



P I M C O

# PIMCO Variable Insurance Trust

Short-Term Portfolio

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*This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the “Trust”) prospectus for the Portfolio. Investors should consider the investment objectives, risks, charges and expenses of this Portfolio carefully before investing. Ask your financial professional to explain all charges that may apply. This and other information is contained in the Portfolio’s prospectus. The variable product prospectus may be obtained by contacting your Investment Consultant. Please read the Portfolio and variable product prospectuses carefully before you invest or send money.*

### Dear PIMCO Variable Insurance Trust Shareholder:

After a difficult first quarter of calendar 2009, financial markets and the broader economy began to stabilize through a process of policy-induced healing including unprecedented monetary stimulus and near zero short-term interest rates. These efforts seemingly encouraged investors to migrate toward riskier assets in search of yield, and most asset classes higher on the risk spectrum rebounded significantly from the lows reached in March 2009.

However, the requirements for a sustained global economic recovery are complex and challenging. In the U.S. alone, consumer indebtedness is at a level greater than likely income potential and/or credit availability, while unemployment remains high. Furthermore, many major banking institutions continue to focus on borrowing from the Treasury to rebuild their balance sheets in lieu of lending to consumers and businesses. In this uncertain environment, we believe that an understanding of the many market risk factors is critical to both portfolio allocation and in determining the effectiveness of investment opportunities for our clients. As such, we remain focused on our mission of managing risks and delivering returns to help guide our clients through the lower income and economic deleveraging process.

We are honored that Morningstar® named Bill Gross Fixed-Income Fund Manager of the Decade. This honor is a particularly satisfying recognition reflecting the work of Bill Gross and a very talented and flexible team of PIMCO investment professionals in challenging market conditions over the first decade of this new century.

Highlights of the financial markets during the fiscal reporting period include:

- The Federal Reserve maintained a target range for the Federal Funds Rate of 0.00% to 0.25% and the Bank of England reduced its key-lending rate to 0.50%. The European Central Bank reduced its overnight rate to 1.00%, while the Bank of Japan maintained its lending rate at 0.10%.
- Returns on corporate bonds, mortgage-backed securities, and asset-backed securities were positive as investors moved into higher yielding, riskier asset classes. Yields on U.S. Treasury securities were generally volatile and returns lagged that of most developed government bonds. The benchmark ten-year U.S. Treasury note yielded 3.84% at the end of the reporting period, or 1.63% higher than at the beginning of 2009. The Barclays Capital U.S. Aggregate Index, a widely used index of U.S. high-grade bonds, returned 5.93%.
- U.S. Treasury Inflation-Protected Securities ("TIPS") outperformed their nominal U.S. Treasury counterparts as breakeven inflation levels (or the difference between nominal and real yields) moved higher. Real yields declined while nominal yields generally rose in 2009 as investors anticipated an economic recovery and the potential for an increase in inflation. The Barclays Capital U.S. TIPS Index returned 11.41%. In addition, commodities index returns were positive, as represented by the Dow Jones-UBS Commodity Index Total Return, which returned 18.91%.
- Agency mortgage-backed securities ("MBS") performed well due in part to the success of the Federal Reserve's MBS Purchase program, in which total net purchases of mortgages exceeded \$1 trillion by the end of 2009. Non-Agency MBS also performed well as a lack of new issuance over the last two years and anticipated demand from the U.S. Government's Public-Private Investment Program caused prices to move higher. In the asset-backed securities market, the U.S. Government's Term Asset-Backed Securities Loan Facility ("TALF") was successful in restoring liquidity and inducing investor demand.
- Emerging market ("EM") bonds denominated in both U.S. dollars and local EM currencies performed well during the reporting period. Towards the end of the year, adverse news regarding Dubai was a modest negative for EM returns, but reminded investors that country and credit differentiation remains critical in managing EM assets.
- Equity markets worldwide generally trended higher as investors returned due to the low value of certain equities and the peak in the liquidation cycle earlier in the reporting period. U.S. equities, as measured by the S&P 500 Index, returned 26.46% and international equities, as represented by the MSCI World Index, returned 29.99%.

On the following pages of this Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2009, please find specific details as to each Portfolio's total return investment performance and a discussion of those factors that affected performance.

Thank you again for the trust you have placed in us. We never take it lightly and will continue to work diligently to meet your investment needs.

Sincerely,



Brent R. Harris  
President and Chairman, PIMCO Variable Insurance Trust

January 20, 2010

## Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of sixteen separate investment portfolios, including the Short-Term Portfolio (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. The price volatility of fixed-income securities can also increase during periods of rising interest rates resulting in increased losses to a fund. 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 or funds with shorter durations.

The Portfolio may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: interest rate risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed risk, foreign (non-U.S.) investment risk, currency risk, leveraging risk, management risk and short sale risk. A complete description of these risks is contained in the Portfolio's prospectus. The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Because the Portfolio may invest in derivatives, it could lose more than the principal amount invested in these instruments. Investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments.

On the performance summary page in this Annual Report, the Average Annual Total Return table and Cumulative Returns Chart measure performance assuming that all dividend and capital gain distributions were reinvested.

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at 1-866-746-2606, on the Portfolio's website at [www.pimco.com](http://www.pimco.com), and on the Securities and Exchange Commission's ("SEC") website at <http://www.sec.gov>.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is also available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. and is available without charge, upon request, by calling the Trust at 1-866-746-2606 and on the Portfolio's website at [www.pimco.com](http://www.pimco.com). Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

PIMCO Variable Insurance Trust is distributed by Allianz Global Investors Distributors LLC, 1345 Avenue of the Americas, New York, NY 10105.

***The following disclosure provides important information regarding the Portfolio's Expense Example ("Example" or "Expense Example"), which appears in this Annual Report. Please refer to this information when reviewing the Expense Example for the Portfolio.***

## **Example**

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and/or service (12b-1) fees (Administrative and Advisor Class only); and other Portfolio expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. The Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period indicated, which is from July 1, 2009 to December 31, 2009.

## **Actual Expenses**

The information in the table under the heading "Actual Performance" provides information about actual account values and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = \$8.60), then multiply the result by the number in the row titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

## **Hypothetical Example for Comparison Purposes**

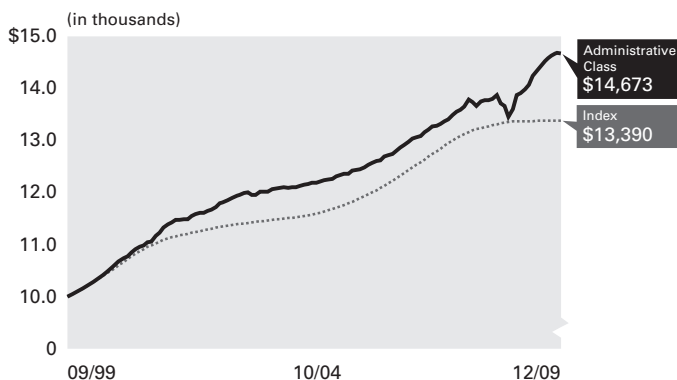
The information in the table under the heading "Hypothetical Performance (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based on the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other portfolios. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other portfolios.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical Performance (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

The expense ratio may vary period to period because of various factors, such as an increase in expenses not covered by the management fees (such as expenses of the independent trustees and their counsel, extraordinary expenses and interest expense).

# PIMCO Short-Term Portfolio

## Cumulative Returns Through December 31, 2009



## Allocation Breakdown<sup>‡</sup>

U.S. Government Agencies	36.7%
Corporate Bonds & Notes	33.9%
Sovereign Issues	7.2%
U.S. Treasury Obligations	6.6%
Asset-Backed Securities	5.9%
Short-Term Instruments	1.9%
Other	7.8%

<sup>‡</sup> % of Total Investments as of 12/31/09

## Portfolio Insights

- » The PIMCO Short-Term Portfolio seeks maximum current income, consistent with preservation of capital and daily liquidity, by investing under normal circumstances at least 65% of its total assets in a diversified portfolio of fixed income instruments of varying maturities, which may be represented by forwards or derivatives such as options, futures contracts or swap agreements.
- » An above-benchmark U.S. duration position, or sensitivity to changes in market interest rates, detracted from returns as interest rates moved higher across the yield curve. This was partially offset by a curve-steepening bias as the yield curve steepened.
- » Exposure to U.S. Agency mortgage-backed securities ("MBS") added to returns as U.S. Agency MBS outperformed U.S. Treasury securities during the reporting period.
- » Exposure to the investment-grade corporate bond sector added to returns as this sector posted strong performance over the reporting period, and outperformed U.S. Treasury securities.

\$10,000 invested at the beginning of the first full month following the inception date of the Portfolio's Administrative Class.

## Average Annual Total Return for the period ended December 31, 2009

	1 Year	5 Years	10 Years	Class Inception (09/30/99)
— PIMCO Short-Term Portfolio Administrative Class	7.80%	3.72%	3.77%	3.81%
..... Citigroup 3-Month Treasury Bill Index <sup>±</sup>	0.16%	2.88%	2.84%	2.89%

All Portfolio returns are net of fees and expenses.

**Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Investment return and principal value will fluctuate so the Portfolio shares when redeemed, may be worth more or less than their original cost. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end is available by calling (800) 927-4648. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.60% for Administrative Class shares.**

<sup>±</sup> Citigroup 3-Month Treasury Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill issues. The index does not reflect deductions for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

Expense Example	Actual Performance	Hypothetical Performance
		(5% return before expenses)
Beginning Account Value (07/01/09)	\$1,000.00	\$1,000.00
Ending Account Value (12/31/09)	\$1,023.45	\$1,022.18
Expenses Paid During Period <sup>†</sup>	\$ 3.06	\$ 3.06

<sup>†</sup> Expenses are equal to the Portfolio's Administrative Class net annualized expense ratio of 0.60%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect Variable Contract fees and expenses.

Please refer to page 3 herein for an explanation of the information presented in the above Expense Example.

# Financial Highlights Short-Term Portfolio

## Selected Per Share Data for the Year Ended:

	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
<b>Administrative Class</b>					
Net asset value beginning of year	\$ 9.62	\$ 10.01	\$ 10.04	\$ 10.05	\$ 10.08
Net investment income (a)	0.20	0.36	0.47	0.44	0.28
Net realized/unrealized gain (loss) on investments	0.54	(0.39)	(0.03)	(0.02)	(0.03)
Total income (loss) from investment operations	0.74	(0.03)	0.44	0.42	0.25
Dividends from net investment income	(0.20)	(0.36)	(0.47)	(0.43)	(0.28)
Distributions from net realized capital gains	(0.09)	0.00	0.00	0.00	0.00
Tax basis return of capital	0.00	0.00	0.00	0.00	0.00
Total distributions	(0.29)	(0.36)	(0.47)	(0.43)	(0.28)
Net asset value end of year	\$ 10.07	\$ 9.62	\$ 10.01	\$ 10.04	\$ 10.05
Total return	7.80%	(0.31)%	4.49%	4.27%	2.52%
Net assets end of year (000s)	\$ 16,335	\$ 12,385	\$ 12,991	\$ 9,211	\$ 8,186
Ratio of expenses to average net assets	0.60%	0.60%	0.60%	0.60%	0.60%
Ratio of expenses to average net assets excluding interest expense	0.60%	0.60%	0.60%	0.60%	0.60%
Ratio of net investment income to average net assets	1.98%	3.65%	4.73%	4.40%	2.77%
Portfolio turnover rate	524%	191%	160%	111%	154%

(a) Per share amounts based on average number of shares outstanding during the year.

# Statement of Assets and Liabilities Short-Term Portfolio

(Amounts in thousands, except per share amounts)

	December 31, 2009
<b>Assets:</b>	
Investments, at value	\$ 20,790
Investments in Affiliates, at value	225
Repurchase agreements, at value	175
Cash	102
Foreign currency, at value	19
Receivable for investments sold	3,733
Receivable for Portfolio shares sold	11
Interest and dividends receivable	111
Swap premiums paid	1
Unrealized appreciation on foreign currency contracts	7
Unrealized appreciation on swap agreements	24
	25,198
<b>Liabilities:</b>	
Payable for investments purchased	\$ 2,128
Payable for Portfolio shares redeemed	4
Written options outstanding	36
Accrued related party fees	12
Swap premiums received	22
Unrealized depreciation on foreign currency contracts	9
Unrealized depreciation on swap agreements	8
	2,219
<b>Net Assets</b>	<b>\$ 22,979</b>
<b>Net Assets Consist of:</b>	
Paid in capital	\$ 22,994
Undistributed net investment income	193
Accumulated undistributed net realized gain	15
Net unrealized (depreciation)	(223)
	\$ 22,979
<b>Net Assets:</b>	
Institutional Class	\$ 6,273
Administrative Class	16,335
Advisor Class	371
<b>Shares Issued and Outstanding:</b>	
Institutional Class	623
Administrative Class	1,622
Advisor Class	37
<b>Net Asset Value and Redemption Price Per Share (Net Asset Per Share Outstanding)</b>	
Institutional Class	\$ 10.07
Administrative Class	10.07
Advisor Class	10.07
<b>Cost of Investments Owned</b>	<b>\$ 21,015</b>
<b>Cost of Investments in Affiliates Owned</b>	<b>\$ 225</b>
<b>Cost of Repurchase Agreements Owned</b>	<b>\$ 175</b>
<b>Cost of Foreign Currency Held</b>	<b>\$ 20</b>
<b>Premiums Received on Written Options</b>	<b>\$ 24</b>

# Statement of Operations Short-Term Portfolio

(Amounts in thousands)

	Year Ended December 31, 2009
<b>Investment Income:</b>	
Interest	\$ 657
Dividends from Affiliate investments	5
Total Income	662
<b>Expenses:</b>	
Investment advisory fees	64
Supervisory and administrative fees	51
Servicing fees – Administrative Class	25
Interest expense	1
Total Expenses	141
<b>Net Investment Income</b>	<b>521</b>
<b>Net Realized and Unrealized Gain (Loss):</b>	
Net realized gain on investments	469
Net realized gain on Affiliate investments	2
Net realized gain on futures contracts, written options and swaps	571
Net realized (loss) on foreign currency transactions	(126)
Net change in unrealized appreciation on investments	496
Net change in unrealized (depreciation) on futures contracts, written options and swaps	(183)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	145
Net Gain	1,374
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 1,895</b>

# Statements of Changes in Net Assets Short-Term Portfolio

(Amounts in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>Increase (Decrease) in Net Assets from:</b>		
<b>Operations:</b>		
Net investment income	\$ 521	\$ 910
Net realized gain (loss)	914	(283)
Net realized gain on Affiliate investments	2	0
Net change in unrealized appreciation (depreciation)	458	(711)
Net increase (decrease) resulting from operations	1,895	(84)
<b>Distributions to Shareholders:</b>		
From net investment income		
Institutional Class	(196)	(391)
Administrative Class	(327)	(515)
From net realized capital gains		
Institutional Class	(56)	0
Administrative Class	(155)	0
Advisor Class	(3)	0
Total Distributions	(737)	(906)
<b>Portfolio Share Transactions:</b>		
Receipts for shares sold		
Institutional Class	3,080	6,034
Administrative Class	25,774	11,091
Advisor Class	429	0
Issued as reinvestment of distributions		
Institutional Class	252	391
Administrative Class	482	515
Advisor Class	3	0
Cost of shares redeemed		
Institutional Class	(8,650)	(8,220)
Administrative Class	(22,986)	(11,620)
Advisor Class	(58)	0
Net (decrease) resulting from Portfolio share transactions	(1,674)	(1,809)
<b>Total (Decrease) in Net Assets</b>	<b>(516)</b>	<b>(2,799)</b>
<b>Net Assets:</b>		
Beginning of year	23,495	26,294
End of year*	\$ 22,979	\$ 23,495
*Including undistributed net investment income of:	\$ 193	\$ 354

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>CORPORATE BONDS &amp; NOTES 31.3%</b>		
<b>BANKING &amp; FINANCE 23.4%</b>		
<b>American Express Bank FSB</b> 0.361% due 05/29/2012	\$ 200	\$ 195
<b>American Express Credit Corp.</b> 0.392% due 06/16/2011	100	99
<b>American Honda Finance Corp.</b> 1.003% due 06/20/2011	300	300
<b>American International Group, Inc.</b> 0.321% due 01/29/2010	200	200
<b>ASIF I</b> 0.432% due 07/26/2010	300	291
<b>Bear Stearns Cos. LLC</b> 0.482% due 08/15/2011	100	100
<b>Caterpillar Financial Services Corp.</b> 1.001% due 06/24/2011	200	202
<b>Citigroup, Inc.</b> 0.379% due 03/16/2012 5.500% due 04/11/2013 6.000% due 02/21/2012	200 160 250	193 166 264
<b>Dexia Credit Local</b> 0.899% due 09/23/2011	300	303
<b>General Electric Capital Corp.</b> 1.167% due 05/22/2013	100	98
<b>John Deere Capital Corp.</b> 1.006% due 06/10/2011	250	252
<b>Lehman Brothers Holdings, Inc.</b> 3.011% due 12/23/2010 (a)	100	20
<b>Macquarie Bank Ltd.</b> 0.484% due 02/16/2010	200	200
<b>Merrill Lynch &amp; Co., Inc.</b> 0.481% due 11/01/2011 6.050% due 08/15/2012	200 100	196 107
<b>Metropolitan Life Global Funding I</b> 0.504% due 03/15/2012 2.875% due 09/17/2012	170 100	168 101
<b>Monumental Global Funding II</b> 0.232% due 05/26/2010	200	199
<b>Morgan Stanley</b> 0.534% due 01/18/2011 5.300% due 03/01/2013	100 100	100 105
<b>National Rural Utilities Cooperative Finance Corp.</b> 1.065% due 07/01/2010	200	201
<b>Pricoa Global Funding I</b> 5.400% due 10/18/2012	200	209
<b>Royal Bank of Scotland Group PLC</b> 0.514% due 03/30/2012 0.972% due 05/11/2012	200 300	199 304
<b>Suncorp-Metway Ltd.</b> 1.784% due 07/16/2012	300	310
<b>Swedbank AB</b> 0.734% due 01/14/2013	300	299
		<b>5,381</b>
<b>INDUSTRIALS 3.2%</b>		
<b>Siemens Financieringsmaatschappij NV</b> 5.750% due 10/17/2016	100	108
<b>Southern Co.</b> 0.969% due 08/20/2010	200	201
<b>Transcontinental Gas Pipe Line Co. LLC</b> 7.000% due 08/15/2011	200	215

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>XTO Energy, Inc.</b> 4.625% due 06/15/2013	\$ 200	\$ 213
		<b>737</b>
<b>UTILITIES 4.7%</b>		
<b>Appalachian Power Co.</b> 5.650% due 08/15/2012	182	195
<b>Enel Finance International S.A.</b> 5.700% due 01/15/2013	100	108
<b>Kinder Morgan Finance Co. ULC</b> 5.350% due 01/05/2011	50	51
<b>Qatar Petroleum</b> 5.579% due 05/30/2011	83	86
<b>Telecom Italia Capital S.A.</b> 6.175% due 06/18/2014	200	217
<b>Verizon Wireless Capital LLC</b> 2.869% due 05/20/2011	200	207
<b>Vodafone Group PLC</b> 7.750% due 02/15/2010	200	201
		<b>1,065</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$7,132)</b>		<b>7,183</b>
<b>MUNICIPAL BONDS &amp; NOTES 1.3%</b>		
<b>New York City, New York General Obligation Notes, Series 2003</b> 0.784% due 01/15/2010	300	300
<b>Total Municipal Bonds &amp; Notes (Cost \$300)</b>		<b>300</b>
<b>U.S. GOVERNMENT AGENCIES 33.9%</b>		
<b>Fannie Mae</b> 0.152% due 05/13/2011 0.291% due 12/25/2036 0.351% due 03/25/2034 0.381% due 08/25/2034 0.431% due 10/27/2037 0.581% due 05/25/2042 1.832% due 03/01/2044 - 07/01/2044 3.250% due 10/01/2031	3,000 57 23 6 100 18 82 4	2,999 55 21 5 95 16 81 4
<b>Federal Farm Credit Bank</b> 0.305% due 07/01/2011	500	501
<b>Federal Home Loan Bank</b> 4.850% due 02/04/2011 5.875% due 02/15/2011	425 400	444 423
<b>Freddie Mac</b> 0.110% due 11/09/2011 0.208% due 08/05/2011 0.271% due 12/25/2036 0.463% due 02/15/2019 0.583% due 06/15/2031 1.832% due 10/25/2044 - 02/25/2045 2.032% due 07/25/2044 2.050% due 03/09/2011 3.250% due 02/25/2011 5.000% due 01/15/2018 5.500% due 08/15/2030 9.500% due 12/01/2019	400 800 80 232 35 400 77 1,000 100 23 1 2	399 800 77 232 35 375 74 1,003 103 24 1 2
<b>Ginnie Mae</b> 4.000% due 02/20/2032	15	16
<b>Total U.S. Government Agencies (Cost \$7,828)</b>		<b>7,785</b>

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>U.S. TREASURY OBLIGATIONS 6.1%</b>		
<b>U.S. Treasury Notes</b>		
1.000% due 10/31/2011 (d)	\$ 200	\$ 200
1.250% due 11/30/2010 (d)	1,200	1,209
<b>Total U.S. Treasury Obligations (Cost \$1,410)</b>		<b>1,409</b>
<b>MORTGAGE-BACKED SECURITIES 3.7%</b>		
<b>Banc of America Mortgage Securities, Inc.</b>		
4.581% due 07/20/2032	2	2
5.500% due 07/25/2035	115	108
<b>Bear Stearns Adjustable Rate Mortgage Trust</b>		
3.770% due 01/25/2034	8	7
<b>Bear Stearns Alt-A Trust</b>		
5.378% due 09/25/2035	44	30
<b>Bear Stearns Commercial Mortgage Securities</b>		
6.440% due 06/16/2030	1	1
<b>Citigroup Mortgage Loan Trust, Inc.</b>		
2.510% due 08/25/2035	30	27
<b>Countrywide Alternative Loan Trust</b>		
0.383% due 05/20/2046	15	15
<b>Countrywide Home Loan Mortgage Pass-Through Trust</b>		
0.571% due 06/25/2035	44	38
<b>CS First Boston Mortgage Securities Corp.</b>		
0.879% due 03/25/2032	8	7
2.343% due 05/25/2032	1	1
3.340% due 06/25/2033	35	29
<b>First Republic Mortgage Loan Trust</b>		
0.533% due 08/15/2032	29	23
<b>Greenpoint Mortgage Funding Trust</b>		
0.451% due 06/25/2045	55	29
<b>GSR Mortgage Loan Trust</b>		
3.336% due 09/25/2035	51	44
<b>Harborview Mortgage Loan Trust</b>		
0.453% due 05/19/2035	70	36
<b>Impac Secured Assets CMN Owner Trust</b>		
0.311% due 01/25/2037	9	5
<b>JPMorgan Mortgage Trust</b>		
5.022% due 02/25/2035	130	119
<b>Mellon Residential Funding Corp.</b>		
0.673% due 12/15/2030	16	14
<b>Merrill Lynch Floating Trust</b>		
0.303% due 06/15/2022	55	50
<b>MLCC Mortgage Investors, Inc.</b>		
1.231% due 10/25/2035	25	20
<b>Structured Asset Mortgage Investments, Inc.</b>		
0.461% due 05/25/2045	85	50
0.483% due 07/19/2035	10	6
0.893% due 09/19/2032	8	7
<b>Structured Asset Securities Corp.</b>		
0.281% due 05/25/2036	10	10
<b>Thornburg Mortgage Securities Trust</b>		
0.331% due 03/25/2037	66	64
0.341% due 11/25/2046	48	46
<b>WaMu Mortgage Pass-Through Certificates</b>		
1.544% due 02/25/2046	40	23
1.544% due 08/25/2046	58	32
1.744% due 11/25/2042	23	15
1.944% due 06/25/2042	5	4
<b>Total Mortgage-Backed Securities (Cost \$1,070)</b>		<b>862</b>

# Schedule of Investments Short-Term Portfolio (Cont.)

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>ASSET-BACKED SECURITIES 5.4%</b>		
<b>ACE Securities Corp.</b>		
0.281% due 12/25/2036	\$ 24	\$ 20
<b>Bear Stearns Asset-Backed Securities Trust</b>		
0.281% due 11/25/2036	18	17
0.316% due 10/25/2036	23	21
0.891% due 10/25/2032	3	2
<b>Carrington Mortgage Loan Trust</b>		
0.331% due 06/25/2037	52	45
<b>Chase Issuance Trust</b>		
1.754% due 09/15/2015	200	206
<b>Countrywide Asset-Backed Certificates</b>		
0.281% due 05/25/2037	14	14
0.391% due 02/25/2036	6	6
0.711% due 12/25/2031	3	1
0.971% due 05/25/2032	1	1
<b>CS First Boston Mortgage Securities Corp.</b>		
0.971% due 08/25/2032	2	1
<b>Daimler Chrysler Auto Trust</b>		
1.165% due 07/08/2011	118	118
<b>Ford Credit Auto Owner Trust</b>		
0.357% due 09/15/2010	86	86
0.796% due 07/15/2010	67	67
1.433% due 12/15/2010	29	29
1.653% due 06/15/2012	200	201
<b>Fremont Home Loan Trust</b>		
0.291% due 01/25/2037	25	17
<b>Irwin Home Equity Corp.</b>		
0.771% due 07/25/2032	2	1
<b>JPMorgan Mortgage Acquisition Corp.</b>		
0.281% due 10/25/2036	25	23

	PRINCIPAL AMOUNT (000s)	MARKET VALUE (000s)
<b>MASTR Asset-Backed Securities Trust</b>		
0.281% due 11/25/2036	\$ 13	\$ 10
<b>New Century Home Equity Loan Trust</b>		
0.491% due 06/25/2035	20	16
<b>Renaissance Home Equity Loan Trust</b>		
0.591% due 11/25/2034	11	9
0.671% due 08/25/2033	12	8
0.731% due 12/25/2033	53	43
<b>SLM Student Loan Trust</b>		
0.272% due 07/25/2017	73	73
1.782% due 04/25/2023	185	193
<b>Structured Asset Investment Loan Trust</b>		
0.281% due 07/25/2036	9	9
<b>Structured Asset Securities Corp.</b>		
0.521% due 01/25/2033	4	3
<b>Wells Fargo Home Equity Trust</b>		
0.471% due 10/25/2035	6	6
<b>Total Asset-Backed Securities (Cost \$1,279)</b>		<b>1,246</b>

<b>SOVEREIGN ISSUES 6.6%</b>		
<b>Kommunalbanken AS</b>		
3.375% due 11/15/2011	200	206
<b>Societe Financement de l'Economie Francaise</b>		
2.375% due 03/26/2012	1,300	1,317
<b>Total Sovereign Issues (Cost \$1,521)</b>		<b>1,523</b>

<b>FOREIGN CURRENCY-DENOMINATED ISSUES 2.1%</b>			
<b>Nykredit Realkredit A/S</b>			
4.000% due 01/01/2010	DKK 2,500	\$	482
<b>Total Foreign Currency-Denominated Issues (Cost \$475)</b>			<b>482</b>

## SHORT-TERM INSTRUMENTS 1.8%

<b>REPURCHASE AGREEMENTS 0.8%</b>			
<b>State Street Bank and Trust Co.</b>			
0.005% due 01/04/2010	175		175
(Dated 12/31/2009. Collateralized by U.S. Treasury Bills 0.000% due 01/14/2010 valued at \$180. Repurchase proceeds are \$175.)			

## PIMCO SHORT-TERM FLOATING NAV PORTFOLIO (b) 1.0%

	SHARES	
	22,480	225
<b>Total Short-Term Instruments (Cost \$400)</b>		<b>400</b>
<b>Total Investments 92.2% (Cost \$21,415)</b>		<b>\$ 21,190</b>
<b>Written Options (f) (0.2%) (Premiums \$24)</b>		<b>(36)</b>
<b>Other Assets and Liabilities (Net) 8.0%</b>		<b>1,825</b>
<b>Net Assets 100.0%</b>		<b>\$ 22,979</b>

### Notes to Schedule of Investments (amounts in thousands\*, except number of contracts):

\* A zero balance may reflect actual amounts rounding to less than one thousand.

- (a) Security is in default.
- (b) Affiliated to the Portfolio.
- (c) The average amount of borrowings while outstanding during the period ended December 31, 2009 was \$2,079 at a weighted average interest rate of 0.370%. On December 31, 2009, there were no open reverse repurchase agreements.
- (d) Securities with an aggregate market value of \$46 have been pledged as collateral for futures contracts on December 31, 2009:
- (e) Swap agreements outstanding on December 31, 2009:

### Credit Default Swaps on Corporate, Sovereign, and U.S. Municipal Issues - Sell Protection <sup>(1)</sup>

Reference Entity	Counterparty	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2009 <sup>(2)</sup>	Notional Amount <sup>(3)</sup>	Market Value	Upfront Premiums Paid/(Received)	Unrealized Appreciation
Brazil Government International Bond	BCLY	1.000%	12/20/2010	0.584%	\$ 100	\$ 1	\$ 1	\$ 0
Brazil Government International Bond	DUB	1.000%	12/20/2010	0.584%	100	0	0	0
General Electric Capital Corp.	DUB	1.020%	06/20/2010	0.690%	100	0	0	0
General Electric Capital Corp.	MSC	5.000%	06/20/2011	1.313%	100	6	(6)	12
Mexico Government International Bond	BCLY	1.000%	12/20/2010	0.653%	100	0	0	0
Mexico Government International Bond	DUB	1.000%	12/20/2010	0.653%	100	0	0	0
Morgan Stanley	JPM	0.850%	09/20/2012	0.920%	200	0	0	0
SLM Corp.	BOA	5.000%	12/20/2010	3.754%	100	2	(10)	12
						\$ 9	\$ (15)	\$ 24

<sup>(1)</sup> If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation.

<sup>(2)</sup> Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues, U.S. municipal issues or sovereign issues of an emerging country as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

<sup>(3)</sup> The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

## Interest Rate Swaps

Pay/Receive			Maturity		Notional	Market	Upfront Premiums	Unrealized
Floating Rate	Floating Rate Index	Fixed Rate	Date	Counterparty	Amount	Value	Paid/(Received)	(Depreciation)
Pay	3-Month AUD Bank Bill	4.500%	06/15/2012	UBS	AUD 1,400	\$ (14)	\$ (6)	\$ (8)

(f) Written options outstanding on December 31, 2009:

## Options on Exchange-Traded Futures Contracts

Description	Exercise Price	Expiration Date	# of Contracts	Premium	Market Value
Call - CBOT U.S. Treasury 10-Year Note March Futures	\$ 120.000	02/19/2010	20	\$ 7	\$ 1
Put - CBOT U.S. Treasury 10-Year Note March Futures	114.000	02/19/2010	1	0	1
Put - CBOT U.S. Treasury 10-Year Note March Futures	115.000	02/19/2010	20	6	21
				\$ 13	\$ 23

## Interest Rate Swaptions

Description	Counterparty	Floating Rate Index	Pay/Receive	Exercise Rate	Expiration Date	Notional Amount	Premium	Market Value
Call - OTC 7-Year Interest Rate Swap	BNP	3-Month USD-LIBOR	Receive	2.750%	04/19/2010	\$ 1,100	\$ 2	\$ 1
Put - OTC 7-Year Interest Rate Swap	BNP	3-Month USD-LIBOR	Pay	4.000%	04/19/2010	1,100	9	12
							\$ 11	\$ 13

## Transactions in written call and put options for the period ended December 31, 2009:

	# of Contracts	Notional Amount	Premium
Balance at 12/31/2008	0	\$ 800	\$ 23
Sales	178	17,900	250
Closing Buys	(105)	(16,200)	(229)
Expirations	(32)	(300)	(20)
Exercised	0	0	0
Balance at 12/31/2009	41	\$ 2,200	\$ 24

(g) Foreign currency contracts outstanding on December 31, 2009:

Type	Currency	Principal Amount Covered by Contract	Settlement Month	Counterparty	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/(Depreciation)
Buy	AUD	27	01/2010	RBS	\$ 0	\$ (1)	\$ (1)
Buy	CLP	10,534	02/2010	JPM	2	0	2
Buy	CNY	132	03/2010	BCLY	0	0	0
Sell		47	03/2010	BCLY	0	0	0
Sell		68	03/2010	CITI	0	0	0
Buy		241	03/2010	DUB	0	(1)	(1)
Sell		184	03/2010	DUB	0	0	0
Sell		75	03/2010	MSC	0	0	0
Buy		95	06/2010	BCLY	0	0	0
Buy		40	06/2010	CITI	0	0	0
Buy		18	06/2010	DUB	0	0	0
Buy		129	06/2010	HSBC	0	0	0
Buy		46	11/2010	BCLY	0	0	0
Buy		66	11/2010	CITI	0	0	0
Buy		180	11/2010	DUB	0	0	0
Buy		73	11/2010	MSC	0	0	0
Sell	DKK	82	01/2010	HSBC	0	0	0
Sell		2,500	01/2010	RBS	0	(7)	(7)
Buy		100	01/2010	UBS	0	0	0
Sell	EUR	8	02/2010	RBS	0	0	0
Sell	GBP	53	01/2010	CITI	3	0	3
Buy	MXN	1,760	04/2010	JPM	1	0	1
Buy	SGD	4	03/2010	MSC	0	0	0
Buy	ZAR	213	02/2010	CITI	1	0	1
					\$ 7	\$ (9)	\$ (2)

# Schedule of Investments Short-Term Portfolio (Cont.)

## (h) Fair Value Measurements \*

The following is a summary of the fair valuations according to the inputs used as of December 31, 2009 in valuing the Portfolio's assets and liabilities:

Category **	Quoted Prices in Active Markets for Identical Investments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at 12/31/2009
Corporate Bonds & Notes	\$ 0	\$ 7,183	\$ 0	\$ 7,183
U.S. Government Agencies	0	7,690	95	7,785
U.S. Treasury Obligations	0	1,409	0	1,409
Asset-Backed Securities	0	1,246	0	1,246
Sovereign Issues	0	1,523	0	1,523
Other Investments ***	225	1,819	0	2,044
Investments, at value	\$ 225	\$ 20,870	\$ 95	\$ 21,190
Financial Derivative Instruments ****	\$ 0	\$ (22)	\$ 0	\$ (22)
Total	\$ 225	\$ 20,848	\$ 95	\$ 21,168

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Portfolio during the year ending December 31, 2009:

Category **	Beginning Balance at 12/31/2008	Net Purchases/ (Sales)	Accrued Discounts/ (Premiums)	Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ (Depreciation)	Net Transfers In/ (Out) of Level 3	Ending Balance at 12/31/2009	Net Change in Unrealized Appreciation/ (Depreciation) on Investments Held at 12/31/2009 *****
Corporate Bonds & Notes	\$ 244	\$ 0	\$ 33	\$ 0	\$ 14	\$ (291)	\$ 0	\$ 0
U.S. Government Agencies	0	0	0	0	10	85	95	10
Investments, at value	\$ 244	\$ 0	\$ 33	\$ 0	\$ 24	\$ (206)	\$ 95	\$ 10

\* See note 2 in the Notes to Financial Statements for additional information.

\*\* Refer to the Schedule of Investments for additional information.

\*\*\* Sum of all other categories each of which individually has an aggregate market value of less than 5% of net assets.

\*\*\*\* Financial derivative instruments may include open futures contracts, swap contracts, written options, and foreign currency contracts.

\*\*\*\*\* Any difference between Net Change in Unrealized Appreciation/(Depreciation) and Net Change in Unrealized Appreciation/(Depreciation) on Investments Held at 12/31/2009 may be due to premiums on swaps that closed during the year.

## (i) Fair Value of Derivative Instruments ^

The following is a summary of the fair valuations of the Portfolio's derivative instruments categorized by risk exposure:

### Fair Values of Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 2009:

	Derivatives not accounted for as hedging instruments					Total
	Interest rate contracts	Foreign exchange contracts	Credit contracts	Equity contracts	Other contracts	
<b>Assets:</b>						
Unrealized appreciation on foreign currency contracts	\$ 0	\$ 7	\$ 0	\$ 0	\$ 0	\$ 7
Unrealized appreciation on swap agreements	0	0	24	0	0	24
	\$ 0	\$ 7	\$ 24	\$ 0	\$ 0	\$ 31
<b>Liabilities:</b>						
Written options outstanding	\$ 36	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36
Unrealized depreciation on foreign currency contracts	0	9	0	0	0	9
Unrealized depreciation on swap agreements	8	0	0	0	0	8
	\$ 44	\$ 9	\$ 0	\$ 0	\$ 0	\$ 53

## The Effect of Derivative Instruments on the Statement of Operations for the Year Ended December 31, 2009:

	Derivatives not accounted for as hedging instruments					Total
	Interest rate contracts	Foreign exchange contracts	Credit contracts	Equity contracts	Other contracts	
<b>Realized Gain (Loss) on Derivatives Recognized as a Result from Operations:</b>						
Net realized gain on investments (purchased options)	\$ 23	\$ 0	\$ 0	\$ 0	\$ 0	\$ 23
Net realized gain on futures contracts, written options and swaps	564	0	7	0	0	571
Net realized (loss) on foreign currency transactions	0	(99)	0	0	0	(99)
	<u>\$ 587</u>	<u>\$ (99)</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 495</u>
<b>Net Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized as a Result from Operations:</b>						
Net change in unrealized (depreciation) on investments (purchased options)	\$ (59)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (59)
Net change in unrealized appreciation (depreciation) on futures contracts, written options and swaps	(237)	0	54	0	0	(183)
Net change in unrealized appreciation on translation of assets and liabilities denominated in foreign currencies	0	136	0	0	0	136
	<u>\$ (296)</u>	<u>\$ 136</u>	<u>\$ 54</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (106)</u>

<sup>^</sup> See note 2 in the Notes to Financial Statements for additional information.

# Notes to Financial Statements

## 1. ORGANIZATION

The Short-Term Portfolio (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. Information presented on these financial statements pertains to the Administrative Class of the Portfolio. Certain detailed financial information for the Institutional Class and Advisor Class is provided separately and is available upon request. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with U.S. GAAP may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

**(a) Determination of Net Asset Value** The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open. Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

**(b) Investment Valuation** For purposes of calculating the NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services.

Domestic and foreign fixed income securities and non-exchange traded derivatives are normally valued on the basis of quotes obtained from brokers and dealers or pricing services. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Short-term investments having a maturity of 60 days or less are generally valued at amortized cost which approximates fair value. Exchange traded options, futures and options on futures are valued at the settlement price determined by the relevant exchange. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies, the Portfolio's NAV will be calculated based upon the NAVs of such investments. The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing services. As a result, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be

affected significantly on a day that the NYSE is closed and the NAV may change on days when an investor is not able to purchase, redeem or exchange shares.

Securities and other assets for which market quotes are not readily available are valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. The Board of Trustees has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the investment adviser, Pacific Investment Management Company LLC ("PIMCO") the responsibility for applying the valuation methods. For instance, certain securities or investments for which daily market quotes are not readily available may be valued, pursuant to guidelines established by the Board of Trustees, with reference to other securities or indices. In the event that market quotes are not readily available, and the security or asset cannot be valued pursuant to one of the valuation methods, the value of the security or asset will be determined in good faith by the Valuation Committee of the Board of Trustees, generally based upon recommendations provided by PIMCO.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Portfolio's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade, do not open for trading for the entire day and no other market prices are available. The Board of Trustees has delegated to PIMCO the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or assets and for determining whether the value of the applicable securities or assets should be re-evaluated in light of such significant events.

When the Portfolio uses fair value pricing to determine its NAV, securities will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board of Trustees or persons acting at their direction believe accurately reflects fair value. Fair value pricing may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot ensure that fair values determined by the Board of Trustees or persons acting at their direction would accurately reflect the price that the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold.

U.S. GAAP defines fair value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes and requires disclosure of a fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Levels 1, 2, and 3). Categorization of fair value measurements is determined by the nature of the inputs as follows: inputs using quoted prices in active markets for identical assets or liabilities ("Level 1"), significant other observable inputs ("Level 2"), and significant unobservable inputs ("Level 3"). Valuation levels are not necessarily an indication of the risk associated with investing in those securities. For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported market values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in/out of the Level 3 category during the period. In accordance with the requirements of U.S. GAAP, a fair value hierarchy and Level 3 reconciliation have been included in the Notes to the Schedule of Investments for the Portfolio.

**(c) Securities Transactions and Investment Income** Securities transactions are recorded as of the trade date for financial reporting purposes. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations.

**(d) Cash and Foreign Currency** The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. Dollars based on the current exchange rates each business day. Fluctuations in the value of currency holdings and other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains or losses. Realized gains or losses and unrealized appreciation or depreciation on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated on the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

**(e) Multiclass Operations** Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). For daily dividend Portfolios, income and non-class specific expenses are allocated daily to each class on the basis of the relative value of settled shares. For non-daily dividend Portfolios, income and non-class specific expenses are allocated daily to each class on the basis of the relative net assets. Realized and unrealized capital gains and losses of each class are allocated daily based on the relative net assets of each class of the respective Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative, distribution and servicing fees.

**(f) Dividends and Distributions to Shareholders** Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may change the fiscal year when income and capital items are recognized for tax and U.S. GAAP purposes. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. Examples of characterization differences include the treatment of mortgage paydowns, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income and realized capital gain reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the accompanying Statements of Changes in Net Assets and have been reclassified to paid in capital. In addition, other amounts have been reclassified between undistributed net investment income, accumulated undistributed net realized gains

or losses and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

### 3. SECURITIES AND OTHER INVESTMENTS

**(a) Mortgage-Related and Other Asset-Backed Securities** The Portfolio may invest in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, stripped mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. Mortgage-related and other asset-backed securities are interests in pools of loans or other receivables. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. These securities provide a monthly payment which consists of both interest and principal payments. Interest payments may be determined by fixed or adjustable rates. The rate of pre-payments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the United States Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that is collateralized by mortgages and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments. Commercial Mortgage-Backed Securities ("CMBS") include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in CMBS reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. CMOs and CMBS may be less liquid and may exhibit greater price volatility than other types of mortgage- or asset-backed securities.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive the entire principal (the principal-only or "PO" class). Payments received for IOs are included in interest income on the Statement of Operations. Because little to no principal will be received at the maturity of an IO, adjustments are made to the book value of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

Collateralized Debt Obligations (“CDOs”) include Collateralized Bond Obligations (“CBOs”), Collateralized Loan Obligations (“CLOs”) and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

**(b) Repurchase Agreements** The Portfolio may engage in repurchase transactions. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio’s custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Securities purchased under repurchase agreements are reflected as an asset in the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio. Generally, in the event of counterparty default, the Portfolio has the right to use the collateral to offset losses incurred. If the counterparty should default, the Portfolio will seek to sell the securities which it holds as collateral. This could involve procedural costs or delays in addition to a loss on the securities if their value should fall below their repurchase price.

**(c) Reverse Repurchase Agreements** The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio sells to a financial institution a security that it holds with an agreement to repurchase the same security at an agreed-upon price and date. Securities sold under reverse repurchase agreements are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. A reverse repurchase agreement involves the risk that the market value of the security sold by the Portfolio may decline below the repurchase price of the security. The Portfolio will segregate assets determined to be liquid by the investment adviser or otherwise cover its obligations under reverse repurchase agreements.

**(d) U.S. Government Agencies or Government-Sponsored Enterprises** The Portfolio may invest in U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the net asset value of the Portfolio’s shares. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association (“GNMA” or “Ginnie Mae”), are supported by the full faith and credit of the United States Government; others, such as those of the Federal Home Loan Bank, are supported by the right of the issuer to borrow from the U.S. Department of the

Treasury (the “U.S. Treasury”); others, such as those of the Federal National Mortgage Association (“FNMA” or “Fannie Mae”), are supported by the discretionary authority of the U.S. Government to purchase the agency’s obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

Government-related guarantors (i.e., not backed by the full faith and credit of the United States Government) include FNMA and the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”). FNMA is a government-sponsored corporation the common stock of which is owned entirely by private stockholders. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the United States Government. FHLMC issues Participation Certificates (“PCs”), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the United States Government.

On September 6, 2008, the Federal Housing Finance Agency (“FHFA”) placed FNMA and FHLMC into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of FNMA and FHLMC and of any stockholder, officer or director of FNMA and FHLMC with respect to FNMA and FHLMC and the assets of FNMA and FHLMC. FHFA selected a new chief executive officer and chairman of the board of directors for each of FNMA and FHLMC. On September 7, 2008, the U.S. Treasury announced three additional steps taken by it in connection with the conservatorship. First, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement with each of FNMA and FHLMC pursuant to which the U.S. Treasury will purchase up to an aggregate of \$100 billion of each of FNMA and FHLMC to maintain a positive net worth in each enterprise. This agreement contains various covenants that severely limit each enterprise’s operations. In exchange for entering into these agreements, the U.S. Treasury received \$1 billion of each enterprise’s senior preferred stock and warrants to purchase 79.9% of each enterprise’s common stock. Second, the U.S. Treasury announced the creation of a new secured lending facility which is available to each of FNMA and FHLMC as a liquidity backstop. Third, the U.S. Treasury announced the creation of a temporary program to purchase mortgage-backed securities issued by each of FNMA and FHLMC. On February 18, 2009, the U.S. Treasury announced that it was doubling the size of its commitment to each enterprise under the Senior Preferred Stock Program to \$200 billion. The U.S. Treasury’s obligations under the Senior Preferred Stock Program are for an indefinite period of time for a maximum amount of \$200 billion per enterprise. Both the liquidity backstop and the mortgage-backed securities purchase program expired December 31, 2009. FNMA and FHLMC are continuing to operate as going concerns while in conservatorship and each remain liable for all of its obligations, including its guaranty obligations, associated with its mortgage-backed securities. The Senior Preferred Stock Purchase Agreement is intended to enhance each of FNMA’s and FHLMC’s ability to meet its obligations. The FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA’s plan to restore the enterprise to a safe and solvent condition has been completed.

#### 4. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses derivative instruments, the credit-risk-related contingent features in certain

derivative instruments, and how derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of derivative contract, are included in a table in the Notes to Schedule of Investments. The derivative instruments outstanding as of period end as disclosed in the Notes to Schedule of Investments and the amounts of realized and changes in unrealized gains and losses on derivative instruments during the period as disclosed in the Statement of Operations serve as indicators of the volume of derivative activity for the Portfolio.

**(a) Foreign Currency Contracts** The Portfolio may enter into foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a foreign currency contract fluctuates with changes in foreign currency exchange rates. Foreign currency contracts are marked to market daily and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. In connection with these contracts, securities may be identified as collateral in accordance with the terms of the respective contracts.

**(b) Futures Contracts** The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker, an amount of cash or U.S. Government and Agency Obligations in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Portfolio. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed on the Statement of Assets and Liabilities.

**(c) Options Contracts** The Portfolio may write call and put options on futures, swaps ("swaptions"), securities, commodities or currencies it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put option, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are reflected as written options outstanding on the Statement of Assets and Liabilities. Certain options may be written with premiums to be determined on a future date. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. The Portfolio as a writer of an option has no control over whether the underlying instrument may be sold (call) or purchased (put) and as a

result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included on the Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss.

**(d) Swap Agreements** The Portfolio may invest in swap agreements. Swap agreements are privately negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. The Portfolio may enter into credit default, interest rate and other forms of swap agreements to manage its exposure to credit, currency, interest rate and commodity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Swaps are marked to market daily based upon values from third party vendors or quotations from market makers to the extent available and the change in value, if any, is recorded as an unrealized gain or loss on the Statement of Assets and Liabilities. In the event that market quotations are not readily available or deemed unreliable, certain swap agreements may be valued pursuant to guidelines established by the Board of Trustees. In the event that market quotes are not readily available and the swap cannot be valued pursuant to one of the valuation methods, the value of the swap will be determined in good faith by the Valuation Committee of the Board of Trustees, generally based upon recommendations provided by PIMCO.

Payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

**Credit Default Swap Agreements** Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate issues, sovereign issues of an emerging country or U.S. municipal issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Portfolio may use credit default swaps on corporate issues, sovereign issues of an emerging country or U.S. municipal issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Credit default swap agreements on asset-backed securities involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. Unlike credit default swaps on corporate issues, sovereign issues of an emerging country or U.S. municipal issues, deliverable obligations in most instances would be limited to the specific referenced obligation as performance for asset-backed securities can vary across deals. Prepayments, principal paydowns, and other writedown or

loss events on the underlying mortgage loans will reduce the outstanding principal balance of the referenced obligation. These reductions may be temporary or permanent as defined under the terms of the swap agreement and the notional amount for the swap agreement will be adjusted by corresponding amounts. The Portfolio may use credit default swaps on asset-backed securities to provide a measure of protection against defaults of the referenced obligation or to take an active long or short position with respect to the likelihood of a particular referenced obligation's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit-default swaps on indices are benchmarks for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate issues, sovereign issues of an emerging country or U.S. municipal issues as of period end are disclosed in the footnotes to the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of each individual credit default swap agreements outstanding as of December 31, 2009 for which the Portfolio is the seller of protection are disclosed in the notes to the Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

**Interest Rate Swap Agreements** The Portfolio is subject to interest risk exposure in the normal course of pursuing its investment objectives. Because the

Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party of their respective commitments to pay or receive interest with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or “cap”, (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or “floor”, (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swap, under which two parties can exchange variable interest rates based on different money markets.

## 5. PRINCIPAL RISKS

In the normal course of business the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to changes in the market (market risk), or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select Principal Risks. For a complete list of all Principal Risks, please see the Important Information About the Portfolio.

**Market Risks** The Portfolio’s investments in derivatives and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency, and equity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income’s market price to interest rate (i.e. yield) movements.

If the Portfolio invests directly in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, or in derivatives that provide exposure to foreign currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio’s base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio’s investments in foreign currency denominated securities may reduce the returns of the Portfolio.

The market values of equities, such as common stocks and preferred stocks or equity related investments such as futures, options, may decline due to general

market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

**Credit and Counterparty Risks** The Portfolio will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. Financial assets, which potentially expose the Portfolio to counterparty risk, consist principally of cash due from counterparties and investments. PIMCO, as the investment adviser, minimizes counterparty risks to the Portfolio by performing extensive reviews of each counterparty and obtaining approval from the Counterparty Risk Committee prior to entering into transactions with a third party. Furthermore, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Portfolio in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently falls, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced to the Portfolio.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Portfolio is subject to various Master Agreements, which govern the terms of certain transactions with select counterparties. These Master Agreements reduce the counterparty risk associated with relevant transactions by allowing the Portfolio to net contracts in the event of default. All amounts with the counterparty are terminated and settled on a net basis. The Portfolio’s overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements (“Master Repo Agreements”) govern transactions between the Portfolio and select counterparties. The Master Repo Agreements maintain provisions for, initiation, income payments, events of default, and maintenance of collateral for Repurchase Agreements.

Master Securities Forward Transaction Agreements (“Master Forward Agreements”) govern the considerations and factors surrounding the settlement of certain purchases and sales made on a delayed-delivery basis by and between the Portfolio and select counterparties. The Master Forward Agreements maintain

provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") govern transactions, over-the-counter derivative and foreign exchange contracts, entered into by the Portfolio and those counterparties. The ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to early terminate could be material to the financial statements.

On September 15, 2008, Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code. On September 19, 2008, a proceeding under the Securities Investor Protection Act (SIPA) was commenced with respect to Lehman Brothers Inc., a broker-dealer. A trustee appointed under SIPA is administering the bankruptcy estate of Lehman Brothers Inc. Lehman Brothers International (Europe) was placed in administration under the UK Insolvency Act on September 15, 2008. Lehman Brothers Special Financing Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on October 3, 2008. In connection with these filings, the Lehman Brothers group of companies (collectively "Lehman Brothers") will be reorganized and/or liquidated in an orderly fashion, subject to court approval. Each Lehman Brothers entity is a separate legal entity that is subject to its own bankruptcy proceeding.

The Portfolio had select holdings, credit default swap agreements, and securities and derivatives transactions outstanding with Lehman Brothers entities as issuer, referenced entity, counterparty or guarantor at the time the relevant Lehman Brothers entity filed for protection or was placed in administration. The security holdings, credit default swap agreements, and securities and derivatives transactions associated with Lehman Brothers have been written down to their estimated recoverable values. Anticipated losses for securities and derivatives transactions associated with Lehman Brothers have been incorporated as components of receivable for investments sold or payable for investments purchased on the Statement of Assets and Liabilities and net realized gain (loss) on investments on the Statement of Operations. Financial assets and liabilities may be offset and the net amount may be reported on the Statement of Assets and Liabilities where there is a legally enforceable right to set off the recognized amounts and the U.S. GAAP provision have been met. A facilitated auction occurred on October 10, 2008 comprising multiple pre-approved brokerage agencies to determine the estimated recovery rate for holdings and credit default swap agreements with Lehman Brothers Holdings Inc. as referenced entity. These recovery rates have been utilized in determining estimated recovery values.

PIMCO delivered notices of default to the relevant Lehman Brothers entities in accordance with the terms of the applicable agreements. For transactions with Lehman Brothers counterparties, PIMCO terminated the trades, obtained quotations from brokers for replacement trades and, where deemed appropriate, re-opened positions with new counterparties.

Where relevant the Portfolio has filed claims with certain Lehman Brothers entities, in accordance with the applicable bankruptcy proceedings. In addition, the Portfolio had exposure to Lehman Brothers Special Financing Inc. and has entered into a settlement agreement with Lehman Brothers Special Financing Inc. and has paid such amounts pursuant to the terms of the settlement agreement.

## 6. FEES AND EXPENSES

**(a) Investment Advisory Fee** PIMCO is a majority-owned subsidiary of Allianz Global Investors of America L.P. ("AGI"), and serves as investment adviser (the

"Adviser") to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio, at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

**(b) Supervisory and Administrative Fee** PIMCO serves as administrator (the "Administrator"), and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.20%.

**(c) Distribution and Servicing Fees** Allianz Global Investors Distributors LLC ("AGID") is an indirect wholly-owned subsidiary of AGI and serves as the distributor (the "Distributor") of the Trust's shares. The Trust is permitted to reimburse AGID on a quarterly basis, out of the Administrative Class assets of the Portfolio in the amount of 0.15% on an annual basis of the average daily net assets of that class, for payments made to financial intermediaries that provide services in connection with the distribution of shares or administration of plans or programs that use Portfolio shares as their funding medium. The effective rate paid to AGID was 0.15% during the current fiscal year.

The Trust has adopted a Distribution Plan for the Advisor Class shares of the Portfolio (the "Plan"). The Plan has been adopted pursuant to Rule 12b-1 under the Act. The Plan permits payments for expenses in connection with the distribution and marketing of Advisor Class shares and/or the provision of shareholder services to Advisor Class shareholders. The Plan permits the Portfolio to make total payments at an annual rate of 0.25% of its average daily net assets attributable to its Advisor Class shares.

**(d) Portfolio Expenses** The Trust is responsible for the following expenses: (i) salaries and other compensation of any of the Trust's executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expenses and bank overdraft charges; (v) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (vi) extraordinary expenses, including costs of litigation and indemnification expenses; (vii) organization expenses and (viii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multiple Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class as disclosed in the Prospectus for the reasons set forth above.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of \$15,000, plus \$2,375 for each Board of Trustees meeting attended in person, \$500 for each committee meeting attended and \$750 for each Board of Trustees meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of \$2,000 and each other committee chair receives an additional annual retainer of \$500. These expenses are allocated on a pro-rata basis to the various portfolios of the Trust according to their respective net assets. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

## 7. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 6 and the accrued related party fees amounts are disclosed in the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another portfolio

The Portfolio may invest in the PIMCO Funds Private Account Portfolio Series: Short-Term Floating NAV Portfolio ("PAPS Short-Term Floating NAV Portfolio") to the extent permitted by the Act and rules thereunder. The PAPS Short-Term Floating NAV Portfolio is a registered investment company created for use solely by the series of the Trust and series of the PIMCO Funds in connection with their cash management activities. The main investments of the PAPS Short-Term Floating NAV Portfolio are money market instruments and short maturity fixed income instruments. The PAPS Short-Term Floating NAV Portfolio may incur expenses related to its investment activities, but does not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The PAPS Short-Term Floating NAV Portfolio is considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the PAPS Short-Term Floating NAV Portfolio for the period ended December 31, 2009 (amounts in thousands):

Market Value 12/31/2008	Purchases at Cost	Proceeds from Sales	Unrealized Appreciation	Market Value 12/31/2009	Dividend Income	Net Capital and Realized Gain
\$ 0	\$ 23,805	\$ 23,583	\$ 0	\$ 225	\$ 5	\$ 2

## 8. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified, to the extent permitted by the Act, against certain liabilities that may arise out of performance of their duties to the Portfolio. Additionally, in the normal course of business, the Portfolio enters into contracts that contain a variety of indemnification clauses. The Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolio that have not yet occurred. However, the Portfolio has not had prior claims or losses pursuant to these contracts.

## 9. PURCHASES AND SALES OF SECURITIES

The length of time the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Portfolio is known as "portfolio turnover". The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective,

that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2009, the Portfolio engaged in purchases and sales of securities pursuant to the Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
\$ 101	\$ 552

particularly during periods of volatile market movements. High portfolio turnover (e.g., over 100%) involves correspondingly greater expenses to the Portfolio, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect the Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended December 31, 2009, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
\$ 106,319	\$ 110,602	\$ 37,931	\$ 35,944

**10. SHARES OF BENEFICIAL INTEREST**

The Portfolio may issue an unlimited number of shares of beneficial interest with a \$0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

	Year Ended 12/31/2009		Year Ended 12/31/2008	
	Shares	Amount	Shares	Amount
<b>Receipts for shares sold</b>				
Institutional Class	313	\$ 3,080	610	\$ 6,034
Administrative Class	2,598	25,774	1,120	11,091
Advisor Class	42	429	0	0
<b>Issued as reinvestment of distributions</b>				
Institutional Class	25	252	39	391
Administrative Class	48	482	53	515
Advisor Class	0	3	0	0
<b>Cost of shares redeemed</b>				
Institutional Class	(869)	(8,650)	(824)	(8,220)
Administrative Class	(2,311)	(22,986)	(1,183)	(11,620)
Advisor Class	(5)	(58)	0	0
<b>Net (decrease) resulting from Portfolio share transactions</b>	<b>(159)</b>	<b>\$ (1,674)</b>	<b>(185)</b>	<b>\$ (1,809)</b>

The following schedule shows the number of shareholders each owning 5% or more of the Portfolio and the total percentage of the Portfolio held by such shareholders:

	Number of Shareholders	% of Portfolio Held
Institutional Class	3	96
Administrative Class	4	78
Advisor Class	1	97

**11. REGULATORY AND LITIGATION MATTERS**

PIMCO, a subsidiary of AGI, and PIMCO Funds are the subject of a lawsuit in the Northern District of Illinois Eastern Division, in which the complaint alleges that the plaintiffs each purchased and sold a 10-year Treasury note futures contract and suffered damages from an alleged shortage when PIMCO held both physical and futures positions in 10-year Treasury notes for its client accounts in violation of the federal Commodity Exchange Act provisions on market manipulation. In July 2007, the District Court granted class certification of a class consisting of those persons who purchased futures contracts to offset short positions between May 9, 2005 and June 30, 2005. On July 7, 2009, the Court of Appeals affirmed the District Court’s order granting class certification. On October 29, 2009, PIMCO and PIMCO Funds filed a petition for certiorari with the United States Supreme Court, further challenging the class certification order. Management believes the complaint is without merit and PIMCO and PIMCO Funds intend to vigorously defend against this action. The outcome of this action cannot be predicted at this time.

In April 2006, certain registered investment companies and other funds managed by PIMCO were served in an adversary proceeding brought by the Official Committee of Asbestos Claimants of G-I Holdings, Inc. in G-I Holdings, Inc.’s bankruptcy in the District of New Jersey. In July 2004, PIMCO was named in this lawsuit and remains a defendant. The plaintiff seeks to recover for the bankruptcy estate assets that were transferred by the predecessor entity of G-I Holdings, Inc. to a wholly-owned subsidiary in 1994. The subsidiary has since issued notes, of which certain registered investment companies and other funds managed by PIMCO are alleged to be holders. The complaint alleges that in 2000, more than

two hundred noteholders—including certain registered investment companies and other funds managed by PIMCO—were granted a second priority lien on the assets of the subsidiary in exchange for their consent to a refinancing transaction and the granting of a first priority lien to the lending banks. The plaintiff is seeking invalidation of the lien in favor of the noteholders and/or the value of the lien. On November 12, 2009, the District Court and Bankruptcy Court issued an order confirming a Plan of Reorganization (the “Plan”) in the underlying bankruptcy case. As part of the Plan, the adversary proceeding to which PIMCO and other funds managed by PIMCO (“PIMCO Entities”) are parties will be dismissed. In confirming the Plan, the Courts overruled certain objections (unrelated to the dismissal of claims against PIMCO and PIMCO Entities) made by the IRS. The IRS sought a stay pending appeal to the Third Circuit, the stay was granted and GI-Holdings, Inc. has asked the Third Circuit to dismiss the stay. This matter is not expected to have a material adverse effect on the relevant PIMCO Entities.

**12. FEDERAL INCOME TAX MATTERS**

The Portfolio intends to qualify as a regulated investment company under sub-chapter M of the Internal Revenue Code (the “Code”) and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

As of December 31, 2009, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio’s U.S. tax returns filed for the fiscal years from 2005-2008, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

As of December 31, 2009, the components of distributable taxable earnings are as follows (amounts in thousands):

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/(Depreciation) <sup>(1)</sup>	Other Book-to-Tax Accounting Differences <sup>(2)</sup>	Accumulated Capital Losses	Post-October Deferral
\$ 198	\$ 33	\$ (245)	\$ (1)	\$ 0	\$ 0

<sup>(1)</sup> Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures, options and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts.

<sup>(2)</sup> Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, namely for straddle loss deferrals at fiscal year-end.

As of December 31, 2009, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/(Depreciation) <sup>(3)</sup>
\$ 21,438	\$ 184	\$ (432)	\$ (248)

<sup>(3)</sup> Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals.

For the fiscal years ended December 31, 2009 and December 31, 2008, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

Fiscal Year Ended	Ordinary Income Distributions <sup>(4)</sup>	Long-Term Capital Gain Distributions	Return of Capital
12/31/2009	\$ 597	\$ 140	\$ 0
12/31/2008	906	0	0

<sup>(4)</sup> Includes short-term capital gains, if any, distributed.

### 13. SUBSEQUENT EVENTS

The investment adviser has evaluated the possibility of subsequent events existing in the Portfolio's financial statements through February 19, 2010, the date that the financial statements were available to be issued. The investment adviser has determined that there are no additional material events that would require disclosure in the Portfolio's financial statements through this date.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Administrative Class Shareholders of the Short-Term Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights for the Administrative Class present fairly, in all material respects, the financial position of the Short-Term Portfolio (one of the portfolios constituting PIMCO Variable Insurance Trust, hereinafter referred to as the "Portfolio") at December 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended for the Administrative Class in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2009 by correspondence with the custodian, transfer agent and counterparties, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Kansas City, Missouri  
February 19, 2010

**Counterparty Abbreviations:**

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<b>BCLY</b>	Barclays Bank PLC	<b>DUB</b>	Deutsche Bank AG	<b>MSC</b>	Morgan Stanley
<b>BNP</b>	BNP Paribas Bank	<b>HSBC</b>	HSBC Bank USA	<b>RBS</b>	Royal Bank of Scotland Group PLC
<b>BOA</b>	Bank of America	<b>JPM</b>	JPMorgan Chase & Co.	<b>UBS</b>	UBS Warburg LLC
<b>CITI</b>	Citigroup, Inc.				

**Currency Abbreviations:**

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<b>AUD</b>	Australian Dollar	<b>EUR</b>	Euro	<b>USD</b>	United States Dollar
<b>CLP</b>	Chilean Peso	<b>GBP</b>	British Pound	<b>ZAR</b>	South African Rand
<b>CNY</b>	Chinese Renminbi	<b>MXN</b>	Mexican Peso		
<b>DKK</b>	Danish Krone	<b>SGD</b>	Singapore Dollar		

**Exchange Abbreviations:**

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<b>CBOT</b>	Chicago Board of Trade	<b>OTC</b>	Over-the-Counter
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**Municipal Bond or Agency Abbreviations:**

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<b>FHLMC</b>	Federal Home Loan Mortgage Corporation	<b>FNMA</b>	Federal National Mortgage Association	<b>GNMA</b>	Government National Mortgage Association
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**Other Abbreviations:**

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<b>CMBS</b>	Collateralized Mortgage-Backed Security	<b>ISDA</b>	International Swaps and Derivatives Association, Inc.	<b>LIBOR</b>	London Interbank Offered Rate
<b>CMO</b>	Collateralized Mortgage Obligation				

The Portfolio considers customer privacy to be a fundamental aspect of their relationships with shareholders and are committed to maintaining the confidentiality, integrity and security of their current, prospective and former shareholders' personal information. To ensure their shareholders' privacy, the Portfolio has developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

## Obtaining Personal Information

In the course of providing shareholders with products and services, the Portfolio and certain service providers to the Portfolio, such as the Portfolio's investment advisers ("Advisers"), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on the Portfolio's internet websites.

## Respecting Your Privacy

As a matter of policy, the Portfolio does not disclose any personal or account information provided by shareholders or gathered by the Portfolio to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Portfolio. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. A Portfolio's Distributor may also retain non-affiliated companies to market the Portfolio's shares or products which use the Portfolio's shares and enter into joint marketing agreements with other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Portfolio may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm.

## Sharing Information with Third Parties

The Portfolio reserves the right to disclose or report personal information to non-affiliated third parties, in limited circumstances, where the Portfolio believes in good faith that disclosure is required under law to cooperate with regulators or law enforcement authorities, to protect their rights or property or upon reasonable request by any Portfolio in which a shareholder has chosen to invest. In addition, the Portfolio may disclose information about a shareholder's accounts to a non-affiliated third party with the consent of the shareholder.

## Sharing Information with Affiliates

The Portfolio may share shareholder information with their affiliates in connection with servicing their shareholders' accounts or to provide shareholders with information about products and services that the Portfolio or its Advisers, principal underwriters or their affiliates ("Service Affiliates") believe may be of interest to such shareholders. The information that the Portfolio share may include, for example, a shareholder's participation in one of the Portfolio or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), or other data about a shareholder's accounts. The Portfolio's Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

## Procedures to Safeguard Private Information

The Portfolio takes seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Portfolio has also implemented procedures that are designed to restrict access to a shareholder's non-public personal information only to internal personnel who need to know that information in order to provide products or services to such shareholders. In order to guard a shareholder's non-public personal information, physical, electronic and procedural safeguards are in place.

The chart below identifies the Trustees and Officers of the Trust. Each "interested" Trustee as defined by the 1940 Act, is indicated by an asterisk (\*). Unless otherwise indicated, the address of all persons below is 840 Newport Center Drive, Newport Beach, CA 92660.

The Portfolio's Statement of Additional Information includes more information about the Trustees and Officers. To request a free copy, call PIMCO at 1-800-927-4648 or visit our Website at [www.pimco.com](http://www.pimco.com).

Name, Age and Position Held with Trust	Term of Office** and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
<b>Interested Trustee</b>				
<b>Brent R. Harris* (50)</b> <i>Chairman of the Board and Trustee</i>	08/1997 to present	Managing Director and member of Executive Committee, PIMCO; Formerly, Chairman and Director, PCM Fund, Inc.	131	Chairman and Trustee, PIMCO Funds and PIMCO ETF Trust.
<b>Independent Trustees</b>				
<b>E. Philip Cannon (69)</b> <i>Trustee</i>	05/2000 to present	Proprietor, Cannon & Company (an investment firm); Formerly, President, Houston Zoo. Formerly, Trustee Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series); Formerly, Director, PCM Fund, Inc.	131	Trustee, PIMCO Funds and PIMCO ETF Trust.
<b>Vern O. Curtis (75)</b> <i>Trustee</i>	08/1997 to present	Private Investor; Formerly, Director, PCM Fund, Inc.	131	Trustee, PIMCO Funds and PIMCO ETF Trust.
<b>J. Michael Hagan (70)</b> <i>Trustee</i>	05/2000 to present	Private Investor and Business Advisor (primarily to manufacturing companies); Formerly, Director, Remedy Temp (staffing); Formerly, Director, PCM Fund, Inc.	131	Trustee, PIMCO Funds and PIMCO ETF Trust; Director, Ameron International (manufacturing); and Director, Fleetwood Enterprises (manufacturer of housing and recreational vehicles).
<b>Ronald C. Parker (58)</b> <i>Trustee</i>	07/2009 to present	Adjunct Professor, Linfield College; Chairman of the Board, The Ford Family Foundation. Formerly President, Chief Executive Officer, Hampton Affiliates (forestry products)	131	Trustee, PIMCO Funds and PIMCO ETF Trust.
<b>William J. Popejoy (71)</b> <i>Trustee</i>	08/1997 to present	Private Investor; Formerly, Director, New Century Financial Corporation (mortgage banking); Formerly, Director, PCM Fund, Inc.	131	Trustee, PIMCO Funds and PIMCO ETF Trust.

*Richard M. Weil served as Trustee of the Trust from February 2009 to January 2010. Effective January 22, 2010, Mr. Weil resigned as Trustee of the Trust. Mr. Weil also served as Managing Director and member of the Executive Committee at PIMCO. Total number of Portfolios in Fund Complex overseen by Mr. Weil was 131. Other Directorships held by Mr. Weil included Trustee of PIMCO Funds and PIMCO ETF Trust.*

\* Mr. Harris is an "interested person" of the Trust (as that term is defined in the 1940 Act) because of his affiliation with PIMCO.

\*\* Trustees serve until their successors are duly elected and qualified

Name, Age and Position Held with Trust	Term of Office**** and Length of Time Served	Principal Occupation(s) During Past 5 Years
<b>Officers</b>		
<b>Brent R. Harris (50)</b> <i>President</i>	03/2009 to present	Managing Director, PIMCO.
<b>David C. Flattum (45)</b> <i>Chief Legal Officer</i>	11/2006 to present	Managing Director and General Counsel, PIMCO. Formerly, Executive Vice President, PIMCO, Managing Director, Chief Operating Officer and General Counsel, Allianz Global Investors of America L.P. and Partner at Latham & Watkins LLP.
<b>Jennifer E. Durham (39)</b> <i>Chief Compliance Officer</i>	07/2004 to present	Executive Vice President, PIMCO. Formerly, Senior Vice President, Vice President and Legal/Compliance Manager, PIMCO.
<b>William H. Gross (65)</b> <i>Senior Vice President</i>	08/1997 to present	Managing Director and Co-Chief Investment Officer, PIMCO.
<b>Mohamed El-Erian (51)</b> <i>Senior Vice President</i>	05/2008 to present	Managing Director, Co-Chief Investment Officer and Co-Chief Executive Officer, PIMCO. Formerly, President and CEO of Harvard Management Company. Formerly, Managing Director, PIMCO.
<b>J. Stephen King (47)</b> <i>Vice President - Senior Counsel and Secretary</i>	05/2005 to present	Senior Vice President and Attorney, PIMCO. Formerly, Vice President, PIMCO; and Associate, Dechert LLP.
<b>Henrik P. Larsen (39)</b> <i>Vice President</i>	02/1999 to present	Senior Vice President, PIMCO. Formerly, Vice President, PIMCO.
<b>Peter G. Strelow (39)</b> <i>Vice President</i>	05/2008 to present	Executive Vice President, PIMCO. Formerly, Senior Vice President and Vice President, PIMCO
<b>Joshua D. Ratner (33)</b> <i>Assistant Secretary</i>	10/2007 to present	Vice President and Attorney, PIMCO. Formerly Associate, Skadden, Arps, Slate, Meagher & Flom LLP.
<b>John P. Hardaway (52)</b> <i>Treasurer</i>	08/1997 to present	Executive Vice President, PIMCO. Formerly, Senior Vice President, PIMCO.
<b>Stacie D. Anctil (40)</b> <i>Assistant Treasurer</i>	11/2003 to present	Senior Vice President, PIMCO. Formerly, Vice President and Specialist, PIMCO.
<b>Erik C. Brown (42)</b> <i>Assistant Treasurer</i>	02/2001 to present	Senior Vice President, PIMCO. Formerly, Vice President, PIMCO.
<b>Trent W. Walker (35)</b> <i>Assistant Treasurer</i>	05/2007 to present	Senior Vice President, PIMCO. Formerly, Vice President, PIMCO; and Senior Manager, PricewaterhouseCoopers LLP.

Richard M. Weil served as Senior Vice President of the Trust from May 2009 to January 2010. Effective January 22, 2010, Mr. Weil resigned as Senior Vice President of the Trust. Mr. Weil's principal occupation during the past 5 years was Managing Director at PIMCO.

\*\*\*\* The Officers of the Trust are re-appointed annually by the Board of Trustees.

On August 10-11, 2009, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the independent Trustees, approved the Trust's Amended and Restated Investment Advisory Contract with Pacific Investment Management Company LLC ("PIMCO") on behalf of each of the Trust's portfolios (the "Portfolios") for an additional one-year term through August 31, 2010. The Board also considered and approved for an additional one-year term through August 31, 2010, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") with PIMCO on behalf of the Trust. The Board also considered and approved the renewal of the Asset Allocation Sub-Advisory Agreements (the "Asset Allocation Agreements") with Research Affiliates, LLC ("RALLC"), on behalf of the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, for an additional one-year term through August 31, 2010.

The information, material factors and conclusions that formed the basis for the Board's approvals of the Agreements and the Asset Allocation Agreements are described below.

## 1. Information Received

### A. Materials Reviewed

During the course of each year, the Trustees receive a wide variety of materials relating to the services provided by PIMCO and RALLC. At each of its quarterly meetings, the Board reviews portfolio investment performance and a significant amount of information relating to portfolio operations, including the Portfolios' compliance program, shareholder services, valuation, custody, distribution, and other information relating to the nature, extent and quality of services provided by PIMCO and RALLC to the Trust. In considering whether to approve renewal of the Agreements and Asset Allocation Agreements, the Board also reviewed supplementary information, including comparative industry data with regard to investment performance, advisory and supervisory and administrative fees and expenses, financial and profitability information regarding PIMCO and RALLC and information about the personnel providing investment management services and supervisory and administrative services to the Portfolios. The Board also reviewed material provided by counsel to the Trust and the independent Trustees, which included, among other things, memoranda outlining legal duties of the Board.

### B. Review Process

In connection with the approval of the renewal of the Agreements and the Asset Allocation Agreements, the Board reviewed written materials prepared by PIMCO and RALLC in response to requests from counsel to the Trust. The Board also requested and received assistance and advice regarding applicable legal standards from Trust counsel, and reviewed comparative fee and performance data prepared at the Board's request by Lipper, Inc. ("Lipper"), an independent provider of investment company performance and fee and expense data. The Board also heard oral presentations on matters related to the Agreements and Asset Allocation Agreements and met both as a full Board and as the independent Trustees alone, without management present, at the August 10-11, 2009 meeting. The independent Trustees also met telephonically with counsel to the Trust on August 3, 2009 to discuss the materials presented.

The approval determinations were made on the basis of each Trustee's business judgment after consideration of all the information presented. Individual Trustees may have given different weights to certain factors and assigned various degrees of materiality to information received in connection with the approval process. In deciding to recommend the renewal of the Agreements and Asset Allocation Agreements, the Board did not identify any single factor or particular information that, in isolation, was controlling. This discussion is not intended to be all-inclusive. This summary describes the most important, but not all, of the factors considered by the Board.

## 2. Nature, Extent and Quality of Services

### A. PIMCO, RALLC, their Personnel, and Resources

The Board considered the depth and quality of PIMCO's investment management process, including: its global research capabilities; the experience, capability and integrity of its senior management and other personnel; the low turnover rates of its key personnel; and the overall financial strength and stability of its organization. The Board also considered that PIMCO makes available to its investment professionals a variety of resources and systems relating to investment management, compliance, trading, performance and portfolio accounting. The Board considered PIMCO's commitment to investing in information technology supporting investment management and compliance, as well as PIMCO's continuing efforts to attract and retain qualified personnel and to maintain and enhance its resources and systems. The Board also considered PIMCO's responses to the recent challenging market environment and noted the high level of service provided during these market events, including active liquidity and collateral management, frequent pricing committee meetings and adding personnel to the pricing team, additional client communications and providing appropriate staffing and operational resources to support record trade volumes. The Board also noted that PIMCO has a Best Execution Committee and a best execution policy, which assists the Portfolios in obtaining the most advantageous combination of price and execution for trades.

Similarly, the Board considered the asset-allocation services provided by RALLC to the PIMCO All Asset Portfolio. The Board noted that the PIMCO All Asset All Authority Portfolio had not commenced offering shares as of the date of the meeting. The Board considered the depth and quality of RALLC's investment management and research capabilities, the experience and capabilities of its portfolio management personnel, and in particular the experience and capabilities of Robert Arnett, and the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services proposed to be provided by PIMCO under the Agreements and by RALLC under the Asset Allocation Agreements are likely to benefit the Portfolios and their shareholders.

### B. Other Services

The Board considered PIMCO's policies, procedures and systems to assure compliance with applicable laws and regulations and its commitment to these programs; its efforts to keep the Trustees informed about matters relevant to the Trust and its shareholders; and its attention to matters that may involve conflicts of interest with the Trust. The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and Administration Agreement. The Board noted that the Supervision and Administration Agreement was approved at the August 2008 Board meeting to replace the Trust's previous Administration Agreement. The purpose of the change was to reflect the increased scope and complexity of supervisory and administrative services that PIMCO has been providing to the Trust. The Board considered the terms of Trust's Supervision and Administration Agreement, under which the Trust pays for the administrative services it requires under what is essentially an all-in fee structure (the "unified fee"). In return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that, in recent years, the scope and complexity of the supervisory and administrative services provided by PIMCO under the Supervision and Administration Agreement has increased. The Board considered PIMCO's provision of these services and supervision of the

Trust's third party service providers to assure that these service providers continue to provide a high level of service relative to alternatives in the market. Ultimately, the Board concluded that the nature, extent and quality of the services provided by PIMCO has benefited and will likely continue to benefit the Portfolios and their shareholders.

### 3. Investment Performance

The Board received and examined information from PIMCO concerning the Portfolios' one-, three-, five- and ten-year performance, as available, for the periods ended March 31, 2009 and other performance data, as available, for the period ended June 30, 2009 (the "PIMCO Report") and from Lipper concerning the Portfolios' one-, three-, five-, and ten-year performance, as available, for the periods ended May 31, 2009 (the "Lipper Report"). The Board considered information regarding both the short-term and long-term investment performance of each Portfolio relative to its peer group and relevant benchmark index as provided to the Board in advance of each of its quarterly meetings throughout the year, including the PIMCO Report and Lipper Report, which were provided in advance of the August 10-11, 2009 meeting.

The Board noted that a majority of the Portfolios of the Trust had generally and fairly consistently outperformed their respective benchmarks on a net-of-fees basis over the one-year period. The Board also noted that as of May 31, 2009, 64% of the Portfolios outperformed their Lipper category median in the one-year period, and more than 81% of the Portfolios outperformed their Lipper category median over the three-year and five-year periods (based on the performance of the Administrative Class). The Board considered that other classes of each Portfolio would have substantially similar performance to that of the Administrative Class of each Portfolio because all of the classes are invested in the same portfolio of securities and that differences in performance among classes could be attributed to differences in each class's different expenses.

Although the Portfolios generally performed well versus competitors during the recent liquidity crisis, the Board noted that some of the Portfolios had underperformed in comparison to their respective benchmark indexes on a net-of-fees basis over the three-, five- and ten-year periods. The Board discussed with PIMCO the reasons for the underperformance of certain Portfolios. The Board also discussed actions that had been taken by PIMCO to attempt to improve performance and took note of PIMCO's plans to monitor and address performance going forward. The Board noted that despite the underperformance of certain Portfolios, the Trust has experienced an increase in net assets during the first six months of 2009.

The Board also considered that the investment objectives of certain of the Portfolios may not be identical to those of the other funds in their respective peer groups, that the Lipper categories do not separate funds based upon maturity or duration, do not account for hedging strategies, do not distinguish between enhanced index and actively managed equity strategies, do not include as many subsets as the Portfolios offer (*i.e.*, Portfolios may be placed in a "catch-all" category) and do not account for certain fee waivers. The Board noted that, due to these differences, performance comparisons between certain of the Portfolios and their so-called peers may be inexact.

The Board ultimately determined, within the context of all of its considerations in connection with the Agreements, that the Trust's overall investment performance was strong, and concluded that PIMCO's performance record and process in managing the Portfolios indicates that its continued management is likely to benefit the Portfolios and their shareholders, and merits the approval of the continuation of the Agreements.

### 4. Advisory Fees, Supervisory and Administrative Fees and Total Expenses

PIMCO reported to the Board that, in proposing fees for any Portfolio or class of shares, it considers a number of factors, including the type and complexity of the

services provided, the cost of providing services, the risk assumed by PIMCO in the provision of services, the impact on potential returns from different levels of fees, the competitive marketplace for financial products, and the attractiveness of potential Portfolio returns to current and potential investors. Fees charged to or proposed for different Portfolios for advisory services and supervisory and administrative services may vary in light of these various factors.

The Board reviewed the advisory fees, supervisory and administrative fees and total expenses of the Portfolios (each as a percentage of average net assets) and compared such amounts with the average and median fee and expense levels of other similar funds. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in an "Expense Group" of comparable funds, as well as the universe of other similar funds. The Board noted that most Portfolios have total expense ratios that fall below the median expenses of their Lipper universe.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard fee rates PIMCO charges to separate accounts with a similar investment strategy, and found them to be comparable. In cases where the separate account fees were lower, the Trustees noted that the differences in fees were attributable to various factors, including differences in the services provided by PIMCO to the Portfolios, the manner in which similar funds may be managed, differences in liquidity and other regulatory requirements, and the fact that separate accounts may have other contractual arrangements that justify different levels of fees.

The Board also considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board considered that as the Portfolios' business has become increasingly complex, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. The Board considered the Trust's unified fee structure, under which the Trust pays for the supervisory and administrative services it requires for one set fee, and in return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that many other funds pay for these services separately, and thus it is difficult to directly compare the Portfolios' unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board noted that the unified supervisory and administrative fee leads to fund fees that are fixed, rather than variable, and that the fixed fees were viewed by many in the industry as a positive attribute of the Portfolios. The Board concluded that the Portfolios' supervisory and administrative fees were reasonable in relation to the value of the services provided, including the services provided to different classes of shareholders, and that the expenses assumed contractually by PIMCO under the Supervisory and Administration Agreement represent, in effect, a cap on fund fees that is beneficial to the Portfolios and their shareholders.

With respect to overall levels of Portfolio expenses, the Board observed that bond funds are more fee- and expense-ratio sensitive than equity funds, given the tangible impact of fees and expenses on yield, and that investors appear to be satisfied with the Portfolios' performance, as evidenced by the continued growth in Portfolio assets. The Board noted that the total expenses for 87% of the Portfolios' Administrative Class shares fall below the median total expense of their respective Lipper Expense Group. The Board discussed with PIMCO those Portfolios and/or classes of Portfolios that have above median expenses. The Board noted that several Portfolios launched in recent years have been unique products that have few, if any peers, and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the Expense Groups provided by Lipper, the Board found the Portfolios' total expenses to be reasonable. The Board noted that PIMCO has maintained at the same level or reduced the Portfolios' fees since the inception of the Trust. The Board further noted that, although the unified fee structure does not have break

points, it implicitly reflects the sharing of economies of scale by fixing the absolute level of Portfolio fees at competitive levels even if the Portfolios' operating costs rise when assets remain flat or decrease over time.

Based on the information presented by PIMCO, RALLC and Lipper, members of the Board then determined, in the exercise of their business judgment, that the level of the advisory fees and supervisory and administrative fees charged by PIMCO under the Agreements, as well as the total expenses of the Portfolios, are reasonable and renewal of the Agreements and the Asset Allocation Agreements will likely benefit the Portfolios and their shareholders.

#### **5. Adviser Costs, Level of Profits and Economies of Scale**

The Board reviewed information regarding PIMCO's costs of providing services to the Portfolios as a whole, as well as the resulting level of profits to PIMCO, noting that those results were comparable to the reported results of several publicly held investment management companies. The Board noted that it had also received information regarding the structure and manner in which PIMCO's investment professionals were compensated, and PIMCO's view of the relationship of such compensation to the attraction and retention of quality personnel. The Board considered PIMCO's need to invest in technology, infrastructure and staff to reinforce and offer new services and to accommodate changing regulatory requirements.

With respect to potential economies of scale, the Board found that because the unified fee protects shareholders against unanticipated increases in fees due to redemptions, declines in asset values, or increases in the costs of services provided or procured by PIMCO, economies of scale are implicitly recognized in the level of the unified fee (which, together with the advisory fee, serves as a proxy for the Portfolios' overall expense ratios). The Board reviewed the history of the Portfolios' fee structure. The Board noted that PIMCO had taken on the risk that Portfolio expenses would increase or that assets would decline over time. The Board considered that during the recent market downturn the Portfolios' unified fee has protected shareholders against an increase in expenses that may

accompany significant declines in assets. The Board concluded that the Portfolios' cost structure was reasonable and that the unified fee structure inherently involves the sharing of economies of scale between PIMCO and the Portfolios, to the benefit of Portfolio shareholders.

#### **6. Ancillary Benefits**

The Board considered other benefits received by PIMCO and its affiliates as a result of PIMCO's relationship with the Trust, including possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Portfolios. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their shareholders, for which they may be compensated under the unified fee, or through distribution fees paid pursuant the Portfolios' Rule 12b-1 plans. The Board also reviewed PIMCO's soft dollar policies and procedures, noting that while PIMCO has the authority to receive the benefit of research provided by broker-dealers executing portfolio transactions on behalf of the Portfolios, it has adopted a policy not to accept soft dollars.

#### **7. Conclusions**

Based on their review, including their consideration of each of the factors referred to above, the Board concluded that the nature, extent and quality of the services rendered to the Portfolios by PIMCO and RALLC continued to be excellent and favored the renewal of the Agreements and the Asset Allocation Agreements. The Board concluded that the Agreements and the Asset Allocation Agreements continued to be fair and reasonable to the Portfolios and their shareholders, that the Portfolios' shareholders received reasonable value in return for the fees paid to PIMCO by the Portfolios under the Agreements, and the fees paid to RALLC by PIMCO under the Asset Allocation Agreements, and that the renewal of the Agreements and the Asset Allocation Agreements was in the best interests of the Portfolios and their shareholders.

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