

JUNE 30, 2009

# SEMIANNUAL REPORT

## DWS VARIABLE SERIES II

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### DWS Dreman Small Mid Cap Value VIP

**This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus, call (800) 778-1482 or your financial representative. We advise you to carefully consider the product's objectives, risks, charges and expenses before investing. The prospectus contains this and other important information about the product. Please read the prospectus carefully before you invest.**

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

*Investments in variable portfolios involve risk. Some portfolios have more risk than others. These include portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in Emerging Market countries). Please read the prospectus for specific details regarding its investments and risk profile.*

*DWS Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.*

RESHAPING INVESTING.



## DWS Dreman Small Mid Cap Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Portfolio or any variable life insurance policy or variable annuity contract for which the Portfolio 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 total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2009 are .79% and 1.15% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense-related disclosure for the period ended June 30, 2009.

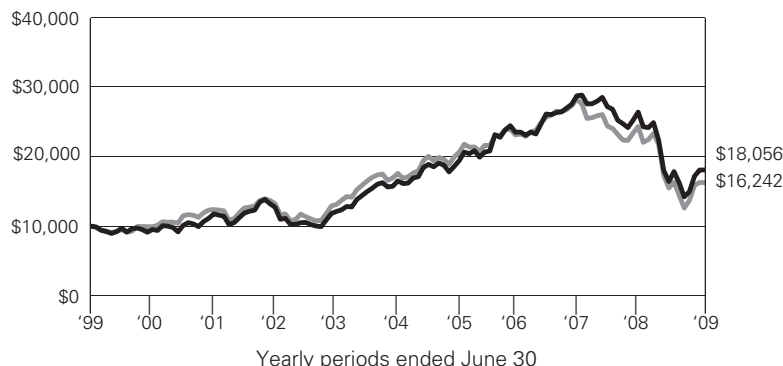
### Risk Considerations

This Portfolio is subject to stock market risk. Stocks of small and medium-sized companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements. Small and mid-cap company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. Small and mid-cap company stocks are typically less liquid than large company stocks. The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political, or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Portfolio returns shown for the 1-year, 3-year, 5-year and 10-year periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

### Growth of an Assumed \$10,000 Investment in DWS Dreman Small Mid Cap Value VIP

■ DWS Dreman Small Mid Cap Value VIP — Class A  
 ■ Russell 2500™ Value Index



The Russell 2500™ Value Index is an unmanaged Index of those securities in the Russell 3000® Index with a lower price-to-book and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

### Comparative Results

DWS Dreman Small Mid Cap Value VIP		6-Month <sup>‡</sup>	1-Year	3-Year	5-Year	10-Year
Class A	Growth of \$10,000	\$10,128	\$7,451	\$7,691	\$10,946	\$18,056
	Average annual total return	1.28%	-25.49%	-8.38%	1.82%	6.09%
Russell 2500 Value Index	Growth of \$10,000	\$9,938	\$7,376	\$6,996	\$9,245	\$16,242
	Average annual total return	-6.2%	-26.24%	-11.23%	-1.56%	4.97%

DWS Dreman Small Mid Cap Value VIP		6-Month <sup>‡</sup>	1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of \$10,000	\$10,118	\$7,427	\$7,608	\$10,750	\$14,084
	Average annual total return	1.18%	-25.73%	-8.71%	1.46%	5.02%
Russell 2500 Value Index	Growth of \$10,000	\$9,938	\$7,376	\$6,996	\$9,245	\$12,306
	Average annual total return	-6.2%	-26.24%	-11.23%	-1.56%	3.01%

The growth of \$10,000 is cumulative.

<sup>‡</sup> Total returns shown for periods less than one year are not annualized.

\* The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

# Information About Your Portfolio's Expenses

## DWS Dreman Small Mid Cap Value VIP

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include contract charges, redemption fees and account maintenance fees, 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 Portfolio 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 (January 1, 2009 to June 30, 2009).

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

- Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a \$1,000 investment in the Portfolio using the Portfolio'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% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio 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 June 30, 2009

Actual Portfolio Return	Class A	Class B
Beginning Account Value 1/1/09	\$1,000.00	\$1,000.00
Ending Account Value 6/30/09	\$1,012.80	\$1,011.80
Expenses Paid per \$1,000*	\$ 4.14	\$ 5.89
Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 1/1/09	\$1,000.00	\$1,000.00
Ending Account Value 6/30/09	\$1,020.68	\$1,018.94
Expenses Paid per \$1,000*	\$ 4.16	\$ 5.91

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

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.83%	1.18%

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

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

# Portfolio Summary

## DWS Dreman Small Mid Cap Value VIP

<b>Asset Allocation</b> (As a % of Investment Portfolio excluding Securities Lending Collateral)	<b>6/30/09</b>	<b>12/31/08</b>
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

<b>Sector Diversification</b> (As a % of Common Stocks)	<b>6/30/09</b>	<b>12/31/08</b>
Financials	18%	22%
Industrials	15%	23%
Information Technology	13%	9%
Consumer Discretionary	12%	6%
Health Care	12%	11%
Consumer Staples	9%	12%
Energy	7%	6%
Utilities	7%	5%
Materials	6%	4%
Telecommunications Services	1%	2%
	100%	100%

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 5. A complete list of portfolio holdings of the Portfolio is posted as of the month end on [www.dws-investments.com](http://www.dws-investments.com) on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on [www.dws-investments.com](http://www.dws-investments.com).*

Following the Portfolio'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 [www.sec.gov](http://www.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.

# Investment Portfolio

June 30, 2009 (Unaudited)

## DWS Dreman Small Mid Cap Value VIP

	Shares	Value (\$)
<b>Common Stocks 97.8%</b>		
<b>Consumer Discretionary 12.1%</b>		
<b>Auto Components 1.1%</b>		
Autoliv, Inc. (a)	80,500	2,315,985
<b>Diversified Consumer Services 1.7%</b>		
Regis Corp.	208,550	3,630,856
<b>Hotels Restaurants &amp; Leisure 2.6%</b>		
Brinker International, Inc.	155,700	2,651,571
International Speedway Corp. "A"	116,300	2,978,443
		<b>5,630,014</b>
<b>Household Durables 1.4%</b>		
Garmin Ltd. (a)	130,700	3,113,274
<b>Leisure Equipment &amp; Products 1.8%</b>		
Mattel, Inc.	239,800	3,848,790
<b>Media 1.2%</b>		
CBS Corp. "B"	386,600	2,675,272
<b>Specialty Retail 1.1%</b>		
The Men's Wearhouse, Inc. (a)	131,550	2,523,129
<b>Textiles, Apparel &amp; Luxury Goods 1.2%</b>		
Hanesbrands, Inc.* (a)	178,100	2,673,281
<b>Consumer Staples 9.0%</b>		
<b>Food &amp; Staples Retailing 1.4%</b>		
Ruddick Corp. (a)	133,350	3,124,391
<b>Food Products 5.7%</b>		
Del Monte Foods Co.	376,275	3,529,459
Ralcorp Holdings, Inc.*	47,400	2,887,608
Sanderson Farms, Inc. (a)	60,600	2,727,000
The J.M. Smucker Co.	69,800	3,396,468
		<b>12,540,535</b>
<b>Tobacco 1.9%</b>		
Vector Group Ltd. (a)	281,660	4,024,921
<b>Energy 7.0%</b>		
<b>Energy Equipment &amp; Services 3.7%</b>		
Atwood Oceanics, Inc.* (a)	106,925	2,663,502
Superior Energy Services, Inc.*	166,450	2,874,591
Tidewater, Inc.	60,900	2,610,783
		<b>8,148,876</b>
<b>Oil, Gas &amp; Consumable Fuels 3.3%</b>		
Arch Coal, Inc. (a)	136,000	2,090,320
Forest Oil Corp.*	143,200	2,136,544
Newfield Exploration Co.*	93,100	3,041,577
		<b>7,268,441</b>
<b>Financials 17.1%</b>		
<b>Capital Markets 2.3%</b>		
Ameriprise Financial, Inc.	103,800	2,519,226
Raymond James Financial, Inc. (a)	152,100	2,617,641
		<b>5,136,867</b>
<b>Commercial Banks 2.9%</b>		
Bank of Hawaii Corp. (a)	66,200	2,371,946
BOK Financial Corp. (a)	69,800	2,629,366
National Penn Bancshares, Inc. (a)	273,800	1,262,218
		<b>6,263,530</b>
<b>Insurance 7.5%</b>		
Arch Capital Group Ltd.*	41,200	2,413,496
Argo Group International Holdings Ltd.*	81,188	2,291,125

	Shares	Value (\$)
Endurance Specialty Holdings Ltd.	85,950	2,518,335
Hanover Insurance Group, Inc.	95,800	3,650,938
HCC Insurance Holdings, Inc.	85,950	2,063,660
IPC Holdings Ltd.	6,229	170,301
Platinum Underwriters Holdings Ltd.	81,450	2,328,655
Willis Group Holdings Ltd.	39,659	1,020,426
		<b>16,456,936</b>
<b>Real Estate Investment Trusts 4.4%</b>		
Alexandria Real Estate Equities, Inc. (REIT) (a)	46,500	1,664,235
Hospitality Properties Trust (REIT) (a)	166,500	1,979,685
MFA Financial, Inc. (REIT)	451,000	3,120,920
Ventas, Inc. (REIT) (a)	96,700	2,887,462
		<b>9,652,302</b>
<b>Health Care 11.6%</b>		
<b>Health Care Equipment &amp; Supplies 2.5%</b>		
Inverness Medical Innovations, Inc.* (a)	84,100	2,992,278
Teleflex, Inc.	53,700	2,407,371
		<b>5,399,649</b>
<b>Health Care Providers &amp; Services 7.6%</b>		
Amedisys, Inc.* (a)	85,000	2,806,700
AmSurg Corp.*	174,500	3,741,280
Healthspring, Inc.*	260,400	2,827,944
LifePoint Hospitals, Inc.* (a)	119,000	3,123,750
Lincare Holdings, Inc.* (a)	179,900	4,231,248
		<b>16,730,922</b>
<b>Life Sciences Tools &amp; Services 1.5%</b>		
Mettler-Toledo International, Inc.*	43,000	3,317,450
<b>Industrials 14.5%</b>		
<b>Aerospace &amp; Defense 1.2%</b>		
Alliant Techsystems, Inc.* (a)	31,300	2,577,868
<b>Commercial Services &amp; Supplies 1.6%</b>		
The Brink's Co.	118,100	3,428,443
<b>Construction &amp; Engineering 2.5%</b>		
Fluor Corp.	51,900	2,661,951
URS Corp.*	57,300	2,837,496
		<b>5,499,447</b>
<b>Electrical Equipment 2.5%</b>		
General Cable Corp.* (a)	75,200	2,826,016
Hubbell, Inc. "B"	80,500	2,580,830
		<b>5,406,846</b>
<b>Industrial Conglomerates 1.4%</b>		
McDermott International, Inc.*	157,500	3,198,825
<b>Machinery 2.9%</b>		
Crane Co.	112,800	2,516,568
Joy Global, Inc. (a)	107,400	3,836,328
		<b>6,352,896</b>
<b>Road &amp; Rail 2.4%</b>		
Genesee & Wyoming, Inc. "A"* (a)	102,000	2,704,020
Ryder System, Inc. (a)	95,775	2,674,038
		<b>5,378,058</b>
<b>Information Technology 12.3%</b>		
<b>Communications Equipment 3.2%</b>		
Arris Group, Inc.*	291,700	3,547,072
CommScope, Inc.* (a)	130,700	3,432,182
		<b>6,979,254</b>

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

	Shares	Value (\$)
<b>Electronic Equipment, Instruments &amp; Components 4.3%</b>		
Anixter International, Inc.* (a)	93,100	3,499,629
Arrow Electronics, Inc.*	142,300	3,022,452
Jabil Circuit, Inc.	389,800	2,892,316
		<b>9,414,397</b>
<b>IT Services 2.4%</b>		
Alliance Data Systems Corp.* (a)	64,400	2,652,636
Amdocs Ltd.*	121,700	2,610,465
		<b>5,263,101</b>
<b>Semiconductors &amp; Semiconductor Equipment 1.2%</b>		
Microsemi Corp.*	186,100	2,568,180
<b>Software 1.2%</b>		
Jack Henry & Associates, Inc.	128,850	2,673,637
<b>Materials 6.1%</b>		
<b>Chemicals 2.5%</b>		
CF Industries Holdings, Inc.	31,300	2,320,582
Lubrizol Corp.	66,200	3,131,922
		<b>5,452,504</b>
<b>Containers &amp; Packaging 1.2%</b>		
Owens-Illinois, Inc.*	94,900	2,658,149
<b>Metals &amp; Mining 2.4%</b>		
Coeur d'Alene Mines Corp.* (a)	196,900	2,421,870
Reliance Steel & Aluminum Co. (a)	73,400	2,817,826
		<b>5,239,696</b>
<b>Telecommunication Services 1.3%</b>		
<b>Diversified Telecommunication Services</b>		
Windstream Corp.	327,500	2,737,900

### Utilities 6.8%

#### Electric Utilities 3.0%

ALLETE, Inc. (a)	95,750	2,752,813
IDACORP, Inc.	148,550	3,883,097
		<b>6,635,910</b>

#### Gas Utilities 1.3%

ONEOK, Inc.	96,700	2,851,683
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#### Multi-Utilities 2.5%

Ameren Corp.	120,100	2,989,289
Integrus Energy Group, Inc. (a)	77,900	2,336,221
		<b>5,325,510</b>

**Total Common Stocks** (Cost \$234,576,692) **214,117,725**

### Securities Lending Collateral 28.4%

Daily Assets Fund Institutional, 0.48% (b) (c) (Cost \$62,258,394)	62,258,394	<b>62,258,394</b>
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### Cash Equivalents 2.4%

Cash Management QP Trust, 0.27% (b) (Cost \$5,357,114)	5,357,114	<b>5,357,114</b>
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$302,192,200) <sup>†</sup>	128.6	<b>281,733,233</b>
<b>Other Assets and Liabilities, Net</b>	(28.6)	<b>(62,703,991)</b>
<b>Net Assets</b>	100.0	<b>219,029,242</b>

\* Non-income producing security.

† The cost for federal income tax purposes was \$303,917,174. At June 30, 2009, net unrealized depreciation for all securities based on tax cost was \$22,183,941. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$20,653,482 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$42,837,423.

(a) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2009 amounted to \$60,563,629, which is 27.7% of net assets.

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

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

REIT: Real Estate Investment Trust

### Fair Value Measurements

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," as amended, establishes a three-tier hierarchy for measuring fair value and requires additional disclosure about the classification of fair value measurements.

Various inputs are used in determining the value of the Portfolio'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 Portfolio'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.

The following is a summary of the inputs used as of June 30, 2009 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stock and/or Other Equity Investments (d)	\$ 214,117,725	\$ —	\$ —	\$ 214,117,725
Short-Term Investments (d)	62,258,394	5,357,114	—	67,615,508
<b>Total</b>	<b>\$ 276,376,119</b>	<b>\$ 5,357,114</b>	<b>\$ —</b>	<b>\$ 281,733,233</b>

(d) See Investment Portfolio for additional detailed categorizations.

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

# Financial Statements

## Statement of Assets and Liabilities

as of June 30, 2009 (Unaudited)

<b>Assets</b>	
Investments:	
Investments in securities, at value (cost \$234,576,692 — including \$60,563,629 of securities loaned)	\$ 214,117,725
Investment in Daily Assets Fund Institutional (cost \$62,258,394)*	62,258,394
Investment in Cash Management QP Trust (cost \$5,357,114)	5,357,114
<b>Total investments, at value (cost \$302,192,200)</b>	<b>281,733,233</b>
Cash	22,299
Receivable for investments sold	529,956
Dividends receivable	207,345
Interest receivable	16,973
Receivable for Portfolio shares sold	154,807
<b>Total assets</b>	<b>282,664,613</b>
<b>Liabilities</b>	
Payable upon return of securities loaned	62,258,394
Payable for Portfolio shares redeemed	1,074,852
Accrued management fee	133,623
Accrued expenses and payables	168,502
<b>Total liabilities</b>	<b>63,635,371</b>
<b>Net assets, at value</b>	<b>\$ 219,029,242</b>
<b>Net Assets Consist of:</b>	
Undistributed net investment income	1,267,241
Net unrealized appreciation (depreciation) on investments	(20,458,967)
Accumulated net realized gain (loss)	(129,101,483)
Paid-in capital	367,322,451
<b>Net assets, at value</b>	<b>\$ 219,029,242</b>
<b>Class A</b>	
<b>Net Asset Value</b> , offering and redemption price per share (\$197,059,537 ÷ 25,132,403 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 7.84</b>
<b>Class B</b>	
<b>Net Asset Value</b> , offering and redemption price per share (\$21,969,705 ÷ 2,798,750 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 7.85</b>

\* Represents collateral on securities loaned.

## Statement of Operations

for the six months ended June 30, 2009 (Unaudited)

<b>Investment Income</b>	
Income:	
Dividends	\$ 2,055,072
Interest — Cash Management QP Trust	20,877
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	222,343
<b>Total Income</b>	<b>2,298,292</b>
Expenses:	
Management fee	683,833
Administration fee	105,207
Custodian fee	9,183
Distribution service fee (Class B)	26,631
Record keeping fees (Class B)	10,537
Services to shareholders	3,903
Professional fees	34,750
Trustees' fees and expenses	3,951
Reports to shareholders	18,382
Other	16,504
<b>Total expenses</b>	<b>912,881</b>
<b>Net investment income (loss)</b>	<b>1,385,411</b>
<b>Realized and Unrealized Gain (Loss)</b>	
Net realized gain (loss) from investments	(64,824,618)
Payments by affiliates (see Note F)	9,887
	(64,814,731)
Change in net unrealized appreciation (depreciation) on:	
Investments	63,053,844
Foreign currency	320
	63,054,164
<b>Net gain (loss)</b>	<b>(1,760,567)</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ (375,156)</b>

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

## Statement of Changes in Net Assets

	Six Months Ended June 30, 2009 (Unaudited)	Year Ended December 31, 2008
<b>Increase (Decrease) in Net Assets</b>		
Operations:		
Net investment income (loss)	\$ 1,385,411	\$ 4,294,923
Net realized gain (loss)	(64,814,731)	(64,286,752)
Change in net unrealized appreciation (depreciation)	63,054,164	(96,935,623)
Net increase (decrease) in net assets resulting from operations	(375,156)	(156,927,452)
Distributions to shareholders from:		
Net investment income:		
Class A	(4,046,857)	(6,363,604)
Class B	(395,321)	(427,114)
Distributions to shareholders from:		
Net realized gains:		
Class A	—	(155,713,279)
Class B	—	(13,714,537)
Total distributions	(4,442,178)	(176,218,534)
Portfolio share transactions:		
<b>Class A</b>		
Proceeds from shares sold	12,896,034	37,425,632
Reinvestment of distributions	4,046,857	162,076,883
Cost of shares redeemed	(38,789,955)	(139,030,105)
Net increase (decrease) in net assets from Class A share transactions	(21,847,064)	60,472,410
<b>Class B</b>		
Proceeds from shares sold	1,330,670	14,371,044
Reinvestment of distributions	395,321	14,141,651
Cost of shares redeemed	(3,792,439)	(9,977,946)
Net increase (decrease) in net assets from Class B share transactions	(2,066,448)	18,534,749
<b>Increase (decrease) in net assets</b>	<b>(28,730,846)</b>	<b>(254,138,827)</b>
Net assets at beginning of period	247,760,088	501,898,915
Net assets at end of period (including undistributed net investment income of \$1,267,241 and \$4,324,008, respectively)	<b>\$ 219,029,242</b>	<b>\$ 247,760,088</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	28,178,465	23,283,418
Shares sold	1,763,695	3,355,802
Shares issued to shareholders in reinvestment of distributions	624,515	15,105,022
Shares redeemed	(5,434,272)	(13,565,777)
Net increase (decrease) in Class A shares	(3,046,062)	4,895,047
Shares outstanding at end of period	<b>25,132,403</b>	<b>28,178,465</b>
<b>Class B</b>		
Shares outstanding at beginning of period	3,073,371	1,669,556
Shares sold	185,991	1,078,541
Shares issued to shareholders in reinvestment of distributions	60,912	1,315,502
Shares redeemed	(521,524)	(990,228)
Net increase (decrease) in Class B shares	(274,621)	1,403,815
Shares outstanding at end of period	<b>2,798,750</b>	<b>3,073,371</b>

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

# Financial Highlights

## Class A

Years Ended December 31,	2009 <sup>a</sup>	2008	2007	2006	2005	2004
<b>Selected Per Share Data</b>						
<b>Net asset value, beginning of period</b>	<b>\$ 7.93</b>	<b>\$20.12</b>	<b>\$22.93</b>	<b>\$19.98</b>	<b>\$20.05</b>	<b>\$16.06</b>
<i>Income (loss) from investment operations:</i>						
Net investment income (loss) <sup>b</sup>	.05	.13	.18	.15	.19	.17
Net realized and unrealized gain (loss)	.02 <sup>c</sup>	(4.92)	.54	4.69	1.67	3.98
<b>Total from investment operations</b>	<b>.07</b>	<b>(4.79)</b>	<b>.72</b>	<b>4.84</b>	<b>1.86</b>	<b>4.15</b>
<i>Less distributions from:</i>						
Net investment income	(.16)	(.29)	(.23)	(.18)	(.15)	(.16)
Net realized gains	—	(7.11)	(3.30)	(1.71)	(1.78)	—
<b>Total distributions</b>	<b>(.16)</b>	<b>(7.40)</b>	<b>(3.53)</b>	<b>(1.89)</b>	<b>(1.93)</b>	<b>(.16)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.84</b>	<b>\$ 7.93</b>	<b>\$20.12</b>	<b>\$22.93</b>	<b>\$19.98</b>	<b>\$20.05</b>
Total Return (%)	1.28 <sup>**</sup>	(33.42) <sup>d</sup>	3.06	25.06	10.25	26.03

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	197	223	468	562	493	467
Ratio of expenses before expense reductions (%)	.83 <sup>*</sup>	.83	.78	.79	.79	.79
Ratio of expenses after expense reductions (%)	.83 <sup>*</sup>	.82	.78	.79	.79	.79
Ratio of net investment income (%)	1.35 <sup>*</sup>	1.13	.85	.71	.96	.96
Portfolio turnover rate (%)	43 <sup>**</sup>	49	110	52	61	73

<sup>a</sup> For the six months ended June 30, 2009 (Unaudited).

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ended June 30, 2009 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values on the investments on the Portfolio.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized \*\* Not annualized

## Class B

Years Ended December 31,	2009 <sup>a</sup>	2008	2007	2006	2005	2004
<b>Selected Per Share Data</b>						
<b>Net asset value, beginning of period</b>	<b>\$ 7.92</b>	<b>\$20.08</b>	<b>\$22.88</b>	<b>\$19.93</b>	<b>\$20.01</b>	<b>\$16.03</b>
<i>Income (loss) from investment operations:</i>						
Net investment income (loss) <sup>b</sup>	.04	.09	.10	.07	.11	.10
Net realized and unrealized gain (loss)	.03 <sup>c</sup>	(4.92)	.54	4.67	1.66	3.97
<b>Total from investment operations</b>	<b>.07</b>	<b>(4.83)</b>	<b>.64</b>	<b>4.74</b>	<b>1.77</b>	<b>4.07</b>
<i>Less distributions from:</i>						
Net investment income	(.14)	(.22)	(.14)	(.08)	(.07)	(.09)
Net realized gains	—	(7.11)	(3.30)	(1.71)	(1.78)	—
<b>Total distributions</b>	<b>(.14)</b>	<b>(7.33)</b>	<b>(3.44)</b>	<b>(1.79)</b>	<b>(1.85)</b>	<b>(.09)</b>
<b>Net asset value, end of period</b>	<b>\$ 7.85</b>	<b>\$ 7.92</b>	<b>\$20.08</b>	<b>\$22.88</b>	<b>\$19.93</b>	<b>\$20.01</b>
Total Return (%)	1.18 <sup>**</sup>	(33.67) <sup>d</sup>	2.67	24.59	9.78	25.52

### Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	22	24	34	90	83	71
Ratio of expenses before expense reductions (%)	1.18 <sup>*</sup>	1.18	1.16	1.17	1.19	1.16
Ratio of expenses after expense reductions (%)	1.18 <sup>*</sup>	1.17	1.16	1.17	1.19	1.16
Ratio of net investment income (%)	1.00 <sup>*</sup>	.78	.47	.33	.56	.59
Portfolio turnover rate (%)	43 <sup>**</sup>	49	110	52	61	73

<sup>a</sup> For the six months ended June 30, 2009 (Unaudited).

<sup>b</sup> Based on average shares outstanding during the period.

<sup>c</sup> The amount of net realized and unrealized gain shown for a share outstanding for the period ended June 30, 2009 does not correspond with the aggregate net loss on investments for the period due to the timing of sales and repurchases of Portfolio shares in relation to fluctuating market values on the investments on the Portfolio.

<sup>d</sup> Total return would have been lower had certain expenses not been reduced.

\* Annualized \*\* Not annualized

## A. Organization and Significant Accounting Policies

DWS Variable Series II (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. The Trust offers seventeen portfolios (hereinafter referred to individually as "Portfolio" or collectively as "Portfolios") The Portfolio is classified as a diversified open-end management investment company.

**Multiple Classes of Shares of Beneficial Interest.** Certain portfolios of the Trust offer two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to record keeping 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 applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-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 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 Trust'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 Trust in the preparation of its financial statements.

**Security Valuation.** Investments in securities 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. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US 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.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Cash Management QP Trust are valued at their net asset value each business day.

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. In accordance with the Portfolio'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 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.

**Foreign Currency Translations.** The books and records of the Trust are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US 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 disposition of forward foreign currency exchange contracts and foreign currencies and the difference between the amount of net investment income accrued and the US 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.

**Repurchase Agreements.** The Portfolio may enter into repurchase agreements with certain banks and broker/dealers whereby the Portfolio, through its custodian or 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 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 Portfolio has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Portfolio's claim on the collateral may be subject to legal proceedings.

**Securities Lending.** The Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the issuer of securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of 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 agents will use their best efforts to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. The Portfolio 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 Portfolio 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. The Portfolio 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.

**Taxes.** The Portfolio'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, 2008, the Portfolio had an approximate net tax basis capital loss carryforward which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the following expiration dates, whichever occurs first:

Portfolio	Capital Loss Carryforward (\$)	Expiration Date
DWS Dreman Small Mid Cap Value VIP	40,231,000	12/31/2016

In addition, from November 1, 2008 through December 31, 2008, the Portfolio incurred net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ended December 31, 2009.

Portfolio	Expiration Date
DWS Dreman Small Mid Cap Value VIP	\$ 22,331,000

The Portfolio has reviewed the tax positions for the open tax years as of December 31, 2008 and has determined that no provision for income tax is required in the Portfolio's financial statements. The Portfolio's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

**Distribution of Income and Gains.** Distributions of net investment income of the Portfolio, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Portfolio if not distributed and, therefore, will be distributed to shareholders at least annually.

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

The tax character of current year distributions will be determined at the end of the current fiscal year.

**Expenses.** Expenses arising in connection with a specific Portfolio are allocated to that Portfolio. Trust expenses are allocated between the Portfolio in proportion to its relative net assets.

**Contingencies.** In the normal course of business, the Portfolio may enter into contracts with service providers that contain general 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 been made. However, based on experience, the Portfolio expects the risk of loss to be remote.

**Real Estate Investment Trusts.** The Portfolio periodically recharacterize 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 and a recharacterization will be made in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains. The Portfolio distinguishes between dividends on a tax basis and a financial reporting basis and only distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses from investment transactions are recorded on an identified cost basis.

## B. Purchases and Sales of Securities

During the six months ended June 30, 2009, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases (\$)	Sales (\$)
DWS Dreman Small Mid Cap Value VIP	87,651,171	116,476,649

## 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 Portfolio 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 Portfolio or delegates such responsibility to the Portfolio's subadvisor.

Under the Investment Management Agreement with the Advisor, the fee is equivalent to the annual rates shown below of the Portfolio's average daily net assets, computed and accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Dreman Small Mid Cap Value VIP	
\$0-\$250 million	.650%
next \$750 million	.620%
next \$1.5 billion	.600%
next \$2.5 billion	.580%
next \$2.5 billion	.550%
next \$2.5 billion	.540%
next \$2.5 billion	.530%
over \$12.5 billion	.520%

Dreman Value Management, L.L.C. ("DVM") serves as subadvisor to the Portfolio and is paid by the Advisor for its services.

Accordingly, for the six months ended June 30, 2009, the total management fee and effective management fee rate were as follows:

Portfolio	Total Aggregated (\$)	Annualized Effective Rate
DWS Dreman Small Mid Cap Value VIP	683,833	.65%

**Administration Fee.** Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Portfolio. For all services provided under the Administrative Services Agreement, the Portfolio pays DIMA an annual fee ("Administration Fee") of 0.10% of the Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the six months ended June 30, 2009, the Administration Fee was as follows:

Portfolio	Total Aggregated (\$)	Unpaid at June 30, 2009 (\$)
DWS Dreman Small Mid Cap Value VIP	105,207	18,459

**Service Provider Fees.** DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Portfolio. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent,

dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Portfolio. For the six months ended June 30, 2009, the amounts charged to the Portfolio by DISC were as follows:

Portfolio	Total Aggregated (\$)	Unpaid at June 30, 2009 (\$)
DWS Dreman Small Mid Cap Value VIP Class A	387	124
DWS Dreman Small Mid Cap Value VIP Class B	143	51

**Distribution Service Agreement.** Under the Portfolio's Class B 12b-1 plan, DWS Investments Distributors, Inc. ("DIDI") receives a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2009, the Distribution Service Fee was as follows:

Portfolio	Total Aggregated (\$)	Unpaid at June 30, 2009 (\$)
DWS Dreman Small Mid Cap Value VIP	26,631	4,753

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolio. For the six months ended June 30, 2009 the amount charged to the Portfolio by DIMA included in the Statement of Operations under "reports to shareholders" was as follows:

Portfolio	Amount (\$)	Unpaid at June 30, 2009 (\$)
DWS Dreman Small Mid Cap Value VIP	4,100	2,317

**Trustees' Fees and Expenses.** The Portfolio paid each Trustee not affiliated with the Advisor retainer fees plus specified amounts for various committee services and for the Board Chairperson.

**Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the Portfolio may invest in the Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

## D. Ownership of the Portfolio

At June 30, 2009, the beneficial ownership in the Portfolio was as follows:

**DWS Dreman Small Mid Cap Value VIP:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 43%, 26% and 14%. Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 40%, 18% and 18%.

## E. Line of Credit

The Trust and other affiliated funds (the "Participants") share in a \$450 million revolving credit facility provided by a syndication of banks. The Portfolio may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

## F. Payments Made by Affiliates

During the six months ended June 30, 2009, the Advisor reimbursed the Portfolio \$9,887 for a loss incurred as a result of a breach of the Portfolio's investment restrictions. The amount of the loss was less than 0.01% of the Portfolio's average daily net assets, thus having no impact on the Portfolio's total return.

## G. Review for Subsequent Events

In accordance with the provisions set forth in Financial Accounting Standards Board Statement of Financial Accounting Standards No. 165 "Subsequent Events," adopted by the Portfolio as of June 30, 2009, events and transactions from July 1, 2009 through August 18, 2009, the date the financial statements were available to be issued, have been evaluated by management for subsequent events. Management has determined that there were no material events that would require disclosure in the Portfolio's financial statements through this date.

## 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 — [www.dws-investments.com](http://www.dws-investments.com) (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — [www.sec.gov](http://www.sec.gov). To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

# Summary of Management Fee Evaluation by Independent Fee Consultant

October 24, 2008

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds (formerly the DWS Scudder Funds). My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2008, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007.

## Qualifications

For more than 35 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past ten years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds, serve on the board of directors of a private market research company, and have served in various leadership and financial oversight capacities with non-profit organizations.

## Evaluation of Fees for each DWS Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 129 Fund portfolios in the DWS Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper, Strategic Insight, and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

## Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.

The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

### **DeAM's Fees for Similar Services to Others**

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Fund. These similar products included the other DWS Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

### **Costs and Profit Margins**

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

### **Economies of Scale**

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

### **Quality of Service — Performance**

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as

applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

### **Complex-Level Considerations**

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

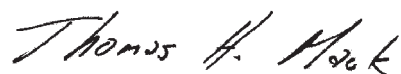
I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

### **Findings**

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Funds are reasonable.



Thomas H. Mack

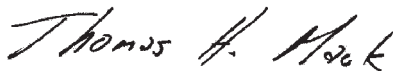
# Summary of Administrative Fee Evaluation by Independent Fee Consultant

September 29, 2008

Pursuant to an Order entered into by Deutsche Asset Management (DeAM) with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds and have as part of my duties evaluated the reasonableness of the proposed management fees to be charged by DeAM to the DWS Funds, taking into account a proposal to pass through to the funds certain fund accounting-related charges in connection with new regulatory requirements. My evaluation considered the following:

- While the proposal would alter the services to be provided under the Administration Agreement, which I consider to be part of fund management under the Order, it is my opinion that the change in services is slight and that the scope of prospective services under the combination of the Advisory and Administration Agreements continues to be comparable with those typically provided to competitive funds under their management agreements.
- While the proposal would increase fund expenses, according to a pro forma analysis performed by management, the prospective effect is less than .01% for all but seven of the DeAM Funds' 438 active share classes, and in all cases the effect is less than .03% and overall expenses would remain reasonable in my opinion.

Based on the foregoing considerations, in my opinion the fees and expenses for all of the DWS Funds will remain reasonable if the Directors adopt this proposal.



Thomas H. Mack

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