537,208 | 5,383 | — | — | 537,208 | 5,383 |
| Equity Income Account | 1,830,072 | 20,448 | 117,874 | 2,674 | 434,401 | 9,776 | 1,513,545 | 16,638 |
| Global Multi-Strategy Fund | 2,098,559 | 22,401 | 854,078 | 9,385 | 179,336 | 1,992 | 2,773,301 | 29,772 |
| Global Real Estate Securities Fund | 797,815 | 6,823 | 241,475 | 2,284 | 185,266 | 1,707 | 854,024 | 7,335 |
| Government & High Quality Bond Account | 720,217 | 6,965 | 54,820 | 566 | 60,574 | 629 | 714,463 | 6,897 |
| High Yield Fund | 233,667 | 1,574 | 29,080 | 211 | 1,021 | 7 | 261,726 | 1,777 |
| Income Account | 1,255,785 | 12,061 | 339,772 | 3,646 | 76,702 | 812 | 1,518,855 | 14,875 |
| International Emerging Markets Fund | 300,706 | 7,077 | — | — | 300,706 | 7,078 | — | — |
| LargeCap Growth Fund | 3,338,967 | 36,250 | 523,588 | 5,558 | 251,841 | 2,865 | 3,610,714 | 38,819 |
| LargeCap Value Fund | 3,267,577 | 42,345 | 301,519 | 3,592 | 1,209,656 | 15,371 | 2,359,440 | 30,134 |
| MidCap Account | 352,126 | 16,536 | 141,901 | 8,429 | 27,747 | 1,705 | 466,280 | 23,255 |
| MidCap Value Fund I | 166,656 | 2,692 | 464,550 | 6,652 | 20,218 | 306 | 610,988 | 9,008 |
| Origin Emerging Markets Fund | — | — | 714,892 | 6,983 | — | — | 714,892 | 6,983 |
| Preferred Securities Fund | 35,441 | 215 | 1,987 | 20 | 5,877 | 60 | 31,551 | 191 |
| Principal Capital Appreciation Fund | 363,569 | 18,505 | 28,533 | 1,656 | 124,432 | 7,248 | 267,670 | 13,618 |
| Short-Term Income Account | 1,716,244 | 4,383 | 99,999 | 261 | 1,816,243 | 4,739 | — | — |
| Short-Term Income Fund | — | — | 393,960 | 4,805 | 16,198 | 197 | 377,762 | 4,608 |
| SmallCap Growth Fund I | 50,087 | 507 | 4,603 | 50 | — | — | 54,690 | 557 |
| SmallCap Value Fund II | 123,629 | 1,218 | 14,557 | 162 | 2,458 | 32 | 135,728 | 1,349 |
| Small-MidCap Dividend Income Fund | 881,832 | 10,043 | 107,950 | 1,435 | 46,758 | 642 | 943,024 | 10,819 |
| | | $ 262,086 | | $ 103,081 | | $ 88,320 | | $ 284,583 |

| | Income | Realized Gain/Loss on Investments | Realized Gain from Capital Gain Distributions |
|---|---|---|---|
| Blue Chip Fund | $ 85 | $ 17 | $ 325 |
| Diversified International Account | — | 4,366 | — |
| Diversified International Fund | 507 | (24) | — |
| Diversified Real Asset Fund | 94 | (12) | — |
| EDGE MidCap Fund | 21 | — | — |
| Equity Income Account | 904 | 3,292 | — |
| Global Multi-Strategy Fund | 268 | (22) | 600 |
| Global Real Estate Securities Fund | 210 | (65) | 135 |
| Government & High Quality Bond Account | 248 | (5) | 10 |
| High Yield Fund | 112 | (1) | — |
| Income Account | 696 | (20) | — |
| International Emerging Markets Fund | — | 1 | — |
| LargeCap Growth Fund | 101 | (124) | 3,520 |
| LargeCap Value Fund | 675 | (432) | 1,800 |
| MidCap Account | 135 | (5) | 2,773 |
| MidCap Value Fund I | 236 | (30) | 530 |
| Origin Emerging Markets Fund | 53 | — | — |
| Preferred Securities Fund | 18 | 16 | 3 |
| Principal Capital Appreciation Fund | 231 | 705 | 597 |
| Short-Term Income Account | — | 95 | — |
| Short-Term Income Fund | 42 | — | — |
| SmallCap Growth Fund I | — | — | 50 |
| SmallCap Value Fund II | 29 | 1 | 133 |
| Small-MidCap Dividend Income Fund | 317 | (17) | 238 |
| | $ 4,982 | $ 7,736 | $ 10,714 |

*Amounts in thousands except shares*

| INVESTMENT COMPANIES - 100.02% | Shares Held | Value (000's) |
|---|---|---|
| **Principal Funds, Inc. Institutional Class - 46.13%** | | |
| Diversified International Fund [(a)] | 496,988 | $ 5,546 |
| Global Diversified Income Fund [(a)] | 1,102,223 | 14,329 |
| Global Real Estate Securities Fund [(a)] | 254,366 | 2,271 |
| High Yield Fund [(a)] | 2,574,650 | 17,302 |
| Inflation Protection Fund [(a)] | 1,164,057 | 9,557 |
| International Emerging Markets Fund [(a)] | 127,707 | 2,529 |
| LargeCap Growth Fund [(a)] | 899,351 | 9,209 |
| LargeCap Value Fund [(a)] | 774,738 | 8,879 |
| Preferred Securities Fund [(a)] | 112,433 | 1,136 |
| Short-Term Income Fund [(a)] | 1,766,666 | 21,341 |
| SmallCap Growth Fund I [(a),(b)] | 21,899 | 241 |
| Small-MidCap Dividend Income Fund [(a)] | 788,795 | 10,033 |
| | | $ 102,373 |
| **Principal Variable Contracts Funds, Inc. Class 1 - 53.89%** | | |
| Bond & Mortgage Securities Account [(a)] | 442,110 | 4,886 |
| Equity Income Account [(a)] | 1,017,304 | 22,045 |
| Government & High Quality Bond Account [(a)] | 2,323,031 | 23,602 |
| Income Account [(a)] | 6,746,577 | 69,084 |
| | | $ 119,617 |
| TOTAL INVESTMENT COMPANIES | | $ 221,990 |
| **Total Investments** | | **$ 221,990** |
| **Liabilities in Excess of Other Assets, Net - (0.02)%** | | **$ (54)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 221,936** |

*(a) Affiliated Security. Please see Affiliated Sub-Schedule for transactional information.*
*(b) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Fund Type | Percent |
|---|---|
| Fixed Income Funds | 66.19% |
| Domestic Equity Funds | 22.71% |
| Specialty Funds | 6.46% |
| International Equity Funds | 4.66% |
| Liabilities in Excess of Other Assets, Net | (0.02)% |
| **TOTAL NET ASSETS** | 100.00% |

*See accompanying notes.*

**Schedule of Investments**
**SAM Flexible Income Portfolio**
**December 31, 2015**

| Affiliated Securities | December 31, 2014 Shares | December 31, 2014 Cost | Purchases Shares | Purchases Cost | Sales Shares | Sales Proceeds | December 31, 2015 Shares | December 31, 2015 Cost |
|---|---|---|---|---|---|---|---|---|
| Blue Chip Fund | 166,707 | $ 2,149 | — | $ — | 166,707 | $ 2,688 | — | $ — |
| Bond & Mortgage Securities Account | 480,945 | 5,545 | 43,619 | 496 | 82,454 | 942 | 442,110 | 5,077 |
| Diversified International Account | 300,456 | 2,770 | — | — | 300,456 | 4,283 | — | — |
| Diversified International Fund | — | — | 505,856 | 6,100 | 8,868 | 101 | 496,988 | 5,992 |
| Equity Income Account | 1,035,499 | 14,144 | 90,052 | 2,044 | 108,247 | 2,470 | 1,017,304 | 13,672 |
| Global Diversified Income Fund | 1,094,973 | 14,933 | 123,584 | 1,703 | 116,334 | 1,607 | 1,102,223 | 14,944 |
| Global Real Estate Securities Fund | 264,882 | 1,968 | 23,370 | 214 | 33,886 | 322 | 254,366 | 1,870 |
| Government & High Quality Bond Account | 2,353,313 | 23,239 | 244,257 | 2,531 | 274,539 | 2,840 | 2,323,031 | 22,935 |
| High Yield Fund | 1,949,914 | 13,756 | 897,452 | 6,557 | 272,716 | 1,987 | 2,574,650 | 18,178 |
| Income Account | 6,622,511 | 66,362 | 800,334 | 8,520 | 676,268 | 7,158 | 6,746,577 | 67,504 |
| Inflation Protection Fund | 1,168,795 | 10,067 | 106,526 | 903 | 111,264 | 934 | 1,164,057 | 10,008 |
| International Emerging Markets Fund | 79,337 | 1,889 | 69,136 | 1,609 | 20,766 | 480 | 127,707 | 2,996 |
| LargeCap Growth Fund | 868,876 | 9,308 | 134,369 | 1,428 | 103,894 | 1,178 | 899,351 | 9,596 |
| LargeCap Value Fund | 1,019,252 | 13,233 | 119,538 | 1,441 | 364,052 | 4,650 | 774,738 | 9,910 |
| Preferred Securities Fund | 351,413 | 2,006 | 11,966 | 123 | 250,946 | 2,570 | 112,433 | 581 |
| Short-Term Income Account | 8,611,528 | 21,314 | 393,913 | 1,027 | 9,005,441 | 23,496 | — | — |
| Short-Term Income Fund | — | — | 1,877,605 | 22,901 | 110,939 | 1,349 | 1,766,666 | 21,548 |
| SmallCap Growth Fund I | 20,056 | 203 | 1,843 | 20 | — | — | 21,899 | 223 |
| Small-MidCap Dividend Income Fund | 779,702 | 8,245 | 89,943 | 1,191 | 80,850 | 1,110 | 788,795 | 8,326 |
| | | $ 211,131 | | $ 58,808 | | $ 60,165 | | $ 213,360 |

| | Income | Realized Gain/Loss on Investments | Realized Gain from Capital Gain Distributions |
|---|---|---|---|
| Blue Chip Fund | $ — | $ 539 | $ — |
| Bond & Mortgage Securities Account | 161 | (22) | — |
| Diversified International Account | — | 1,513 | — |
| Diversified International Fund | 83 | (7) | — |
| Equity Income Account | 572 | (46) | — |
| Global Diversified Income Fund | 750 | (85) | — |
| Global Real Estate Securities Fund | 59 | 10 | 40 |
| Government & High Quality Bond Account | 820 | 5 | 33 |
| High Yield Fund | 1,116 | (148) | — |
| Income Account | 3,171 | (220) | — |
| Inflation Protection Fund | 79 | (28) | — |
| International Emerging Markets Fund | 23 | (22) | — |
| LargeCap Growth Fund | 25 | 38 | 879 |
| LargeCap Value Fund | 222 | (114) | 592 |
| Preferred Securities Fund | 113 | 1,022 | 10 |
| Short-Term Income Account | — | 1,155 | — |
| Short-Term Income Fund | 199 | (4) | — |
| SmallCap Growth Fund I | — | — | 20 |
| Small-MidCap Dividend Income Fund | 271 | — | 198 |
| | $ 7,664 | $ 3,586 | $ 1,772 |

*Amounts in thousands except shares*

**Schedule of Investments**
**SAM Strategic Growth Portfolio**
**December 31, 2015**

| INVESTMENT COMPANIES - 100.03% | Shares Held | Value (000's) |
|---|---|---|
| **Principal Funds, Inc. Institutional Class - 87.08%** | | |
| Diversified International Fund [(a)] | 3,917,353 | $ 43,718 |
| Global Multi-Strategy Fund [(a)] | 1,787,200 | 18,908 |
| Global Real Estate Securities Fund [(a)] | 1,079,728 | 9,642 |
| LargeCap Growth Fund [(a)] | 2,965,787 | 30,370 |
| LargeCap Value Fund [(a)] | 2,306,645 | 26,434 |
| MidCap Value Fund I [(a)] | 1,123,475 | 13,920 |
| Origin Emerging Markets Fund [(a)] | 1,500,832 | 12,202 |
| Principal Capital Appreciation Fund [(a)] | 645,685 | 36,429 |
| SmallCap Growth Fund I [(a),(b)] | 169,691 | 1,868 |
| SmallCap Value Fund II [(a)] | 371,230 | 4,113 |
| Small-MidCap Dividend Income Fund [(a)] | 758,383 | 9,647 |
| | | $ 207,251 |
| **Principal Variable Contracts Funds, Inc. Class 1 - 12.95%** | | |
| Equity Income Account [(a)] | 1,422,410 | 30,824 |
| TOTAL INVESTMENT COMPANIES | | $ 238,075 |
| **Total Investments** | | **$ 238,075** |
| **Liabilities in Excess of Other Assets, Net - (0.03)%** | | **$ (73)** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 238,002** |

*(a) Affiliated Security. Please see Affiliated Sub-Schedule for transactional information.*
*(b) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Fund Type | Percent |
|---|---|
| Domestic Equity Funds | 64.54% |
| International Equity Funds | 27.55% |
| Specialty Funds | 7.94% |
| Liabilities in Excess of Other Assets, Net | (0.03)% |
| **TOTAL NET ASSETS** | 100.00% |

## Schedule of Investments
## SAM Strategic Growth Portfolio
## December 31, 2015

| Affiliated Securities | December 31, 2014 Shares | December 31, 2014 Cost | Purchases Shares | Purchases Cost | Sales Shares | Sales Proceeds | December 31, 2015 Shares | December 31, 2015 Cost |
|---|---|---|---|---|---|---|---|---|
| Diversified International Account | 1,304,494 | $ 14,885 | 32,435 | $ 487 | 1,336,929 | $ 19,453 | — | $ — |
| Diversified International Fund | — | — | 3,965,757 | 47,829 | 48,404 | 547 | 3,917,353 | 47,239 |
| Equity Income Account | 1,621,596 | 19,876 | 172,510 | 3,927 | 371,696 | 8,670 | 1,422,410 | 17,012 |
| Global Multi-Strategy Fund | 446,248 | 4,977 | 1,439,926 | 15,833 | 98,974 | 1,099 | 1,787,200 | 19,700 |
| Global Real Estate Securities Fund | 1,125,328 | 9,486 | 138,113 | 1,290 | 183,713 | 1,713 | 1,079,728 | 9,045 |
| International Emerging Markets Fund | 382,516 | 9,096 | 5,835 | 139 | 388,351 | 9,138 | — | — |
| LargeCap Growth Fund | 3,675,275 | 39,379 | 481,062 | 5,128 | 1,190,550 | 13,817 | 2,965,787 | 31,636 |
| LargeCap Value Fund | 3,464,774 | 45,010 | 362,385 | 4,382 | 1,520,514 | 19,241 | 2,306,645 | 29,451 |
| MidCap Value Fund I | 581,999 | 9,405 | 587,773 | 8,335 | 46,297 | 678 | 1,123,475 | 16,971 |
| Origin Emerging Markets Fund | — | — | 1,507,446 | 14,706 | 6,614 | 61 | 1,500,832 | 14,639 |
| Principal Capital Appreciation Fund | 763,314 | 42,312 | 87,866 | 5,122 | 205,495 | 12,477 | 645,685 | 34,836 |
| SmallCap Growth Fund I | 362,606 | 3,708 | 17,779 | 198 | 210,694 | 2,793 | 169,691 | 1,694 |
| SmallCap Value Fund II | 373,985 | 3,631 | 45,082 | 509 | 47,837 | 650 | 371,230 | 3,551 |
| Small-MidCap Dividend Income Fund | 683,462 | 7,799 | 103,551 | 1,385 | 28,630 | 392 | 758,383 | 8,776 |
| | | $ 209,564 | | $ 109,270 | | $ 90,729 | | $ 234,550 |

| | Income | Realized Gain/Loss on Investments | Realized Gain from Capital Gain Distributions |
|---|---|---|---|
| Diversified International Account | $ — | $ 4,081 | $ — |
| Diversified International Fund | 654 | (43) | — |
| Equity Income Account | 778 | 1,879 | — |
| Global Multi-Strategy Fund | 171 | (11) | 386 |
| Global Real Estate Securities Fund | 257 | (18) | 170 |
| International Emerging Markets Fund | — | (97) | — |
| LargeCap Growth Fund | 83 | 946 | 2,882 |
| LargeCap Value Fund | 657 | (700) | 1,754 |
| MidCap Value Fund I | 433 | (91) | 975 |
| Origin Emerging Markets Fund | 111 | (6) | — |
| Principal Capital Appreciation Fund | 555 | (121) | 1,435 |
| SmallCap Growth Fund I | — | 581 | 156 |
| SmallCap Value Fund II | 78 | 61 | 364 |
| Small-MidCap Dividend Income Fund | 254 | (16) | 189 |
| | $ 4,031 | $ 6,445 | $ 8,311 |

*Amounts in thousands except shares*

| INVESTMENT COMPANIES - 2.27% | Shares Held | Value (000's) |
|---|---|---|
| **Publicly Traded Investment Fund - 2.27%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 3,687,101 | $ 3,688 |
| TOTAL INVESTMENT COMPANIES | | $ 3,688 |

| BONDS - 95.89% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 0.61%** | | |
| Lockheed Martin Corp | | |
| 1.85%, 11/23/2018 | $ 500 | $ 499 |
| 2.50%, 11/23/2020 | 500 | 497 |
| | | $ 996 |
| **Agriculture - 0.89%** | | |
| Cargill Inc | | |
| 6.00%, 11/27/2017[a] | 1,347 | 1,446 |
| **Airlines - 1.01%** | | |
| Delta Air Lines 2009-1 Class A Pass Through Trust | | |
| 7.75%, 06/17/2021 | 833 | 935 |
| UAL 2009-1 Pass Through Trust | | |
| 10.40%, 05/01/2018 | 52 | 55 |
| UAL 2009-2A Pass Through Trust | | |
| 9.75%, 01/15/2017 | 613 | 647 |
| | | $ 1,637 |
| **Automobile Asset Backed Securities - 9.46%** | | |
| AmeriCredit Automobile Receivables 2015-1 | | |
| 0.77%, 04/09/2018 | 529 | 528 |
| AmeriCredit Automobile Receivables 2015-4 | | |
| 1.26%, 04/08/2019 | 500 | 499 |
| AmeriCredit Automobile Receivables Trust 2013-1 | | |
| 1.57%, 01/08/2019 | 375 | 375 |
| AmeriCredit Automobile Receivables Trust 2013-5 | | |
| 2.86%, 12/09/2019[b] | 402 | 404 |
| AmeriCredit Automobile Receivables Trust 2014-2 | | |
| 0.54%, 10/10/2017[b] | 180 | 180 |
| AmeriCredit Automobile Receivables Trust 2014-3 | | |
| 0.64%, 04/09/2018 | 346 | 345 |
| AmeriCredit Automobile Receivables Trust 2015-2 | | |
| 0.83%, 09/10/2018[b] | 403 | 402 |
| Capital Auto Receivables Asset Trust 2013-1 | | |
| 0.97%, 01/22/2018 | 673 | 673 |
| 1.29%, 04/20/2018 | 536 | 535 |
| 1.74%, 10/22/2018 | 663 | 662 |
| Capital Auto Receivables Asset Trust 2014-1 | | |
| 2.22%, 01/22/2019 | 280 | 281 |
| Capital Auto Receivables Asset Trust 2014-2 | | |
| 2.03%, 12/20/2018 | 495 | 494 |
| Capital Auto Receivables Asset Trust 2014-3 | | |
| 0.72%, 02/21/2017[b] | 519 | 518 |
| CPS Auto Receivables Trust 2013-A | | |
| 1.31%, 06/15/2020[a],[b] | 562 | 556 |
| CPS Auto Receivables Trust 2013-B | | |
| 1.82%, 09/15/2020[a],[b] | 315 | 315 |
| CPS Auto Receivables Trust 2013-C | | |
| 1.64%, 04/16/2018[a] | 134 | 134 |
| CPS Auto Receivables Trust 2013-D | | |
| 1.54%, 07/16/2018[a],[b] | 176 | 175 |
| CPS Auto Receivables Trust 2014-B | | |
| 1.11%, 11/15/2018[a] | 128 | 127 |
| CPS Auto Receivables Trust 2014-C | | |
| 1.31%, 02/15/2019[a],[b] | 440 | 437 |
| 3.77%, 08/17/2020[a] | 200 | 197 |
| CPS Auto Receivables Trust 2014-D | | |
| 1.49%, 04/15/2019[a] | 413 | 410 |
| CPS Auto Receivables Trust 2015-C | | |
| 1.77%, 06/17/2019[a] | 671 | 670 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Automobile Asset Backed Securities (continued)** | | |
| CPS Auto Trust | | |
| 1.48%, 03/16/2020[a] | $ 109 | $ 109 |
| Ford Credit Auto Owner Trust 2015-REV2 | | |
| 2.44%, 01/15/2027[a],[b] | 673 | 669 |
| Ford Credit Auto Owner Trust/Ford Credit 2014-REV1 | | |
| 2.26%, 11/15/2025[a],[b] | 673 | 679 |
| Santander Drive Auto Receivables Trust 2013-1 | | |
| 1.76%, 01/15/2019 | 985 | 986 |
| Santander Drive Auto Receivables Trust 2013-5 | | |
| 1.55%, 10/15/2018 | 856 | 856 |
| 2.25%, 06/17/2019[b] | 45 | 45 |
| Santander Drive Auto Receivables Trust 2014-1 | | |
| 1.59%, 10/15/2018 | 150 | 150 |
| 2.36%, 04/15/2020 | 110 | 110 |
| Santander Drive Auto Receivables Trust 2014-2 | | |
| 1.62%, 02/15/2019 | 330 | 330 |
| Santander Drive Auto Receivables Trust 2014-3 | | |
| 2.13%, 08/17/2020[b] | 173 | 173 |
| Westlake Automobile Receivables Trust 2014-2 | | |
| 0.97%, 10/16/2017[a],[b] | 134 | 134 |
| Westlake Automobile Receivables Trust 2015-1 | | |
| 1.17%, 03/15/2018[a],[b] | 359 | 358 |
| Westlake Automobile Receivables Trust 2015-2 | | |
| 1.28%, 07/16/2018[a],[b] | 841 | 839 |
| Westlake Automobile Receivables Trust 2015-3 | | |
| 1.42%, 05/17/2021[a],[b] | 1,000 | 998 |
| | | $ 15,353 |
| **Automobile Floor Plan Asset Backed Securities - 0.93%** | | |
| CNH Wholesale Master Note Trust | | |
| 0.93%, 08/15/2019[a],[b] | 841 | 840 |
| Volkswagen Credit Auto Master Trust | | |
| 0.75%, 07/22/2019[a],[b] | 673 | 665 |
| | | $ 1,505 |
| **Automobile Manufacturers - 2.36%** | | |
| Daimler Finance North America LLC | | |
| 0.84%, 03/02/2018[a],[b] | 505 | 499 |
| 1.38%, 08/01/2017[a] | 336 | 333 |
| Ford Motor Credit Co LLC | | |
| 3.98%, 06/15/2016 | 1,299 | 1,314 |
| PACCAR Financial Corp | | |
| 1.45%, 03/09/2018 | 336 | 334 |
| 2.20%, 09/15/2019 | 673 | 670 |
| Toyota Motor Credit Corp | | |
| 2.10%, 01/17/2019 | 673 | 674 |
| | | $ 3,824 |
| **Banks - 15.06%** | | |
| Bank of America Corp | | |
| 2.60%, 01/15/2019 | 500 | 502 |
| 2.63%, 10/19/2020 | 500 | 494 |
| Bank of America NA | | |
| 0.81%, 06/15/2017[b] | 750 | 744 |
| 5.30%, 03/15/2017 | 2,126 | 2,212 |
| Bank of New York Mellon Corp/The | | |
| 2.20%, 03/04/2019 | 300 | 301 |
| 2.20%, 05/15/2019 | 673 | 674 |
| BB&T Corp | | |
| 0.99%, 02/01/2019[b] | 336 | 333 |
| Branch Banking & Trust Co | | |
| 0.68%, 05/23/2017[b] | 450 | 448 |
| 0.82%, 09/13/2016[b] | 875 | 873 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Banks (continued)** | | |
| Capital One Financial Corp | | |
| 6.15%, 09/01/2016 | $ 386 | $ 398 |
| Capital One NA/Mclean VA | | |
| 1.01%, 02/05/2018[(b)] | 673 | 669 |
| 1.65%, 02/05/2018 | 673 | 666 |
| Citigroup Inc | | |
| 1.70%, 04/27/2018 | 1,010 | 1,000 |
| Goldman Sachs Group Inc/The | | |
| 1.46%, 11/15/2018[(b)] | 841 | 844 |
| 1.48%, 04/23/2020[(b)] | 1,010 | 1,011 |
| 2.60%, 04/23/2020 | 202 | 200 |
| JPMorgan Chase Bank NA | | |
| 5.88%, 06/13/2016 | 841 | 857 |
| 6.00%, 10/01/2017 | 2,020 | 2,160 |
| KeyBank NA/Cleveland OH | | |
| 1.70%, 06/01/2018 | 500 | 496 |
| 5.45%, 03/03/2016 | 724 | 729 |
| Morgan Stanley | | |
| 1.17%, 01/24/2019[(b)] | 1,852 | 1,847 |
| 1.60%, 04/25/2018[(b)] | 1,010 | 1,021 |
| 1.88%, 01/05/2018 | 336 | 336 |
| National City Bank/Cleveland OH | | |
| 0.82%, 06/07/2017[(b)] | 500 | 497 |
| PNC Bank NA | | |
| 4.88%, 09/21/2017 | 1,145 | 1,201 |
| 6.88%, 04/01/2018 | 250 | 274 |
| PNC Funding Corp | | |
| 5.63%, 02/01/2017 | 269 | 280 |
| SunTrust Bank/Atlanta GA | | |
| 7.25%, 03/15/2018 | 510 | 564 |
| US Bank NA/Cincinnati OH | | |
| 0.80%, 10/28/2019[(b)] | 841 | 835 |
| Wells Fargo & Co | | |
| 2.55%, 12/07/2020 | 500 | 497 |
| 2.60%, 07/22/2020 | 673 | 671 |
| Wells Fargo Bank NA | | |
| 6.00%, 11/15/2017 | 750 | 809 |
| | | $ 24,443 |
| **Beverages - 1.00%** | | |
| Anheuser-Busch InBev Finance Inc | | |
| 2.15%, 02/01/2019 | 336 | 334 |
| PepsiCo Inc | | |
| 1.00%, 10/13/2017 | 250 | 249 |
| 2.15%, 10/14/2020 | 500 | 498 |
| SABMiller Holdings Inc | | |
| 2.45%, 01/15/2017[(a)] | 535 | 539 |
| | | $ 1,620 |
| **Biotechnology - 1.34%** | | |
| Amgen Inc | | |
| 2.20%, 05/22/2019 | 673 | 672 |
| Biogen Inc | | |
| 2.90%, 09/15/2020 | 1,000 | 997 |
| Gilead Sciences Inc | | |
| 1.85%, 09/04/2018 | 250 | 251 |
| 2.55%, 09/01/2020 | 250 | 250 |
| | | $ 2,170 |
| **Chemicals - 0.50%** | | |
| Airgas Inc | | |
| 1.65%, 02/15/2018 | 808 | 804 |
| **Commercial Mortgage Backed Securities - 2.77%** | | |
| Ginnie Mae | | |
| 0.59%, 07/16/2054[(b)] | 3,096 | 155 |
| 0.69%, 03/16/2049[(b)] | 4,345 | 175 |
| 0.82%, 09/16/2055[(b)] | 5,565 | 314 |
| 0.84%, 01/16/2054[(b)] | 3,369 | 191 |
| 0.85%, 06/16/2055[(b)] | 6,013 | 328 |
| 0.88%, 03/16/2052[(b)] | 3,147 | 230 |
| 0.88%, 10/16/2054[(b)] | 4,079 | 203 |
| 0.93%, 10/16/2054[(b)] | 3,675 | 217 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Commercial Mortgage Backed Securities (continued)** | | |
| Ginnie Mae (continued) | | |
| 0.93%, 01/16/2055[(b)] | $ 6,116 | $ 314 |
| 0.95%, 02/16/2055[(b)] | 6,284 | 279 |
| 1.00%, 10/16/2054[(b)] | 4,384 | 249 |
| 1.12%, 06/16/2045[(b)] | 7,724 | 516 |
| 1.14%, 08/16/2042[(b)] | 9,889 | 645 |
| 1.18%, 02/16/2046[(b)] | 6,160 | 431 |
| 1.20%, 07/16/2056[(b)] | 664 | 55 |
| 1.41%, 12/16/2036[(b)] | 2,810 | 197 |
| | | $ 4,499 |
| **Computers - 1.35%** | | |
| Apple Inc | | |
| 1.00%, 05/03/2018 | 336 | 333 |
| Hewlett Packard Enterprise Co | | |
| 2.45%, 10/05/2017[(a)] | 500 | 499 |
| 2.85%, 10/05/2018[(a)] | 350 | 350 |
| International Business Machines Corp | | |
| 1.95%, 02/12/2019 | 1,010 | 1,015 |
| | | $ 2,197 |
| **Credit Card Asset Backed Securities - 1.28%** | | |
| Cabela's Credit Card Master Note Trust | | |
| 0.68%, 03/16/2020[(b)] | 262 | 262 |
| 0.80%, 07/15/2022[(b)] | 505 | 501 |
| 0.81%, 06/15/2020[(a),(b)] | 336 | 335 |
| 0.86%, 02/18/2020[(a),(b)] | 478 | 478 |
| 0.98%, 08/16/2021[(a),(b)] | 505 | 504 |
| | | $ 2,080 |
| **Diversified Financial Services - 2.39%** | | |
| GE Capital International Funding Co | | |
| 0.96%, 04/15/2016[(a)] | 1,791 | 1,792 |
| General Electric Capital Corp | | |
| 5.63%, 09/15/2017 | 168 | 179 |
| Murray Street Investment Trust I | | |
| 4.65%, 03/09/2017[(b)] | 1,852 | 1,908 |
| | | $ 3,879 |
| **Electric - 3.75%** | | |
| Dominion Resources Inc/VA | | |
| 1.40%, 09/15/2017 | 673 | 666 |
| Indiantown Cogeneration LP | | |
| 9.77%, 12/15/2020 | 223 | 249 |
| NextEra Energy Capital Holdings Inc | | |
| 1.59%, 06/01/2017 | 336 | 335 |
| 7.30%, 09/01/2067[(b)] | 673 | 643 |
| Public Service Co of New Mexico | | |
| 7.95%, 05/15/2018 | 1,515 | 1,695 |
| San Diego Gas & Electric Co | | |
| 1.91%, 02/01/2022 | 188 | 184 |
| Southern California Edison Co | | |
| 1.85%, 02/01/2022 | 384 | 381 |
| Talen Energy Supply LLC | | |
| 6.50%, 05/01/2018 | 168 | 156 |
| Texas-New Mexico Power Co | | |
| 9.50%, 04/01/2019[(a)] | 202 | 242 |
| TransAlta Corp | | |
| 6.65%, 05/15/2018 | 1,515 | 1,542 |
| | | $ 6,093 |
| **Finance - Mortgage Loan/Banker - 8.12%** | | |
| Fannie Mae | | |
| 1.50%, 11/30/2020 | 1,500 | 1,473 |
| 1.63%, 01/21/2020 | 6,214 | 6,191 |
| 1.75%, 09/12/2019 | 1,683 | 1,692 |
| 1.88%, 12/28/2020 | 2,000 | 1,999 |
| Freddie Mac | | |
| 1.38%, 05/01/2020 | 1,852 | 1,823 |
| | | $ 13,178 |
| **Food - 0.37%** | | |
| Kraft Heinz Foods Co | | |
| 1.60%, 06/30/2017[(a)] | 336 | 335 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Food (continued)** | | |
| Kraft Heinz Foods Co (continued) | | |
| 2.00%, 07/02/2018[a] | $ 269 | $ 268 |
| | | $ 603 |
| **Gas - 0.78%** | | |
| Laclede Group Inc/The | | |
| 1.11%, 08/15/2017[b] | 1,279 | 1,273 |
| **Healthcare - Products - 0.88%** | | |
| Becton Dickinson and Co | | |
| 1.80%, 12/15/2017 | 336 | 335 |
| 2.68%, 12/15/2019 | 336 | 338 |
| Medtronic Inc | | |
| 1.31%, 03/15/2020[b] | 250 | 249 |
| 2.50%, 03/15/2020 | 505 | 509 |
| | | $ 1,431 |
| **Healthcare - Services - 0.63%** | | |
| Anthem Inc | | |
| 5.88%, 06/15/2017 | 336 | 355 |
| Roche Holdings Inc | | |
| 0.94%, 09/30/2019[a],[b] | 673 | 666 |
| | | $ 1,021 |
| **Home Equity Asset Backed Securities - 2.17%** | | |
| ABFC 2005-WMC1 Trust | | |
| 1.08%, 06/25/2035[b] | 92 | 92 |
| ACE Securities Corp Home Equity Loan Trust Series 2005-HE2 | | |
| 1.14%, 04/25/2035[b] | 155 | 154 |
| Asset Backed Securities Corp Home Equity Loan Trust Series OOMC 2005-HE6 | | |
| 0.93%, 07/25/2035[b] | 273 | 271 |
| Bayview Financial Acquisition Trust | | |
| 0.82%, 08/28/2044[b] | 152 | 152 |
| 5.66%, 12/28/2036[b] | 12 | 12 |
| Bear Stearns Asset Backed Securities I Trust 2006-PC1 | | |
| 0.75%, 12/25/2035[b] | 98 | 98 |
| Home Equity Asset Trust 2005-4 | | |
| 1.13%, 10/25/2035[b] | 511 | 502 |
| JP Morgan Mortgage Acquisition Corp 2005-FLD1 | | |
| 1.16%, 07/25/2035[b] | 1 | 1 |
| JP Morgan Mortgage Acquisition Corp 2005-OPT1 | | |
| 0.87%, 06/25/2035[b] | 130 | 129 |
| New Century Home Equity Loan Trust 2005-3 | | |
| 0.90%, 07/25/2035[b] | 116 | 115 |
| RASC Series 2003-KS10 Trust | | |
| 4.47%, 03/25/2032 | 78 | 78 |
| RASC Series 2005-AHL2 Trust | | |
| 0.77%, 10/25/2035[b] | 191 | 188 |
| Soundview Home Loan Trust 2005-CTX1 | | |
| 0.84%, 11/25/2035[b] | 232 | 230 |
| Structured Asset Securities Corp Mortgage Loan Trust Series 2005-GEL4 | | |
| 1.04%, 08/25/2035[b] | 194 | 186 |
| Terwin Mortgage Trust Series TMTS 2005-14HE | | |
| 4.85%, 08/25/2036[b] | 118 | 121 |
| Wells Fargo Home Equity Asset-Backed Securities 2004-2 Trust | | |
| 1.26%, 10/25/2034[b] | 35 | 35 |
| 5.00%, 10/25/2034 | 1,156 | 1,153 |
| | | $ 3,517 |
| **Home Furnishings - 0.62%** | | |
| Samsung Electronics America Inc | | |
| 1.75%, 04/10/2017[a] | 1,010 | 1,008 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Insurance - 5.88%** | | |
| Berkshire Hathaway Finance Corp | | |
| 1.60%, 05/15/2017 | $ 510 | $ 513 |
| Hartford Financial Services Group Inc/The | | |
| 8.13%, 06/15/2068[b] | 1,028 | 1,124 |
| Lincoln National Corp | | |
| 7.00%, 05/17/2066[b] | 336 | 259 |
| MassMutual Global Funding II | | |
| 2.00%, 04/05/2017[a] | 370 | 373 |
| 2.10%, 08/02/2018[a] | 505 | 507 |
| 2.35%, 04/09/2019[a] | 250 | 251 |
| MetLife Inc | | |
| 6.82%, 08/15/2018 | 505 | 569 |
| Metropolitan Life Global Funding I | | |
| 1.30%, 04/10/2017[a] | 505 | 505 |
| 2.30%, 04/10/2019[a] | 673 | 673 |
| New York Life Global Funding | | |
| 1.45%, 12/15/2017[a] | 841 | 839 |
| 1.95%, 02/11/2020[a] | 808 | 792 |
| 2.15%, 06/18/2019[a] | 774 | 773 |
| 2.45%, 07/14/2016[a] | 673 | 678 |
| Prudential Financial Inc | | |
| 8.88%, 06/15/2068[b] | 1,500 | 1,688 |
| | | $ 9,544 |
| **Internet - 0.42%** | | |
| Amazon.com Inc | | |
| 2.60%, 12/05/2019 | 673 | 684 |
| **Machinery - Diversified - 0.53%** | | |
| John Deere Capital Corp | | |
| 1.35%, 01/16/2018 | 173 | 172 |
| 2.05%, 03/10/2020 | 700 | 692 |
| | | $ 864 |
| **Manufactured Housing Asset Backed Securities - 0.03%** | | |
| Conseco Financial Corp | | |
| 7.70%, 09/15/2026 | 42 | 43 |
| Mid-State Trust IV | | |
| 8.33%, 04/01/2030 | 9 | 9 |
| | | $ 52 |
| **Media - 0.36%** | | |
| Time Warner Cable Inc | | |
| 8.25%, 04/01/2019 | 505 | 580 |
| **Mining - 0.47%** | | |
| Glencore Finance Canada Ltd | | |
| 2.70%, 10/25/2017[a],[b] | 841 | 769 |
| **Miscellaneous Manufacturers - 0.16%** | | |
| Ingersoll-Rand Global Holding Co Ltd | | |
| 6.88%, 08/15/2018 | 240 | 265 |
| **Mortgage Backed Securities - 4.66%** | | |
| Adjustable Rate Mortgage Trust 2004-2 | | |
| 1.56%, 02/25/2035[b] | 16 | 16 |
| Alternative Loan Trust 2004-J8 | | |
| 6.00%, 02/25/2017 | 11 | 11 |
| Banc of America Alternative Loan Trust 2003-10 | | |
| 5.00%, 12/25/2018 | 84 | 85 |
| Banc of America Funding 2004-1 Trust | | |
| 5.25%, 02/25/2019 | 16 | 17 |
| Banc of America Funding 2004-3 Trust | | |
| 4.75%, 09/25/2019 | 72 | 73 |
| Banc of America Mortgage Trust 2004-8 | | |
| 5.25%, 10/25/2019 | 36 | 37 |
| Banc of America Mortgage Trust 2005-7 | | |
| 5.00%, 08/25/2020 | 3 | 3 |
| BCAP LLC 2011-RR11 Trust | | |
| 2.58%, 03/26/2035[a],[b] | 236 | 237 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Mortgage Backed Securities (continued)** | | |
| CHL Mortgage Pass-Through Trust 2003-46 | | |
| 2.70%, 01/19/2034[(b)] | $ 87 | $ 87 |
| CHL Mortgage Pass-Through Trust 2004-J1 | | |
| 4.50%, 01/25/2019[(b)] | 15 | 15 |
| CHL Mortgage Pass-Through Trust 2004-J7 | | |
| 5.00%, 09/25/2019 | 66 | 67 |
| Citigroup Mortgage Loan Trust 2009-6 | | |
| 2.74%, 07/25/2036[(a),(b)] | 31 | 31 |
| Credit Suisse First Boston Mortgage Securities Corp | | |
| 1.38%, 05/25/2034[(b)] | 76 | 71 |
| 5.00%, 09/25/2019 | 15 | 14 |
| 5.00%, 10/25/2019 | 71 | 71 |
| Credit Suisse Mortgage Capital Certificates | | |
| 2.38%, 07/27/2037[(a),(b)] | 78 | 78 |
| Freddie Mac REMICS | | |
| 0.78%, 06/15/2023[(b)] | 1 | 1 |
| Ginnie Mae | | |
| 4.50%, 08/20/2032 | 12 | 13 |
| GSMSC Pass-Through Trust 2009-4R | | |
| 0.67%, 12/26/2036[(a),(b)] | 267 | 263 |
| JP Morgan Mortgage Trust 2004-A3 | | |
| 2.47%, 07/25/2034[(b)] | 48 | 48 |
| JP Morgan Mortgage Trust 2004-S1 | | |
| 5.00%, 09/25/2034 | 201 | 207 |
| JP Morgan Resecuritization Trust Series 2010-4 | | |
| 2.43%, 10/26/2036[(a),(b)] | 78 | 78 |
| MASTR Alternative Loan Trust 2003-9 | | |
| 6.50%, 01/25/2019 | 66 | 68 |
| MASTR Asset Securitization Trust 2004-11 | | |
| 5.00%, 12/25/2019 | 16 | 17 |
| MASTR Asset Securitization Trust 2004-9 | | |
| 5.00%, 09/25/2019 | 39 | 39 |
| PHH Mortgage Trust Series 2008-CIM1 | | |
| 5.22%, 06/25/2038 | 253 | 256 |
| Prime Mortgage Trust 2005-2 | | |
| 5.25%, 07/25/2020[(b)] | 134 | 137 |
| Provident Funding Mortgage Loan Trust 2005-1 | | |
| 0.71%, 05/25/2035[(b)] | 296 | 286 |
| RALI Series 2003-QS23 Trust | | |
| 5.00%, 12/26/2018 | 176 | 178 |
| RALI Series 2004-QS3 Trust | | |
| 5.00%, 03/25/2019 | 74 | 74 |
| RBSSP Resecuritization Trust 2009-7 | | |
| 0.62%, 06/26/2037[(a),(b)] | 53 | 50 |
| 5.00%, 09/26/2036[(a),(b)] | 29 | 30 |
| Sequoia Mortgage Trust 2013-4 | | |
| 1.55%, 04/25/2043[(b)] | 1,110 | 1,075 |
| Sequoia Mortgage Trust 2013-8 | | |
| 2.25%, 06/25/2043[(b)] | 680 | 653 |
| Springleaf Mortgage Loan Trust 2013-1 | | |
| 1.27%, 06/25/2058[(a),(b)] | 1,004 | 1,000 |
| 2.31%, 06/25/2058[(a),(b)] | 377 | 378 |
| 3.14%, 06/25/2058[(a)] | 217 | 217 |
| 4.44%, 06/25/2058[(a)] | 516 | 517 |
| Springleaf Mortgage Loan Trust 2013-2 | | |
| 1.78%, 12/25/2065[(a)] | 351 | 350 |
| 3.52%, 12/25/2065[(a),(b)] | 688 | 693 |
| WaMu Mortgage Pass-Through Certificates Series 2003-S8 Trust | | |
| 5.00%, 09/25/2018 | 18 | 18 |
| | | $ 7,559 |
| **Oil & Gas - 3.17%** | | |
| BP Capital Markets PLC | | |
| 4.75%, 03/10/2019 | 673 | 720 |
| Chevron Corp | | |
| 1.72%, 06/24/2018 | 875 | 870 |
| Chevron Phillips Chemical Co LLC / Chevron Phillips Chemical Co LP | | |
| 1.70%, 05/01/2018[(a)] | 505 | 499 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Oil & Gas (continued)** | | |
| Chevron Phillips Chemical Co LLC / Chevron Phillips Chemical Co LP (continued) | | |
| 2.45%, 05/01/2020[(a)] | $ 168 | $ 166 |
| Phillips 66 | | |
| 2.95%, 05/01/2017 | 1,010 | 1,024 |
| Rowan Cos Inc | | |
| 7.88%, 08/01/2019 | 336 | 330 |
| Shell International Finance BV | | |
| 2.13%, 05/11/2020 | 505 | 497 |
| Total Capital International SA | | |
| 0.91%, 08/10/2018[(b)] | 370 | 368 |
| 1.55%, 06/28/2017 | 673 | 675 |
| | | $ 5,149 |
| **Oil & Gas Services - 1.13%** | | |
| Schlumberger Holdings Corp | | |
| 3.00%, 12/21/2020[(a)] | 500 | 494 |
| Weatherford International Ltd/Bermuda | | |
| 5.50%, 02/15/2016 | 1,347 | 1,340 |
| | | $ 1,834 |
| **Other Asset Backed Securities - 5.94%** | | |
| Ameriquest Mortgage Securities Inc Asset-Backed Pass-Through Ctfs Ser 2004-R11 | | |
| 1.03%, 11/25/2034[(b)] | 24 | 24 |
| Ameriquest Mortgage Securities Inc Asset-Backed Pass-Through Ctfs Ser 2005-R1 | | |
| 1.10%, 03/25/2035[(b)] | 222 | 222 |
| Carrington Mortgage Loan Trust Series 2005-NC4 | | |
| 0.82%, 09/25/2035[(b)] | 11 | 11 |
| Citigroup Mortgage Loan Trust Inc | | |
| 0.85%, 07/25/2035[(b)] | 39 | 39 |
| Credit-Based Asset Servicing and Securitization LLC | | |
| 5.33%, 07/25/2035[(b)] | 121 | 121 |
| CWABS Asset-Backed Certificates Trust 2005-3 | | |
| 0.87%, 08/25/2035[(b)] | 97 | 97 |
| Drug Royalty II LP 2 | | |
| 3.48%, 07/15/2023[(a),(b)] | 811 | 817 |
| Fieldstone Mortgage Investment Trust Series 2005-1 | | |
| 1.50%, 03/25/2035[(b)] | 114 | 114 |
| First Franklin Mortgage Loan Trust 2005-FF4 | | |
| 1.07%, 05/25/2035[(b)] | 96 | 96 |
| JP Morgan Mortgage Acquisition Corp 2005-OPT2 | | |
| 0.71%, 12/25/2035[(b)] | 225 | 224 |
| Mastr Specialized Loan Trust | | |
| 1.67%, 11/25/2034[(a),(b)] | 13 | 14 |
| MVW Owner Trust 2015-1 | | |
| 2.52%, 12/20/2032[(a),(b)] | 826 | 815 |
| NYCTL 2014-A Trust | | |
| 1.03%, 11/10/2027[(a)] | 44 | 44 |
| OneMain Financial Issuance Trust 2014-1 | | |
| 2.43%, 06/18/2024[(a),(b)] | 1,106 | 1,102 |
| OneMain Financial Issuance Trust 2014-2 | | |
| 2.47%, 09/18/2024[(a)] | 1,347 | 1,344 |
| OneMain Financial Issuance Trust 2015-2 | | |
| 2.57%, 07/18/2025[(a)] | 740 | 731 |
| PFS Financing Corp | | |
| 0.88%, 02/15/2018[(a),(b)] | 1,347 | 1,346 |
| 0.93%, 02/15/2019[(a),(b)] | 505 | 502 |
| 0.93%, 10/15/2019[(a),(b)] | 336 | 332 |
| 0.95%, 04/15/2020[(a),(b)] | 336 | 330 |
| 1.28%, 02/15/2019[(a),(b)] | 260 | 259 |
| PFS Tax Lien Trust 2014-1 | | |
| 1.44%, 04/15/2016[(a),(b)] | 395 | 393 |
| RAMP Series 2005-RZ4 Trust | | |
| 0.82%, 11/25/2035[(b)] | 172 | 170 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Other Asset Backed Securities (continued)** | | |
| Securitized Asset Backed Receivables LLC Trust 2006-OP1 | | |
| 0.72%, 10/25/2035[(b)] | $ 13 | $ 13 |
| Trafigura Securitisation Finance PLC 2014-1 | | |
| 1.28%, 10/15/2021[(a),(b)] | 471 | 471 |
| Wachovia Mortgage Loan Trust Series 2005-WMC1 | | |
| 1.16%, 10/25/2035[(b)] | 15 | 15 |
| | | $ 9,646 |
| **Pharmaceuticals - 1.93%** | | |
| Abbott Laboratories | | |
| 2.00%, 03/15/2020 | 847 | 844 |
| AbbVie Inc | | |
| 1.80%, 05/14/2018 | 202 | 201 |
| 2.50%, 05/14/2020 | 336 | 333 |
| Actavis Funding SCS | | |
| 1.85%, 03/01/2017 | 336 | 337 |
| 2.35%, 03/12/2018 | 505 | 505 |
| Mead Johnson Nutrition Co | | |
| 3.00%, 11/15/2020 | 250 | 250 |
| Merck & Co Inc | | |
| 1.10%, 01/31/2018 | 673 | 669 |
| | | $ 3,139 |
| **Pipelines - 1.87%** | | |
| Buckeye Partners LP | | |
| 2.65%, 11/15/2018 | 649 | 624 |
| Columbia Pipeline Group Inc | | |
| 2.45%, 06/01/2018[(a)] | 168 | 164 |
| 3.30%, 06/01/2020[(a)] | 168 | 164 |
| Florida Gas Transmission Co LLC | | |
| 7.90%, 05/15/2019[(a)] | 559 | 630 |
| Hiland Partners LP / Hiland Partners Finance Corp | | |
| 7.25%, 10/01/2020[(a)] | 719 | 726 |
| TransCanada PipeLines Ltd | | |
| 6.35%, 05/15/2067[(b)] | 336 | 254 |
| Williams Partners LP / ACMP Finance Corp | | |
| 6.13%, 07/15/2022 | 505 | 478 |
| | | $ 3,040 |
| **Real Estate - 0.42%** | | |
| Prologis LP | | |
| 7.38%, 10/30/2019 | 499 | 581 |
| WEA Finance LLC / Westfield UK & Europe Finance PLC | | |
| 1.75%, 09/15/2017[(a)] | 100 | 99 |
| | | $ 680 |
| **REITS - 2.67%** | | |
| Alexandria Real Estate Equities Inc | | |
| 2.75%, 01/15/2020 | 510 | 502 |
| BioMed Realty LP | | |
| 2.63%, 05/01/2019 | 336 | 327 |
| 3.85%, 04/15/2016 | 673 | 675 |
| Digital Delta Holdings LLC | | |
| 3.40%, 10/01/2020[(a)] | 300 | 300 |
| HCP Inc | | |
| 6.30%, 09/15/2016 | 755 | 781 |
| Healthcare Realty Trust Inc | | |
| 5.75%, 01/15/2021 | 343 | 378 |
| Kimco Realty Corp | | |
| 4.30%, 02/01/2018 | 336 | 350 |
| Ventas Realty LP | | |
| 1.55%, 09/26/2016 | 505 | 505 |
| Welltower Inc | | |
| 3.63%, 03/15/2016 | 505 | 507 |
| | | $ 4,325 |
| **Retail - 0.31%** | | |
| McDonald's Corp | | |
| 2.75%, 12/09/2020 | 500 | 500 |

| BONDS (continued) | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Savings & Loans - 0.00%** | | |
| Washington Mutual Bank / Henderson NV | | |
| 0.00%, 01/15/2013[(c)] | $ 200 | $ — |
| **Software - 1.11%** | | |
| Microsoft Corp | | |
| 1.30%, 11/03/2018 | 500 | 499 |
| 1.85%, 02/12/2020 | 673 | 674 |
| Oracle Corp | | |
| 2.25%, 10/08/2019 | 250 | 253 |
| 5.75%, 04/15/2018 | 336 | 367 |
| | | $ 1,793 |
| **Student Loan Asset Backed Securities - 3.70%** | | |
| KeyCorp Student Loan Trust 2004-A | | |
| 0.62%, 10/28/2041[(b)] | 98 | 97 |
| KeyCorp Student Loan Trust 2006-A | | |
| 0.91%, 09/27/2035[(b)] | 1,823 | 1,759 |
| SLC Private Student Loan Trust 2006-A | | |
| 0.49%, 07/15/2036[(b)] | 513 | 509 |
| SLC Private Student Loan Trust 2010-B | | |
| 3.83%, 07/15/2042[(a),(b)] | 225 | 230 |
| SLM Private Credit Student Loan Trust 2002-A | | |
| 1.06%, 12/16/2030[(b)] | 697 | 677 |
| SLM Private Credit Student Loan Trust 2004-A | | |
| 0.91%, 06/15/2033[(b)] | 248 | 232 |
| SLM Private Credit Student Loan Trust 2004-B | | |
| 0.71%, 06/15/2021[(b)] | 465 | 461 |
| SLM Private Credit Student Loan Trust 2005-B | | |
| 0.69%, 03/15/2023[(b)] | 499 | 493 |
| 0.78%, 12/15/2023[(b)] | 235 | 225 |
| SLM Private Credit Student Loan Trust 2006-A | | |
| 0.70%, 12/15/2023[(b)] | 151 | 149 |
| SLM Private Education Loan Trust 2013-A | | |
| 0.93%, 08/15/2022[(a),(b)] | 377 | 376 |
| SLM Private Education Loan Trust 2013-B | | |
| 0.98%, 07/15/2022[(a),(b)] | 299 | 298 |
| 1.85%, 06/17/2030[(a),(b)] | 336 | 327 |
| SLM Private Education Loan Trust 2014-A | | |
| 0.93%, 07/15/2022[(a),(b)] | 167 | 167 |
| | | $ 6,000 |
| **Telecommunications - 2.15%** | | |
| AT&T Inc | | |
| 0.74%, 02/12/2016[(b)] | 673 | 673 |
| 2.45%, 06/30/2020 | 538 | 530 |
| Cisco Systems Inc | | |
| 4.95%, 02/15/2019 | 760 | 831 |
| Verizon Communications Inc | | |
| 2.25%, 09/14/2018[(b)] | 336 | 344 |
| 3.65%, 09/14/2018 | 750 | 784 |
| Vodafone Group PLC | | |
| 1.63%, 03/20/2017 | 336 | 335 |
| | | $ 3,497 |
| **Transportation - 0.31%** | | |
| Ryder System Inc | | |
| 2.45%, 11/15/2018 | 505 | 505 |
| **Trucking & Leasing - 0.40%** | | |
| Penske Truck Leasing Co Lp / PTL Finance Corp | | |
| 2.50%, 03/15/2016[(a)] | 336 | 337 |
| 3.75%, 05/11/2017[(a)] | 303 | 309 |
| | | $ 646 |
| TOTAL BONDS | | $ 155,648 |

| U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS - 0.24% | Principal Amount (000's) | Value (000's) |
|---|---|---|
| **Federal Home Loan Mortgage Corporation (FHLMC) - 0.02%** | | |
| 2.40%, 11/01/2021 (b) | $ 1 | $ 1 |
| 2.48%, 09/01/2035 (b) | 28 | 29 |
| 6.00%, 05/01/2017 | 3 | 3 |
| | | $ 33 |
| **Federal National Mortgage Association (FNMA) - 0.20%** | | |
| 2.01%, 04/01/2033 (b) | 122 | 127 |
| 2.32%, 12/01/2032 (b) | 16 | 17 |
| 2.37%, 08/01/2034 (b) | 12 | 13 |
| 2.37%, 01/01/2035 (b) | 22 | 23 |
| 2.38%, 07/01/2034 (b) | 39 | 41 |
| 2.39%, 02/01/2037 (b) | 42 | 44 |
| 2.46%, 02/01/2035 (b) | 5 | 5 |
| 2.63%, 12/01/2033 (b) | 27 | 29 |
| 2.67%, 11/01/2032 (b) | 5 | 5 |
| 4.19%, 11/01/2035 (b) | 1 | 2 |
| 5.60%, 04/01/2019 (b) | 1 | 1 |
| 8.00%, 05/01/2027 | 17 | 18 |
| | | $ 325 |
| **Government National Mortgage Association (GNMA) - 0.02%** | | |
| 9.00%, 12/15/2020 | 2 | 2 |
| 10.00%, 05/15/2020 | 5 | 5 |
| 10.00%, 06/15/2020 | 4 | 5 |
| 10.00%, 02/15/2025 | 1 | 1 |
| 10.00%, 09/15/2018 | 2 | 2 |
| 10.00%, 09/15/2018 | 1 | 1 |
| 10.00%, 02/15/2019 | 14 | 14 |
| | | $ 30 |
| TOTAL U.S. GOVERNMENT & GOVERNMENT AGENCY OBLIGATIONS | | $ 388 |
| **Total Investments** | | **$ 159,724** |
| **Other Assets in Excess of Liabilities, Net - 1.60%** | | **$ 2,594** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 162,318** |

*(a) 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. At the end of the period, the value of these securities totaled $41,474 or 25.55% of net assets.*
*(b) Variable Rate. Rate shown is in effect at December 31, 2015.*
*(c) Non-Income Producing Security*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 26.42% |
| Asset Backed Securities | 23.51% |
| Government | 8.12% |
| Mortgage Securities | 7.67% |
| Consumer, Non-cyclical | 7.04% |
| Energy | 6.17% |
| Utilities | 4.53% |
| Consumer, Cyclical | 4.30% |
| Communications | 2.93% |
| Technology | 2.46% |
| Exchange Traded Funds | 2.27% |
| Industrial | 2.01% |
| Basic Materials | 0.97% |
| Other Assets in Excess of Liabilities, Net | 1.60% |
| **TOTAL NET ASSETS** | 100.00% |

| COMMON STOCKS - 98.83% | Shares Held | Value (000's) |
|---|---|---|
| **Aerospace & Defense - 1.40%** | | |
| Astronics Corp [(a)] | 26,910 | $ 1,095 |
| Esterline Technologies Corp [(a)] | 12,310 | 997 |
| Spirit AeroSystems Holdings Inc [(a)] | 17,010 | 852 |
| | | $ 2,944 |
| **Airlines - 0.55%** | | |
| Virgin America Inc [(a)] | 31,900 | 1,149 |
| **Apparel - 1.38%** | | |
| G-III Apparel Group Ltd [(a)] | 18,760 | 830 |
| Skechers U.S.A. Inc [(a)] | 68,280 | 2,063 |
| | | $ 2,893 |
| **Automobile Parts & Equipment - 3.50%** | | |
| American Axle & Manufacturing Holdings Inc [(a)] | 66,510 | 1,260 |
| Cooper Tire & Rubber Co | 91,454 | 3,462 |
| Visteon Corp [(a)] | 22,860 | 2,617 |
| | | $ 7,339 |
| **Banks - 9.16%** | | |
| Central Pacific Financial Corp | 75,210 | 1,656 |
| Chemical Financial Corp | 14,040 | 481 |
| First Merchants Corp | 12,630 | 321 |
| First of Long Island Corp/The | 11,265 | 338 |
| FNB Corp/PA | 112,360 | 1,499 |
| Great Western Bancorp Inc | 56,060 | 1,627 |
| Hanmi Financial Corp | 24,688 | 585 |
| National Penn Bancshares Inc | 129,610 | 1,598 |
| PacWest Bancorp | 65,630 | 2,829 |
| PrivateBancorp Inc | 67,490 | 2,768 |
| Union Bankshares Corp | 25,460 | 643 |
| WesBanco Inc | 22,650 | 680 |
| Western Alliance Bancorp [(a)] | 46,060 | 1,652 |
| Wilshire Bancorp Inc | 38,440 | 444 |
| Wintrust Financial Corp | 43,460 | 2,109 |
| | | $ 19,230 |
| **Biotechnology - 2.81%** | | |
| Acceleron Pharma Inc [(a)] | 11,890 | 580 |
| AMAG Pharmaceuticals Inc [(a)] | 4,220 | 127 |
| Aratana Therapeutics Inc [(a)] | 49,021 | 273 |
| Bellicum Pharmaceuticals Inc [(a)] | 8,780 | 178 |
| BIND Therapeutics Inc [(a)] | 40,844 | 93 |
| BIND Therapeutics Inc - Warrants [(a),(b)] | 1,938 | — |
| Bluebird Bio Inc [(a)] | 1,728 | 111 |
| Cambrex Corp [(a)] | 19,820 | 933 |
| Cytokinetics Inc - Warrants [(a),(b),(c)] | 12,207 | 11 |
| Epizyme Inc [(a)] | 10,150 | 163 |
| Exact Sciences Corp [(a)] | 29,607 | 273 |
| Fate Therapeutics Inc [(a)] | 44,120 | 149 |
| Genocea Biosciences Inc [(a)] | 26,116 | 138 |
| Insmed Inc [(a)] | 24,170 | 439 |
| Intercept Pharmaceuticals Inc [(a)] | 1,310 | 196 |
| MacroGenics Inc [(a)] | 13,970 | 433 |
| NewLink Genetics Corp [(a)] | 8,290 | 302 |
| Seattle Genetics Inc [(a)] | 5,890 | 264 |
| Spark Therapeutics Inc [(a)] | 2,280 | 103 |
| Ultragenyx Pharmaceutical Inc [(a)] | 7,530 | 845 |
| Versartis Inc [(a)] | 23,110 | 286 |
| | | $ 5,897 |
| **Building Materials - 1.65%** | | |
| Universal Forest Products Inc | 25,060 | 1,713 |
| US Concrete Inc [(a)] | 33,170 | 1,747 |
| | | $ 3,460 |
| **Commercial Services - 7.69%** | | |
| ABM Industries Inc | 58,700 | 1,671 |
| Insperity Inc | 9,091 | 438 |
| Korn/Ferry International | 74,770 | 2,481 |
| Live Nation Entertainment Inc [(a)] | 38,561 | 947 |
| Navigant Consulting Inc [(a)] | 59,880 | 962 |
| On Assignment Inc [(a)] | 34,890 | 1,568 |
| PAREXEL International Corp [(a)] | 40,460 | 2,756 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Commercial Services (continued)** | | |
| Sabre Corp | 99,700 | $ 2,789 |
| Team Health Holdings Inc [(a)] | 39,830 | 1,748 |
| TransUnion [(a)] | 28,280 | 780 |
| | | $ 16,140 |
| **Computers - 4.55%** | | |
| Barracuda Networks Inc [(a)] | 22,530 | 421 |
| CACI International Inc [(a)] | 26,510 | 2,460 |
| Manhattan Associates Inc [(a)] | 40,560 | 2,684 |
| NetScout Systems Inc [(a)] | 69,790 | 2,143 |
| Pure Storage Inc [(a)] | 36,950 | 575 |
| Sykes Enterprises Inc [(a)] | 41,470 | 1,276 |
| | | $ 9,559 |
| **Diversified Financial Services - 2.88%** | | |
| CBOE Holdings Inc | 37,780 | 2,452 |
| Cowen Group Inc [(a)] | 115,780 | 443 |
| Evercore Partners Inc - Class A | 29,870 | 1,615 |
| Houlihan Lokey Inc | 58,280 | 1,528 |
| | | $ 6,038 |
| **Electric - 2.14%** | | |
| Avista Corp | 57,136 | 2,021 |
| Portland General Electric Co | 68,150 | 2,478 |
| | | $ 4,499 |
| **Electronics - 0.33%** | | |
| Fluidigm Corp [(a)] | 10,038 | 108 |
| Itron Inc [(a)] | 16,410 | 594 |
| | | $ 702 |
| **Energy - Alternate Sources - 0.51%** | | |
| Pattern Energy Group Inc | 50,767 | 1,062 |
| **Engineering & Construction - 2.58%** | | |
| Dycom Industries Inc [(a)] | 16,210 | 1,134 |
| EMCOR Group Inc | 63,500 | 3,051 |
| MasTec Inc [(a)] | 70,960 | 1,233 |
| | | $ 5,418 |
| **Entertainment - 2.89%** | | |
| Isle of Capri Casinos Inc [(a)] | 63,835 | 889 |
| Marriott Vacations Worldwide Corp | 33,790 | 1,924 |
| Vail Resorts Inc | 25,360 | 3,246 |
| | | $ 6,059 |
| **Food - 1.63%** | | |
| Amplify Snack Brands Inc [(a)] | 27,690 | 319 |
| Cal-Maine Foods Inc | 32,590 | 1,510 |
| SUPERVALU Inc [(a)] | 233,800 | 1,585 |
| | | $ 3,414 |
| **Gas - 0.96%** | | |
| Southwest Gas Corp | 36,720 | 2,025 |
| **Healthcare - Products - 2.51%** | | |
| EndoChoice Holdings Inc [(a)] | 30,730 | 257 |
| ICU Medical Inc [(a)] | 20,510 | 2,313 |
| K2M Group Holdings Inc [(a)] | 47,040 | 929 |
| LDR Holding Corp [(a)] | 19,770 | 496 |
| Nevro Corp [(a)] | 15,560 | 1,050 |
| STAAR Surgical Co [(a)] | 31,050 | 222 |
| | | $ 5,267 |
| **Healthcare - Services - 2.14%** | | |
| Centene Corp [(a)] | 29,650 | 1,951 |
| HealthSouth Corp | 62,980 | 2,193 |
| Natera Inc [(a)] | 12,420 | 134 |
| Teladoc Inc [(a)] | 11,970 | 215 |
| | | $ 4,493 |
| **Home Builders - 0.86%** | | |
| Installed Building Products Inc [(a)] | 72,575 | 1,802 |
| **Insurance - 4.06%** | | |
| American Equity Investment Life Holding Co | 47,770 | 1,148 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **Insurance (continued)** | | |
| American Financial Group Inc/OH | 37,540 | $ 2,706 |
| AmTrust Financial Services Inc | 18,440 | 1,135 |
| Argo Group International Holdings Ltd | 18,597 | 1,113 |
| First American Financial Corp | 36,230 | 1,300 |
| Primerica Inc | 23,580 | 1,114 |
| | | $ 8,516 |
| **Internet - 2.52%** | | |
| CDW Corp/DE | 84,113 | 3,536 |
| GoDaddy Inc (a) | 12,930 | 415 |
| Intralinks Holdings Inc (a) | 69,700 | 632 |
| MaxPoint Interactive Inc (a) | 52,220 | 89 |
| Rapid7 Inc (a) | 7,414 | 112 |
| Rubicon Project Inc/The (a) | 31,282 | 515 |
| | | $ 5,299 |
| **Investment Companies - 0.16%** | | |
| Apollo Investment Corp | 4,017 | 21 |
| THL Credit Inc | 29,990 | 321 |
| | | $ 342 |
| **Machinery - Diversified - 0.00%** | | |
| Gerber Scientific Inc (a),(b),(c) | 1,974 | — |
| **Miscellaneous Manufacturers - 0.13%** | | |
| Trinseo SA (a) | 9,333 | 263 |
| **Office Furnishings - 0.84%** | | |
| Interface Inc | 91,930 | 1,760 |
| **Oil & Gas - 2.84%** | | |
| Carrizo Oil & Gas Inc (a) | 23,170 | 685 |
| Magnum Hunter Resources Corp - Warrants (a),(b),(c) | 12,227 | — |
| Murphy USA Inc (a) | 32,950 | 2,001 |
| Northern Oil and Gas Inc (a) | 138,570 | 535 |
| PDC Energy Inc (a) | 18,940 | 1,011 |
| RSP Permian Inc (a) | 44,560 | 1,087 |
| Western Refining Inc | 18,100 | 645 |
| | | $ 5,964 |
| **Oil & Gas Services - 0.40%** | | |
| Matrix Service Co (a) | 41,280 | 848 |
| **Packaging & Containers - 0.49%** | | |
| Graphic Packaging Holding Co | 79,760 | 1,023 |
| **Pharmaceuticals - 5.46%** | | |
| Anacor Pharmaceuticals Inc (a) | 6,270 | 708 |
| Array BioPharma Inc (a) | 59,130 | 250 |
| Cerulean Pharma Inc (a) | 46,023 | 129 |
| Concert Pharmaceuticals Inc (a) | 14,650 | 278 |
| DexCom Inc (a) | 7,160 | 586 |
| FibroGen Inc (a) | 11,720 | 357 |
| Furiex Pharmaceuticals Inc - Rights (a),(b),(c) | 104 | — |
| Nektar Therapeutics (a) | 35,630 | 600 |
| Neurocrine Biosciences Inc (a) | 17,650 | 999 |
| Orexigen Therapeutics Inc (a) | 110,790 | 191 |
| PRA Health Sciences Inc (a) | 56,600 | 2,562 |
| Prestige Brands Holdings Inc (a) | 61,039 | 3,142 |
| ProQR Therapeutics NV (a) | 9,712 | 84 |
| Proteon Therapeutics Inc (a) | 21,640 | 336 |
| Relypsa Inc (a) | 18,250 | 517 |
| Revance Therapeutics Inc (a) | 9,270 | 317 |
| SCYNEXIS Inc (a) | 24,310 | 151 |
| Vanda Pharmaceuticals Inc (a) | 26,211 | 244 |
| | | $ 11,451 |
| **REITS - 9.89%** | | |
| Alexandria Real Estate Equities Inc | 30,490 | 2,755 |
| CubeSmart | 150,050 | 4,594 |
| First Industrial Realty Trust Inc | 128,700 | 2,848 |
| Highwoods Properties Inc | 108,160 | 4,716 |

| COMMON STOCKS (continued) | Shares Held | Value (000's) |
|---|---|---|
| **REITS (continued)** | | |
| LaSalle Hotel Properties | 48,816 | $ 1,228 |
| Mid-America Apartment Communities Inc | 35,700 | 3,242 |
| QTS Realty Trust Inc | 30,560 | 1,379 |
| | | $ 20,762 |
| **Retail - 5.28%** | | |
| Caleres Inc | 97,400 | 2,612 |
| Citi Trends Inc | 15,690 | 333 |
| Flex Pharma Inc (a) | 15,870 | 198 |
| Office Depot Inc (a) | 373,436 | 2,106 |
| Penske Automotive Group Inc | 41,535 | 1,759 |
| Red Robin Gourmet Burgers Inc (a) | 22,234 | 1,373 |
| Rite Aid Corp (a) | 343,810 | 2,695 |
| | | $ 11,076 |
| **Savings & Loans - 1.05%** | | |
| Berkshire Hills Bancorp Inc | 16,030 | 467 |
| Oritani Financial Corp | 21,890 | 361 |
| Provident Financial Services Inc | 68,140 | 1,373 |
| | | $ 2,201 |
| **Semiconductors - 1.33%** | | |
| Entegris Inc (a) | 77,440 | 1,027 |
| Qorvo Inc (a) | 34,575 | 1,760 |
| | | $ 2,787 |
| **Software - 7.04%** | | |
| 2U Inc (a) | 47,640 | 1,333 |
| Acxiom Corp (a) | 64,820 | 1,356 |
| Apigee Corp (a) | 31,089 | 250 |
| Appfolio Inc (a) | 17,990 | 263 |
| Aspen Technology Inc (a) | 69,550 | 2,626 |
| Atlassian Corp PLC (a) | 8,237 | 248 |
| Black Knight Financial Services Inc (a) | 33,130 | 1,095 |
| Blackbaud Inc | 41,550 | 2,737 |
| BroadSoft Inc (a) | 12,540 | 443 |
| Instructure Inc (a) | 9,941 | 207 |
| MINDBODY Inc (a) | 39,650 | 600 |
| SYNNEX Corp | 30,060 | 2,703 |
| Workiva Inc (a) | 52,030 | 914 |
| | | $ 14,775 |
| **Telecommunications - 2.53%** | | |
| ARRIS International PLC (a) | 67,279 | 2,057 |
| Leap Wireless International Inc - Rights (a),(b),(c) | 1,375 | 5 |
| Plantronics Inc | 48,360 | 2,293 |
| West Corp | 44,260 | 955 |
| | | $ 5,310 |
| **Transportation - 2.69%** | | |
| ArcBest Corp | 30,400 | 650 |
| Ardmore Shipping Corp | 47,660 | 606 |
| Atlas Air Worldwide Holdings Inc (a) | 37,540 | 1,552 |
| Matson Inc | 54,470 | 2,322 |
| Navigator Holdings Ltd (a) | 38,220 | 522 |
| | | $ 5,652 |
| TOTAL COMMON STOCKS | | $ 207,419 |
| **INVESTMENT COMPANIES - 1.12%** | **Shares Held** | **Value (000's)** |
| **Publicly Traded Investment Fund - 1.12%** | | |
| BlackRock Liquidity Funds FedFund Portfolio | 2,344,044 | 2,344 |
| TOTAL INVESTMENT COMPANIES | | $ 2,344 |
| **Total Investments** | | **$ 209,763** |
| **Other Assets in Excess of Liabilities, Net - 0.05%** | | **$ 104** |
| **TOTAL NET ASSETS - 100.00%** | | **$ 209,867** |

*(a) Non-Income Producing Security*

*(b) Fair value of these investments is determined in good faith by the Manager under procedures established and periodically reviewed by the Board of Directors. At the end of the period, the fair value of these securities totaled $16 or 0.01% of net assets.*

*(c) Security is Illiquid. At the end of the period, the value of these securities totaled $16 or 0.01% of net assets.*

**Portfolio Summary (unaudited)**

| Sector | Percent |
|---|---|
| Financial | 27.20% |
| Consumer, Non-cyclical | 22.24% |
| Consumer, Cyclical | 15.30% |
| Technology | 12.92% |
| Industrial | 9.27% |
| Communications | 5.05% |
| Energy | 3.75% |
| Utilities | 3.10% |
| Exchange Traded Funds | 1.12% |
| Other Assets in Excess of Liabilities, Net | 0.05% |
| **TOTAL NET ASSETS** | 100.00% |

**Glossary to the Schedule of Investments**
**December 31, 2015**

| Currency Abbreviations | |
|---|---|
| USD/$ | United States Dollar |

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Total Dividends and Distributions | Net Asset Value, End of Period |
|---|---|---|---|---|---|---|---|
| **DIVERSIFIED INTERNATIONAL ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $14.08 | $0.26 | ($0.29) | ($0.03) | ($0.37) | ($0.37) | $13.68 |
| 2014 | 14.87 | 0.24 | (0.70) | (0.46) | (0.33) | (0.33) | 14.08 |
| 2013 | 12.89 | 0.24 | 2.09 | 2.33 | (0.35) | (0.35) | 14.87 |
| 2012 | 11.12 | 0.27 | 1.76 | 2.03 | (0.26) | (0.26) | 12.89 |
| 2011 | 12.54 | 0.27 | (1.67) | (1.40) | (0.02) | (0.02) | 11.12 |
| **Class 2 shares** | | | | | | | |
| 2015 | 14.19 | 0.21 | (0.29) | (0.08) | (0.33) | (0.33) | 13.78 |
| 2014 | 14.97 | 0.21 | (0.70) | (0.49) | (0.29) | (0.29) | 14.19 |
| 2013 | 12.96 | 0.22 | 2.10 | 2.32 | (0.31) | (0.31) | 14.97 |
| 2012 | 11.18 | 0.23 | 1.76 | 1.99 | (0.21) | (0.21) | 12.96 |
| 2011 | 12.63 | 0.23 | (1.66) | (1.43) | (0.02) | (0.02) | 11.18 |
| **EQUITY INCOME ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 23.12 | 0.58 | (1.46) | (0.88) | (0.57) | (0.57) | 21.67 |
| 2014 | 21.00 | 0.57 | 2.09 | 2.66 | (0.54) | (0.54) | 23.12 |
| 2013 | 17.03 | 0.54 | 4.04 | 4.58 | (0.61) | (0.61) | 21.00 |
| 2012 | 15.53 | 0.54 | 1.47 | 2.01 | (0.51) | (0.51) | 17.03 |
| 2011 | 14.80 | 0.50 | 0.30 | 0.80 | (0.07) | (0.07) | 15.53 |
| **Class 2 shares** | | | | | | | |
| 2015 | 22.96 | 0.52 | (1.45) | (0.93) | (0.51) | (0.51) | 21.52 |
| 2014 | 20.87 | 0.51 | 2.07 | 2.58 | (0.49) | (0.49) | 22.96 |
| 2013 | 16.92 | 0.49 | 4.02 | 4.51 | (0.56) | (0.56) | 20.87 |
| 2012 | 15.43 | 0.49 | 1.46 | 1.95 | (0.46) | (0.46) | 16.92 |
| 2011 | 14.74 | 0.45 | 0.31 | 0.76 | (0.07) | (0.07) | 15.43 |

| Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|
| (0.35)% | $273,300 | 0.88% | 1.80% | 48.2% |
| (3.21) | 429,194 | 0.86 | 1.64 | 62.1 |
| 18.40 | 501,094 | 0.87 | 1.78 | 79.5 |
| 18.44 | 464,751 | 0.87 | 2.23 | 76.0 |
| (11.17) | 428,532 | 0.89 | 2.17 | 68.5 |
| | | | | |
| (0.65) | 1,360 | 1.13 | 1.47 | 48.2 |
| (3.41) | 1,266 | 1.11 | 1.38 | 62.1 |
| 18.18 | 1,458 | 1.12 | 1.61 | 79.5 |
| 18.01 | 1,643 | 1.12 | 1.95 | 76.0 |
| (11.36) | 1,952 | 1.14 | 1.91 | 68.5 |
| | | | | |
| (3.93) | 513,126 | 0.49 | 2.54 | 10.7 |
| 12.80 | 599,407 | 0.48 | 2.57 | 11.6 |
| 27.30 | 630,542 | 0.48 | 2.83 | 18.0 |
| 13.01 | 578,099 | 0.49 | 3.26 | 20.8 |
| 5.44 | 624,366 | 0.48 | 3.28 | 19.9 |
| | | | | |
| (4.15) | 23,215 | 0.74 | 2.29 | 10.7 |
| 12.46 | 25,491 | 0.73 | 2.32 | 11.6 |
| 27.02 | 24,810 | 0.73 | 2.58 | 18.0 |
| 12.72 | 22,844 | 0.74 | 3.01 | 20.8 |
| 5.17 | 25,498 | 0.73 | 3.00 | 19.9 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **GOVERNMENT & HIGH QUALITY BOND ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $10.44 | $0.27 | ($0.19) | $0.08 | ($0.35) | ($0.01) | ($0.36) |
| 2014 | 10.33 | 0.27 | 0.25 | 0.52 | (0.41) | – | (0.41) |
| 2013 | 10.87 | 0.27 | (0.39) | (0.12) | (0.42) | – | (0.42) |
| 2012 | 10.90 | 0.33 | 0.09 | 0.42 | (0.45) | – | (0.45) |
| 2011 | 10.29 | 0.36 | 0.28 | 0.64 | (0.02) | (0.01) | (0.03) |
| **Class 2 shares** | | | | | | | |
| 2015 | 10.45 | 0.25 | (0.18) | 0.07 | (0.34) | (0.01) | (0.35) |
| 2014 | 10.34 | 0.24 | 0.25 | 0.49 | (0.38) | – | (0.38) |
| 2013 | 10.88 | 0.25 | (0.39) | (0.14) | (0.40) | – | (0.40) |
| 2012 | 10.90 | 0.30 | 0.10 | 0.40 | (0.42) | – | (0.42) |
| 2011 | 10.32 | 0.34 | 0.27 | 0.61 | (0.02) | (0.01) | (0.03) |
| **INCOME ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 10.78 | 0.39 | (0.46) | (0.07) | (0.47) | – | (0.47) |
| 2014 | 10.68 | 0.43 | 0.16 | 0.59 | (0.49) | – | (0.49) |
| 2013 | 11.22 | 0.46 | (0.43) | 0.03 | (0.57) | – | (0.57) |
| 2012 | 10.71 | 0.53 | 0.48 | 1.01 | (0.50) | – | (0.50) |
| 2011 | 10.12 | 0.56 | 0.07 | 0.63 | (0.04) | – | (0.04) |
| **Class 2 shares** | | | | | | | |
| 2015 | 10.73 | 0.36 | (0.45) | (0.09) | (0.44) | – | (0.44) |
| 2014 | 10.63 | 0.40 | 0.16 | 0.56 | (0.46) | – | (0.46) |
| 2013 | 11.17 | 0.43 | (0.43) | – | (0.54) | – | (0.54) |
| 2012 | 10.66 | 0.50 | 0.47 | 0.97 | (0.46) | – | (0.46) |
| 2011 | 10.09 | 0.53 | 0.08 | 0.61 | (0.04) | – | (0.04) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $10.16 | 0.79% | $286,659 | 0.51% | 2.61% | 21.9% |
| 10.44 | 5.08 | 314,509 | 0.51 | 2.56 | 19.1 |
| 10.33 | (1.03) | 379,351 | 0.51 | 2.58 | 45.3 |
| 10.87 | 3.91 | 432,172 | 0.51 | 2.98 | 41.4 |
| 10.90 | 6.23 | 453,864 | 0.51 | 3.42 | 83.8 |
| | | | | | |
| 10.17 | 0.67 | 1,837 | 0.76 | 2.37 | 21.9 |
| 10.45 | 4.75 | 916 | 0.76 | 2.31 | 19.1 |
| 10.34 | (1.30) | 931 | 0.76 | 2.33 | 45.3 |
| 10.88 | 3.70 | 1,143 | 0.76 | 2.73 | 41.4 |
| 10.90 | 5.90 | 1,215 | 0.76 | 3.17 | 83.8 |
| | | | | | |
| 10.24 | (0.71) | 254,751 | 0.51 | 3.62 | 12.6 |
| 10.78 | 5.55 | 275,597 | 0.51 | 3.95 | 16.6 |
| 10.68 | 0.40 | 269,330 | 0.51 | 4.22 | 12.8 |
| 11.22 | 9.57 | 292,756 | 0.51 | 4.78 | 14.7 |
| 10.71 | 6.25 | 239,939 | 0.50 | 5.36 | 17.8 |
| | | | | | |
| 10.20 | (0.92) | 2,445 | 0.76 | 3.38 | 12.6 |
| 10.73 | 5.26 | 3,036 | 0.76 | 3.71 | 16.6 |
| 10.63 | 0.10 | 3,390 | 0.76 | 3.97 | 12.8 |
| 11.17 | 9.28 | 3,875 | 0.76 | 4.55 | 14.7 |
| 10.66 | 6.05 | 4,360 | 0.75 | 5.11 | 17.8 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **LARGECAP GROWTH ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $24.60 | $0.06 | $1.17 | $1.23 | ($0.04) | $– | ($0.04) |
| 2014 | 22.26 | 0.03 | 2.44 | 2.47 | (0.13) | – | (0.13) |
| 2013 | 16.87 | 0.07 | 5.61 | 5.68 | (0.29) | – | (0.29) |
| 2012 | 14.48 | 0.12 | 2.32 | 2.44 | (0.05) | – | (0.05) |
| 2011 | 15.12 | 0.05 | (0.69) | (0.64) | – | – | – |
| **Class 2 shares** | | | | | | | |
| 2015 | 24.53 | – | 1.16 | 1.16 | – | – | – |
| 2014 | 22.20 | (0.03) | 2.44 | 2.41 | (0.08) | – | (0.08) |
| 2013 | 16.83 | 0.02 | 5.59 | 5.61 | (0.24) | – | (0.24) |
| 2012 | 14.43 | 0.08 | 2.32 | 2.40 | – | – | – |
| 2011 | 15.11 | 0.01 | (0.69) | (0.68) | – | – | – |
| **MIDCAP ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 60.79 | 0.22 | 1.19 | 1.41 | (0.32) | (6.64) | (6.96) |
| 2014 | 59.37 | 0.36 | 6.96 | 7.32 | (0.32) | (5.58) | (5.90) |
| 2013 | 47.20 | 0.28 | 15.31 | 15.59 | (0.82) | (2.60) | (3.42) |
| 2012 | 40.51 | 0.46 | 7.35 | 7.81 | (0.40) | (0.72) | (1.12) |
| 2011 | 37.83 | 0.23 | 2.92 | 3.15 | – | (0.47) | (0.47) |
| **Class 2 shares** | | | | | | | |
| 2015 | 60.54 | 0.07 | 1.17 | 1.24 | (0.17) | (6.64) | (6.81) |
| 2014 | 59.16 | 0.21 | 6.93 | 7.14 | (0.18) | (5.58) | (5.76) |
| 2013 | 47.06 | 0.15 | 15.25 | 15.40 | (0.70) | (2.60) | (3.30) |
| 2012 | 40.39 | 0.35 | 7.33 | 7.68 | (0.29) | (0.72) | (1.01) |
| 2011 | 37.82 | 0.13 | 2.91 | 3.04 | – | (0.47) | (0.47) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $25.79 | 4.98% | $118,385 | 0.69% | 0.23% | 47.1% |
| 24.60 | 11.12 | 123,091 | 0.69 | 0.13 | 67.2 |
| 22.26 | 33.91 | 100,140 | 0.69 | 0.37 | 70.1 |
| 16.87 | 16.85 | 210,351 | 0.69 | 0.73 | 62.6 |
| 14.48 | (4.23) | 181,559 | 0.69 | 0.31 | 56.6 |
| | | | | | |
| 25.69 | 4.73 | 1,090 | 0.94 | (0.01) | 47.1 |
| 24.53 | 10.85 | 661 | 0.94 | (0.11) | 67.2 |
| 22.20 | 33.64 (c) | 712 | 0.94 | 0.10 | 70.1 |
| 16.83 | 16.56 (c) | 604 | 0.94 | 0.47 | 62.6 |
| 14.43 | (4.50) | 561 | 0.94 | 0.05 | 56.6 |
| | | | | | |
| 55.24 | 1.64 | 617,437 | 0.53 | 0.37 | 26.3 |
| 60.79 | 12.99 | 676,836 | 0.53 | 0.60 | 21.6 |
| 59.37 | 33.93 | 649,893 | 0.53 | 0.52 | 12.4 |
| 47.20 | 19.44 | 560,842 | 0.55 | 1.03 | 21.5 |
| 40.51 | 8.29 | 531,255 | 0.55 | 0.57 | 28.9 |
| | | | | | |
| 54.97 | 1.37 | 15,243 | 0.78 | 0.12 | 26.3 |
| 60.54 | 12.70 | 15,960 | 0.78 | 0.35 | 21.6 |
| 59.16 | 33.58 | 15,105 | 0.78 | 0.27 | 12.4 |
| 47.06 | 19.16 | 12,179 | 0.80 | 0.79 | 21.5 |
| 40.39 | 8.00 | 11,226 | 0.80 | 0.32 | 28.9 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Total return is calculated using the traded net asset value which may differ from the reported net asset value.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **MONEY MARKET ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $1.00 | $– | $– | $– | $– | $– | $– |
| 2014 | 1.00 | – | – | – | – | – | – |
| 2013 | 1.00 | – | – | – | – | – | – |
| 2012 | 1.00 | – | – | – | – | – | – |
| 2011 | 1.00 | – | – | – | – | – | – |
| **Class 2 shares** | | | | | | | |
| 2015 | 1.00 | – | – | – | – | – | – |
| 2014 | 1.00 | – | – | – | – | – | – |
| 2013 | 1.00 | – | – | – | – | – | – |
| 2012 | 1.00 | – | – | – | – | – | – |
| 2011 | 1.00 | – | – | – | – | – | – |
| **PRINCIPAL CAPITAL APPRECIATION ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 22.31 | 0.30 | 0.20 | 0.50 | (0.06) | (0.40) | (0.46) |
| 2014 | 24.45 | 0.24 | 2.52 | 2.76 | (0.81) | (4.09) | (4.90) |
| 2013 | 23.75 | 0.30 | 6.63 | 6.93 | (1.86) | (4.37) | (6.23) |
| 2012 | 21.36 | 0.35 | 2.58 | 2.93 | (0.26) | (0.28) | (0.54) |
| 2011 | 21.47 | 0.24 | (0.21) | 0.03 | – | (0.14) | (0.14) |
| **Class 2 shares** | | | | | | | |
| 2015 | 22.11 | 0.23 | 0.21 | 0.44 | (0.01) | (0.40) | (0.41) |
| 2014 | 24.27 | 0.18 | 2.50 | 2.68 | (0.75) | (4.09) | (4.84) |
| 2013 | 23.62 | 0.21 | 6.60 | 6.81 | (1.79) | (4.37) | (6.16) |
| 2012 | 21.23 | 0.29 | 2.58 | 2.87 | (0.20) | (0.28) | (0.48) |
| 2011 | 21.40 | 0.18 | (0.21) | (0.03) | – | (0.14) | (0.14) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Gross Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|---|
| $1.00 | 0.00% | $283,094 | 0.21% | 0.47%(c) | 0.00% | N/A |
| 1.00 | 0.00 | 278,903 | 0.16 | 0.46 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 283,108 | 0.19 | 0.46 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 303,903 | 0.27 | 0.46 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 322,844 | 0.26 | 0.45 (c) | 0.00 | N/A |
| | | | | | | |
| 1.00 | 0.00 | 1,881 | 0.21 | 0.72 (c),(e) | 0.00 | N/A |
| 1.00 | 0.00 | 934 | 0.16 | 0.71 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 959 | 0.20 | 0.71 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 1,253 | 0.27 | 0.71 (c) | 0.00 | N/A |
| 1.00 | 0.00 | 1,777 | 0.26 | 0.70 (c) | 0.00 | N/A |
| | | | | | | |
| 22.35 | 2.18 | 154,732 | 0.64 | – | 1.33 | 22.1% (d) |
| 22.31 | 12.45 | 33,190 | 0.66 | – | 1.02 | 8.6 |
| 24.45 | 32.65 | 32,077 | 0.65 | – | 1.18 | 6.7 |
| 23.75 | 13.83 | 145,393 | 0.64 | – | 1.51 | 6.2 |
| 21.36 | 0.13 | 142,828 | 0.64 | – | 1.09 | 10.3 |
| | | | | | | |
| 22.14 | 1.94 | 7,517 | 0.89 | – | 1.05 | 22.1 (d) |
| 22.11 | 12.19 | 6,891 | 0.91 | – | 0.77 | 8.6 |
| 24.27 | 32.27 | 6,362 | 0.90 | – | 0.85 | 6.7 |
| 23.62 | 13.57 | 5,238 | 0.89 | – | 1.26 | 6.2 |
| 21.23 | (0.15) | 5,472 | 0.89 | – | 0.83 | 10.3 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Excludes expense reimbursement from Manager and/or Distributor.
(d) Portfolio turnover rate excludes approximately $1,237,000 of purchases from portfolio realignment from the acquisition of LargeCap Blend Account II.
(e) Voluntary waivers comprised 0.26% of average net assets.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **REAL ESTATE SECURITIES ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $22.33 | $0.34 | $0.57 | $0.91 | ($0.34) | ($0.70) | ($1.04) |
| 2014 | 17.08 | 0.29 | 5.28 | 5.57 | (0.32) | – | (0.32) |
| 2013 | 16.63 | 0.35 | 0.33 | 0.68 | (0.23) | – | (0.23) |
| 2012 | 14.39 | 0.21 | 2.26 | 2.47 | (0.23) | – | (0.23) |
| 2011 | 13.21 | 0.10 | 1.08 | 1.18 | – | – | – |
| **Class 2 shares** | | | | | | | |
| 2015 | 22.45 | 0.34 | 0.53 | 0.87 | (0.33) | (0.70) | (1.03) |
| 2014 | 17.18 | 0.27 | 5.27 | 5.54 | (0.27) | – | (0.27) |
| 2013 | 16.72 | 0.30 | 0.34 | 0.64 | (0.18) | – | (0.18) |
| 2012 | 14.46 | 0.17 | 2.26 | 2.43 | (0.17) | – | (0.17) |
| 2011 | 13.30 | 0.06 | 1.10 | 1.16 | – | – | – |
| **SAM BALANCED PORTFOLIO** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 16.51 | 0.30 | (0.38) | (0.08) | (0.49) | (1.25) | (1.74) |
| 2014 | 18.53 | 0.47 | 0.73 | 1.20 | (0.52) | (2.70) | (3.22) |
| 2013 | 16.33 | 0.47 | 2.37 | 2.84 | (0.43) | (0.21) | (0.64) |
| 2012 | 14.76 | 0.41 | 1.46 | 1.87 | (0.11) | (0.19) | (0.30) |
| 2011 | 15.02 | 0.10 | 0.06 | 0.16 | (0.42) | – | (0.42) |
| **Class 2 shares** | | | | | | | |
| 2015 | 16.37 | 0.26 | (0.38) | (0.12) | (0.45) | (1.25) | (1.70) |
| 2014 | 18.39 | 0.43 | 0.73 | 1.16 | (0.48) | (2.70) | (3.18) |
| 2013 | 16.22 | 0.41 | 2.35 | 2.76 | (0.38) | (0.21) | (0.59) |
| 2012 | 14.66 | 0.36 | 1.46 | 1.82 | (0.07) | (0.19) | (0.26) |
| 2011 | 14.92 | 0.06 | 0.06 | 0.12 | (0.38) | – | (0.38) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $22.20 | 4.21% | $159,292 | 0.89% | 1.54% | 22.8% |
| 22.33 | 32.82 | 166,701 | 0.89 | 1.48 | 15.7 |
| 17.08 | 4.10 | 128,601 | 0.89 | 1.96 | 22.1 |
| 16.63 | 17.17 | 133,069 | 0.90 | 1.33 | 44.1 |
| 14.39 | 8.93 | 140,316 | 0.90 | 0.71 | 22.4 |
| 22.29 | 4.00 | 1,994 | 1.14 | 1.56 | 22.8 |
| 22.45 | 32.44 | 492 | 1.14 | 1.37 | 15.7 |
| 17.18 | 3.87 | 271 | 1.14 | 1.72 | 22.1 |
| 16.72 | 16.86 | 257 | 1.15 | 1.08 | 44.1 |
| 14.46 | 8.72 | 287 | 1.15 | 0.42 | 22.4 |
| 14.69 | (0.81) | 732,937 | 0.23 (c) | 1.88 | 26.1 |
| 16.51 | 6.82 | 826,908 | 0.23 (c) | 2.64 | 16.4 |
| 18.53 | 17.68 | 913,823 | 0.23 (c) | 2.68 | 46.7 |
| 16.33 | 12.75 | 812,380 | 0.23 (c) | 2.60 | 9.1 |
| 14.76 | 0.99 | 781,873 | 0.23 (c) | 0.68 | 14.2 |
| 14.55 | (1.08) | 96,511 | 0.48 (c) | 1.66 | 26.1 |
| 16.37 | 6.59 | 99,852 | 0.48 (c) | 2.44 | 16.4 |
| 18.39 | 17.32 | 102,716 | 0.48 (c) | 2.37 | 46.7 |
| 16.22 | 12.47 | 95,208 | 0.48 (c) | 2.32 | 9.1 |
| 14.66 | 0.73 | 94,487 | 0.48 (c) | 0.43 | 14.2 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Does not include expenses of the investment companies in which the Portfolio invests.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **SAM CONSERVATIVE BALANCED PORTFOLIO** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $12.60 | $0.29 | ($0.36) | ($0.07) | ($0.41) | ($0.60) | ($1.01) |
| 2014 | 13.39 | 0.41 | 0.40 | 0.81 | (0.42) | (1.18) | (1.60) |
| 2013 | 12.49 | 0.40 | 1.00 | 1.40 | (0.37) | (0.13) | (0.50) |
| 2012 | 11.47 | 0.37 | 0.90 | 1.27 | (0.10) | (0.15) | (0.25) |
| 2011 | 11.68 | 0.10 | 0.17 | 0.27 | (0.37) | (0.11) | (0.48) |
| **Class 2 shares** | | | | | | | |
| 2015 | 12.48 | 0.27 | (0.36) | (0.09) | (0.38) | (0.60) | (0.98) |
| 2014 | 13.28 | 0.38 | 0.38 | 0.76 | (0.38) | (1.18) | (1.56) |
| 2013 | 12.39 | 0.36 | 1.00 | 1.36 | (0.34) | (0.13) | (0.47) |
| 2012 | 11.38 | 0.33 | 0.90 | 1.23 | (0.07) | (0.15) | (0.22) |
| 2011 | 11.60 | 0.07 | 0.17 | 0.24 | (0.35) | (0.11) | (0.46) |
| **SAM CONSERVATIVE GROWTH PORTFOLIO** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 19.02 | 0.26 | (0.41) | (0.15) | (0.43) | (1.22) | (1.65) |
| 2014 | 20.60 | 0.48 | 0.97 | 1.45 | (0.39) | (2.64) | (3.03) |
| 2013 | 17.04 | 0.40 | 3.50 | 3.90 | (0.34) | – | (0.34) |
| 2012 | 14.99 | 0.33 | 1.79 | 2.12 | (0.07) | – | (0.07) |
| 2011 | 15.36 | 0.07 | (0.13) | (0.06) | (0.31) | – | (0.31) |
| **Class 2 shares** | | | | | | | |
| 2015 | 18.82 | 0.21 | (0.40) | (0.19) | (0.39) | (1.22) | (1.61) |
| 2014 | 20.42 | 0.42 | 0.97 | 1.39 | (0.35) | (2.64) | (2.99) |
| 2013 | 16.89 | 0.34 | 3.49 | 3.83 | (0.30) | – | (0.30) |
| 2012 | 14.87 | 0.28 | 1.77 | 2.05 | (0.03) | – | (0.03) |
| 2011 | 15.23 | 0.03 | (0.11) | (0.08) | (0.28) | – | (0.28) |

*See accompanying notes.*

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $11.52 | (0.78)% | $193,585 | 0.23%(c) | 2.38% | 28.2% |
| 12.60 | 6.22 | 206,621 | 0.23 (c) | 3.10 | 21.2 |
| 13.39 | 11.53 | 212,247 | 0.23 (c) | 3.10 | 35.6 |
| 12.49 | 11.19 | 190,310 | 0.24 (c) | 3.07 | 15.7 |
| 11.47 | 2.29 | 177,476 | 0.24 (c) | 0.86 | 20.8 |
| | | | | | |
| 11.41 | (0.93) | 17,774 | 0.48 (c) | 2.19 | 28.2 |
| 12.48 | 5.92 | 16,731 | 0.48 (c) | 2.87 | 21.2 |
| 13.28 | 11.25 | 16,140 | 0.48 (c) | 2.77 | 35.6 |
| 12.39 | 10.91 | 15,911 | 0.49 (c) | 2.73 | 15.7 |
| 11.38 | 1.97 | 15,465 | 0.49 (c) | 0.60 | 20.8 |
| | | | | | |
| 17.22 | (1.09) | 193,966 | 0.23 (c) | 1.40 | 29.1 |
| 19.02 | 7.43 | 198,465 | 0.23 (c) | 2.40 | 19.4 |
| 20.60 | 23.07 | 179,850 | 0.23 (c) | 2.10 | 48.5 |
| 17.04 | 14.18 | 143,547 | 0.24 (c) | 2.00 | 12.5 |
| 14.99 | (0.45) | 132,387 | 0.24 (c) | 0.45 | 24.2 |
| | | | | | |
| 17.02 | (1.34) | 103,771 | 0.48 (c) | 1.17 | 29.1 |
| 18.82 | 7.14 | 102,757 | 0.48 (c) | 2.11 | 19.4 |
| 20.42 | 22.82 | 99,013 | 0.48 (c) | 1.82 | 48.5 |
| 16.89 | 13.81 | 84,306 | 0.49 (c) | 1.76 | 12.5 |
| 14.87 | (0.63) | 78,247 | 0.49 (c) | 0.20 | 24.2 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Does not include expenses of the investment companies in which the Portfolio invests.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **SAM FLEXIBLE INCOME PORTFOLIO** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $13.22 | $0.40 | ($0.56) | ($0.16) | ($0.47) | ($0.32) | ($0.79) |
| 2014 | 13.72 | 0.49 | 0.33 | 0.82 | (0.52) | (0.80) | (1.32) |
| 2013 | 13.38 | 0.49 | 0.51 | 1.00 | (0.48) | (0.18) | (0.66) |
| 2012 | 12.42 | 0.48 | 0.83 | 1.31 | (0.15) | (0.20) | (0.35) |
| 2011 | 12.50 | 0.15 | 0.28 | 0.43 | (0.49) | (0.02) | (0.51) |
| **Class 2 shares** | | | | | | | |
| 2015 | 13.12 | 0.37 | (0.56) | (0.19) | (0.44) | (0.32) | (0.76) |
| 2014 | 13.62 | 0.45 | 0.33 | 0.78 | (0.48) | (0.80) | (1.28) |
| 2013 | 13.29 | 0.46 | 0.50 | 0.96 | (0.45) | (0.18) | (0.63) |
| 2012 | 12.34 | 0.44 | 0.83 | 1.27 | (0.12) | (0.20) | (0.32) |
| 2011 | 12.42 | 0.12 | 0.28 | 0.40 | (0.46) | (0.02) | (0.48) |
| **SAM STRATEGIC GROWTH PORTFOLIO** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 21.00 | 0.29 | (0.56) | (0.27) | (0.47) | (1.56) | (2.03) |
| 2014 | 23.55 | 0.56 | 1.33 | 1.89 | (0.38) | (4.06) | (4.44) |
| 2013 | 18.74 | 0.40 | 4.70 | 5.10 | (0.29) | – | (0.29) |
| 2012 | 16.26 | 0.29 | 2.23 | 2.52 | (0.04) | – | (0.04) |
| 2011 | 16.82 | 0.04 | (0.34) | (0.30) | (0.26) | – | (0.26) |
| **Class 2 shares** | | | | | | | |
| 2015 | 20.80 | 0.24 | (0.55) | (0.31) | (0.43) | (1.56) | (1.99) |
| 2014 | 23.38 | 0.49 | 1.32 | 1.81 | (0.33) | (4.06) | (4.39) |
| 2013 | 18.61 | 0.33 | 4.68 | 5.01 | (0.24) | – | (0.24) |
| 2012 | 16.15 | 0.24 | 2.22 | 2.46 | – | – | – |
| 2011 | 16.71 | – | (0.34) | (0.34) | (0.22) | – | (0.22) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $12.27 | (1.31)% | $200,828 | 0.23%(c) | 3.05% | 25.2% |
| 13.22 | 6.03 | 215,309 | 0.23 (c) | 3.55 | 18.8 |
| 13.72 | 7.75 | 214,572 | 0.23 (c) | 3.57 | 29.7 |
| 13.38 | 10.64 | 215,628 | 0.24 (c) | 3.69 | 11.7 |
| 12.42 | 3.39 | 187,458 | 0.24 (c) | 1.22 | 20.6 |
| | | | | | |
| 12.17 | (1.55) | 21,108 | 0.48 (c) | 2.85 | 25.2 |
| 13.12 | 5.80 | 19,836 | 0.48 (c) | 3.27 | 18.8 |
| 13.62 | 7.46 | 19,464 | 0.48 (c) | 3.36 | 29.7 |
| 13.29 | 10.34 | 19,667 | 0.49 (c) | 3.41 | 11.7 |
| 12.34 | 3.13 | 18,382 | 0.49 (c) | 0.96 | 20.6 |
| | | | | | |
| 18.70 | (1.62) | 142,227 | 0.23 (c) | 1.45 | 37.9 |
| 21.00 | 8.68 | 138,863 | 0.23 (c) | 2.50 | 20.4 |
| 23.55 | 27.40 | 121,049 | 0.23 (c) | 1.89 | 62.5 |
| 18.74 | 15.52 | 90,348 | 0.24 (c) | 1.61 | 13.9 |
| 16.26 | (1.90) | 83,738 | 0.24 (c) | 0.25 | 23.3 |
| | | | | | |
| 18.50 | (1.87) | 95,775 | 0.48 (c) | 1.19 | 37.9 |
| 20.80 | 8.35 | 96,446 | 0.48 (c) | 2.21 | 20.4 |
| 23.38 | 27.09 | 87,689 | 0.48 (c) | 1.57 | 62.5 |
| 18.61 | 15.23 | 71,997 | 0.49 (c) | 1.36 | 13.9 |
| 16.15 | (2.12) | 64,907 | 0.49 (c) | (0.01) | 23.3 |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Does not include expenses of the investment companies in which the Portfolio invests.

**Selected data for a share of Capital Stock outstanding throughout each year ended December 31 (except as noted):**

| | Net Asset Value, Beginning of Period | Net Investment Income (Loss)(a) | Net Realized and Unrealized Gain (Loss) on Investments | Total From Investment Operations | Dividends from Net Investment Income | Distributions from Realized Gains | Total Dividends and Distributions |
|---|---|---|---|---|---|---|---|
| **SHORT-TERM INCOME ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | $2.59 | $0.04 | ($0.02) | $0.02 | ($0.07) | $– | ($0.07) |
| 2014 | 2.59 | 0.05 | (0.01) | 0.04 | (0.04) | – | (0.04) |
| 2013 | 2.61 | 0.04 | (0.01) | 0.03 | (0.05) | – | (0.05) |
| 2012 | 2.54 | 0.05 | 0.08 | 0.13 | (0.06) | – | (0.06) |
| 2011 | 2.51 | 0.06 | (0.03) | 0.03 | – | – | – |
| **Class 2 shares** | | | | | | | |
| 2015 | 2.58 | 0.04 | (0.02) | 0.02 | (0.07) | – | (0.07) |
| 2014 | 2.59 | 0.04 | (0.01) | 0.03 | (0.04) | – | (0.04) |
| 2013 | 2.60 | 0.04 | (0.01) | 0.03 | (0.04) | – | (0.04) |
| 2012 | 2.53 | 0.04 | 0.08 | 0.12 | (0.05) | – | (0.05) |
| 2011 | 2.51 | 0.05 | (0.03) | 0.02 | – | – | – |
| **SMALLCAP BLEND ACCOUNT** | | | | | | | |
| **Class 1 shares** | | | | | | | |
| 2015 | 13.99 | 0.05 | (0.03) | 0.02 | (0.01) | (0.45) | (0.46) |
| 2014 | 13.79 | 0.02 | 0.64 | 0.66 | (0.05) | (0.41) | (0.46) |
| 2013 | 9.36 | 0.04 | 4.43 | 4.47 | (0.04) | – | (0.04) |
| 2012 | 8.16 | 0.07 | 1.13 | 1.20 | – | – | – |
| 2011 | 8.31 | (0.01) | (0.11) | (0.12) | (0.03) | – | (0.03) |
| **Class 2 shares** | | | | | | | |
| 2015(d) | 14.49 | 0.02 | (0.53) | (0.51) | (0.01) | (0.45) | (0.46) |

| Net Asset Value, End of Period | Total Return(b) | Net Assets, End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate |
|---|---|---|---|---|---|
| $2.54 | 0.71% | $160,833 | 0.49%(c) | 1.63% | 57.0% |
| 2.59 | 1.73 | 267,674 | 0.49 (c) | 1.74 | 54.3 |
| 2.59 | 1.14 | 256,561 | 0.48 (c) | 1.65 | 54.7 |
| 2.61 | 5.00 | 262,427 | 0.49 (c) | 1.95 | 59.1 |
| 2.54 | 1.37 | 228,351 | 0.49 (c) | 2.35 | 55.1 |
| | | | | | |
| 2.53 | 0.59 | 1,485 | 0.74 (c) | 1.39 | 57.0 |
| 2.58 | 1.02 | 913 | 0.74 (c) | 1.49 | 54.3 |
| 2.59 | 1.25 | 838 | 0.73 (c) | 1.40 | 54.7 |
| 2.60 | 4.67 | 1,269 | 0.74 (c) | 1.72 | 59.1 |
| 2.53 | 0.95 | 1,516 | 0.74 (c) | 2.11 | 55.1 |
| | | | | | |
| 13.55 | (0.10) | 205,344 | 0.83 | 0.33 | 63.3 |
| 13.99 | 4.89 | 64,682 | 0.87 | 0.16 | 67.0 |
| 13.79 | 47.81 | 64,785 | 0.87 | 0.38 | 78.1 |
| 9.36 | 14.71 | 47,469 | 0.89 | 0.76 | 94.5 |
| 8.16 | (1.47) | 47,155 | 0.88 | (0.09) | 69.1 |
| | | | | | |
| 13.52 | (3.76) (e) | 4,523 | 1.08 (f) | 0.13 (f) | 63.3 (f) |

(a) Calculated based on average shares outstanding during the period.
(b) Total return does not reflect charges attributable to separate accounts. Inclusion of these charges would reduce the amounts shown.
(c) Reflects Manager's contractual expense limit.
(d) Period from February 17, 2015 date operations commenced, through December 31, 2015
(e) Total return amounts have not been annualized.
(f) Computed on an annualized basis.

The Board of Directors and Shareholders
Principal Variable Contracts Funds, Inc.

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of Diversified International Account, Equity Income Account, Government & High Quality Bond Account, Income Account, LargeCap Growth Account, MidCap Account, Money Market Account, Principal Capital Appreciation Account, Real Estate Securities Account, SAM Balanced Portfolio, SAM Conservative Balanced Portfolio, SAM Conservative Growth Portfolio, SAM Flexible Income Portfolio, SAM Strategic Growth Portfolio, Short-Term Income Account, and SmallCap Blend Account (16 of the portfolios constituting Principal Variable Contracts Funds, Inc. (collectively, the "Funds")), as of December 31, 2015, and the related statements of operations for the year then ended, statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian, agent banks, transfer agent of the affiliated funds, and brokers or by other appropriate auditing procedures where replies from brokers or agent banks were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the funds listed above constituting portfolios within Principal Variable Contracts Funds, Inc. at December 31, 2015, and the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and their financial highlights for each of the periods indicated therein in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
February 17, 2016

As a shareholder of Principal Variable Contracts Funds, Inc. you incur ongoing costs, including management fees; distribution fees; and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in Principal Variable Contracts Funds, Inc. and to compare these costs with the ongoing costs of investing in other mutual funds. As a shareholder of SAM Balanced Portfolio, SAM Conservative Balanced Portfolio, SAM Conservative Growth Portfolio, SAM Flexible Income Portfolio, or SAM Strategic Growth Portfolio, your fund will indirectly bear its pro rata share of the expenses incurred by the investment companies in which the fund invests. These expenses are not included in the fund's annualized expense ratio used to calculate the expenses paid in this example. If they were, the expenses paid would be higher. Expenses shown below and on the following pages do not account for fees, expenses and charges of any variable insurance contract or retirement plan. If these fees had been reflected, expenses would have been higher.

The example is based on an investment of $1,000 invested at the beginning of the period and held for the period (July 1, 2015 to December 31, 2015).

**Actual Expenses**

The first line of 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 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 Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on each account's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the account'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 Principal Variable Contracts Funds, Inc. 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 only. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

| | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period July 1, 2015 to December 31, 2015[(a)] | Annualized Expense Ratio |
|---|---|---|---|---|
| Diversified International Account Class 1 | | | | |
| Actual | $1,000.00 | $940.36 | $4.40 | 0.90% |
| Hypothetical | 1,000.00 | 1,020.67 | 4.58 | 0.90 |
| Diversified International Account Class 2 | | | | |
| Actual | 1,000.00 | 939.19 | 5.62 | 1.15 |
| Hypothetical | 1,000.00 | 1,019.41 | 5.85 | 1.15 |
| Equity Income Account Class 1 | | | | |
| Actual | 1,000.00 | 963.63 | 2.47 | 0.50 |
| Hypothetical | 1,000.00 | 1,022.68 | 2.55 | 0.50 |
| Equity Income Account Class 2 | | | | |
| Actual | 1,000.00 | 962.24 | 3.71 | 0.75 |
| Hypothetical | 1,000.00 | 1,021.42 | 3.82 | 0.75 |
| Government & High Quality Bond Account Class 1 | | | | |
| Actual | 1,000.00 | 1,003.13 | 2.57 | 0.51 |
| Hypothetical | 1,000.00 | 1,022.63 | 2.60 | 0.51 |
| Government & High Quality Bond Account Class 2 | | | | |
| Actual | 1,000.00 | 1,002.84 | 3.84 | 0.76 |
| Hypothetical | 1,000.00 | 1,021.37 | 3.87 | 0.76 |
| Income Account Class 1 | | | | |
| Actual | 1,000.00 | 986.48 | 2.55 | 0.51 |
| Hypothetical | 1,000.00 | 1,022.63 | 2.60 | 0.51 |
| Income Account Class 2 | | | | |
| Actual | 1,000.00 | 985.27 | 3.80 | 0.76 |
| Hypothetical | 1,000.00 | 1,021.37 | 3.87 | 0.76 |

| | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period July 1, 2015 to December 31, 2015[a] | Annualized Expense Ratio |
|---|---|---|---|---|
| LargeCap Growth Account Class 1 | | | | |
| Actual | $1,000.00 | $990.64 | $3.46 | 0.69% |
| Hypothetical | 1,000.00 | 1,021.73 | 3.52 | 0.69 |
| LargeCap Growth Account Class 2 | | | | |
| Actual | 1,000.00 | 989.60 | 4.71 | 0.94 |
| Hypothetical | 1,000.00 | 1,020.47 | 4.79 | 0.94 |
| MidCap Account Class 1 | | | | |
| Actual | 1,000.00 | 967.58 | 2.63 | 0.53 |
| Hypothetical | 1,000.00 | 1,022.53 | 2.70 | 0.53 |
| MidCap Account Class 2 | | | | |
| Actual | 1,000.00 | 966.31 | 3.87 | 0.78 |
| Hypothetical | 1,000.00 | 1,021.27 | 3.97 | 0.78 |
| Money Market Account Class 1 | | | | |
| Actual | 1,000.00 | 1,000.00 | 1.16 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| Money Market Account Class 2 | | | | |
| Actual | 1,000.00 | 1,000.00 | 1.16 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| Principal Capital Appreciation Account Class 1 | | | | |
| Actual | 1,000.00 | 994.14 | 3.22 | 0.64 |
| Hypothetical | 1,000.00 | 1,021.98 | 3.26 | 0.64 |
| Principal Capital Appreciation Account Class 2 | | | | |
| Actual | 1,000.00 | 992.87 | 4.47 | 0.89 |
| Hypothetical | 1,000.00 | 1,020.72 | 4.53 | 0.89 |
| Real Estate Securities Account Class 1 | | | | |
| Actual | 1,000.00 | 1,102.28 | 4.72 | 0.89 |
| Hypothetical | 1,000.00 | 1,020.72 | 4.53 | 0.89 |
| Real Estate Securities Account Class 2 | | | | |
| Actual | 1,000.00 | 1,101.36 | 6.04 | 1.14 |
| Hypothetical | 1,000.00 | 1,019.46 | 5.80 | 1.14 |
| SAM Balanced Portfolio Class 1 | | | | |
| Actual | 1,000.00 | 975.35 | 1.15 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| SAM Balanced Portfolio Class 2 | | | | |
| Actual | 1,000.00 | 973.71 | 2.39 | 0.48 |
| Hypothetical | 1,000.00 | 1,022.79 | 2.45 | 0.48 |
| SAM Conservative Balanced Portfolio Class 1 | | | | |
| Actual | 1,000.00 | 978.18 | 1.15 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| SAM Conservative Balanced Portfolio Class 2 | | | | |
| Actual | 1,000.00 | 978.13 | 2.39 | 0.48 |
| Hypothetical | 1,000.00 | 1,022.79 | 2.45 | 0.48 |
| SAM Conservative Growth Portfolio Class 1 | | | | |
| Actual | 1,000.00 | 969.69 | 1.14 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| SAM Conservative Growth Portfolio Class 2 | | | | |
| Actual | 1,000.00 | 968.04 | 2.38 | 0.48 |
| Hypothetical | 1,000.00 | 1,022.79 | 2.45 | 0.48 |
| SAM Flexible Income Portfolio Class 1 | | | | |
| Actual | 1,000.00 | 978.03 | 1.15 | 0.23 |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| SAM Flexible Income Portfolio Class 2 | | | | |
| Actual | 1,000.00 | 977.10 | 2.39 | 0.48 |
| Hypothetical | 1,000.00 | 1,022.79 | 2.45 | 0.48 |

| | Beginning Account Value July 1, 2015 | Ending Account Value December 31, 2015 | Expenses Paid During Period July 1, 2015 to December 31, 2015[(a)] | Annualized Expense Ratio |
|---|---|---|---|---|
| SAM Strategic Growth Portfolio Class 1 | | | | |
| Actual | $1,000.00 | $963.59 | $1.14 | 0.23% |
| Hypothetical | 1,000.00 | 1,024.05 | 1.17 | 0.23 |
| SAM Strategic Growth Portfolio Class 2 | | | | |
| Actual | 1,000.00 | 962.32 | 2.37 | 0.48 |
| Hypothetical | 1,000.00 | 1,022.79 | 2.45 | 0.48 |
| Short-Term Income Account Class 1 | | | | |
| Actual | 1,000.00 | 999.39 | 2.52 | 0.50 |
| Hypothetical | 1,000.00 | 1,022.68 | 2.55 | 0.50 |
| Short-Term Income Account Class 2 | | | | |
| Actual | 1,000.00 | 998.15 | 3.78 | 0.75 |
| Hypothetical | 1,000.00 | 1,021.42 | 3.82 | 0.75 |
| SmallCap Blend Account Class 1 | | | | |
| Actual | 1,000.00 | 920.69 | 4.07 | 0.84 |
| Hypothetical | 1,000.00 | 1,020.97 | 4.28 | 0.84 |
| SmallCap Blend Account Class 2 | | | | |
| Actual | 1,000.00 | 919.29 | 5.27 | 1.09 |
| Hypothetical | 1,000.00 | 1,019.71 | 5.55 | 1.09 |

[(a)] Expenses are equal to a fund's annualized expense ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

## FUND DIRECTORS AND OFFICERS

Under Maryland law, a Board of Directors oversees the Fund. The Directors have financial or other relevant experience and meet several times during the year to review contracts, Fund activities and the quality of services provided to the Fund. Each director also has the same position with Principal Funds, Inc. which is also sponsored by Principal Life Insurance Company. Each director holds office for an indefinite term or until reaching age 72. Directors considered to be "interested persons" as defined in the Investment Company Act of 1940, as amended, as shown below are considered to be interested because of an affiliation with the Manager and Principal Life Insurance Company.

**The following directors are considered not to be "interested persons" as defined in the 1940 Act**

| Name, Position Held with the Fund, Year of Birth | Principal Occupation(s) During past 5 years | Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director During Past 5 Years |
|---|---|---|---|
| Elizabeth Ballantine<br>Director since 2004<br>Member, Nominating and Governance Committee<br>1948 | Principal, EBA Associates | 120 | Durango Herald, Inc; McClatchy Newspapers, Inc. |
| Leroy T. Barnes, Jr.<br>Director since March 2012<br>Member, Audit Committee<br>1951 | Retired. | 120 | McClatchy Newspapers, Inc.; Herbalife Ltd.; Frontier Communications, Inc. |
| Craig Damos<br>Director since 2008<br>Member, Audit Committee<br>Member, 15(c) Committee<br>1954 | President, The Damos Company. Formerly, CEO, The Weitz Company | 120 | Hardin Construction Company |
| Elizabeth A. Nickels<br>Director since September 2015<br>1962 | Formerly, Executive Director, Herman Miller Foundation; Formerly President, Herman Miller Healthcare | 120 | Charlotte Russe; Follet Corporation; Herman Miller, Inc.; PetSmart; SpartanNash; Spectrum Health Systems |
| Mark A. Grimmett<br>Director since 2004<br>Member, Nominating and Governance Committee<br>Member, 15(c) Committee<br>Member, Executive Committee<br>1960 | Executive Vice President and CFO, Merle Norman Cosmetics, Inc. | 120 | None |
| Fritz S. Hirsch<br>Director since 2005<br>Member, Operations Committee<br>Member, 15(c) Committee<br>1951 | CEO, MAM USA<br>Formerly, President, Sassy, Inc. | 120 | Focus Products Group |
| Tao Huang<br>Director since March 2012<br>Member, Operations Committee<br>Member, 15(c) Committee<br>1962 | Formerly, Chief Operating Officer, Morningstar, Inc. | 120 | Armstrong World Industries, Inc. |
| Karen ("Karrie") McMillan<br>Director since 2014<br>Member, Operations Committee<br>1961 | Managing Director, Patomak Global Partners, LLC.<br>Formerly, General Counsel, Investment Company Institute | 120 | None |

| Name, Position Held with the Fund, Year of Birth | Principal Occupation(s) During past 5 years | Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director During Past 5 Years |
|---|---|---|---|
| Daniel Pavelich<br>Director since 2007<br>Member, Audit Committee<br>1944 | Retired. | 120 | None |

**The following directors are considered to be "interested persons" as defined in the 1940 Act, as amended, because of an affiliation with the Manager and Principal Life.**

| Name, Position Held with the Fund, Year of Birth | Principal Occupation(s) During past 5 years | Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director During Past 5 Years |
|---|---|---|---|
| Michael J. Beer<br>Director since 2012<br>President, Chief Executive Officer<br>Member, Executive Committee<br>1961 | Executive Vice President, Principal Funds Distributor, Inc. ("PFD")<br>Vice President/Mutual Funds and Broker Dealer, Principal Life Insurance Company ("PLIC")<br>Director, Principal Management Corporation, (the "Manager")<br>President & Chief Executive Officer, the Manager since 2015<br>Executive Vice President/ Chief Operating Officer, the Manager (2008-2015)<br>Director, Princor<br>President, Princor (2005-2015)<br>Director, Principal Shareholder Services ("PSS") since 2011<br>President, PSS since 2011 | 120 | None |
| Nora M. Everett<br>Director since 2008<br>Chairman<br>Member, Executive Committee<br>1959 | Director, Edge Asset Management, Inc. ("Edge") (2008-2011)<br>Director, Finisterre Capital LLP since 2011<br>Director, Origin Asset Management LLP since 2011<br>Chairman, Principal Financial Advisors, Inc. ("PFA") since 2010<br>Chairman, PFD since 2011<br>Senior Vice President/Retirement and Investor Services, PLIC (2008-2015)<br>President/Retirement and Investor Services, PLIC since 2015<br>Chairman, the Manager since 2011<br>President, the Manager (2008-2015)<br>Chairman, Princor since 2011<br>Chief Executive Officer, Princor (2009-2015)<br>Chairman, PSS since 2011 | 120 | None |

Correspondence intended for each Director who is other than an Interested Director may be sent to 711 High Street, Des Moines, IA 50392.

**The following table presents officers of the Funds.**

| Name, Position Held with the Fund, Address, and Year of Birth | Principal Occupation(s) During past 5 years |
|---|---|
| Randy L. Bergstrom<br>Assistant Tax Counsel<br>711 High Street, Des Moines, IA 50392<br>1955 | Counsel, Principal Global Investors, LLC ("PGI")<br>Counsel, PLIC |
| Jennifer A. Block<br>Assistant Counsel and Assistant Secretary<br>711 High Street, Des Moines, IA 50392<br>1973 | Counsel, PFD (2009-2013)<br>Counsel, PLIC<br>Counsel, the Manager (2009-2013, 2014 - present)<br>Counsel, Princor (2009-2013)<br>Counsel, PSS (2009-2013) |
| Tracy Bollin<br>Chief Financial Officer<br>711 High Street, Des Moines, IA 50392<br>1970 | Chief Financial Officer, PFA since 2010<br>Assistant Controller, PFD (2007-2010)<br>Chief Financial Officer, PFD since 2010<br>Chief Financial Officer, the Manager since 2010<br>Financial Controller, the Manager (2008-2010)<br>Assistant Controller, Princor (2009-2010)<br>Chief Financial Officer, Princor since 2010<br>Financial Controller, Princor (2008-2009)<br>Assistant Controller, PSS (2007-2010)<br>Chief Financial Officer, PSS since 2010 |
| David J. Brown<br>Chief Compliance Officer<br>711 High Street, Des Moines, IA 50392<br>1960 | Senior Vice President, PFD<br>Vice President/Compliance, PLIC<br>Senior Vice President, the Manager<br>Senior Vice President, Princor<br>Senior Vice President, PSS |
| Teresa M. Button<br>Treasurer<br>711 High Street, Des Moines, IA 50392<br>1963 | Vice President/Treasurer, Edge since 2011<br>Vice President/Treasurer, PFA since 2011<br>Vice President/Treasurer, PFD since 2011<br>Vice President/Treasurer, PGI since 2011<br>Vice President/Treasurer, PLIC since 2011<br>Vice President/Treasurer, the Manager since 2011<br>Vice President/Treasurer, Post since 2011<br>Vice President/Treasurer, Principal-REI since 2011<br>Vice President/Treasurer, Princor since 2011<br>Vice President/Treasurer, PSS since 2011<br>Treasurer, Spectrum since 2011 |
| Carolyn F. Kolks<br>Assistant Tax Counsel<br>711 High Street, Des Moines, IA 50392<br>1962 | Counsel, PGI<br>Counsel, PLIC |
| Layne A. Rasmussen<br>Vice President and Controller<br>711 High Street, Des Moines, IA 50392<br>1958 | Vice President/Controller – Principal Funds, the Manager |
| Greg Reymann<br>Assistant Counsel<br>711 High Street, Des Moines, IA 50392<br>1958 | Assistant General Counsel, PLIC since 2014<br>VP, Chief Compliance Officer and Chief Risk Officer, Transamerica Asset Management, Inc. ("TAM") (2010-2012)<br>Assistant General Counsel, Transamerica Asset Management Group (2013-2014)<br>Vice President/CFTC Principal, TAM (2013-2014) |
| Teri R. Root<br>Deputy Chief Compliance Officer<br>711 High Street, Des Moines, IA 50392<br>1979 | Director – PMC Compliance, the Manager since 2015<br>Vice President and Chief Compliance Officer, the Manager since 2015<br>Compliance Officer, the Manager (2010-2013)<br>Vice President, PSS since 2015 |

| Name, Position Held with the Fund, Address, and Year of Birth | Principal Occupation(s) During past 5 years |
|---|---|
| Britney L. Schnathorst<br>Assistant Counsel<br>711 High Street, Des Moines, IA 50392<br>1981 | Counsel, PLIC since 2013<br>Prior thereto, Attorney in Private Practice |
| Adam U. Shaikh<br>Assistant Counsel<br>711 High Street, Des Moines, IA 50392<br>1972 | Counsel, PFD (2006-2013)<br>Counsel, PLIC<br>Counsel, the Manager (2007-2013, 2014 - present)<br>Counsel, Princor (2007-2013)<br>Counsel, PSS (2007-2013) |
| Dan Westholm<br>Assistant Treasurer<br>711 High Street, Des Moines, IA 50392<br>1966 | Assistant Vice President/Treasury, PFA since 2013<br>Director – Treasury, PFA (2011-2013)<br>Assistant Vice President/Treasury, PFD since 2013<br>Director – Treasury, PFD (2011-2013)<br>Assistant Vice President/Treasury, PLIC<br>Assistant Vice President/Treasury, the Manager<br>Assistant Vice President/Treasury, Princor since 2013<br>Director – Treasury, Princor (2008-2009, 2011-2013)<br>Assistant Vice President/Treasury, PSS |
| Beth Wilson<br>Vice President and Secretary<br>711 High Street, Des Moines, IA 50392<br>1956 | Vice President, the Manager (2007-2013)<br>Vice President, Princor (2007-2009) |
| Clint Woods<br>Counsel<br>711 High Street, Des Moines, IA 50392<br>1961 | Associate General Counsel, AEGON USA Investment Management, LLC (2003 - 2012)<br>Assistant General Counsel, Assistant Corporate Secretary, Governance Officer, PLIC since 2013 |

The 15(c) Committee assists the Board in performing the annual review of the Fund's advisory and sub-advisory agreements pursuant to Section 15(c) of the 1940 Act.

The Audit Committee selects the independent auditors for the Fund and oversees the activities of the independent auditors as well as the internal auditors. The committee also receives reports about accounting and financial matters affecting the Fund.

The Executive Committee is selected by the Board. It may exercise all the powers of the Board, with certain exceptions, when the Board is not in session. The Committee must report its actions to the Board.

The Nominating and Governance Committee selects and nominates all candidates who are not "interested persons" of the Fund for election to the Board. The committee also oversees the structure and efficiency of the Board of Directors and the committees the Board establishes.

The Operations Committee oversees the provision of administrative and distribution services to the Funds, communications with the Funds' shareholders, and provides review and oversight of the Funds' operations.

Additional information about the Fund is available in the Prospectuses dated May 1, 2015, and the Statement of Additional Information dated May 1, 2015. These documents may be obtained free of charge by writing or telephoning Principal Funds Distributor, Inc., P.O. Box 10423, Des Moines, IA 50306. Telephone 1-800-222-5852.

**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 results of the proxy votes for the most recent twelve months ended June 30 may be obtained free of charge by telephoning Principal Funds Distributor, Inc., at 1-800-222-5852, or at www.sec.gov.

**SCHEDULES OF INVESTMENTS**

The Fund files complete schedules of investments with the Securities and Exchange Commission as of March 31 and September 30 of each year on Form N-Q. The Fund's Form N-Q can be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. or on the Commission's website at www.sec.gov. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330.

## BOARD CONSIDERATION OF INVESTMENT ADVISORY CONTRACTS

During the period covered by this report, the Board of Directors of Principal Variable Contracts Funds, Inc. ("PVC") approved (1) the renewal of the Management Agreement and various subadvisory agreements for all Funds; and (2) an amended and restated subadvisory agreement with Principal Global Investors, LLC ("PGI") and an amended and restated management agreement with Principal Management Corporation (the "Manager") related to the addition of the Multi-Asset Income Account.

### Annual Review and Renewal of Management Agreement and Subadvisory Agreements

At its September 16, 2015 meeting, the Board performed its annual review and renewal process relating to the Management Agreement and the Subadvisory Agreements for all Funds.

Section 15(c) of the Investment Company Act of 1940 (the "1940 Act") requires the Board, including a majority of the Directors who have no direct or indirect interest in the investment advisory agreements and who are not "interested persons" of PVC, as defined in the 1940 Act (the "Independent Directors"), annually to review and to consider the continuation of: (1) the Management Agreement between the Manager and PVC, on behalf of each of the thirty-six (36) series of PVC (each series is referred to as a "Fund"); and (2) the Subadvisory Agreements between the Manager and each of Brown Advisory, LLC; Columbus Circle Investors ("CCI"); Edge Asset Management, Inc. ("Edge"); Mellon Capital Management Corporation; Principal Global Investors, LLC ("PGI"); Principal Real Estate Investors, LLC ("Principal-REI"); Spectrum Asset Management Inc. ("Spectrum") and T. Rowe Price Associates, Inc. (collectively, the "Subadvisors"). The Management Agreement and the Subadvisory Agreements are collectively referred to as the "Advisory Agreements."

The Board, including the Independent Directors, considered the factors and reached the conclusions described below relating to the continuation of the Advisory Agreements. In evaluating the Advisory Agreements, the Board, including the Independent Directors, reviewed a broad range of information requested for this purpose by the Independent Directors, including, among other information, information regarding performance, advisory fees, total expenses, profitability from the Advisory Agreements to the Manager and information about economies of scale. The Board reviewed the materials provided and concluded that it was provided all information reasonably necessary to evaluate the Advisory Agreements.

*Nature, Extent and Quality of Services*

The Board considered the nature, quality and extent of the services provided under the Management Agreement, including administrative services. The Board considered the experience and skills of senior management leading Fund operations, the experience and skills of the personnel performing the functions under the Management Agreement and the resources made available to such personnel, the ability of the Manager to attract and retain high-quality personnel and the organizational depth and stability of the Manager. The Board concluded that appropriate resources were provided under the Management Agreement. The Board also considered that, during the periods reviewed, other than for the "Core" portions of the Funds implementing the "Core Satellite" structure and the asset allocation funds, the Manager had delegated day-to-day portfolio management responsibility to the Subadvisers. The Board noted that the Manager's process emphasizes the selection of Principal-affiliated subadvisers that are determined to be qualified under the Manager's due diligence process, but that the Manager will select an unaffiliated subadviser to manage all of a portion of a Fund's portfolio when deemed necessary or appropriate based on a consideration of the Fund's investment mandate and available expertise and resources within the Principal organization. With respect to Funds with unaffiliated Subadvisers, the Board considered the due diligence process developed by the Manager for purposes of selecting a highly qualified unaffiliated subadviser for a Fund and for monitoring and replacing unaffiliated Subadvisers. The Board concluded that this due diligence process was working well. The Board also considered the compliance program established by the Manager and the level of compliance attained by the Funds. The Board noted that they had previously reviewed the annual best execution and soft dollar reports and included those findings in their consideration of the renewal of the Advisory Agreements. Based upon all relevant factors, the Board concluded that the nature, quality and extent of the services provided by the Manager to the Funds under each Management Agreement were satisfactory.

The Board considered the nature, quality and extent of services provided under each Subadvisory Agreement. The Board considered the reputation, qualifications and background of the Subadviser, investment approach of the Subadviser, the experience and skills of investment personnel responsible for the day-to-day management of each Fund, and the resources made available to such personnel. The Board also considered the Subadvisers' compliance with investment policies and general legal compliance. In addition, the Board considered the analysis provided under the Manager's due diligence program, which resulted in the Manager recommending that each Subadvisory Agreement be continued. Based upon all relevant factors, the Board concluded that the nature, quality and extent of the services provided by the Subadvisers to the Funds under the Subadvisory Agreements are satisfactory.

### *Investment Performance*

The Board reviewed each Fund's investment performance over longer-term periods, reviewing both the investment return during the three-year period ended May 31, 2015 and the blended investment return (50%/50%) of the three- and five-year periods ended May 31, 2015, and compared those returns to various agreed-upon performance measures, including peer-group data based upon a broad-based, industry category determined by Morningstar. For Funds or Subadvisers that did not have a three-year or five-year performance history, the Board reviewed performance for a one-year or three-year period, respectively, noting that certain Funds had commenced operations recently and, accordingly, no performance information was considered. The Board also considered whether investment results were consistent with a Fund's investment objective(s) and policies. For most Funds, the Board concluded that the Fund's investment returns met acceptable levels of investment performance. There were certain Funds, and certain Subadvisers for multi-manager Funds, that had not attained during the relevant period a level of investment performance considered satisfactory by the Board. For such Funds, the Board also considered other factors, such as the longer-term performance of each such Fund. The Board considered the Manager's due diligence process for evaluating performance applied to all Funds and all Subadvisers, from which they received regular reporting, and, for unaffiliated Subadvisers, concluded that the Manager has in place an effective due diligence process to monitor investment performance, to encourage remedial action and to make changes in the Subadvisers at the appropriate time, if necessary.

### *Investment Management Fees*

The Board considered each Fund's management fee. The Board received information, based on data supplied by Lipper, comparing each Fund's (1) contractual management fee at current asset levels and at theoretical asset levels, (2) actual (after any fee waivers) management fee at average fiscal-year asset levels, (3) actual non-management fees at average fiscal-year asset levels, and (4) actual total expense ratio (including, as applicable, acquired fund fees and expenses) at average fiscal-year asset levels for Class 1 shares where available, to advisory fees and expense ratios of mutual funds in a peer group selected by Lipper ("Expense Group") and a broad-based, industry category defined by Lipper ("Expense Universe"). For Funds that did not offer Class 1 shares, the information provided was based upon Class 2 shares.

In evaluating the management fees, the Board considered a variety of factors, including the amount of the fees, breakpoints, comparison to fees of peer group funds as well as other funds managed by the Manager, subadvisory fees paid, services provided, investment performance, total net expense ratios, profitability and expense caps and fee waivers. For most Funds, actual management fees were within the third quartile or better when compared to their Expense Group. For some Funds, although actual management fees were higher than the third quartile, total net expense ratios were within the third quartile or better.

For each of the SAM Portfolios, the Board considered information from management about the Manager's unique strategic and tactical asset allocation processes employed in the management of the Fund and determined that the strategy and processes justified management fees higher than those paid by the funds in the Fund's Expense Group. For each of the SAM Portfolios, with the exception of the SAM Strategic Growth Portfolio, which is described in further detail below, the Board concluded that the Fund met performance expectations. For each of the SAM Portfolios, the Board concluded that the total expense ratio (including the expenses of the underlying funds), with the continuation of the expense caps suggested by management, was within an acceptable range.

The Board also considered that the Manager contractually agreed to continue to waive a portion of its management fee for one Fund that implemented the "Core Satellite" structure.

With specific regard to the LargeCap S&P 500 Managed Volatility Index Account, although the contractual management fee, the actual management fee and the total net expense ratio of Class 1 shares are higher than third quartile (99%, 99% and 99%, respectively) for the Expense Group, the Board concluded that the Management Agreement should be renewed, based upon all relevant factors, including that the other funds in the Expense Group did not include the additional feature of a volatility mitigation strategy and that the Fund's performance is in the second quartile for the one-year period ended May 31, 2015.

With specific regard to the SAM Strategic Growth Portfolio, although the Fund underperformed its Morningstar peer group ranking in the third quartile for the three-year period ended May 31, 2015 (73%) and the fourth quartile for the blended three- and five-year period ended May 31, 2015 (76%), the Board noted that the same unique processes were employed for all the SAM Portfolios, which over the range of portfolios over an extended period had provided superior results, and that any particular Fund may compare less favorably as to a particular group of peer funds at a point in time, in this particular case because of a higher weighting in foreign securities than the funds in the peer group. Based upon all relevant factors, including the Board's view that these processes provide value to Fund shareholders over the long term, the Board concluded that the Management Agreement should be renewed.

Considering all factors it deemed relevant, the Board concluded that the management fee schedule for each Fund was reasonable and appropriate in light of the nature, quality and extent of the services provided by the Manager and other relevant factors.

***Profitability***

The Board reviewed detailed information regarding revenues the Manager receives under the Management Agreement, as well as the estimated direct and indirect costs the Manager incurs in providing to each Fund the services described in the applicable Advisory Agreements, for the year ended December 31, 2014. The Board also considered the returns on revenue generated in connection with the payment of subadvisory fees to affiliated Subadvisors (PGI, Principal-REI, Edge, CCI, and Spectrum). The Board concluded that the management fee for each Fund was reasonable, taking into account the profitability percentages the Manager provided.

***Economies of Scale***

The Board considered whether there are economies of scale with respect to the management of each Fund and whether the Funds benefit from any such economies of scale through breakpoints in fees. The Board then reviewed the levels at which breakpoints occur and the amount of the reductions. The Board considered whether the effective management fee rate for each Fund under the Management Agreement is reasonable in relation to the asset size of such Fund. The Board concluded that the fee schedule for each Fund reflects an appropriate level of sharing of any economies of scale.

The Board noted that the management fees for the LargeCap S&P 500 Index Account, the LargeCap S&P 500 Managed Volatility Index Account, the Bond Market Index Account, the Diversified Balanced Account, the Diversified Balanced Managed Volatility Account, the Diversified Growth Account, the Diversified Growth Managed Volatility Account, the Diversified Income Account, and the LifeTime Funds do not include breakpoints. Although their management fee schedules do not include breakpoints, the Board noted that each of these Funds, other than the LargeCap S&P 500 Managed Volatility Index Account, has a relatively low basis point fee (25 basis points or less) on all Fund assets. The Board determined that no breakpoints are necessary, at this time, for the LargeCap S&P 500 Managed Volatility Index Account due to its current size.

***Subadvisory Fees, Economies of Scale and Profitability***

For each Fund the Board considered the subadvisory fees, noting that the Manager compensates each Subadviser from its own management fee, so that shareholders pay only the management fee. The Board also received industry data supplied by Lipper. The Board considered whether there are economies of scale with respect to the subadvisory services provided to each Fund and, if so, whether the subadvisory fees reflect such economies of scale through breakpoints in fees. In addition, in evaluating the subadvisory fees and the factor of profitability, with respect to unaffiliated Subadvisers, the Board considered that the subadvisory fee rate was negotiated at arm's-length between the Manager and each Subadviser. The Board considered the profitability of the affiliated Subadvisers in conjunction with its review of the profitability of the Manager.

***Other Benefits to the Manager and Subadvisers***

The Board also considered the character and amount of other incidental benefits received by the Manager and its affiliates and each Subadviser from their relationships with the Funds. The Board also considered as a part of this analysis each Subadvisor's soft dollar practices and brokerage practices. The Board concluded that management and subadvisory fees for each Fund were reasonable in light of these benefits.

***Overall Conclusions***

Based upon all of the information it considered and the conclusions it reached, the Board determined unanimously that the terms of each Advisory Agreement continue to be fair and reasonable and that the continuation of each Advisory Agreement, with the actions proposed by the Manager, is in the best interests of each Fund.

**Management Agreement and Subadvisory Agreement for Multi-Asset Income Account**

On March 10, 2015, the Board met to consider, on behalf of the newly established Multi-Asset Income Account (the "Fund"), the approval of: (1) a management agreement (the "Management Agreement") between PVC, for the Fund, and the Manager; and (2) a subadvisory agreement (the "Subadvisory Agreement") between the Manager and PGI (the "Subadviser"). (The Management Agreement and the Subadvisory Agreement are together referred to as the "Advisory Agreements.")

Based upon its review, the Board concluded that it was in the best interests of the Fund to approve the Advisory Agreements. In reaching this conclusion, no single factor was determinative in the Board's analysis, but rather the Board considered a variety of factors.

With respect to the Management Agreement, the Board considered, among other factors, that the Manager has a long-term relationship with PVC funds and has demonstrated a commitment to support the PVC funds. The Board concluded that a long-term relationship with a capable, conscientious adviser is in the best interests of the Fund. The Board considered various factors, including the following, and made certain findings and conclusions with regard thereto, in approving the Advisory Agreements.

***Nature, Quality and Extent of Services***

The Board considered the nature, quality and extent of services to be provided under the Management Agreement, including administrative services. The Board noted that, in connection with the 2014 annual renewal of the management agreements for the other PVC funds and the funds of Principal Fund, Inc. ("PFI") (collectively, the "Principal Funds"), the Board had: (1) reviewed the services provided by the Manager to the other Principal Funds under the management agreements; (2) considered the experience and skills of senior management leading fund operations, the experience and skills of the personnel performing the functions under the management agreements and the resources made available to such personnel, the ability of the Manager to attract and retain high-quality personnel, and the organizational depth and stability of the Manager and concluded that appropriate resources were provided under the management agreements for the Principal Funds; (3) considered the program developed by the Manager for recommending, monitoring and replacing subadvisers for the Principal Funds and concluded that this due diligence process was working well; and (4) considered the compliance program established by the Manager for the Principal Funds and the level of compliance attained by the Principal Funds. Based upon all relevant factors, the Board concluded that the nature, quality and extent of the services to be provided by the Manager to the Fund under the Management Agreement are expected to be satisfactory.

The Board considered the nature, quality and extent of services to be provided under the Subadvisory Agreement. The Board considered the reputation, qualifications and background of the Subadviser, investment approach of the Subadviser, the experience and skills of the Subadviser's investment personnel who would be responsible for the day-to-day management of the Fund, and the resources made available to such personnel. The Board noted that the Subadviser currently provides subadvisory services for other Principal Funds, including certain underlying PFI funds in which the Fund will invest its assets, and that the Board had reviewed and had approved for renewal those subadvisory agreements at its September 2014 Board meeting. In addition, the Board considered the Manager's program for recommending, monitoring and replacing subadvisers and that the Manager recommended the Subadviser based upon that program. Based upon all relevant factors, the Board concluded that the nature, quality and extent of the services to be provided by the Subadviser to the Fund under the Subadvisory Agreement are expected to be satisfactory.

***Investment Performance***

As the Fund is a newly created series, the Board did not review performance of the Fund since no track record was available. The Fund is a fund-of-funds, so the Board reviewed back-tested one-year, three-year, five-year and since-inception (May 1, 2004) performance returns as of December 31, 2014 of the proposed strategy for the Fund, assuming that the Fund was invested in the underlying PFI funds that were selected at the time of the Board meeting for investment and using the neutral fund allocation model. The Board reviewed these back-tested performance returns as compared to a relevant benchmark index and to a relevant Morningstar category. The historical performance of the underlying PFI funds used as part of the back-tested performance were as follows:

- historical one-year and since-inception (December 28, 2012) performance as of December 31, 2014 of PFI Global Opportunities Fund;
- historical one-year, three-year, five-year and since-inception (October 1, 2007) performance as of December 31, 2014 of PFI Global Real Estate Fund;
- historical one-year, three-year, five-year and since-inception (October 1, 2009) performance as of December 31, 2014 of Principal Real Estate Investors, LLC's Yield Oriented Total Return strategy (the same strategy used by PFI Real Estate Debt Income Fund, which began operations on December 31, 2014);
- historical one-year, three-year, five-year and ten-year performance as of December 31, 2014 of PFI Preferred Securities Fund;
- historical one-year, three-year, five-year and ten-year performance as of December 31, 2014 of PFI High Yield Fund; and
- historical one-year, three-year, five-year and since-inception (December 15, 2008) performance as of December 31, 2014 of PFI Global Diversified Income Fund.

The Board reviewed the performance of each of the underlying PFI funds (or, in one case, a composite with an investment strategy similar to the portfolio strategy of the underlying PFI fund), as compared to the performance of a relevant benchmark and a relevant Morningstar category for each fund.

The Board concluded, based on the information provided, that the Subadviser is well qualified to manage the Account.

***Fees, Economies of Scale and Profitability.***

The Board considered the Fund's proposed management and subadvisory fees. With respect to the proposed management fee, the Board considered the fees proposed to be paid to the Subadviser. The Board also received information from the Manager, based on data supplied by Lipper Inc., comparing the proposed management fee to advisory fees of funds in the same peer group. The Board also considered whether there are economies of scale with respect to the services to be provided to the Fund under the Management Agreement. The Board concluded that, although the proposed management fee schedule does not include breakpoints, the Manager's fee schedule is appropriate at currently anticipated asset levels.

With respect to the subadvisory fees proposed to be paid to the Subadviser, the Board noted that the Manager compensates the Subadviser from its own management fee so that shareholders pay only the management fee. The Board considered whether there are economies of scale with respect to the subadvisory services to be provided under the Subadvisory Agreement. The Board concluded that, although the proposed subadvisory fee schedule does not include breakpoints, the Subadviser's fee schedule is appropriate at currently anticipated asset levels. The Board considered the Subadviser's representation that it does not offer other clients a lower fee for comparable services and the Manager's statement that it found the Subadviser's proposed fee to be competitive.

The Board noted that the Fund, as a fund-of-funds that will invest its assets in underlying PFI funds managed by the Manager and subadvisers affiliated with the Manager (including the Subadviser), will indirectly bear its portion of the management and subadvisory fees paid by such underlying PFI funds. The Board noted that the Board had reviewed and had approved for renewal the management and subadvisory agreements of five of the six underlying PFI funds, and that the Board had reviewed and approved the management and subadvisory agreements of the other underlying PFI fund, at its September 2014 Board meeting.

In addition, in evaluating the management and subadvisory fees, the Board considered the estimated profitability of the Fund to the Manager. The Board reviewed the anticipated expense ratio of each class of the Fund and considered that the Manager proposed to cap the total expense ratios for the classes (excluding acquired fund fees and expenses) at certain levels through April 30, 2017. On the basis of the information provided, the Board concluded that the proposed management and subadvisory fees were reasonable.

***Other Benefits***

The Board also considered the character and amount of other incidental benefits to be received by the Manager and Subadviser. The Board noted that the Subadviser will not use soft dollars given the Fund's fund-of-funds structure. The Board concluded that, on the basis of the information provided, the proposed management and subadvisory fees were reasonable.

***Overall Conclusions***

Based upon all of the information considered and the conclusions reached, the Board determined that the terms of each Advisory Agreement are fair and reasonable and that approval of each of the Advisory Agreements is in the best interests of the Fund.

**Long-Term Capital Gain Dividends.** Certain Accounts distributed long-term capital gain dividends during the fiscal year ended December 31, 2015. Details of designated long-term capital gain dividends for federal income tax purposes are shown in the notes to financial statements.

**Dividends Received Deduction.** For corporate shareholders, the percentages of ordinary income distributions (dividend income and short-term gains, if any) for the year ended December 31, 2015, that qualify for the Dividends Received Deduction are as follows:

| | Deductible Percentage |
|---|---|
| Equity Income Account | 76.17% |
| LargeCap Growth Account | 100.00% |
| MidCap Account | 100.00% |
| Principal Capital Appreciation Account | 100.00% |
| SAM Balanced Portfolio | 24.37% |
| SAM Conservative Balanced Portfolio | 15.32% |
| SAM Conservative Growth Portfolio | 36.95% |
| SAM Flexible Income Portfolio | 11.09% |
| SAM Strategic Growth Portfolio | 46.37% |
| SmallCap Blend Account | 98.07% |

**Foreign Taxes Paid.** The following Accounts elect under the Internal Revenue Code Section 853 to pass through foreign taxes paid to their shareholders. The information below summarizes the portion of ordinary income dividends that was derived from foreign sources and the total amount of foreign taxes passed through to shareholders on a per share basis for the year ended December 31, 2015, are as follows:

| | Foreign Taxes Per Share | Foreign Source Income |
|---|---|---|
| Diversified International Account | $ 0.0643 | 100.00% |
| SAM Balanced Portfolio | $ 0.0049 | 8.70% |
| SAM Conservative Balanced Portfolio | $ 0.0026 | 5.15% |
| SAM Conservative Growth Portfolio | $ 0.0063 | 14.88% |
| SAM Flexible Income Portfolio | $ 0.0015 | 1.62% |
| SAM Strategic Growth Portfolio | $ 0.0122 | 22.45% |

The following information is being provided to you, prompted by the acquisitions of the following Accounts effective April 17, 2015:

| Acquired Fund | Acquiring Fund |
|---|---|
| LargeCap Blend Account II | Principal Capital Appreciation Account |
| SmallCap Growth Account II | SmallCap Blend Account |
| SmallCap Value Account I | SmallCap Blend Account |

**Long-Term Capital Gain Dividends.** Certain Accounts distributed long-term capital gain dividends during the tax year ended April 17, 2015. The Accounts designate these distributions as long-term capital gain dividends per IRC Sec. 852(b)(3)(C) in the 20-percent group (which may be taxed at a 20-percent rate, a 15-percent rate or a 0-percent rate, depending on the shareholder's taxable income).

| | Long-Term Capital Gain |
|---|---|
| LargeCap Blend Account II | $ 32,069,632 |
| SmallCap Value Account I | $ 29,141,380 |

**Dividends Received Deduction.** For corporate shareholders, the percentages of ordinary income distributions (dividend income and short-term gains, if any) for the tax year ended April 17, 2015, that qualify for the Dividends Received Deduction are as follows:

| | Deductible Percentage |
|---|---|
| LargeCap Blend Account II | 58.30% |
| SmallCap Value Account I | 39.33% |

**Reallocation of Capital Redesignation.** A portion of the ordinary income and/or long-term capital gains dividends paid by certain Accounts have been redesignated as non-taxable return of capital (ROC). The non-taxable return of capital for each class listed in the table below reduces your cost basis. The adjustment to your cost basis will impact your gain or loss calculation when you sell your shares of the Accounts below.

| Class of Common Shares | CUSIP | Ordinary Income Per Share ROC Basis Adjustments | Long-Term Capital Gain Per Share ROC Basis Adjustments |
|---|---|---|---|
| LargeCap Blend Account II, Class 1 | 742969686 | $ 0.0035 | $ 0.0258 |
| LargeCap Blend Account II, Class 2 | 742969546 | $ 0.0031 | $ 0.0258 |
| SmallCap Value Account I, Class 1 | 742969785 | $ 0.0106 | $ 0.0538 |
| SmallCap Value Account I, Class 2 | 742969488 | $ 0.0105 | $ 0.0538 |

Please consult your tax advisor if you have any questions.

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This report must be preceded or accompanied by a current prospectus for the Principal Variable Contracts Funds, Inc.

principalfunds.com

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FRANKLIN TEMPLETON
INVESTMENTS

**Annual Report**
December 31, 2015

# Franklin Templeton Variable Insurance Products Trust

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# Franklin Templeton Variable Insurance Products Trust Annual Report

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*Not part of the annual report. Retain for your records.

**Not FDIC Insured | May Lose Value | No Bank Guarantee**

FARMERS NEW WORLD LIFE/ZALICO A 02/16

# Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

**SUPPLEMENT DATED FEBRUARY 8, 2016**
**TO THE STATEMENT OF ADDITIONAL INFORMATION DATED MAY 1, 2015**
**OF**
**FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST**

The statement of additional information (SAI) is amended as follows:

The section under the heading "**Dealer Compensation**" beginning on page 99 is replaced with the following:

In addition to the payments above, Distributors and/or its affiliates may make the following payments out of its own assets to certain dealers who sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest directly or indirectly in the Trust (VIP Qualifying Dealers):

*Marketing support payments.* Distributors may make payments to VIP Qualifying Dealers out of its own resources. A VIP Qualifying Dealer's marketing support services may include business planning assistance, marketing and advertising, training and ongoing education and support for dealer personnel about the Franklin Templeton funds (including the Trust) and financial planning needs of shareholders of the Franklin Templeton funds or contract owners that allocate contract value indirectly to one or more Franklin Templeton funds, placement on the VIP Qualifying Dealer's list of offered funds, access to sales meetings, sales representatives and management representatives of the dealer, and contract owner assistance in allocating contract value directly or indirectly to the Trust. Distributors compensates VIP Qualifying Dealers differently depending upon, among other factors, whether the VIP Qualifying Dealer is directly selling Franklin Templeton funds, or participating in the offering of variable insurance products that invest directly or indirectly in the Trust, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the VIP Qualifying Dealer. Such compensation may include financial assistance to such dealers that enable Distributors to develop, manage or participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. These payments may vary depending upon the nature of the event. Distributors will, on an annual basis, determine whether to continue such payments. Currently, Distributors does not make marketing support payments in connection with the Trust except under limited circumstances for certain Funds of the Trust offered through a special product. Marketing support payments will not exceed 0.20% of the relevant Fund's or Funds' average daily net assets attributable to an insurance company, on an annual basis.

*Other payments.* From time to time, Distributors, at its expense, may provide additional compensation to VIP Qualifying Dealers which sell or arrange for the direct or indirect sale of shares of Franklin Templeton funds, including the Trust. Such compensation may include financial assistance to VIP Qualifying Dealers that enable Distributors to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These payments may vary depending upon the nature of the event.

Distributors routinely sponsors due diligence meetings for registered representatives during which they receive updates on various Franklin Templeton funds and are afforded the

opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in Franklin Templeton funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by Distributors.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as FINRA. Distributors makes payments for events it deems appropriate, subject to Distributors' guidelines and applicable law. Distributors and/or its affiliates may also reimburse VIP Qualifying Dealers and/or their affiliates for certain costs associated with obtaining voting instructions from contract owners and the solicitation process in connection with Trust-sponsored proxy statements.

You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and any services provided. Additional disclosure may be included in the insurance contract prospectus.

*Please keep this supplement with your statement of additional information for future reference.*

# Templeton Developing Markets VIP Fund

This annual report for Templeton Developing Markets VIP Fund covers the fiscal year ended December 31, 2015.

## Class 2 Performance Summary as of December 31, 2015

Average annual total return of Class 2 shares* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

| Periods ended 12/31/15 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|
| Average Annual Total Return | -19.60% | -7.02% | +0.96% |

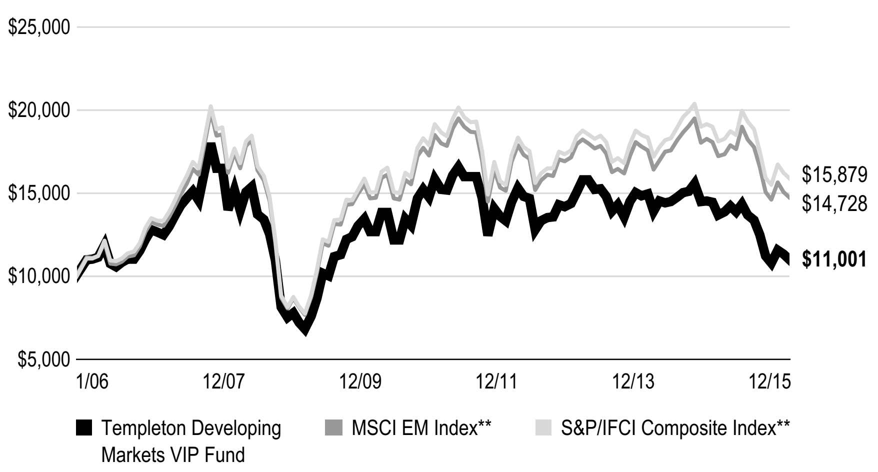
*The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does **not** include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

### Total Return Index Comparison for a Hypothetical $10,000 Investment (1/1/06–12/31/15)

The graph below shows the change in value of a hypothetical $10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance* is compared to the performance of MSCI Emerging Markets (EM) Index and the Standard & Poor's®/International Finance Corporation Investable (S&P®/IFCI) Composite Index. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. **Please see Important Notes to Performance Information preceding the Fund Summaries.**




**Source: Morningstar. Please see Index Descriptions following the Fund Summaries.

## Fund Goal and Main Investments

The Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in emerging market investments.

## Fund Risks

All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with developing markets are magnified in frontier markets. The Fund is designed for the aggressive portion of a well-diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

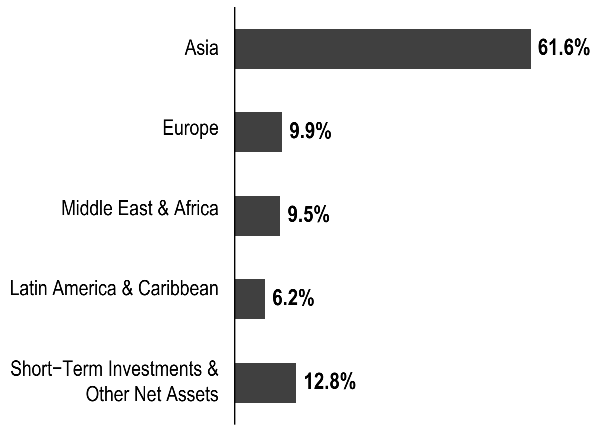
## Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index had a -14.60% total return, and the S&P/IFCI Composite Index had a -12.38% total return for the same period.[1] Please note index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

## Economic and Market Overview

The global economy expanded moderately during the 12 months under review. Although some emerging market countries faced headwinds such as soft domestic demand, weak exports and geopolitical crises, emerging market economies overall continued to grow faster than developed market economies. China's economy grew at a less robust pace in 2015 than in 2014, as strength in services and consumption was offset by weakness in fixed-asset investment, imports and exports, and manufacturing. Domestic demand continued to account for a greater portion of China's gross domestic product (GDP), as per-capita income rose, supported by the government's market-friendly policies for sustainable growth. In the third quarter, Brazil's and Russia's quarterly GDPs continued to contract but at slower rates compared with the second quarter. Despite moderating growth in some emerging market countries, India, the Czech Republic and Mexico showed signs of improvement.

**Geographic Breakdown**
Based on Total Net Assets as of 12/31/15




Many emerging market central banks, including those of Russia and India, lowered benchmark interest rates to promote economic growth. The People's Bank of China (PBOC) cut its benchmark interest rate and reduced the bank's cash reserve requirement several times. Toward period-end, the PBOC lowered short-term borrowing costs for smaller banks as part of its efforts to establish an interest rate corridor intended to help banks access funds in times of a liquidity crunch and to avoid heightened volatility in money market rates. In contrast, Brazil's central bank raised its benchmark interest rate despite an economic downturn, in an effort to control inflation and support the country's currency.

Events in China significantly affected stock performance in all regions during the year. The Chinese government's efforts to promote stable growth supported China's domestic stock market in 2015's first half. However, tight liquidity conditions and uncertainties about the PBOC's monetary policy led China's domestic market to correct from June through August, contributing to a global stock market correction. The PBOC's effective devaluation of the yuan to support export growth led to investor anxiety about China's economy and the possibility of a regional currency war, further pressuring emerging market stocks.

1. Source: Morningstar.
One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Please see Index Descriptions following the Fund Summaries.

Investor concerns about moderating global economic growth, the future course of U.S. monetary policy, geopolitical tensions in certain regions and the depreciation of many currencies against the U.S. dollar also contributed to stock market volatility. Price declines of many commodities, particularly crude oil, negatively affected certain commodity-producing countries' economies, financial positions and currencies, weighing further on investor sentiment.

However, accommodative monetary policies of many major central banks provided investors with some optimism. China's additional monetary and fiscal stimulus measures to support economic growth aided emerging market stocks in October, but weak commodity prices and terrorist attacks in Beirut and Paris hindered stocks toward period-end. Markets recovered somewhat after the U.S. Federal Reserve increased its federal funds target rate in December, alleviating some uncertainty about the direction of U.S. monetary policy.

For the 12 months ended December 31, 2015, emerging market stocks, as measured by the MSCI EM Index, had a -14.60% total return, as weak emerging market currencies led all major regions to post negative returns in U.S. dollar terms.[1]

## Investment Strategy

We employ a fundamental research, value-oriented, long-term investment approach. We focus on the market price of a company's securities relative to our evaluation of its long-term earnings, asset value and cash flow potential. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment. We invest in securities without regard to benchmark comparisons.

## Manager's Discussion

During the year under review, the Fund remained diversified among different emerging market countries. Consistent with our long-term investment strategy, we viewed market corrections in China and other emerging markets in the context of a long-term uptrend. We continued to monitor global economic and market developments while seeking to minimize risk and to establish long-term positions in quality companies at share prices we considered more attractive.

Key detractors from the Fund's absolute performance during the 12-month reporting period included positions in Itau Unibanco Holding, MTN Group and MGM China Holdings.

**Top 10 Countries**
12/31/15

| | % of Total Net Assets |
|---|---|
| China | 19.8% |
| India | 10.8% |
| South Africa | 9.2% |
| South Korea | 8.9% |
| Taiwan | 8.7% |
| Brazil | 5.6% |
| U.K. | 5.0% |
| Thailand | 4.4% |
| Hong Kong | 3.5% |
| Belgium | 3.4% |

Itau Unibanco, one of Brazil's largest financial conglomerates, continued to produce solid operating performance despite the country's difficult economic environment. However, investor concerns about the potential for deteriorating asset quality and higher loan-loss provisions weighed on share price performance. The Brazilian financial market as a whole came under pressure during the reporting period, further hurting Itau Unibanco's shares. Falling prices for energy and other commodities coincided with an economic recession, rising unemployment and political uncertainty, leading to equity weakness and currency depreciation. Standard & Poor's downgrade of the country's long-term foreign currency sovereign credit rating to below investment grade in September heightened market anxiety.

MTN Group is Africa's largest cellular network in subscriber terms. The South Africa-based company's share price declined following an announcement that the Nigerian Communications Commission imposed a US$5.2 billion fine, which was subsequently reduced to US$3.4 billion. MTN allegedly failed to meet a deadline for disconnecting subscribers identified as unregistered. Disappointing first-half 2015 earnings results amid a weak regional economic backdrop and depreciation of regional currencies also hurt share price performance. Although third-quarter corporate results showed some improvement in the company's operations in South Africa, issues in the Nigerian market continued to weigh on overall operations. The resignation of the company's chief executive officer and concerns about potential challenges in the company's cash repatriation from Nigeria further pressured investor sentiment.

MGM China Holdings is a Hong Kong-listed casino gaming and entertainment business based in Macau. Shares of casino gaming companies, including MGM China's, fell during the reporting period due to investor concerns about declining numbers of high-spending customers, a result of China's anti-corruption campaign. Reduced dividend distributions also hurt overall sentiment in the casino gaming sector. However, despite weak revenue trends, MGM China reported slightly better-than-expected second- and third-quarter earnings results as the company achieved greater operating efficiencies.

Amid a challenging market environment, several Fund holdings performed well. Key contributors to absolute performance during the reporting period included NetEase, Tencent Holdings and Anheuser-Busch InBev.

China's Internet sector has been growing rapidly and could benefit further from the government's "Internet Plus" strategy, which is designed to integrate the Internet with traditional businesses to support the country's economic growth. NetEase is one of the largest companies in China's online gaming market. It also has presence in online advertising, email and e-commerce. The company's strong corporate results in 2015, driven by its mobile gaming operations, and plans to release new games in 2016 boosted the company's share price to a record high in December.

Tencent is one of the world's largest and most widely used Internet service portals. Founded in 1998 to provide instant messenger services, the company rapidly grew into a provider of mass media, entertainment, and Internet and mobile phone value-added services in China and internationally. Tencent reported solid earnings in 2015, supported by strong mobile gaming and advertising revenues.

Anheuser-Busch InBev is the world's largest brewer by volume, with operations in 25 countries globally. The Belgium-listed company produces, markets, distributes and sells over 200 beer and other malt beverage brands, as well as produces and distributes soft drinks, notably in Latin America. In November, Anheuser-Busch InBev reached an agreement to acquire SABMiller, the second-largest global brewer, which would substantially extend the group's global footprint. The transaction is expected to be completed in 2016's second half and was positively received by the market, bolstering the company's share price.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. The U.S. dollar appreciated against most foreign currencies during the period, and the portfolio benefited from underweighted positions in markets with especially weak currencies, such as Russia, Brazil and Colombia, as well as positions in relatively stable currency markets such as Saudi Arabia and Hong Kong.

**Top 10 Holdings**
12/31/15

| **Company**<br>***Sector/Industry, Country*** | **% of Total Net Assets** |
|---|---|
| Naspers Ltd., N<br>*Media, South Africa* | 5.4% |
| Unilever PLC<br>*Personal Products, U.K.* | 5.0% |
| TSMC (Taiwan Semiconductor Manufacturing Co.) Ltd.<br>*Semiconductors & Semiconductor Equipment, Taiwan* | 4.9% |
| Brilliance China Automotive Holdings Ltd.<br>*Automobiles, China* | 4.0% |
| Tencent Holdings Ltd.<br>*Internet Software & Services, China* | 3.7% |
| Anheuser-Busch InBev NV<br>*Beverages, Belgium* | 3.4% |
| Tata Consultancy Services Ltd.<br>*IT Services, India* | 3.0% |
| Baidu Inc., ADR<br>*Internet Software & Services, China* | 2.5% |
| Samsung Electronics Co. Ltd.<br>*Technology Hardware, Storage & Peripherals, South Korea* | 2.5% |
| Itau Unibanco Holding SA, ADR, pfd.<br>*Banks, Brazil* | 2.3% |

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

In the past 12 months, we increased the Fund's holdings in South Korea, Taiwan and Hong Kong as we sought to invest in opportunities we considered attractive. Additionally, we initiated investments in certain countries, notably Mexico and Cambodia, and made some purchases in Russia. In sector terms, we increased investments in information technology, consumer discretionary and health care.[2] Key purchases included new positions in Baidu, China's leading Internet search engine; Hon

2. The information technology sector comprises electronic equipment, instruments and components; Internet software and services; IT services; semiconductors and semiconductor equipment; software; and technology hardware, storage and peripherals in the SOI. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; Internet and catalog retail; media; and textiles, apparel and luxury goods in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI.

Hai Precision Industry, a leading Taiwanese electronics manufacturing services provider; and SK Hynix, one of the world's largest DRAM (dynamic random access memory) makers.

Conversely, we reduced the Fund's investments in Thailand, South Africa, India and China primarily through China H shares to focus on companies we considered to be more attractively valued within our investment universe and to raise funds for share redemptions.[3] We also eliminated exposures to certain countries, notably Turkey. In sector terms, we reduced holdings largely in financials, energy, materials and industrials.[4] Key sales included trimming the Fund's positions in Siam Commercial Bank, a Thai bank; Remgro, a South African conglomerate with interests in finance, health care, food and industrials; and Tata Motors, an Indian automobile manufacturer.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2015, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

3. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China.

4. The financials sector comprises banks, capital markets, diversified financial services, insurance, and real estate management and development in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The materials sector comprises chemicals and construction materials in the SOI. The industrials sector comprises construction and engineering, trading companies and distributors, and transportation infrastructure in the SOI.

# Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract level.

- Transaction expenses can include sales charges (loads) on purchases, redemption fees, surrender fees, transfer fees and premium taxes.
- Ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses.

*The expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract level. While the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.*

The table shows Fund-level ongoing expenses and can help you understand these expenses and compare them with those of other mutual funds offered through the Contract. The table assumes a $1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

## Actual Fund Expenses

The first line (Actual) of the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   *If an account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6.*
2. Multiply the result by the number under the heading "Fund-Level Expenses Incurred During Period."
   *If Fund-Level Expenses Incurred During Period were $7.50, then 8.6 × $7.50 = $64.50.*

In this illustration, the estimated expenses incurred this period at the Fund level are $64.50.

## Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical "Ending Account Value" is based on the Fund's actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Fund-Level Expenses Incurred During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

| Class 2 | Beginning Account Value 7/1/15 | Ending Account Value 12/31/15 | Fund-Level Expenses Incurred During Period* 7/1/15–12/31/15 |
|---|---|---|---|
| Actual | $1,000 | $ 821.20 | $7.02 |
| Hypothetical (5% return before expenses) | $1,000 | $1,017.49 | $7.78 |

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund's Class 2 shares (1.53%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

# Financial Highlights

## Templeton Developing Markets VIP Fund

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 1** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $9.27 | $10.26 | $10.58 | $9.50 | $11.40 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.06 | 0.15[c] | 0.13 | 0.19 | 0.17 |
| Net realized and unrealized gains (losses) | (1.63) | (0.97) | (0.22) | 1.06 | (1.94) |
| Total from investment operations | (1.57) | (0.82) | (0.09) | 1.25 | (1.77) |
| Less distributions from: | | | | | |
| Net investment income | (0.20) | (0.17) | (0.23) | (0.17) | (0.13) |
| Net realized gains | (1.13) | — | — | — | — |
| Total distributions | (1.33) | (0.17) | (0.23) | (0.17) | (0.13) |
| Redemption fees | — | —[d] | —[d] | —[d] | —[d] |
| Net asset value, end of year | $6.37 | $9.27 | $10.26 | $10.58 | $9.50 |
| Total return[e] | (19.42)% | (8.09)% | (0.73)% | 13.40% | (15.67)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 1.33% | 1.36% | 1.35% | 1.35% | 1.40% |
| Expenses net of waiver and payments by affiliates | 1.32% | 1.36%[f] | 1.35% | 1.35% | 1.40% |
| Net investment income | 0.74% | 1.51%[c] | 1.25% | 1.93% | 1.57% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $77,000 | $114,487 | $145,707 | $203,568 | $232,544 |
| Portfolio turnover rate | 71.69% | 82.87% | 44.59% | 24.45% | 14.90% |

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.11%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

## Templeton Developing Markets VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 2** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $9.20 | $10.19 | $10.50 | $9.42 | $11.30 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.04 | 0.12[c] | 0.10 | 0.17 | 0.14 |
| Net realized and unrealized gains (losses) | (1.61) | (0.96) | (0.21) | 1.05 | (1.92) |
| Total from investment operations | (1.57) | (0.84) | (0.11) | 1.22 | (1.78) |
| Less distributions from: | | | | | |
| Net investment income | (0.18) | (0.15) | (0.20) | (0.14) | (0.10) |
| Net realized gains | (1.13) | — | — | — | — |
| Total distributions | (1.31) | (0.15) | (0.20) | (0.14) | (0.10) |
| Redemption fees | — | —[d] | —[d] | —[d] | —[d] |
| Net asset value, end of year | $6.32 | $9.20 | $10.19 | $10.50 | $9.42 |
| Total return[e] | (19.60)% | (8.39)% | (0.92)% | 13.16% | (15.86)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 1.58% | 1.61% | 1.60% | 1.60% | 1.65% |
| Expenses net of waiver and payments by affiliates | 1.57% | 1.61%[f] | 1.60% | 1.60% | 1.65% |
| Net investment income | 0.49% | 1.26%[c] | 1.00% | 1.68% | 1.32% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $192,120 | $250,813 | $274,683 | $291,638 | $295,223 |
| Portfolio turnover rate | 71.69% | 82.87% | 44.59% | 24.45% | 14.90% |

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.86%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

## Templeton Developing Markets VIP Fund (continued)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| **Class 4** | | | | | |
| **Per share operating performance** (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $9.22 | $10.20 | $10.50 | $9.42 | $11.30 |
| Income from investment operations[a]: | | | | | |
| Net investment income[b] | 0.03 | 0.12[c] | 0.10 | 0.16 | 0.13 |
| Net realized and unrealized gains (losses) | (1.62) | (0.97) | (0.21) | 1.04 | (1.91) |
| Total from investment operations | (1.59) | (0.85) | (0.11) | 1.20 | (1.78) |
| Less distributions from: | | | | | |
| Net investment income | (0.16) | (0.13) | (0.19) | (0.12) | (0.10) |
| Net realized gains | (1.13) | — | — | — | — |
| Total distributions | (1.29) | (0.13) | (0.19) | (0.12) | (0.10) |
| Redemption fees | — | —[d] | —[d] | —[d] | —[d] |
| Net asset value, end of year | $6.34 | $9.22 | $10.20 | $10.50 | $9.42 |
| Total return[e] | (19.70)% | (8.48)% | (1.07)% | 13.06% | (15.88)% |
| **Ratios to average net assets** | | | | | |
| Expenses before waiver and payments by affiliates | 1.68% | 1.71% | 1.70% | 1.70% | 1.75% |
| Expenses net of waiver and payments by affiliates | 1.67% | 1.71%[f] | 1.70% | 1.70% | 1.75% |
| Net investment income | 0.39% | 1.16%[c] | 0.90% | 1.58% | 1.22% |
| **Supplemental data** | | | | | |
| Net assets, end of year (000's) | $7,109 | $11,106 | $15,225 | $23,341 | $24,380 |
| Portfolio turnover rate | 71.69% | 82.87% | 44.59% | 24.45% | 14.90% |

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.76%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

# Statement of Investments, December 31, 2015

## Templeton Developing Markets VIP Fund

| | Industry | Shares | Value |
|---|---|---|---|
| **Common Stocks 82.3%** | | | |
| **Argentina 0.1%** | | | |
| [a] Grupo Clarin SA, B, GDR, Reg S | Media | 9,190 | $ 165,420 |
| **Belgium 3.4%** | | | |
| Anheuser-Busch InBev NV | Beverages | 76,142 | 9,461,938 |
| **Brazil 1.0%** | | | |
| BM&F BOVESPA SA | Diversified Financial Services | 116,800 | 321,135 |
| CETIP SA Mercados Organizados | Capital Markets | 36,000 | 340,840 |
| M Dias Branco SA | Food Products | 82,100 | 1,378,421 |
| Mahle-Metal Leve SA Industria e Comercio | Auto Components | 8,100 | 50,615 |
| Totvs SA | Software | 74,900 | 586,787 |
| | | | 2,677,798 |
| **Cambodia 1.1%** | | | |
| NagaCorp Ltd. | Hotels, Restaurants & Leisure | 4,824,000 | 3,049,954 |
| **China 19.8%** | | | |
| [b] Baidu Inc., ADR | Internet Software & Services | 36,735 | 6,944,384 |
| Brilliance China Automotive Holdings Ltd. | Automobiles | 8,901,300 | 11,186,708 |
| China Construction Bank Corp., H | Banks | 6,167,300 | 4,225,513 |
| China Life Insurance Co. Ltd., H | Insurance | 855,000 | 2,769,043 |
| China Mobile Ltd. | Wireless Telecommunication Services | 550,500 | 6,215,202 |
| China Petroleum and Chemical Corp., H | Oil, Gas & Consumable Fuels | 5,924,000 | 3,569,619 |
| COSCO Pacific Ltd. | Transportation Infrastructure | 517,500 | 570,241 |
| Dah Chong Hong Holdings Ltd. | Distributors | 1,746,100 | 878,666 |
| [c] Inner Mongolia Yitai Coal Co. Ltd., B | Oil, Gas & Consumable Fuels | 243,400 | 222,224 |
| NetEase Inc., ADR | Internet Software & Services | 12,903 | 2,338,540 |
| PetroChina Co. Ltd., H | Oil, Gas & Consumable Fuels | 3,407,600 | 2,237,980 |
| Poly Culture Group Corp. Ltd., H | Media | 229,200 | 626,961 |
| Tencent Holdings Ltd. | Internet Software & Services | 522,100 | 10,286,855 |
| Uni-President China Holdings Ltd. | Food Products | 3,479,300 | 2,675,642 |
| | | | 54,747,578 |
| **Hong Kong 3.5%** | | | |
| Dairy Farm International Holdings Ltd. | Food & Staples Retailing | 454,133 | 2,761,128 |
| MGM China Holdings Ltd. | Hotels, Restaurants & Leisure | 2,612,800 | 3,270,151 |
| Sands China Ltd. | Hotels, Restaurants & Leisure | 1,049,200 | 3,580,749 |
| | | | 9,612,028 |
| **Hungary 0.4%** | | | |
| Richter Gedeon Nyrt | Pharmaceuticals | 59,790 | 1,132,248 |
| **India 10.8%** | | | |
| Biocon Ltd. | Biotechnology | 545,046 | 4,265,266 |
| Dr. Reddy's Laboratories Ltd. | Pharmaceuticals | 84,890 | 3,985,848 |
| ICICI Bank Ltd. | Banks | 1,027,140 | 4,054,633 |
| Infosys Ltd. | IT Services | 183,099 | 3,057,066 |
| Oil & Natural Gas Corp. Ltd. | Oil, Gas & Consumable Fuels | 297,100 | 1,084,847 |
| Reliance Industries Ltd. | Oil, Gas & Consumable Fuels | 206,000 | 3,156,905 |
| Tata Chemicals Ltd. | Chemicals | 184,000 | 1,115,703 |
| Tata Consultancy Services Ltd. | IT Services | 226,350 | 8,331,221 |
| [b] Tata Motors Ltd., A | Automobiles | 166,000 | 725,489 |
| | | | 29,776,978 |

## Templeton Developing Markets VIP Fund (continued)

| | Industry | Shares | Value |
|---|---|---|---|
| **Common Stocks** (continued) | | | |
| **Indonesia 2.9%** | | | |
| Astra International Tbk PT | Automobiles | 10,115,100 | $ 4,401,857 |
| Bank Danamon Indonesia Tbk PT | Banks | 5,707,000 | 1,324,562 |
| Semen Indonesia (Persero) Tbk PT | Construction Materials | 2,764,700 | 2,285,953 |
| | | | 8,012,372 |
| **Mexico 0.5%** | | | |
| America Movil SAB de CV, L, ADR | Wireless Telecommunication Services | 82,000 | 1,152,920 |
| Nemak SAB de CV | Auto Components | 169,100 | 228,704 |
| | | | 1,381,624 |
| **Pakistan 1.1%** | | | |
| Habib Bank Ltd. | Banks | 1,550,000 | 2,956,605 |
| **Philippines 0.3%** | | | |
| Bloomberry Resorts Corp. | Hotels, Restaurants & Leisure | 9,073,300 | 877,843 |
| **Russia 1.1%** | | | |
| [a,b] Mail.ru Group Ltd., GDR, Reg S | Internet Software & Services | 62,377 | 1,406,601 |
| [b] Yandex NV, A | Internet Software & Services | 98,600 | 1,549,992 |
| | | | 2,956,593 |
| **Singapore 0.1%** | | | |
| DBS Group Holdings Ltd. | Banks | 24,700 | 290,742 |
| **South Africa 9.2%** | | | |
| Massmart Holdings Ltd. | Food & Staples Retailing | 126,006 | 814,787 |
| MTN Group Ltd. | Wireless Telecommunication Services | 400,483 | 3,441,353 |
| Naspers Ltd., N | Media | 108,742 | 14,906,856 |
| Remgro Ltd. | Diversified Financial Services | 390,843 | 6,197,170 |
| | | | 25,360,166 |
| **South Korea 8.9%** | | | |
| Bukwang Pharmaceutical Co. Ltd. | Pharmaceuticals | 2,831 | 61,311 |
| Daelim Industrial Co. Ltd. | Construction & Engineering | 38,193 | 2,180,489 |
| Fila Korea Ltd. | Textiles, Apparel & Luxury Goods | 33,470 | 2,688,285 |
| Hankook Tire Co. Ltd. | Auto Components | 21,600 | 864,691 |
| Hyundai Development Co. | Construction & Engineering | 98,910 | 3,265,273 |
| [b] iMarketkorea Inc. | Trading Companies & Distributors | 54,300 | 1,168,875 |
| Interpark Corp. | Internet & Catalog Retail | 4,200 | 39,487 |
| KT Skylife Co. Ltd. | Media | 176,060 | 2,591,519 |
| Samsung Electronics Co. Ltd. | Technology Hardware, Storage & Peripherals | 6,448 | 6,912,627 |
| SK Hynix Inc. | Semiconductors & Semiconductor Equipment | 185,090 | 4,842,567 |
| | | | 24,615,124 |
| **Taiwan 8.7%** | | | |
| Catcher Technology Co. Ltd. | Technology Hardware, Storage & Peripherals | 164,000 | 1,375,137 |
| Hon Hai Precision Industry Co. Ltd. | Electronic Equipment, Instruments & Components | 2,455,000 | 6,026,370 |
| Largan Precision Co. Ltd. | Electronic Equipment, Instruments & Components | 14,000 | 965,488 |
| Pegatron Corp. | Technology Hardware, Storage & Peripherals | 973,800 | 2,130,077 |
| Taiwan Semiconductor Manufacturing Co. Ltd. | Semiconductors & Semiconductor Equipment | 3,143,000 | 13,654,423 |
| | | | 24,151,495 |
| **Thailand 4.4%** | | | |
| Kasikornbank PCL, fgn. | Banks | 604,100 | 2,506,604 |

## Templeton Developing Markets VIP Fund (continued)

| | Industry | Shares | Value |
|---|---|---|---|
| **Common Stocks** (continued) | | | |
| **Thailand** (continued) | | | |
| Kiatnakin Bank PCL, fgn. | Banks | 1,009,800 | $ 1,015,966 |
| Land and Houses PCL, fgn. | Real Estate Management & Development | 4,997,000 | 1,310,620 |
| PTT Exploration and Production PCL, fgn. | Oil, Gas & Consumable Fuels | 584,500 | 928,743 |
| PTT PCL, fgn. | Oil, Gas & Consumable Fuels | 113,200 | 766,606 |
| Siam Commercial Bank PCL, fgn. | Banks | 306,400 | 1,016,231 |
| Thai Beverage PCL, fgn. | Beverages | 9,695,900 | 4,718,366 |
| | | | 12,263,136 |
| **United Kingdom 5.0%** | | | |
| Unilever PLC | Personal Products | 318,597 | 13,742,728 |
| **Total Common Stocks (Cost $225,877,777)** | | | 227,232,370 |
| [d] **Participatory Notes (Cost $968,712) 0.3%** | | | |
| **Saudi Arabia 0.3%** | | | |
| [e] Deutsche Bank AG/London, Samba Financial Group, 144A, 9/27/16 | Banks | 143,055 | 890,174 |
| **Preferred Stocks 4.6%** | | | |
| **Brazil 4.6%** | | | |
| Banco Bradesco SA, ADR, pfd. | Banks | 1,300,900 | 6,257,329 |
| Itau Unibanco Holding SA, ADR, pfd. | Banks | 978,211 | 6,368,154 |
| **Total Preferred Stocks (Cost $15,752,130)** | | | 12,625,483 |
| **Total Investments before Short Term Investments (Cost $242,598,619)** | | | 240,748,027 |
| **Short Term Investments (Cost $36,108,301) 13.0%** | | | |
| **Money Market Funds 13.0%** | | | |
| **United States 13.0%** | | | |
| [b,f] Institutional Fiduciary Trust Money Market Portfolio | | 36,108,301 | 36,108,301 |
| **Total Investments (Cost $278,706,920) 100.2%** | | | 276,856,328 |
| **Other Assets, less Liabilities (0.2)%** | | | (626,601) |
| **Net Assets 100.0%** | | | $ 276,229,727 |

See Abbreviations on page TD-24.

[a]Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2015, the aggregate value of these securities was $1,572,021, representing 0.57% of net assets.

[b]Non-income producing.

[c]At December 31, 2015, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund is restricted from trading this security at year end.

[d]See Note 1(c) regarding Participatory Notes.

[e]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees.

[f]See Note 3(e) regarding investments in affiliated management investment companies.

# Financial Statements

## Statement of Assets and Liabilities

December 31, 2015

| | Templeton Developing Markets VIP Fund |
|---|---|
| Assets: | |
| Investments in securities: | |
| Cost - Unaffiliated issuers | $242,598,619 |
| Cost - Non-controlled affiliates (Note 3e) | 36,108,301 |
| Total cost of investments | $278,706,920 |
| Value - Unaffiliated issuers | $240,748,027 |
| Value - Non-controlled affiliates (Note 3e) | 36,108,301 |
| Total value of investments | 276,856,328 |
| Foreign currency, at value (cost $219,189) | 219,189 |
| Receivables: | |
| Investment securities sold | 533,765 |
| Capital shares sold | 54,063 |
| Dividends | 573,602 |
| Foreign tax | 23,166 |
| Other assets | 30 |
| Total assets | 278,260,143 |
| Liabilities: | |
| Payables: | |
| Investment securities purchased | 1,250,665 |
| Capital shares redeemed | 87,497 |
| Management fees | 291,442 |
| Distribution fees | 86,905 |
| Reports to shareholders | 129,000 |
| Deferred tax | 119,852 |
| Accrued expenses and other liabilities | 65,055 |
| Total liabilities | 2,030,416 |
| Net assets, at value | $276,229,727 |
| Net assets consist of: | |
| Paid-in capital | $328,588,846 |
| Distributions in excess of net investment income | (3,021,032) |
| Net unrealized appreciation (depreciation) | (2,009,916) |
| Accumulated net realized gain (loss) | (47,328,171) |
| Net assets, at value | $276,229,727 |

## Statement of Assets and Liabilities (continued)

December 31, 2015

| | Templeton Developing Markets VIP Fund |
|---|---|
| **Class 1:** | |
| Net assets, at value | $ 77,000,388 |
| Shares outstanding | 12,082,238 |
| Net asset value and maximum offering price per share | $ 6.37 |
| **Class 2:** | |
| Net assets, at value | $192,119,846 |
| Shares outstanding | 30,394,847 |
| Net asset value and maximum offering price per share | $ 6.32 |
| **Class 4:** | |
| Net assets, at value | $ 7,109,493 |
| Shares outstanding | 1,120,931 |
| Net asset value and maximum offering price per share | $ 6.34 |

## Statement of Operations
for the year ended December 31, 2015

| | Templeton Developing Markets VIP Fund |
|---|---|
| Investment income: | |
| Dividends (net of foreign taxes of $757,277) | $ 6,893,056 |
| Income from securities loaned | 32 |
| Total investment income | 6,893,088 |
| Expenses: | |
| Management fees (Note 3a) | 4,165,783 |
| Distribution fees: (Note 3c) | |
| Class 2 | 566,203 |
| Class 4 | 32,286 |
| Custodian fees (Note 4) | 103,114 |
| Reports to shareholders | 107,348 |
| Professional fees | 66,358 |
| Trustees' fees and expenses | 1,525 |
| Other | 20,143 |
| Total expenses | 5,062,760 |
| Expenses waived/paid by affiliates (Note 3e) | (38,678) |
| Net expenses | 5,024,082 |
| Net investment income | 1,869,006 |
| Realized and unrealized gains (losses): | |
| Net realized gain (loss) from: | |
| Investments | (39,632,078) |
| Foreign currency transactions | (606,798) |
| Net realized gain (loss) | (40,238,876) |
| Net change in unrealized appreciation (depreciation) on: | |
| Investments | (29,089,383) |
| Translation of other assets and liabilities denominated in foreign currencies | (4,173) |
| Change in deferred taxes on unrealized appreciation | (90,450) |
| Net change in unrealized appreciation (depreciation) | (29,184,006) |
| Net realized and unrealized gain (loss) | (69,422,882) |
| Net increase (decrease) in net assets resulting from operations | $(67,553,876) |

## Statements of Changes in Net Assets

| | Templeton Developing Markets VIP Fund | |
|---|---|---|
| | Year Ended December 31, | |
| | 2015 | 2014 |
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income | $ 1,869,006 | $ 5,767,995 |
| Net realized gain (loss) | (40,238,876) | 66,732,640 |
| Net change in unrealized appreciation (depreciation) | (29,184,006) | (106,645,647) |
| Net increase (decrease) in net assets resulting from operations | (67,553,876) | (34,145,012) |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class 1 | (2,280,023) | (2,319,775) |
| Class 2 | (4,605,588) | (4,358,800) |
| Class 4 | (178,865) | (173,399) |
| Net realized gains: | | |
| Class 1 | (12,555,712) | — |
| Class 2 | (29,329,089) | — |
| Class 4 | (1,242,906) | — |
| Total distributions to shareholders | (50,192,183) | (6,851,974) |
| Capital share transactions: (Note 2) | | |
| Class 1 | (3,228,881) | (18,560,195) |
| Class 2 | 21,548,017 | 2,280,393 |
| Class 3 | — | (33,674,042) |
| Class 4 | (748,959) | (2,909,339) |
| Total capital share transactions | 17,570,177 | (52,863,183) |
| Redemption fees | — | 68 |
| Net increase (decrease) in net assets | (100,175,882) | (93,860,101) |
| Net assets: | | |
| Beginning of year | 376,405,609 | 470,265,710 |
| End of year | $ 276,229,727 | $ 376,405,609 |
| Distributions in excess of net investment income included in net assets: | | |
| End of year | $ (3,021,032) | $ (531,967) |

# Notes to Financial Statements

## Templeton Developing Markets VIP Fund

### 1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Templeton Developing Markets VIP Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers three classes of shares: Class 1, Class 2 and Class 4. Effective May 1, 2014, all Class 3 shares were converted to Class 2. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

**a. Financial Instrument Valuation**

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of 4 p.m. Eastern time whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Investments in open-end mutual funds are valued at the closing NAV.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close

## Templeton Developing Markets VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

**a. Financial Instrument Valuation** *(continued)*

of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

**b. Foreign Currency Translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

**c. Participatory Notes**

The Fund invests in Participatory Notes (P-Notes). P-notes are promissory notes that are designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes are issued by banks or broker-dealers and allow the Fund to gain exposure to common stocks in markets where direct investment is not allowed. Income received from P-Notes is recorded as dividend income in the Statement of Operations. P-Notes may contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract. These securities may be more volatile and less liquid than other investments held by the Fund.

**d. Securities Lending**

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify

## Templeton Developing Markets VIP Fund (continued)

the Fund in the event of default by a third party borrower. At December 31, 2015, the Fund had no securities on loan.

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2015, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

**f. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except for certain dividends from foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

**g. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**h. Redemption Fees**

Redemptions and exchanges of interests in an insurance company subaccount that invested in Class 3 shares of the Fund were subject to a 1.0% short term trading fee if the interest in the subaccount had been held for less than 60 days. Such fees were retained by the Fund and accounted for as an addition to paid-in capital, allocated to each class of shares based upon the relative proportion of net assets of each class. There were no redemption fees for the year.

**i. Guarantees and Indemnifications**

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

## Templeton Developing Markets VIP Fund (continued)

### 2. Shares of Beneficial Interest

At December 31, 2015, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Shares | Amount | Shares | Amount |
| **Class 1 Shares:** | | | | |
| Shares sold | 1,121,738 | $ 9,288,141 | 1,624,952 | $ 16,226,245 |
| Shares issued in reinvestment of distributions | 1,921,727 | 14,835,735 | 229,681 | 2,319,775 |
| Shares redeemed | (3,309,863) | (27,352,757) | (3,701,849) | (37,106,215) |
| Net increase (decrease) | (266,398) | $ (3,228,881) | (1,847,216) | $(18,560,195) |
| **Class 2 Shares:** | | | | |
| Shares sold | 4,635,193 | $ 35,599,642 | 7,755,421 | $ 76,467,757 |
| Shares issued in reinvestment of distributions | 4,430,114 | 33,934,677 | 434,143 | 4,358,800 |
| Shares redeemed | (5,930,164) | (47,986,302) | (7,896,683) | (78,546,164) |
| Net increase (decrease) | 3,135,143 | $ 21,548,017 | 292,881 | $ 2,280,393 |
| **Class 3 Shares**[a]: | | | | |
| Shares sold | | | 171,371 | $ 1,697,483 |
| Shares redeemed | | | (3,593,907) | (35,371,525) |
| Net increase (decrease) | | | (3,422,536) | $(33,674,042) |
| **Class 4 Shares:** | | | | |
| Shares sold | 96,241 | $ 723,497 | 89,395 | $ 875,146 |
| Shares issued in reinvestment of distributions | 184,886 | 1,421,771 | 17,219 | 173,399 |
| Shares redeemed | (364,639) | (2,894,227) | (395,412) | (3,957,884) |
| Net increase (decrease) | (83,512) | $ (748,959) | (288,798) | $ (2,909,339) |

[a]Effective May 1, 2014, all Class 3 shares were converted to Class 2.

### 3. Transactions With Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or trustees of the following subsidiaries:

| Subsidiary | Affiliation |
|---|---|
| Templeton Asset Management Ltd. (TAML) | Investment manager |
| Franklin Templeton Services, LLC (FT Services) | Administrative manager |
| Franklin Templeton Distributors, Inc. (Distributors) | Principal underwriter |
| Franklin Templeton Investor Services, LLC (Investor Services) | Transfer agent |

## Templeton Developing Markets VIP Fund (continued)

### a. Management Fees

The Fund pays an investment management fee to TAML based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets |
|---|---|
| 1.250% | Up to and including $200 million |
| 1.235% | Over $200 million, up to and including $700 million |
| 1.200% | Over $700 million, up to and including $1 billion |
| 1.150% | Over $1 billion, up to and including $1.2 billion |
| 1.125% | Over $1.2 billion, up to and including $5 billion |
| 1.075% | Over $5 billion, up to and including $10 billion |
| 1.025% | Over $10 billion, up to and including $15 billion |
| 0.975% | Over $15 billion, up to and including $20 billion |
| 0.925% | In excess of $20 billion |

### b. Administrative Fees

Under an agreement with TAML, FT Services provides administrative services to the Fund. The fee is paid by TAML based on the Fund's average daily net assets, and is not an additional expense of the Fund.

### c. Distribution Fees

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.25% and 0.35% per year of its average daily net assets of Class 2 and Class 4, respectively. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

### d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

### e. Investments in Affiliated Management Investment Companies

The Fund invests in an affiliated management investment company for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment company, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

| | Number of Shares Held at Beginning of Year | Gross Additions | Gross Reductions | Number of Shares Held at End of Year | Value at End of Year | Investment Income | Realized Gain (Loss) | % of Affiliated Fund Shares Outstanding Held at End of Year |
|---|---|---|---|---|---|---|---|---|
| **Non-Controlled Affiliates** | | | | | | | | |
| Institutional Fiduciary Trust Money Market Portfolio . . . | 29,018,398 | 147,819,607 | (140,729,704) | 36,108,301 | $36,108,301 | $ — | $ — | 0.18% |

### f. Interfund Transactions

The Fund engaged in purchases and sales of investments with funds or other accounts that have a common investment manager (or affiliated investment managers), directors, trustees, or officers. These transactions complied with Rule 17a-7 under the 1940 Act. During the year ended December 31, 2015, the purchase and sale transactions aggregated $15,932,431 and $4,791,642, respectively.

## Templeton Developing Markets VIP Fund (continued)

### 4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2015, there were no credits earned.

### 5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any.

At December 31, 2015, capital loss carryforwards were as follows:

| | |
|---|---|
| Capital loss carryforwards not subject to expiration: | |
| Short term | $22,864,241 |
| Long term | 18,453,194 |
| Total capital loss carryforwards | $41,317,435 |

The tax character of distributions paid during the years ended December 31, 2015 and 2014, was as follows:

| | 2015 | 2014 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary income | $ 7,065,009 | $6,851,974 |
| Long term capital gain | 43,127,174 | — |
| | $50,192,183 | $6,851,974 |

At December 31, 2015, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

| | |
|---|---|
| Cost of investments | $290,270,246 |
| Unrealized appreciation | $ 26,814,133 |
| Unrealized depreciation | (40,228,051) |
| Net unrealized appreciation (depreciation) | $ (13,413,918) |
| Distributable earnings – undistributed ordinary income | $ 2,531,599 |

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of corporate actions and wash sales.

### 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2015, aggregated $212,828,608 and $250,489,203, respectively.

### 7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

## Templeton Developing Markets VIP Fund (continued)

### 8. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matured on February 12, 2016. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 12, 2016, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 10, 2017, for a total of $2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. Effective February 12, 2016, the annual commitment fee is 0.15%. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2015, the Fund did not use the Global Credit Facility.

### 9. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of December 31, 2015, in valuing the Fund's assets carried at fair value, is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments in Securities: | | | | |
| Equity Investments[a,b] | $239,857,853 | $ — | $ — | $239,857,853 |
| Participatory Notes | — | 890,174 | — | 890,174 |
| Short Term Investments | 36,108,301 | — | — | 36,108,301 |
| Total Investments in Securities | $275,966,154 | $890,174 | $ — | $276,856,328 |

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

### 10. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

## Templeton Developing Markets VIP Fund (continued)

### Abbreviations

| Selected Portfolio | |
|---|---|
| **ADR** | American Depositary Receipt |
| **GDR** | Global Depositary Receipt |

# Report of Independent Registered Public Accounting Firm

## Templeton Developing Markets VIP Fund

### To the Board of Trustees and Shareholders of Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Templeton Developing Markets VIP Fund (the "Fund") at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 16, 2016

# Tax Information (unaudited)

## Templeton Developing Markets VIP Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than $43,127,174 as long term capital gain dividends for the fiscal year ended December 31, 2015.

At December 31, 2015, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. The Fund elects to treat foreign taxes paid as allowed under Section 853 of the Code. This election will allow shareholders of record as of the 2016 distribution date, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

# Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

**Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity between one month and three months and are investment-grade rated, U.S. dollar denominated, fixed rate and nonconvertible.

**Barclays U.S. Aggregate Bond Index** is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

**Barclays U.S. Government Index: Intermediate Component** is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

**Bloomberg Commodity Index** comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

**Citigroup World Government Bond Index** is a market capitalization-weighted index consisting of investment-grade world government bond markets.

**Consumer Price Index (CPI)** is a commonly used measure of the inflation rate.

**Credit Suisse (CS) High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

**FTSE® EPRA®/NAREIT® Developed Index** is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

**J.P. Morgan (JPM) Global Government Bond Index (GGBI)** tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

**Lipper Multi-Sector Income Funds Classification Average** is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/15, there were 286 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/15, there were 71 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/15, there were 55 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP High Yield Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and tend to invest in lower grade debt issues. For the 12-month period ended 12/31/15, there were 111 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**MSCI All Country World Index (ACWI)** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

**MSCI Emerging Markets (EM) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

**MSCI Europe, Australasia, Far East (EAFE) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

**MSCI World Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

**Russell 1000® Growth Index** is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Index** is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

**Russell 2500™ Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

**Russell 2500 ™ Value Index** is market capitalization weighted and measures performance of those Russell 2500 ™ Index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 3000® Growth Index** is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000® Index** is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

**Russell Midcap® Growth Index** is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Midcap® Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

**Standard & Poor's® 500 Index (S&P 500®)** is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

**Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

# Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupation during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

## Independent Board Members

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Harris J. Ashton (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 1988 | 147 | Bar-S Foods (meat packing company) (1981-2010). |
| **Principal Occupation During at Least the Past 5 Years:**<br>Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998). | | | | |
| **Mary C. Choksi (1950)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2014 | 123 | Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006). |
| **Principal Occupation During at Least the Past 5 Years:**<br>Senior Advisor, Strategic Investment Group (investment management group) (August 2015-present); director of various companies; and **formerly,** Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987). | | | | |
| **Edith E. Holiday (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013). |
| **Principal Occupation During at Least the Past 5 Years:**<br>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)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2009 | 147 | Boeing Capital Corporation (aircraft financing) (2006-2013). |
| **Principal Occupation During at Least the Past 5 Years:**<br>Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006). | | | | |

## Independent Board Members (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Frank A. Olson (1932)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2005 | 147 | Hess Corporation (exploration and refining of oil and gas) (1998-2013). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; and **formerly,** Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); and Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June – December 1987).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Larry D. Thompson (1945)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2007 | 147 | The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012). |

**Principal Occupation During at Least the Past 5 Years:**
Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly,** Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **John B. Wilson (1959)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Lead Independent Trustee | Trustee since 2007 and Lead Independent Trustee since 2008 | 123 | None |

**Principal Occupation During at Least the Past 5 Years:**
President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly,** Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

## Interested Board Members and Officers

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Gregory E. Johnson (1961)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2013 | 164 | None |

**Principal Occupation During at Least the Past 5 Years:**
Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| ****Rupert H. Johnson, Jr. (1940)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chairman of the Board and Trustee | Chairman of the Board since 2013 and Trustee since 1988 | 147 | None |

**Principal Occupation During at Least the Past 5 Years:**
Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Alison E. Baur (1964)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Laura F. Fergerson (1962)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chief Executive Officer – Finance and Administration | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Gaston Gardey (1967)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Treasurer, Chief Financial Officer and Chief Accounting Officer | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Aliya S. Gordon (1973)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Steven J. Gray (1955)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2009 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Selena L. Holmes (1965)**<br>100 Fountain Parkway<br>St. Petersburg, FL 33716-1205 | Vice President – AML Compliance | Since 2012 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Edward B. Jamieson (1948)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | President and Chief Executive Officer – Investment Management | Since 2010 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Kimberly H. Novotny (1972)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Robert C. Rosselot (1960)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Chief Compliance Officer | Since 2013 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Karen L. Skidmore (1952)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President and Secretary | Since 2006 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Navid Tofigh (1972)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since November 2015 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Craig S. Tyle (1960)**<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2005 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

| Name, Year of Birth and Address | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|---|---|---|---|
| **Lori A. Weber (1964)**<br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923 | Vice President | Since 2011 | Not Applicable | Not Applicable |

**Principal Occupation During at Least the Past 5 Years:**
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective April 30, 2015, Sam Ginn ceased to be a trustee of the Trust.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.**

**The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) 321-8563 or their insurance companies to request the SAI.**

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# Shareholder Information

### Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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**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.