

June 30, 2018

# Semiannual Report

Deutsche DWS Variable Series II  
(formerly Deutsche Variable Series II)

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## **DWS Small Mid Cap Value VIP**

(formerly Deutsche Small Mid Cap Value VIP)



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

Stocks may decline in value. Smaller and medium company stocks tend to be more volatile than large company stocks. Any fund that focuses in a particular segment of the market or region of the world will generally be more volatile than a fund that invests more broadly. The Fund may lend securities to approved institutions. Please read the prospectus for details.

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

# Performance Summary

June 30, 2018 (Unaudited)

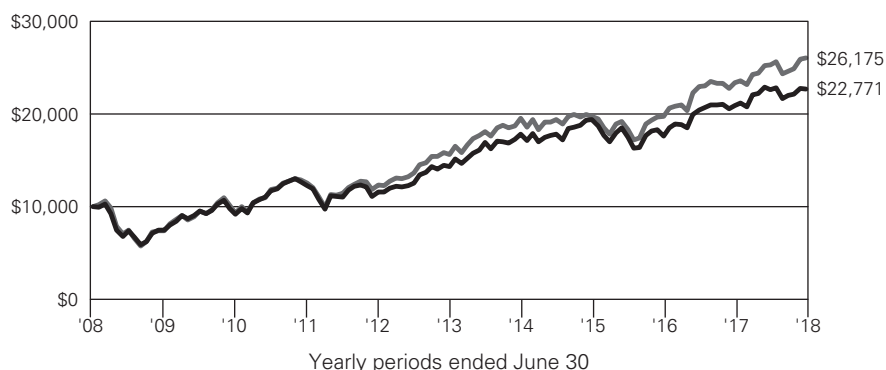
Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original 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 does 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. 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, 2018 are 0.83% and 1.19% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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

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

■ DWS 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 lower price-to-book ratios and lower forecasted growth values.

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

## Comparative Results

DWS Small Mid Cap Value VIP		6-Month <sup>‡</sup>	1-Year	3-Year	5-Year	10-Year
<b>Class A</b>	Growth of \$10,000	\$10,036	\$10,862	\$11,698	\$15,851	\$22,771
	Average annual total return	0.36%	8.62%	5.37%	9.65%	8.58%
Russell 2500 Value Index	Growth of \$10,000	\$10,300	\$11,149	\$13,224	\$16,687	\$26,175
	Average annual total return	3.00%	11.49%	9.76%	10.78%	10.10%
DWS Small Mid Cap Value VIP		6-Month <sup>‡</sup>	1-Year	3-Year	5-Year	10-Year
<b>Class B</b>	Growth of \$10,000	\$10,020	\$10,827	\$11,576	\$15,572	\$21,995
	Average annual total return	0.20%	8.27%	5.00%	9.26%	8.20%
Russell 2500 Value Index	Growth of \$10,000	\$10,300	\$11,149	\$13,224	\$16,687	\$26,175
	Average annual total return	3.00%	11.49%	9.76%	10.78%	10.10%

The growth of \$10,000 is cumulative.

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

# Portfolio Summary

(Unaudited)

<b>Asset Allocation</b> (As a % of Investment Portfolio excluding Securities Lending Collateral)	<b>6/30/18</b>	<b>12/31/17</b>
Common Stocks	97%	96%
Cash Equivalents	3%	4%
	100%	100%

## **Sector Diversification**

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	<b>6/30/18</b>	<b>12/31/17</b>
Financials	21%	20%
Industrials	19%	19%
Consumer Discretionary	13%	9%
Real Estate	10%	13%
Information Technology	9%	11%
Energy	7%	7%
Materials	6%	5%
Health Care	6%	4%
Consumer Staples	5%	7%
Utilities	4%	5%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 5.

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](http://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 [dws.com](http://dws.com) from time to time. Please see the Fund's current prospectus for more information.

## **Portfolio Manager**

Richard Hanlon, CFA, Director  
Portfolio Manager

# Investment Portfolio

June 30, 2018 (Unaudited)

	Shares	Value (\$)		Shares	Value (\$)
<b>Common Stocks 97.4%</b>			CNO Financial Group, Inc.	90,204	1,717,484
<b>Consumer Discretionary 12.7%</b>			ProAssurance Corp.	19,800	701,910
<b>Auto Components 1.9%</b>					<b>3,720,541</b>
Visteon Corp.*	15,437	1,995,078	<b>Thrifts &amp; Mortgage Finance 1.5%</b>		
<b>Automobiles 1.8%</b>			Walker & Dunlop, Inc.	28,930	1,609,955
Winnebago Industries, Inc.	45,771	1,858,302	<b>Health Care 5.6%</b>		
<b>Diversified Consumer Services 1.2%</b>			<b>Health Care Providers &amp; Services 4.0%</b>		
Regis Corp.*	76,668	1,268,089	Encompass Health Corp.	44,137	2,988,958
<b>Hotels, Restaurants &amp; Leisure 1.0%</b>			Premier, Inc. "A"*	33,100	1,204,178
Denny's Corp.*	66,296	1,056,095			<b>4,193,136</b>
<b>Household Durables 2.6%</b>			<b>Life Sciences Tools &amp; Services 1.6%</b>		
Helen of Troy Ltd.*	18,022	1,774,266	Bruker Corp.	27,200	789,888
PulteGroup, Inc.	35,789	1,028,934	PerkinElmer, Inc.	12,605	923,064
		<b>2,803,200</b>			<b>1,712,952</b>
<b>Media 1.0%</b>			<b>Industrials 18.0%</b>		
Interpublic Group of Companies, Inc.	46,100	1,080,584	<b>Building Products 1.2%</b>		
<b>Textiles, Apparel &amp; Luxury Goods 3.2%</b>			Simpson Manufacturing Co., Inc.	20,457	1,272,221
Carter's, Inc.	17,456	1,892,056	<b>Commercial Services &amp; Supplies 4.0%</b>		
Columbia Sportswear Co.	16,835	1,539,897	Interface, Inc.	82,775	1,899,686
		<b>3,431,953</b>	The Brink's Co.	29,134	2,323,437
<b>Consumer Staples 5.3%</b>					<b>4,223,123</b>
<b>Food &amp; Staples Retailing 1.9%</b>			<b>Electrical Equipment 1.8%</b>		
U.S. Foods Holding Corp.*	52,640	1,990,845	EnerSys	25,278	1,886,750
<b>Food Products 2.1%</b>			<b>Machinery 7.5%</b>		
Lamb Weston Holdings, Inc.	17,581	1,204,474	Douglas Dynamics, Inc.	26,907	1,291,536
Pinnacle Foods, Inc.	16,561	1,077,459	Federal Signal Corp.	84,800	1,974,992
		<b>2,281,933</b>	Global Brass & Copper Holdings, Inc.	54,600	1,711,710
<b>Household Products 1.3%</b>			Hillenbrand, Inc.	39,003	1,838,991
Central Garden & Pet Co.*	30,572	1,329,270	Stanley Black & Decker, Inc.	8,513	1,130,612
<b>Energy 6.5%</b>					<b>7,947,841</b>
<b>Energy Equipment &amp; Services 0.9%</b>			<b>Professional Services 2.5%</b>		
Patterson-UTI Energy, Inc.	54,233	976,194	ICF International, Inc.	19,061	1,354,284
<b>Oil, Gas &amp; Consumable Fuels 5.6%</b>			ManpowerGroup, Inc.	14,834	1,276,614
Golar LNG Ltd. (a)	46,778	1,378,080			<b>2,630,898</b>
HollyFrontier Corp.	12,900	882,747	<b>Trading Companies &amp; Distributors 1.0%</b>		
Matador Resources Co.*	51,120	1,536,156	AerCap Holdings NV*	20,894	1,131,410
Murphy Oil Corp.	21,300	719,301	<b>Information Technology 9.1%</b>		
Parsley Energy, Inc. "A"*	21,785	659,650	<b>Electronic Equipment, Instruments &amp; Components 4.9%</b>		
SRC Energy, Inc.*	66,900	737,238	Dolby Laboratories, Inc. "A"	18,358	1,132,505
		<b>5,913,172</b>	Insight Enterprises, Inc.*	54,900	2,686,257
<b>Financials 20.7%</b>			Rogers Corp.*	12,240	1,364,271
<b>Banks 13.8%</b>					<b>5,183,033</b>
Eagle Bancorp., Inc.*	27,664	1,695,803	<b>Internet Software &amp; Services 1.2%</b>		
East West Bancorp., Inc.	20,900	1,362,680	LogMeIn, Inc.	12,202	1,259,857
Great Western Bancorp., Inc.	58,734	2,466,241	<b>IT Services 1.4%</b>		
Hancock Whitney Corp.	44,916	2,095,331	Travelport Worldwide Ltd.	81,169	1,504,873
Pacific Premier Bancorp., Inc.*	38,200	1,457,330	<b>Software 1.6%</b>		
Sterling Bancorp.	106,155	2,494,619	Verint Systems, Inc.*	37,964	1,683,703
TCF Financial Corp.	69,000	1,698,780	<b>Materials 6.2%</b>		
UMB Financial Corp.	17,900	1,364,517	<b>Chemicals 2.9%</b>		
		<b>14,635,301</b>	GCP Applied Technologies, Inc.*	36,538	1,057,775
<b>Capital Markets 1.9%</b>			Minerals Technologies, Inc.	20,900	1,574,815
E*TRADE Financial Corp.*	32,143	1,965,866	Tronox Ltd. "A"	24,518	482,514
<b>Insurance 3.5%</b>					<b>3,115,104</b>
Brown & Brown, Inc.	46,922	1,301,147			

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

	Shares	Value (\$)
<b>Containers &amp; Packaging 1.5%</b>		
Owens-Illinois, Inc.*	93,100	<b>1,565,011</b>
<b>Metals &amp; Mining 1.8%</b>		
Commercial Metals Co.	28,909	610,269
Steel Dynamics, Inc.	27,223	1,250,897
		<b>1,861,166</b>
<b>Real Estate 9.5%</b>		
<b>Equity Real Estate Investment Trusts (REITs)</b>		
Agree Realty Corp.	31,931	1,684,999
Community Healthcare Trust, Inc.	58,569	1,749,456
Easterly Government Properties, Inc.	69,591	1,375,118
Gaming and Leisure Properties, Inc.	15,400	551,320
Highwoods Properties, Inc.	28,006	1,420,744
Pebblebrook Hotel Trust (a)	46,968	1,822,359
STAG Industrial, Inc.	54,900	1,494,927
		<b>10,098,923</b>
<b>Utilities 3.8%</b>		
<b>Electric Utilities 2.7%</b>		
Alliant Energy Corp.	27,312	1,155,844
IDACORP, Inc.	17,781	1,640,119
		<b>2,795,963</b>

	Shares	Value (\$)
<b>Gas Utilities 1.1%</b>		
ONE Gas, Inc.	16,076	<b>1,201,519</b>
<b>Total Common Stocks</b> (Cost \$86,653,401)		<b>103,183,861</b>

### Securities Lending Collateral 2.2%

DWS Government & Agency Securities Portfolio "DWS Government Cash Institutional Shares", 1.80% (b) (c) (Cost \$2,299,160)	2,299,160	<b>2,299,160</b>
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### Cash Equivalents 2.8%

DWS Central Cash Management Government Fund, 1.85% (b) (Cost \$2,975,066)	2,975,066	<b>2,975,066</b>
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	% of Net Assets	Value (\$)
<b>Total Investment Portfolio</b> (Cost \$91,927,627)	102.4	<b>108,458,087</b>
<b>Other Assets and Liabilities, Net</b>	(2.4)	<b>(2,581,366)</b>
<b>Net Assets</b>	100.0	<b>105,876,721</b>

A summary of the Fund's transactions with affiliated investments during the period ended June 30, 2018 are as follows:

Value (\$) at 12/31/2017	Purchases at Cost (\$)	Sales Proceeds (\$)	Net Realized Gain/ (Loss) (\$)	Net Change in Unrealized Appreciation (Depreciation) (\$)	Income (\$)	Capital Gain Distributions (\$)	Number of Shares at 6/30/2018	Value (\$) at 6/30/2018
<b>Securities Lending Collateral 2.2%</b>								
DWS Government & Agency Securities Portfolio "DWS Government Cash Institutional Shares," 1.80% (b) (c)								
—	2,299,160	—	—	—	979	—	2,299,160	2,299,160
<b>Cash Equivalents 2.8%</b>								
DWS Central Cash Management Government Fund, 1.85% (b)								
4,418,900	25,171,412	26,615,246	—	—	29,730	—	2,975,066	2,975,066
<b>4,418,900</b>	<b>27,470,572</b>	<b>26,615,246</b>	<b>—</b>	<b>—</b>	<b>30,709</b>	<b>—</b>	<b>5,274,226</b>	<b>5,274,226</b>

\* Non-income producing security.

- (a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at June 30, 2018 amounted to \$2,262,843, which is 2.1% of net assets.
- (b) Affiliated fund managed by Deutsche Investment Management Americas, Inc. The rate shown is the annualized seven-day yield at period end.
- (c) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates. Represents the net increase (purchase cost) or decrease (sales proceeds) in the amount invested for the period ended June 30, 2018.

### 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 June 30, 2018 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)	\$103,183,861	\$ —	\$ —	\$103,183,861
Short-Term Investments (d)	5,274,226	—	—	5,274,226
<b>Total</b>	<b>\$108,458,087</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$108,458,087</b>

There have been no transfers between fair value measurement levels during the period ended June 30, 2018.

(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 June 30, 2018 (Unaudited)

<b>Assets</b>	
Investments in non-affiliated securities, at value (cost \$86,653,401) — including \$2,262,843 of securities loaned	\$ 103,183,861
Investment in DWS Government & Agency Securities Portfolio (cost \$2,299,160)*	2,299,160
Investment in DWS Central Cash Management Government Fund (cost \$2,975,066)	2,975,066
Receivable for Fund shares sold	121,406
Dividends receivable	88,836
Interest receivable	4,275
Other assets	984
<b>Total assets</b>	<b>108,673,588</b>

<b>Liabilities</b>	
Payable upon return of securities loaned	2,299,160
Payable for Fund shares redeemed	370,089
Accrued management fee	53,293
Accrued Trustees' fees	1,746
Other accrued expenses and payables	72,579
<b>Total liabilities</b>	<b>2,796,867</b>
<b>Net assets, at value</b>	<b>\$ 105,876,721</b>

<b>Net Assets Consist of</b>	
Undistributed net investment income	394,977
Net unrealized appreciation (depreciation) on investments	16,530,460
Accumulated net realized gain (loss)	5,362,593
Paid-in capital	83,588,691
<b>Net assets, at value</b>	<b>\$ 105,876,721</b>

## **Net Asset Value**

### **Class A**

<b>Net Asset Value</b> , offering and redemption price per share (\$86,684,326 ÷ 5,939,875 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 14.59</b>
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### **Class B**

<b>Net Asset Value</b> , offering and redemption price per share (\$19,192,395 ÷ 1,313,911 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	<b>\$ 14.61</b>
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\* Represents collateral on securities loaned.

# Statement of Operations

for the six months ended June 30, 2018 (Unaudited)

<b>Investment Income</b>	
Income:	
Dividends	\$ 813,208
Income distributions — DWS Cash Management Government Fund	29,730
Securities lending income, net of borrower rebates	979
<b>Total income</b>	<b>843,917</b>
Expenses:	
Management fee	356,602
Administration fee	54,862
Services to Shareholders	1,311
Record keeping fee (Class B)	11,268
Distribution service fees (Class B)	22,949
Custodian fee	2,781
Professional fees	35,068
Reports to shareholders	12,526
Trustees' fees and expenses	4,723
Other	4,780
<b>Total expenses before expense reductions</b>	<b>506,870</b>
Expense reductions	(30,361)
<b>Total expenses after expense reductions</b>	<b>476,509</b>
<b>Net investment income</b>	<b>367,408</b>

## **Realized and Unrealized gain (loss)**

Net realized gain (loss) from investments	5,388,693
Change in net unrealized appreciation (depreciation) on investments	(5,353,790)

<b>Net gain (loss)</b>	<b>34,903</b>
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<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 402,311</b>
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The accompanying notes are an integral part of the financial statements.

# Statements of Changes in Net Assets

	Six Months Ended June 30, 2018 (Unaudited)	Year Ended December 31, 2017
<b>Increase (Decrease) in Net Assets</b>		
Operations:		
Net investment income (loss)	\$ 367,408	\$ 1,467,106
Net realized gain (loss)	5,388,693	18,971,820
Change in net unrealized appreciation (depreciation)	(5,353,790)	(5,654,443)
Net increase (decrease) in net assets resulting from operations	402,311	14,784,483
Distributions to shareholders from:		
Net investment income:		
Class A	(1,224,311)	(1,100,828)
Class B	(180,146)	(59,126)
Net realized gains:		
Class A	(15,813,624)	(3,269,636)
Class B	(3,183,578)	(353,505)
Total distributions	(20,401,659)	(4,783,095)
Fund share transactions:		
<b>Class A</b>		
Proceeds from shares sold	2,257,125	6,806,078
Reinvestment of distributions	17,037,935	4,370,464
Cost of shares redeemed	(12,065,125)	(77,117,368)
Net increase (decrease) in net assets from Class A share transactions	7,229,935	(65,940,826)
<b>Class B</b>		
Proceeds from shares sold	1,961,821	4,800,663
Reinvestment of distributions	3,363,724	412,631
Cost of shares redeemed	(1,338,281)	(3,308,695)
Net increase (decrease) in net assets from Class B share transactions	3,987,264	1,904,599
<b>Increase (decrease) in net assets</b>	(8,782,149)	(54,034,839)
Net assets at beginning of period	114,658,870	168,693,709
Net assets at end of period (including undistributed net investment income of \$394,977 and \$1,432,026, respectively)	<b>\$ 105,876,721</b>	<b>\$ 114,658,870</b>
<b>Other Information</b>		
<b>Class A</b>		
Shares outstanding at beginning of period	5,375,574	9,208,579
Shares sold	139,207	399,609
Shares issued to shareholders in reinvestment of distributions	1,188,970	259,221
Shares redeemed	(763,876)	(4,491,835)
Net increase (decrease) in Class A shares	564,301	(3,833,005)
Shares outstanding at end of period	<b>5,939,875</b>	<b>5,375,574</b>
<b>Class B</b>		
Shares outstanding at beginning of period	1,037,183	923,852
Shares sold	122,608	283,457
Shares issued to shareholders in reinvestment of distributions	234,243	24,445
Shares redeemed	(80,123)	(194,571)
Net increase (decrease) in Class B shares	276,728	113,331
Shares outstanding at end of period	<b>1,313,911</b>	<b>1,037,183</b>

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



# Financial Highlights

Class A	Six Months Ended 6/30/18 (Unaudited)		Years Ended December 31,			
	2017	2016	2015	2014	2013	
<b>Selected Per Share Data</b>						
<b>Net asset value, beginning of period</b>	<b>\$17.88</b>	<b>\$16.65</b>	<b>\$15.97</b>	<b>\$17.79</b>	<b>\$17.08</b>	<b>\$12.78</b>
<i>Income (loss) from investment operations:</i>						
Net investment income <sup>a</sup>	.06	.17	.15	.09	.05	.12
Net realized and unrealized gain (loss)	(.05)	1.55	2.34	(.31)	.88	4.35
<b>Total from investment operations</b>	<b>.01</b>	<b>1.72</b>	<b>2.49</b>	<b>(.22)</b>	<b>.93</b>	<b>4.47</b>
<i>Less distributions from:</i>						
Net investment income	(.24)	(.12)	(.10)	(.05)	(.14)	(.17)
Net realized gains	(3.06)	(.37)	(1.71)	(1.55)	(.08)	—
<b>Total distributions</b>	<b>(3.30)</b>	<b>(.49)</b>	<b>(1.81)</b>	<b>(1.60)</b>	<b>(.22)</b>	<b>(.17)</b>
<b>Net asset value, end of period</b>	<b>\$14.59</b>	<b>\$17.88</b>	<b>\$16.65</b>	<b>\$15.97</b>	<b>\$17.79</b>	<b>\$17.08</b>
Total Return (%)	.36 <sup>b**</sup>	10.52 <sup>b</sup>	16.89 <sup>b</sup>	(1.91)	5.53	35.24

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	87	96	153	161	205	240
Ratio of expenses before expense reductions (%) <sup>c</sup>	.86 <sup>*</sup>	.83	.83	.80	.82	.82
Ratio of expenses after expense reductions (%) <sup>c</sup>	.81 <sup>*</sup>	.83	.82	.80	.82	.82
Ratio of net investment income (%)	.73 <sup>d*</sup>	.98	.99	.51	.32	.81
Portfolio turnover rate (%)	43 <sup>**</sup>	35	53	25	34	115

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

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

<sup>c</sup> Expense ratio does not reflect charges and fees associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

<sup>d</sup> Due to the timing of the subscriptions and redemptions, the amount shown does not correspond to the total return during the period.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

Class B	Six Months Ended 6/30/18 (Unaudited)		Years Ended December 31,			
	2017	2016	2015	2014	2013	
<b>Selected Per Share Data</b>						
<b>Net asset value, beginning of period</b>	<b>\$17.86</b>	<b>\$16.63</b>	<b>\$15.95</b>	<b>\$17.77</b>	<b>\$17.07</b>	<b>\$12.78</b>
<i>Income (loss) from investment operations:</i>						
Net investment income <sup>a</sup>	.03	.11	.09	.02	(.01)	.07
Net realized and unrealized gain (loss)	(.05)	1.55	2.34	(.29)	.87	4.34
<b>Total from investment operations</b>	<b>(.02)</b>	<b>1.66</b>	<b>2.43</b>	<b>(.27)</b>	<b>.86</b>	<b>4.41</b>
<i>Less distributions from:</i>						
Net investment income	(.17)	(.06)	(.04)	—	(.08)	(.12)
Net realized gains	(3.06)	(.37)	(1.71)	(1.55)	(.08)	—
<b>Total distributions</b>	<b>(3.23)</b>	<b>(.43)</b>	<b>(1.75)</b>	<b>(1.55)</b>	<b>(.16)</b>	<b>(.12)</b>
<b>Net asset value, end of period</b>	<b>\$14.61</b>	<b>\$17.86</b>	<b>\$16.63</b>	<b>\$15.95</b>	<b>\$17.77</b>	<b>\$17.07</b>
Total Return (%)	.20 <sup>b**</sup>	10.13 <sup>b</sup>	16.47 <sup>b</sup>	(2.21)	5.09	34.70

## Ratios to Average Net Assets and Supplemental Data

Net assets, end of period (\$ millions)	19	19	15	14	17	20
Ratio of expenses before expense reductions (%) <sup>c</sup>	1.24 <sup>*</sup>	1.19	1.19	1.16	1.17	1.17
Ratio of expenses after expense reductions (%) <sup>c</sup>	1.16 <sup>*</sup>	1.19	1.18	1.16	1.17	1.17
Ratio of net investment income (loss) (%)	.39 <sup>d*</sup>	.65	.57	.14	(.04)	.45
Portfolio turnover rate (%)	43 <sup>**</sup>	35	53	25	34	115

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

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

<sup>c</sup> Expense ratio does not reflect charges and fees associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

<sup>d</sup> Due to the timing of the subscriptions and redemptions, the amount shown does not correspond to the total return during the period.

<sup>\*</sup> Annualized

<sup>\*\*</sup> Not annualized

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

# Notes to Financial Statements

(Unaudited)

## A. Organization and Significant Accounting Policies

DWS Small Mid Cap Value VIP (formerly Deutsche Small Mid Cap Value VIP) (the “Fund”) is a diversified series of Deutsche DWS Variable Series II (formerly Deutsche Variable Series II) (the “Trust”), which is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company organized as a Massachusetts business trust.

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

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

The Fund’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

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

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

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

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

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

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

**Foreign Currency Translations.** The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into

U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

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

**Securities Lending.** Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund continues to receive interest and dividends generated by the securities and to participate in any changes in their market value. The Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the six months ended June 30, 2018, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by DWS Investment Management Americas, Inc. As of June 30, 2018, the Fund invested the cash collateral in DWS Government & Agency Securities Portfolio. DWS Investment Management Americas Inc. receives a management/administration fee (0.14% annualized effective rate as of June 30, 2018) on the cash collateral invested in DWS Government & Agency Securities Portfolio. The Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. The Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

As of June 30, 2018, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

**Taxes.** The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was \$92,833,398. The net unrealized appreciation for all investments based on tax cost was \$21,901,608. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of \$24,836,354 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of \$2,934,746.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax positions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to income received from Real Estate Investment

Trusts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

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

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

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

**Real Estate Investment Trusts.** The Fund at its fiscal year end recharacterizes distributions received from a Real Estate Investment Trust ("REIT") investment based on information provided by the REIT into the following categories: ordinary income, long-term and short-term capital gains, and return of capital. If information is not available timely from a REIT, the recharacterization will be estimated for financial reporting purposes and a recharacterization will be made to the accounting records in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains.

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

## B. Purchases and Sales of Securities

During the six months ended June 30, 2018, purchases and sales of investment transactions (excluding short-term investments) aggregated \$45,927,778 and \$53,087,275, respectively.

## C. Related Parties

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

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

First \$250 million	.650%
Next \$750 million	.620%
Next \$1.5 billion	.600%
Next \$2.5 billion	.580%
Next \$2.5 billion	.550%
Next \$2.5 billion	.540%
Next \$2.5 billion	.530%
Over \$12.5 billion	.520%

Accordingly, for the six months ended June 30, 2018, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2018 through April 30, 2019, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.81%
Class B	1.16%

For the six months ended June 30, 2018, fees waived and/or expenses reimbursed for each class are as follows:

Class A	\$ 23,410
Class B	6,951
	\$ 30,361

**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 six months ended June 30, 2018, the Administration Fee was \$54,862, of which \$8,926 is unpaid.

**Service Provider Fees.** DWS 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 six months ended June 30, 2018, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at June 30, 2018
Class A	\$ 311	\$ 102
Class B	230	74
	<b>\$ 541</b>	<b>\$ 176</b>

**Distribution Service Agreement.** Under the Fund’s Class B 12b-1 plan, DWS Distributors, Inc. (“DDI”) received a fee (“Distribution Service Fee”) of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2018, the Distribution Service Fee aggregated \$22,949, of which \$3,956 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the six months ended June 30, 2018, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated \$4,907, all of which 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 DWS Central Cash Management Government Fund and DWS Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the 1940 Act, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. DWS Central Cash Management Government Fund seeks to maintain a stable net asset value, and DWS 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. DWS Central Cash Management Government Fund does not pay the Advisor an investment management fee. To the extent that DWS 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 DWS Variable NAV Money Fund.

#### **D. Ownership of the Fund**

At June 30, 2018, one participating insurance company was owner of record of 10% or more of the total outstanding Class A shares of the Fund, owning 71%. Four participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 31%, 20%, 17% and 12%.

#### **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 June 30, 2018.

#### **F. Name Changes**

In connection with adoption of the DWS brand, effective July 2, 2018, Deutsche Investment Management Americas Inc., the Advisor, was renamed to DWS Investment Management Americas, Inc. In addition, the "Deutsche Funds" became known as the "DWS Funds." As a result, Deutsche Variable Series II was renamed Deutsche DWS Variable Series II and Deutsche Small Mid Cap Value VIP was renamed DWS Small Mid Cap Value VIP.

# 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 (January 1, 2018 to June 30, 2018).

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 June 30, 2018

<b>Actual Fund Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 1/1/18	\$ 1,000.00	\$ 1,000.00
Ending Account Value 6/30/18	\$ 1,003.60	\$ 1,002.00
Expenses Paid per \$1,000*	\$ 4.02	\$ 5.76

<b>Hypothetical 5% Fund Return</b>	<b>Class A</b>	<b>Class B</b>
Beginning Account Value 1/1/18	\$ 1,000.00	\$ 1,000.00
Ending Account Value 6/30/18	\$ 1,020.78	\$ 1,019.04
Expenses Paid per \$1,000*	\$ 4.06	\$ 5.81

\* 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 181 (the number of days in the most recent six-month period), then divided by 365.

<b>Annualized Expense Ratios</b>	<b>Class A</b>	<b>Class B</b>
Deutsche DWS Variable Series II — DWS Small Mid Cap Value VIP	.81%	1.16%

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

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

For an analysis of the fees associated with an investment in the Fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at [dws.com/calculators](http://dws.com/calculators).

## Proxy Voting

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the most recent 12-month period ended June 30 are available on our Web site — [dws.com/en-us/resources/proxy-voting](https://dws.com/en-us/resources/proxy-voting) — or on the SEC's Web site — [sec.gov](https://sec.gov). To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.



## Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees (hereinafter referred to as the “Board” or “Trustees”) approved the renewal of Deutsche Small Mid Cap Value VIP’s (now known as DWS Small Mid Cap Value VIP) (the “Fund”) investment management agreement (the “Agreement”) with Deutsche Investment Management Americas Inc. (now known as DWS Investment Management Americas, Inc.) (“DIMA”) in September 2017.

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

- During the entire process, all of the Fund’s Trustees were independent of DIMA and its affiliates (the “Independent Trustees”).
- The Board met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board’s Contract Committee reviewed extensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund’s performance, fees and expenses, and profitability from a fee consultant retained by the Fund’s Independent Trustees (the “Fee Consultant”). Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee’s findings and recommendations.
- The Board also received extensive information throughout the year regarding performance of the Fund.
- The Independent Trustees regularly met privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund’s contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.
- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund’s Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund’s shareholders. DIMA is part of Deutsche Bank AG’s (“Deutsche Bank”) Asset Management (“Deutsche AM”) division. Deutsche AM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world.

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

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

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

believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that, for the one-, three- and five-year periods ended December 31, 2016, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2016. The Board noted the disappointing investment performance of the Fund in some past periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

**Fees and Expenses.** The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were equal to the median of the applicable Broadridge peer group (based on Broadridge data provided as of December 31, 2016). The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Broadridge expense universe (based on Broadridge data provided as of December 31, 2016, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge Universe Expenses. The Board noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AM. The Board noted that DIMA indicated that Deutsche AM does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

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

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

**Other Benefits to DIMA and Its Affiliates.** The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund, any fees received by an affiliate of DIMA for transfer agency services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered

benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities. In addition, the Board considered the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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

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



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