

Quarterly Investment Report

March 31, 2010

## PVIT All Asset Portfolio

A company of **Alliantz**   
Global Investors

**P I M C O**

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| Market Commentary  | Market Outlook   |
|--|--|
| <ul style="list-style-type: none"> <li>▪ Politics was a major influence on global bond markets as 2010 began. Faced with an uneven recovery, policymakers wrestled with how long to sustain stimulus programs that could eventually undermine public finances or stoke inflation</li> <li>▪ Most Treasury yields fell modestly in the first quarter, but yields began to move upward later in the period</li> <li>▪ Corporates, mortgages and emerging market bonds continued their strong performance versus Treasuries</li> </ul>  | <ul style="list-style-type: none"> <li>▪ PIMCO continues to expect developed economies to grow much more slowly than emerging markets, owing to disparate pre-crisis economic conditions</li> <li>▪ The U.S. recovery is not expected to be robust in light of structural impediments such as deleveraging of consumer balance sheets, reregulation and deglobalization</li> <li>▪ The Federal Reserve (Fed) is unlikely to raise rates until final demand and job creation revive, probably in 2011</li> </ul>  |
| Portfolio Recap  | Portfolio Strategy   |
| <ul style="list-style-type: none"> <li>▪ The Portfolio outperformed its index for the quarter</li> <li>▪ Within the underlying funds, select exposure to high-quality, non-Treasury assets and interest rate diversification helped returns during the quarter</li> <li>▪ Tactical asset allocation decisions that were positive include:                             <ul style="list-style-type: none"> <li>➢ Exposure to investment grade credit; spreads continued to narrow amid increased risk appetite</li> <li>➢ Allocations to the emerging market (EM) sector through dollar denominated debt, locally denominated debt, and EM currencies; These assets continued to post strong returns</li> <li>➢ Significant Treasury Inflation-Protected Securities (TIPS) allocations, as TIPS gained from coupon and positive interest accrual despite the disinflationary trend in the U.S.</li> </ul> </li> <li>▪ Tactical asset allocation decisions that were negative include:                             <ul style="list-style-type: none"> <li>➢ Low equity exposure; global equity markets rallied in anticipation of economic recovery</li> <li>➢ Negligible exposure to real estate investment trusts (REITs); REITs posted strong returns amid perceptions that risk in this sector has decreased</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>▪ For the underlying funds, PIMCO will remain cautious with risk exposures in light of global economic uncertainty and relatively rich valuations for many fixed income assets</li> <li>▪ Cross-correlations of asset classes remain high and as such, the benefit of traditional diversifying asset classes remains minimal and the fund is likely to continue to trade these assets on a tactical basis</li> <li>▪ Minimal allocations to short-term strategies will likely continue to be held as short-term interest rates remain depressed. However should the need for a higher degree of diversification arise, then allocations are likely to increase</li> <li>▪ Allocations to short and intermediate-term investment grade credit will likely be reduced into an appreciating market</li> <li>▪ EM external debt spreads continue to narrow given market perceptions of reduced credit risk as fundamentals of EM countries remain strong. We plan for exposures to be further reduced should gains continue</li> <li>▪ We intend to retain a significant core allocation to TIPS and tactical trading will likely continue around this core allocation</li> <li>▪ Allocations to traditional equities index exposure such as the S&amp;P 500 will likely remain low. Instead, exposure to equities will favor the Enhanced Fundamental Index</li> </ul> |



## Summary of Performance Data and Portfolio Statistics

PVIT All Asset Portfolio

Administrative Class

| Performance Periods Ended 3/31/2010             | Since Inception | 5 yrs | 3 yrs | 1 yr  | 6 mos | 3 mos |
|---|-----------------|-------|-------|-------|-------|-------|
| <b>Total Portfolio<sup>1</sup></b>              |                 |       |       |       |       |       |
| <b>Before Fees (%)</b>                          | 7.94            | 6.13  | 4.82  | 29.51 | 5.33  | 2.88  |
| <b>After Fees (%)</b>                           | 6.65            | 4.86  | 3.57  | 27.98 | 4.70  | 2.58  |
| <b>(Inception 04/30/03)</b>                     |                 |       |       |       |       |       |
| Barclays Capital U.S. TIPS: 1-10 Year Index (%) | 5.15            | 5.08  | 6.15  | 6.69  | 3.01  | 0.85  |

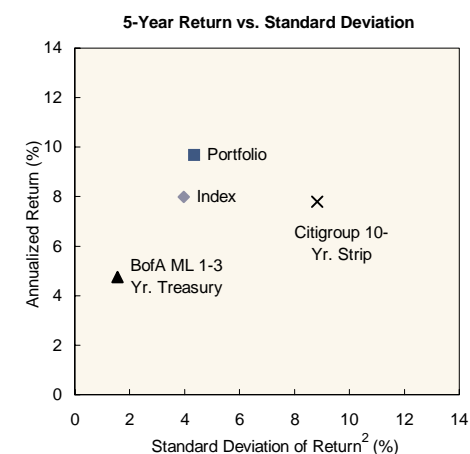
**The high performance of this portfolio is due to exceptional performance in the sector. This level of performance is not guaranteed and should not be expected in the future.**

Average total returns do not include fees and charges of the variable product. If these fees and charges were reflected performance would be lower.

*The performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that Portfolio shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. The Portfolio's total annual operating expense ratio is 1.335%. Total net annual fund operating expenses is 1.215%. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus. Performance data current to the most recent month-end is available at [www.pimco-funds.com/VIT](http://www.pimco-funds.com/VIT) or by calling (800) 927-4648.*

Total net annual fund operating expenses include a contractual expense reduction. The contractual expense reduction is good through the Fund's current fiscal year as detailed in the prospectus.

| Summary Information                | 12/31/2009 | 3/31/2010      |
|------------------------------------|------------|----------------|
| Total Net Assets (USD in millions) | 1,846.5    | <b>1,966.9</b> |



# Additional Share Class Performance

March 31, 2010

## PVIT All Asset Portfolio

| Net of Fees Performance                     | Gross Expense Ratio | Net Expense Ratio* | NAV Currency | Inception Date | Since Inception | 10 Year | 5 Year | 3 Year | 1 Year | 6 Month | 3 Month |
|---|---------------------|--------------------|--------------|----------------|-----------------|---------|--------|--------|--------|---------|---------|
| <b>INSTITUTIONAL Class:</b>                 |                     |                    |              |                |                 |         |        |        |        |         |         |
| All Asset Portfolio, Institutional          | 1.185               | 1.065              | USD          | Jan-31-06      | 4.16            | -       | -      | 3.72   | 28.25  | 4.79    | 2.67    |
| Barclays Capital U.S. TIPS: 1-10 Year Index |                     |                    | -            |                | -               | -       | -      | 6.15   | 6.69   | 3.01    | 0.85    |
| <b>ADVISORY Class:</b>                      |                     |                    |              |                |                 |         |        |        |        |         |         |
| All Asset Portfolio, Advisory               | 1.435               | 1.315              | USD          | Apr-30-04      | 6.12            | -       | 4.74   | 3.45   | 27.80  | 4.56    | 2.51    |
| Barclays Capital U.S. TIPS: 1-10 Year Index |                     |                    | -            |                | -               | -       | 5.08   | 6.15   | 6.69   | 3.01    | 0.85    |
| <b>Class M:</b>                             |                     |                    |              |                |                 |         |        |        |        |         |         |
| All Asset Portfolio, Class M                | 1.635               | 1.515              | USD          | Apr-30-04      | 5.90            | -       | 4.55   | 3.28   | 27.69  | 4.56    | 2.47    |
| Barclays Capital U.S. TIPS: 1-10 Year Index |                     |                    | -            |                | -               | -       | 5.08   | 6.15   | 6.69   | 3.01    | 0.85    |

**The high performance of this portfolio is due to exceptional performance in the sector. This level of performance is not guaranteed and should not be expected in the future.**

Average total returns do not include fees and charges of the variable product. If these fees and charges were reflected performance would be lower.

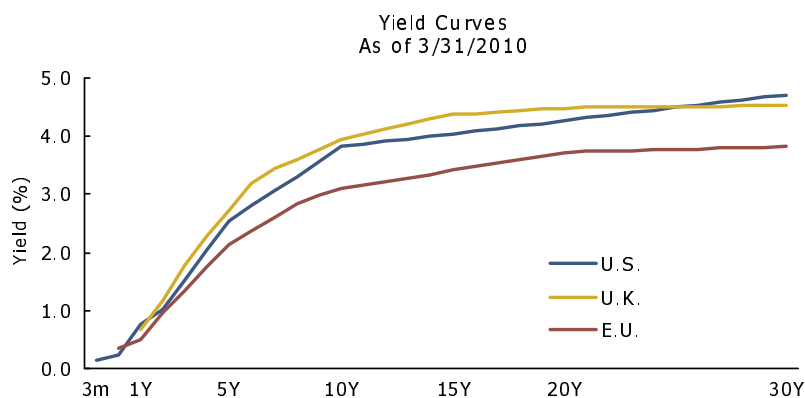
*The performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that Portfolio's shares, when redeemed, may be worth more or less than their original cost. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus. Performance data current to the most recent month-end is available at <http://www.pimco-funds.com/VIT> or by calling (800) 927-4648.*

\* Total net annual fund operating expenses include a contractual expense reduction. The contractual expense reduction is good through the Fund's current fiscal year as detailed in the prospectus.

### Treasury Yields Fall Modestly in the First Quarter of 2010

Most Treasury yields fell modestly in the first quarter of 2010, though yields began to move upward in the last two weeks of the quarter. Earlier in the period investors sought the relative safety of U.S. bonds amid concern about sovereign debt risk, especially in Greece and other peripheral Eurozone economies. Another factor helping to hold down yields were comments by the Federal Reserve (Fed) that an increase in the federal funds rate was not imminent given continued weakness in the economy. As the quarter closed, however, sentiment began to shift amid growing awareness that the U.S. could have sovereign debt challenges of its own over the longer run.

The 10-year Treasury yield fell one basis point to close the quarter at 3.83 percent. With short term rates anchored at very low levels, the U.S. yield curve remained steep. At the end of the quarter, the two-year Treasury yield was some 280 basis points (bps) lower than the 10-year yield. The graphic below shows the position of the U.S., U.K. and Eurozone yield curves as of March 31, 2010:



SOURCE: Bloomberg Financial Markets

#### Past performance is no guarantee of future results.

Graphs are for illustrative purposes only and are not indicative of the performance of any particular investment.

Politics was a major influence on fixed income markets around the world as 2010 began. Policymakers wrestled with how long to sustain stimulus programs designed to mitigate the global recession but which threatened to undermine public finances or stoke inflation.

While the Fed kept its main policy rate unchanged, it raised the discount rate at which member banks can borrow during the first quarter. It also ended programs that were designed to support the housing market and the consumer finance sector. The Fed concluded its \$1.25 trillion Agency mortgage purchase program in March and also ended the subscription period for purchasing consumer asset-backed securities under the Term Asset-backed Securities Loan Facility (TALF).

Policy makers in other developed economies where growth is slow or non-existent, such as Japan, the U.K. and the Eurozone, also left key lending rates unchanged in the first quarter. Central banks in faster growing economies where inflation is more of a concern, such as Australia, India and Malaysia, tightened during the period. China was also expected to broaden the policy tools used to curb headline inflation.

### Summary of Real Assets

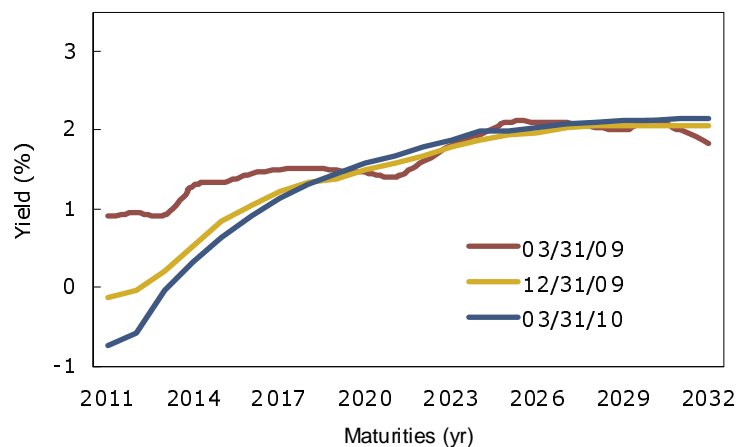
Treasury Inflation-Protected Securities (TIPS) gained 0.56 percent during the first quarter as represented by the Barclays Capital U.S. TIPS Index. Real yields declined in the front end of the yield curve and experienced a modest rise across longer maturities. Real coupon income helped returns as did positive inflation accruals. TIPS gained despite continued near-term disinflationary pressures weighing on market sentiment, but underperformed comparable maturity nominal bonds overall.

Shorter maturity TIPS experienced price gains, mostly in the wake of favorable first quarter economic data. Signs of higher consumer spending and private investment, as well as increases in industrial production, signaled positive trends in the U.S. economy. Markets construed this as reflationary, increasing

the demand for shorter maturity TIPS. Longer dated issues, however, were pressured by concerns of increased issuance as a 30-year issue was reintroduced and new 10-year maturities were issued.

Breakeven inflation levels (i.e., the difference between nominal and real yields) widened in the shorter end of the maturity spectrum and narrowed in the intermediate to longer maturity range. While TIPS yields declined significantly in the front end of the curve and rose modestly in the longer maturity sector, nominal yields decreased across the maturity spectrum and outperformed TIPS overall. Concern about sovereign debt risk, especially in Greece and other peripheral Eurozone economies, put downward pressure on U.S. nominal yields as investors sought the relative safety of U.S. bonds. The 10-year TIPS yield rose 14 bps to close the quarter at 1.57 percent.

**U.S. TIPS Yield Curve**



SOURCE: Barclays Capital

**Past performance is no guarantee of future results.**  
 Graphs are for illustrative purposes only and are not indicative of the performance of any particular investment.

The Dow Jones-UBS Commodity Total Return Index lost 5.03 percent during the first quarter of 2010. The grains, softs and energy sectors were the major detractors from returns. The grains sector suffered as USDA crop reports cited abundant global supplies of wheat and corn. The soft sector was hurt by large declines in sugar futures prices, which tumbled on concerns that world demand may not be as strong as previously expected and as major producers forecasted an increase in production levels. The energy sector posted negative returns primarily due to a drop in natural gas futures prices, which reacted to milder weather forecasts in key U.S. regions, record high inventories and a rising U.S. gas rig count.

Overall, negative returns were mitigated by gains in the industrial metals sector as robust U.S. manufacturing data and record high Eurozone industrial output boosted demand expectations. Nickel futures prices surged in the first quarter as stockpiles declined and users were buying nickel to ensure future inventories.

Precious metals prices were up over the quarter as gold benefited from market uncertainty surrounding the financial bailout of Greece, despite a stronger dollar relative to the euro.

**Equity Markets Rise in Anticipation of Economic Recovery**

Global equity markets were mostly higher in the first quarter of 2010 as investors grew more confident in the prospects of a global economic recovery. The Russell 3000, a commonly referenced index for the broad U.S. stock market, returned 5.9 percent. Within the U.S., small cap stocks outperformed large cap stocks as the Russell 2000 returned 8.9 percent compared to a return of 5.7 percent for the Russell 1000. Among both large and small cap stocks, value beat growth by a considerable margin. The Russell 1000 Value outperformed its growth counterpart 6.8 to 4.7 percent, while the Russell 2000 Value and Russell 2000 Growth returned 10.0 and 7.6 percent, respectively.

Non-U.S. equity markets in developed economies underperformed those in the United States as concerns about Greece, Spain, and Portugal weighed on stock prices in the region. The MSCI EAFE returned 0.9 percent in U.S. dollars and 4.3 percent in local currency terms. Emerging market (EM) equities, as represented by the MSCI EM, returned 2.4 percent in U.S. dollar terms and 1.4 percent in local currency terms.

### **U.S. Bond Strategies and Alternatives Market Performance**

Spreads in the investment grade credit market tightened 20 bps, finishing the quarter at an average level of 136 bps. High grade credit spreads maintained their positive momentum as greater risk appetites boosted investor demand relative to lower yielding U.S. Treasury securities. Demand for corporate bonds continued through the first quarter of 2010, supporting robust new issuance volumes. Despite this volume, spreads tightened and the investment grade credit market posted a 2.27 percent return.<sup>1</sup>

Financials led the first quarter rally, outpacing the index by 59 bps to return 2.87 percent<sup>1</sup>. The financial system benefited from continued supportive government policies and access to the private sector capital markets. Since December 31, financials' spreads have tightened 40 bps to end the quarter at 186 bps<sup>1</sup>.

The life insurance sector led financial credits over the first quarter, generating a total return of 5.62 percent and outpacing the index by 335 bps<sup>1</sup>. The sector continues to benefit as companies experience asset quality improvement and take measures to improve financial flexibility. Liquidity programs have restored some stability to the financial markets after suffering from substantial declines at the height of the financial crisis. The Fed's policy has remained highly accommodative promoting conditions that increase profit growth, lending and the rebuilding of capital.

EM Currency strength versus the U.S. dollar was led by continued signs of economic recovery. While the U.S. dollar

continued to post gains against the euro and yen in the first quarter, this strength looked to be more a reflection of credit concerns in Eurozone, rather than concerns over the outlook for EM countries.

Short maturity, local currency denominated investments in emerging markets returned 1.41 percent for the quarter, as measured by the JPMorgan ELMI+ Index.

For the quarter, Latin America turned in the strongest performance, posting a 4.36 percent return. The Middle East/Africa and Asia followed, returning 2.43 percent and 1.29 percent, respectively. Emerging Europe, the worst performing region, returned -0.25 percent.

As growth in some EM countries advanced, EM local instruments continued to exhibit strong positive performance. Local currency denominated EM bonds returned 5.45 percent as measured by the JPMorgan GBI-EM Global Diversified Index.

In line with the differentiated recoveries in EM and varying sovereign balance sheet initial conditions, there was a bifurcation in the policy rate cycle within EM countries. On one side, rebounding economies like Brazil were on hold for the quarter with the market pricing in an aggressive hiking cycle. On the opposite side, economies still with weak economic growth, such as Hungary, Romania and Russia, Central Banks are still easing and the markets expect further cuts in rates.

For the quarter, regions with stronger growth posted the best performance. Asia and Latin America led in performance returning 7.85 and 5.43 percent, respectively. The Middle East/Africa followed, returning 4.54 percent. Emerging Europe lagged with a return of 3.57 percent.

Credit premiums in the EM sector were volatile earlier in the quarter amid concern about Greece and other developed countries' sovereign debt. By mid quarter, higher quality credits outperformed as markets began to focus on the lagged effects of the "heterogeneous" policy mixes and differential initial

conditions in emerging markets. In spite of the news, appetite for risk continued and valuations for emerging markets U.S. dollar denominated debt continued to rise in the first quarter.

EM spreads\* decreased by 33 bps during the quarter to finish the period at 261 bps over U.S. Treasuries, already at pre-Lehman levels, but still above the historical lows of 151 bps reached in mid-2007. The JPMorgan EMBIG index returned 4.16 percent for the quarter.

<sup>1</sup> Spreads referenced are the average option adjusted spread (OAS) level as generated by Barclays Capital. The individual securities within the index are predominantly measured against like-duration U.S. Treasuries. All spread and performance figures are as reported by Barclays Capital for the Barclays Capital U.S. Credit Index and its respective sub-sectors. The Index outperformed Treasuries as represented by the Barclays Capital U.S. Treasury 7-10 Year Index on a total return basis.

\* EMBIG spreads are shown against a market value weighted average of the spread of every individual issue within the index relative to the duration neutral Treasury for each respective issue in the index. EMBIG outperformed U.S. Treasuries (as measured by the Citigroup Treasury index) for the quarter

### Economic Recovery To Face Structural Headwinds in 2010

Two core themes create tension and uncertainty in PIMCO's economic outlook over the next year. First, we continue to expect differentiated regional outcomes owing to disparate pre-crisis conditions. Second, positive trends in developed economies such as the U.S. over a cyclical timeframe are likely to face structural, or secular headwinds such as high levels of sovereign and consumer debt and excess capacity in labor and product markets. This tension between cyclical and structural factors will be exacerbated by political processes around the world, which means that politics is one of the most critical risk factors in our outlook.

Critical elements of PIMCO's cyclical outlook include:

- **Three-Stage U.S. Recovery** – The U.S. is now in the second stage of a three-stage recovery. First the economy was propped up by fiscal and monetary stimulus. Next came the current stage of inventory rebuilding. The final stage, not yet in evidence, involves job creation and emergence of self-sustaining final demand.
- **Structural Headwinds** – Even when final demand does revive, we do not expect the U.S. recovery to be very robust in light of structural forces standing in the way. These include deleveraging of consumer and ultimately sovereign balance sheets, in addition to the secular trends of reregulation and deglobalization.
- **Range-Bound U.S. Interest Rates** - The Federal Reserve (Fed) is unlikely to raise interest rates until the final stage of recovery starts to emerge, probably in 2011. Longer term U.S. rates should be range-bound over this period.
- **Deflationary Headwinds Stronger in Eurozone** – Severe austerity measures expected on the periphery of the Eurozone (Greece, Spain, already underway in Ireland) are not likely to be counterbalanced by expansion in the core. This is particularly true in Germany, which will remain

unwilling to adjust its export-driven economic model to stimulate more consumption. The U.K. has the monetary and currency flexibility to contribute to regional growth but is constrained by its sovereign debt burden.

- **Pressure on the Euro** - Problems in the Eurozone periphery economies introduce fiscal uncertainty into the, but PIMCO does not expect this to meaningfully affect Eurozone interest rates. Deflationary forces will keep the European Central Bank on hold for even longer than the Fed. The Eurozone's fiscal risk premium is more likely to be reflected in downward pressure on the euro.
- **Prospects Brighter in China and Emerging Markets** – Prospects are brighter in China and most emerging economies, which have benefitted from more favorable pre-crisis conditions. Now some of these economies may face risks of overinflating and asset bubbles. PIMCO believes these risks are manageable for China given the range of policy tools available to deal with them. Compared to other “bubble” economies – Japan in the 1980s and the U.S. more recently – China has stronger economic fundamentals and less of a debt burden.
- **Chinese Renminbi – U.S. Dollar Peg** - Another China risk, and sign of the importance of politics, is the dispute over the renminbi-U.S. dollar peg. While China is likely to allow appreciation of its currency over the next year, the timing is hard to forecast because of potential intervention by the U.S. Congress.

**Limit Risk, Pursue Select Opportunities Amid Uncertainty**

Within the underlying funds, PIMCO will remain cautious with portfolio risk exposures in light of global economic uncertainty and relatively rich valuations for many fixed income assets. There are, however, a number of prudent strategies available in our efforts to enhance returns.

**Summary of Tactical Asset Allocation Views on Nominal Bond, Real Return, and Equity Strategies**

Volatility in most asset classes remains low and most risk asset classes continue to perform very well into 2010. And despite this, cross-correlations of asset classes remain high. As such, the benefit of traditional diversifying asset classes remains minimal and the fund is likely to continue to trade these assets on a tactical basis. Also, given the continued appreciation of risk assets, the fund will continue to reduce exposure, rotating into more stable core allocations such as Treasury Inflation-Protected Securities (TIPS).

Minimal allocations to short-term strategies will likely continue to be held as short-term interest rates remain depressed as the Fed preserves its target rate of effectively zero. However should the need for a higher degree of diversification arise, then allocations are likely to increase.

Allocations to short and intermediate-term investment grade credit will likely continue to be reduced into the appreciating market. Likewise, emerging market (EM) external debt spreads continue to narrow given market perceptions of reduced credit risk as fundamentals of EM countries remain strong and as economic growth picks up.

We intend to retain a significant core allocation to TIPS and tactical trading will likely continue around this core allocation. With the recent increase in real yields, the TIPS allocation has modestly increased.

Allocations to traditional equities index exposure such as the S&P 500 will likely remain low. Equity valuations continue to be unpromising. Instead, exposure to equities will favor the Enhanced Fundamental Index, which has recently increased, as value stocks currently exhibit attractive forward looking returns given dispersion between value and growth stock valuation multiples.

Within the All Asset All Authority Fund, leverage has been increased to fund investment grade credit, short traditional equities exposure and allocations to the Enhanced Fundamental Index.

**Past performance is no guarantee of future results.** Forecasts are based on proprietary research and should not be interpreted as investment advice or as an offer or solicitation for the purchase or sale of any financial instrument.

The performance figures presented reflect the total return performance for the stated share class (after fees) and reflect changes in share price and reinvestment of dividend and capital gain distributions. All periods longer than one year are annualized. The Before Fees performance figures presented herein do not reflect the deduction of the Portfolio's total annual operating expenses, which includes, but is not necessarily limited to, advisory fees, administrative fees, and 12b-1 fees (where applicable). The After Fees performance figures reflect the deduction of all such fees. Details regarding any Portfolio's fees and expenses can be found in the Portfolio's prospectus.

## Risk Disclosures

### Summary of Performance Data and Portfolio Statistics

1 All time periods longer than one year are annualized and returns include reinvestment of dividends, income and capital gains, if any. The Portfolio offers different share classes which are subject to different fees and expenses (which may affect performance), have different minimum investment requirements and are entitled to different services.

In an environment where interest rates may trend upward, rising rates will negatively impact the performance of most bond funds, and fixed income securities held by a fund are likely to decrease in value. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations.

The Portfolio can invest a portion of its assets in non-U.S. securities, which may entail greater risk due to non-U.S. economic and political developments, which may be enhanced when investing in emerging markets. The underlying funds may at times invest in derivatives and mortgage-related securities. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested. An investment in high-yield, lower-rated securities generally involves greater risk to principal than an investment in higher-rated bonds.

The investment performance of the All Asset Portfolio depends on how its assets are allocated and reallocated among particular underlying Funds. The portfolio's value fluctuates with the value of the underlying funds. The cost of investing in these Portfolios is higher than the cost of investing in a mutual fund that invests directly in individual stocks and bonds. The portfolio's allocation among the underlying Funds will vary, the investment may be subject to any and all of the risks at different times and to different degrees. Although each portfolio normally invests in a number of different underlying funds, it will be particularly sensitive to the risks associated with that Fund and any investments in which that Fund concentrates. There is no assurance that the investment objective of any underlying fund will be achieved. The high performance of this portfolio is due to the exceptional performance of the market sector. This level of performance is not guaranteed and should not be expected in the future.

2 Standard deviation is a statistical measure of dispersion about an average, which for a mutual fund, depicts how widely the returns varied over a certain period of time.

### Market Commentary and Market Outlook

Real Return bonds, more commonly known as Treasury Inflation Protected Securities or TIPS, are issued and guaranteed by the U.S. government at a fixed rate that is adjusted based on the change of the Non-Seasonally Adjusted Consumer Price Index. Guarantee does not eliminate market risk. TIPS sacrifice some yield for the benefit of inflation protection. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds. TIPS are only taxable at the Federal level.

Investment grade corporate bonds are considered among the higher rated in the corporate bond sector. These securities are not guaranteed by the federal government and are thus more susceptible to default risk. Generally most corporate bonds are taxable at the state and federal level.

Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds.

Emerging Market bonds are susceptible to market, credit, currency, liquidity, legal, political, technical and other risks different from, or greater than, the risks of investing in developed foreign countries.

Inflation Linked Bonds (ILBs), are issued and guaranteed by the issuing government at a fixed rate that is adjusted based on the change of the issuing governments Consumer Price Index, or equivalent. Guarantee does not eliminate market risk. ILBs sacrifice some yield for the benefit of inflation protection. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds.

High Yield bonds involve greater volatility and risk to principal than investments in higher-rated securities as the issuing entity has a lower credit rating possibly making the security more susceptible to default. Generally these types of bonds are taxable at the state and federal level.

Bonds issued by a government outside of the United States that are guaranteed by the issuing government. Guarantee does not eliminate market risk. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds. Also, governments outside of the United States have different credit ratings which directly correlate to the risks associated with securities.

Corporate bonds are debt securities issued by a corporation. These securities are not guaranteed by the federal government and are thus more susceptible to default risk. Generally most corporate bonds are taxable at the state and federal level. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds.

*Continued*

Mortgage bonds are susceptible to risks such as default and prepayment of principal, and taxable at the state and federal levels, while Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds.

## Index Descriptions

The Consumer Price Index is an unmanaged index representing the rate of inflation of the U. S. consumer prices as determined by the US Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time.

CPI + 500 Basis points index is the consumer price index plus 500 basis points. The Consumer Price Index is an unmanaged index representing the rate of inflation of the U.S. consumer prices as determined by the US Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time.

Dow Jones UBS Commodity Total Return Index is an unmanaged index composed of futures contracts on 19 physical commodities. The index is designed to be a highly liquid and diversified benchmark for commodities as an asset class. It is not possible to invest directly in an unmanaged index.

The Dow Jones Euro STOXX 50® index provides a blue-chip representation of Supersector leaders in the Eurozone. Covers Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Captures approximately 60% of the free-float market capitalisation of the Dow Jones EURO STOXX Total Market Index, which in turn covers approximately 95% of the free-float market capitalisation of the represented countries.

Dow Jones US Select Real Estate Investment Trust Total Return Index, a subset of the Wilshire Real Estate Securities Index (WRESI), is an unmanaged index comprised of U.S. publicly traded Real Estate Investment Trusts. Effective July 1, 2007, the Portfolio began tracking its performance against a float-adjusted version of the index as the full-market-cap version of the index ceased to be disseminated on June 30, 2007. It is not possible to invest directly in the index.

The FTSE (Financial Times, the London Stock Exchange) 100 Index is comprised of the top 100 U. K. companies ranked by market capitalization.

JPMorgan Emerging Local Markets Index Plus (ELMI) tracks total returns for local-currency-denominated money market instruments in 24 emerging markets countries with at least US\$10 billion of external trade.

Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index.

Barclays Capital U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$250 million par amount outstanding. Performance data for this index prior to 10/97 represents returns of the Lehman Inflation Notes Index.

Barclays Capital U.S. TIPS: 1-10 Year is an unmanaged index market comprised of U.S. Treasury Inflation Linked securities with maturities of 1 to 10 years. It is not possible to invest directly in such an unmanaged index.

BofA Merrill Lynch US High Yield Master II Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. Qualifying bonds must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of USD 100 million. Bonds must be rated below investment grade based on a composite of Moody's and S&P. It is not possible to invest directly in an unmanaged index.

MSCI EAFE (Morgan Stanley Capital International Europe, Australasia, Far East) Hedged USD is an unmanaged index of issuers in countries of Europe, Australia, and the Far East represented in US Dollars on a hedged basis. It is not possible to invest in such an unmanaged index.

Russell 1000 Index is an unmanaged group of stocks considered to be representative of the large cap market in general. It is not possible to invest directly into this index.

Russell 2000 Index is an unmanaged group of stocks considered to be representative of the small cap market in general. It is not possible to invest directly into this index.

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