

Quarterly Investment Report

December 31, 2009

PVIT CommodityRealReturn Strategy Portfolio
Administrative Class

A company of **Allianz** 
Global Investors

P I M C O

840 Newport Center Drive
Newport Beach
California 92660
(800) 927-4648

Review of CommodityRealReturn Investment Approach

PIMCO uses derivatives linked to commodity indices in an effort to gain exposure to the returns of the commodity markets, without investing directly in physical commodities. PIMCO fully collateralizes these positions with fixed income securities, mainly Treasury Inflation-Protected Securities (TIPS) that are actively managed in an attempt to outperform the cost of gaining commodity exposure (to deliver excess return) and to provide an additional inflation hedge beyond commodities. Comments below focus on the bond market, especially TIPS, and our fixed income strategies.

Market Commentary

- The Dow Jones-UBS Commodity Index (UBSCI) gained 9.03 percent in the fourth quarter and 18.91 percent for the year
- Treasury Inflation Protected Securities (TIPS) gained 2.14 percent during the fourth quarter as measured by the Barclays Capital U.S. TIPS 1-10 Year Index
- Policy responses to the financial crisis and economic downturn that began in the second half of 2008 helped to stabilize the global economy in 2009

Economic/Market Outlook

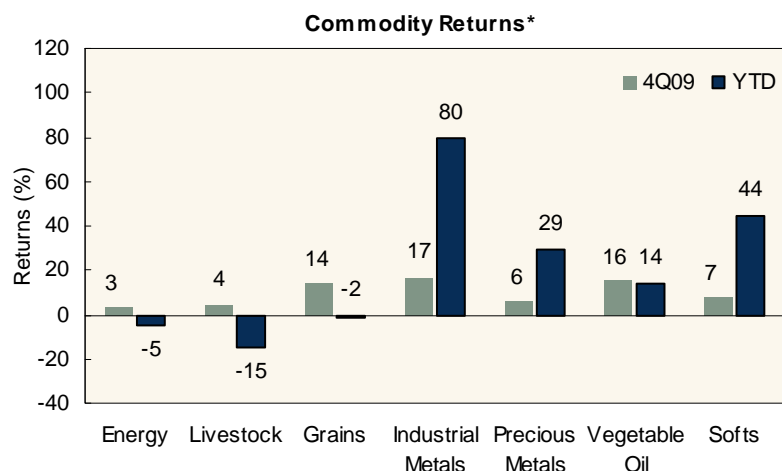
- The global recovery is likely to be bifurcated over the next year, with growth relatively robust in China and other emerging markets but more tepid in developed economies
- Deflationary impulses will persist in developed economies but U.S.-style monetary policies will exert inflationary pressure in emerging markets
- Forecasting will be difficult, so it will be critical to assess a range of outcomes, while keeping strategies nimble

Actively Managed Portfolio Recap

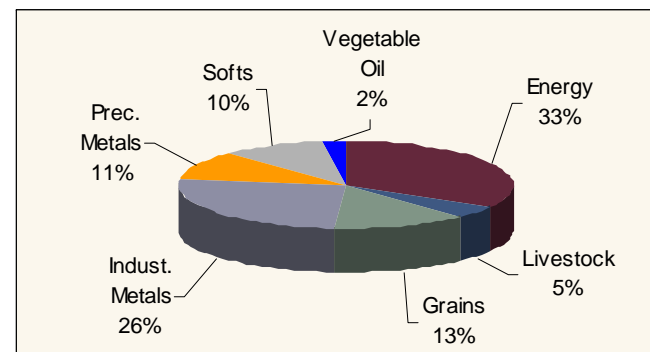
- The Portfolio outperformed its index for the quarter and the year
- The following strategies helped fourth quarter returns:
 - Commodity structural alpha strategies:
 - Alternate roll strategies that roll outside of the dates specified by the index where spreads tend to widen and drive up the cost of rolling exposure forward
 - Calendar strategies that mitigate the negative impact of contango (or negative roll yield)
 - Within the TIPS collateral, TIPS outperformed the T-Bill collateral typically assumed within a commodity index as real TIPS yields declined
 - Modest positions in bonds of financial companies, which continued to outperform the broader corporate market
- The following strategies were negative for quarterly returns:
 - Above-index Total duration stemming from U.S. nominal bonds; nominal interest rates rose
 - Underweight shorter maturity TIPS, which rallied on better than expected economic data and higher energy prices

Collateral Portfolio Strategy

- Maintain 100 percent exposure to the Dow Jones-UBSCI
- Employ a diverse set of actively managed commodity structural alpha strategies to seek returns that exceed those of passive commodity index exposure
- Retain strategic exposure to TIPS as collateral; tactically adjust duration and real/nominal bond mix based on our evolving growth and inflation views
- Target modestly overweight duration, with emphasis on intermediate maturity European nominal interest rates. This exposure currently offers relatively attractive yields with lower potential volatility than a comparable U.S. position
- Target neutral duration in the U.S. overall due to unfavorable debt dynamics. Seek to underweight shorter maturity TIPS as they are prone to near-term deflation risk and intermediate issues that have been driven rich by investors looking to hedge inflation
- Seek to hold money market futures positions as we expect the Fed to tighten monetary policy more slowly than markets expect



Current Quarter: Dow Jones UBS Index Sector Weighting*



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

* Represents quarterly and year-to-date returns of the Dow Jones-UBS Commodity Index and its sub-indices.

Market Commentary

- The Dow Jones-UBS Commodity Total Return Index gained 9.03 percent for the quarter and 18.91 percent for 2009. For the quarter, all sectors contributed to returns, particularly industrial metals and grains, as commodities benefited from a continued rise in risk asset prices, a weak outlook for the U.S. dollar, and strong industrial data in the developing world such as China. The energy sector posted the most modest return at 3.35 percent as continued losses in natural gas despite snowstorms in the U.S. northeast weighed on gains in crude and crude products. Oil was boosted by declining inventories toward year's end and strong demand data from emerging economies
- Industrial metals posted the strongest returns for the quarter and the year benefiting from improved industrial data in the developed world and strong industrial data and demand from the developing world. Copper prices surged throughout the year even in the face of high inventories at year's end, gaining almost 130 percent
- Precious metals prices continued to march higher over the quarter as gold benefited from ideas that central banks have shifted from being net sellers to net buyers of the metal
- Grains posted strong returns driven by adverse weather conditions delaying harvest of corn and soybean crops

Economic/Market Outlook

- Commodity production and distribution capacity has suffered from years of underinvestment. This should continue to be a supply constraint for some time
- Countries such as China and India continue to export excess manufacturing capacity abroad. As a result, the standard of living within these countries should continue to improve. This will likely have the effect of increased demand for durable goods and better food, providing support for raw material and commodity prices
- Exposure to commodities may reduce the risk associated with unexpected changes in the rate of inflation and is one of the important diversification benefits of this asset class
- TIPS should continue to display value on a long-term basis. Our outlook includes low growth rates in developed economies while longer-term inflationary pressures build, owing to stimulative government policy, growth in developing economies, secular commodity infrastructure constraints, and a longer term weaker dollar caused by the twin U.S. deficits
- Over a secular timeframe the total return on longer duration TIPS has the potential to exceed the assumed T-Bill return on commodity derivatives

Summary of Performance Data and Portfolio Statistics

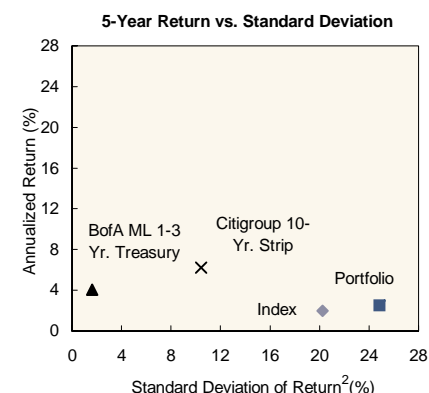
PVIT CommodityRealReturn Strategy Portfolio

Administrative Class

Performance Periods Ended 12/31/2009	Since Inception	5 yrs	3 yrs	1 yr	6 mos	3 mos
Total Portfolio¹						
Before Fees (%)	4.39	3.43	0.26	42.79	22.43	11.98
After Fees (%)	3.45	2.50	-0.66	41.53	21.91	11.74
(Inception 06/30/04)						
Dow Jones-UBS Commodity Index						
Total Return (%)	2.14	1.96	-3.83	18.91	13.66	9.03

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

The performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that Portfolio shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. The Portfolio's total annual operating expense ratio is 1.06%. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus. Performance data current to the most recent month-end is available at <http://www.pimco-funds.com/pvit/index1.aspx> or by calling (800) 927-4648.



Summary Information	9/30/2009	12/31/2009
Total Net Assets (USD in millions)	488.7	564.4
SEC 30-Day Ann. Yield (%)	0.5	1.1
Distribution Yield (%) ³	4.6	5.2
Commodity Exposure (%)	98.8	100.1
Other Commodity Derivatives (%)	0.0	0.0
Effective Duration (yrs.)	4.6	4.2
Infl-Linked Bond Duration (yrs.) ⁴	3.2	2.7
Nominal Interest Duration (yrs.) ⁵	1.4	1.5
Effective Maturity (yrs.)	5.3	4.6
Average Quality ⁸	AA+	AA+
Average Coupon (%)	2.1	1.9
Net Currency Exposure (%)	1.6	3.1
Tracking Error (5 yrs, %) ⁷	7.8	7.9
Information Ratio (5 yrs) ⁷	0.2	0.2

Sector Allocation	% of Market Value		% of Duration	
	9/30/2009	12/31/2009	9/30/2009	12/31/2009
Inflation-Linked Bonds Exposure				
United States	82	75	66	65
United Kingdom	0	0	0	0
Europe	0	0	0	0
Canada	0	0	0	0
Other	2	0	3	0
Non Inflation-Linked Exposure				
United States	24	30	24	26
United Kingdom	0	0	0	0
Europe	0	3	0	3
Canada	0	0	0	0
Other	1	1	0	0
Net Cash Equivalents: ⁶	-9	-9	7	6
Total	100	100	100	100

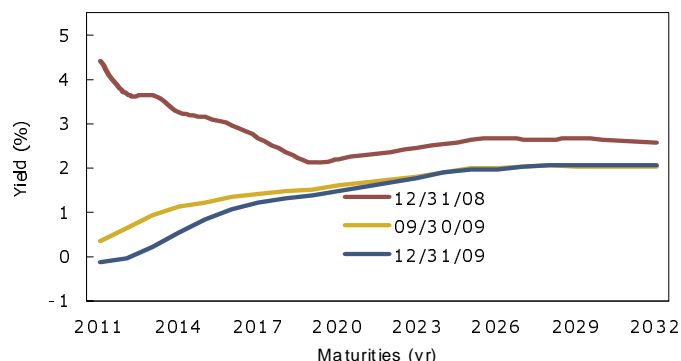
See example of tracking error / information ratio in Important Information section of the Appendix.

Policy Responses Help Stabilize Global Economy in 2009

Policy responses to the financial crisis and economic downturn that began in the second half of 2008 helped to stabilize the global economy in 2009. Interest rates generally rose in the fourth quarter and for the full year as investors' risk appetites revived, crimping demand for Treasuries and other sovereign bonds.

Treasury Inflation Protected Securities (TIPS) gained 1.76 percent during the fourth quarter and 11.41 percent for all of 2009 as represented by the Barclays Capital U.S. TIPS Index. Real yields declined across most of the maturity spectrum with the exception of long-dated issues, where real rates rose only modestly. Real coupon helped returns as did positive inflation accruals despite cyclical disinflationary pressures. TIPS outperformed comparable maturity nominal bonds overall.

U.S. TIPS Yield Curve



SOURCE: Barclays Capital

Past performance is no guarantee of future results.

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

TIPS yields declined most for shorter maturities up through the 5-year sector, partly reflecting an increase in energy prices such as crude and crude products, but mostly a reaction to improved fourth quarter economic data, continued asset inflow into shorter maturities, and a general lack of liquidity across the TIPS curve. TIPS gained despite continued near-term disinflationary pressures weighing on market sentiment. The benchmark ten-year yields ended the quarter 11 basis points lower at 1.41 percent and down 71 basis points for the year.

Breakeven inflation (the level of inflation where a TIPS return breaks even with that of a nominal Treasury or more simply, the difference in nominal yields and real yields) widened significantly across the maturity spectrum. While real TIPS yields generally declined, nominal Treasury yields rose resulting in TIPS outperformance of nominal Treasuries. Putting upward pressure on intermediate and longer maturity Treasury yields was better than expected economic data released near year end. Signs of higher consumer spending and incomes signaled continued economic recovery once the effects of government stimulus begin to wear off.

Initiatives such as the Federal Reserve's (Fed's) purchase of mortgage and Treasury securities, the Fed's commitment to hold short-term rates near zero and government support for consumer finance markets were major factors behind enhanced stability. The U.S. economy expanded in the third quarter and was expected to do so again in the final quarter amid a modest recovery in consumer spending and a slower rate of inventory drawdown by businesses.

A striking feature of the U.S. economy as the year drew to a close was the record steepness in the nominal Treasury yield curve. This steepening also occurred in nominal government yield curves of other major developed economies.

The difference between the two and 10-year nominal Treasury yield, a common measure of the steepness of the curve, was 270 basis points as of the end of the year, more than 100 basis

points wider than at the same time in 2008. The yield curve has steepened in the past as the economy pulls out of recession. The widening gap between the two and 10-year nominal Treasury yields, and corresponding steepening elsewhere in the world, reflected optimism among investors about a global economic recovery. It also reflected an assumption in fixed income markets that the Fed and other major central banks will keep short rates low for an extended period of time.

Treasuries Fall, Riskier Fixed Income Assets Gain in 2009

Corporate bonds, mortgages and asset-backed securities (ABS) gained and Treasuries fell in the fourth quarter and for all of 2009 as government policies helped push investors out of cash and toward higher yielding, riskier assets. The following summarizes fixed income sector returns:

- Agency mortgage-backed securities (MBS) enjoyed a powerful rally for all of 2009 and also gained versus like-duration Treasuries in the fourth quarter. The success of the Fed's MBS Purchase program, with total net purchases of over \$1 trillion by year-end, drove yield premiums to their tightest levels ever during the fourth quarter. Non-Agency mortgages also rallied. Non-Agency prices continued to move higher thanks to a lack of new supply, more attractive financing terms for investors and improved dealer balance sheets. Consumer ABS also enjoyed strong gains versus like-duration Treasuries for the quarter and the full year. In the ABS market, the government's Term Asset-Backed Securities Loan Facility (TALF) has been so successful in restoring liquidity that high quality issuers are no longer reliant on TALF to induce investor demand.
- Corporate bonds, especially high yield credits, were among the best performing fixed income assets during the fourth quarter and for all of 2009. Credit premiums tightened substantially and approached levels last seen in 2007 as fund flows into corporate credit were very strong. Returns in

credit markets were tempered only temporarily during the fourth quarter by uncertainty surrounding debt restructuring issues in Dubai.

- Municipal bonds were also strong performers in 2009. Municipal yield ratios relative to Treasuries moved closer to historical averages after widening dramatically last year. Inflows into municipal funds remained strong amid heightened expectations for future tax increases. The inflows helped absorb increased new issue supply in the fourth quarter.
- Emerging market (EM) bonds delivered strong performance in both the fourth quarter and the full year. Indices of both U.S. dollar and local denominated EM debt delivered returns in excess of 20 percent in 2009. As in corporate credit markets, negative news from Dubai was a modest negative for EM returns, but reminded investors that country and credit differentiation remain critical in managing EM assets.
- The U.S. Treasury market lagged most other developed bond markets in both the fourth quarter and all of 2009. Treasury yields have been more volatile than yields in other government markets throughout the financial crisis, so they generally rose more in 2009 as risk appetites revived.

PIMCO Expects Bifurcated Global Recovery in 2010

Global economic recovery is likely to be bifurcated over the next year. In China and other emerging economies, we believe growth will be relatively robust, though slower than before the financial crisis that began in 2008. Recovery in developed economies is expected to be more tepid. In the U.S., growth early in the period will likely be inflated as the rate of corporate inventory drawdown continues to fall. The following are the critical elements of PIMCO's cyclical outlook.

- **Different Initial Conditions** – A de-synchronized global recovery is likely because developed and emerging economies entered the crisis with different initial conditions. Chief among them was the state of their private and public sector balance sheets. Major emerging countries carried relatively modest levels of consumer and sovereign debt, giving them ample capacity to boost private consumption and finance fiscal expansion. The U.S. and other developed economies were and still are in the opposite condition.
- **Forecasting To Be More Challenging** – A rebalancing of growth toward leadership by emerging economies is not likely to be a smooth process. It could present a wide range of scenarios, influenced by the evolution of global policy responses related to asset purchase programs, as well as monetary and currency policy. Forecasting will likely be more difficult compared to the crisis period of the last two years, making it critical to evaluate the full dimension of possible outcomes and keep investment strategies nimble.
- **U.S. Dollar vs. Chinese RMB** – A critical forecasting question is how the tension inherent in the pegged U.S. dollar – Chinese RMB exchange rate will play itself out. The peg implies a “one size fits all” monetary policy that is inappropriate for a differentiated world and could be resolved in a variety of ways. A benign outcome would be for China to relax its link with U.S. monetary policy and allow its currency to appreciate versus the U.S. dollar. This path would

produce a monetary policy better suited to China and could mitigate the risk of destabilizing bubbles in commodities and other risky assets. On the other hand, China could retain its current exchange rate policy to spur growth, which would perpetuate a monetary policy that is too easy for China and countries that shadow the RMB. This path could lead to large and prolong asset price bubbles.

- **The Federal Reserve and the European Central Bank** – Other multi-dimensional scenarios involve the Federal Reserve (Fed) and the European Central Bank (ECB). While PIMCO does not expect the Fed to tighten any time soon, there is still the question of how negatively markets will react as the Fed winds down its unorthodox policies that were designed to inject liquidity into the financial system. These policies include the Fed's program of purchasing mortgage-backed securities. Another issue is whether the ECB will move more aggressively to blunt the impact of an appreciating euro amid continued economic weakness.
- **Deflation and Inflation** – Forecasts of inflation need to be multi-dimensional as well. Deflationary impulses will likely persist in the developed world in the face of substantial excess capacity in labor and product markets, but imported, U.S.-style monetary policies will continue to create inflationary pressure in emerging economies. Asset price inflation, including commodities, will likely be a more important issue as central banks in both developed and developing economies could be forced to give it greater weight in monetary policy.

Pursue Select Opportunities, But Mitigate Risk Amid Policy Uncertainty, Rich Valuations

The current environment is characterized by a high level of policy uncertainty and relatively rich valuations for many fixed income assets. This setting argues for caution in terms of overall risk exposure in portfolios, but PIMCO believes there are still a number of prudent strategies available to enhance returns. The

following is a summary of PIMCO's planned investment strategies:

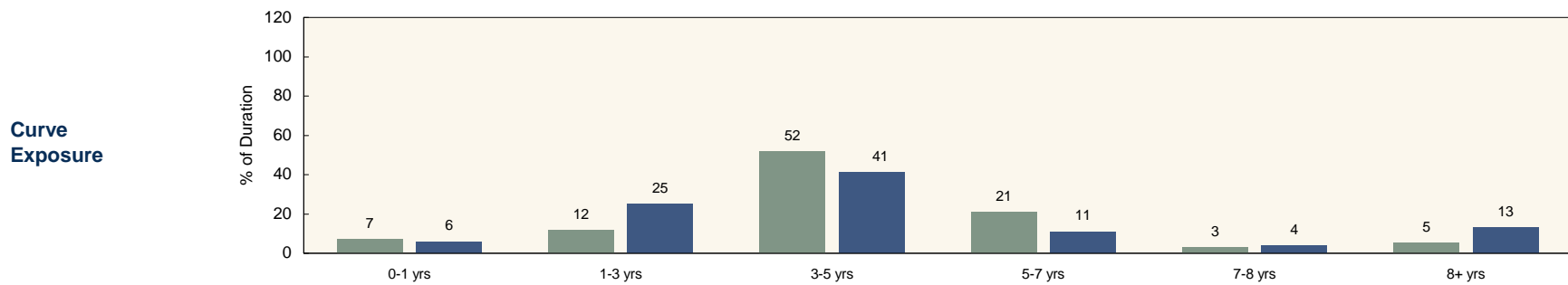
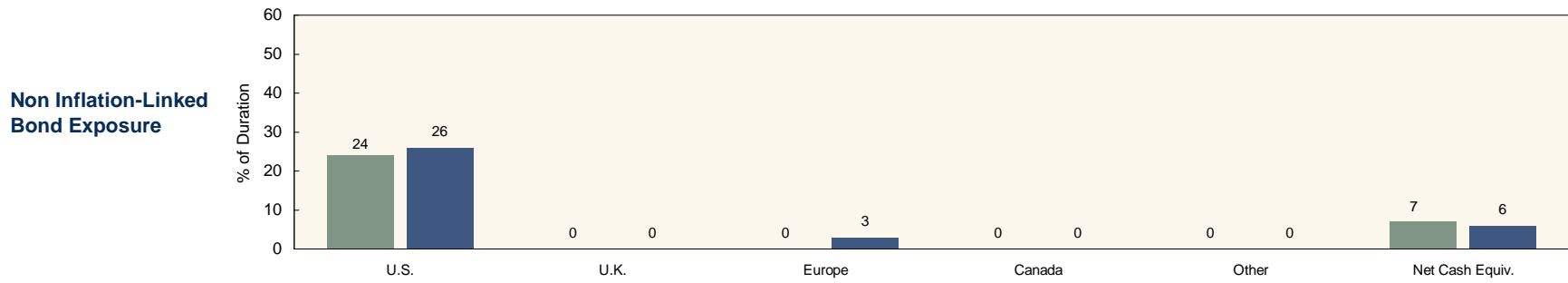
- **Real and Nominal Interest Rate Strategies** – Target above-index duration via intermediate nominal government bonds in the Eurozone, particularly Germany and France where favorable debt dynamics such as lower deficits and debt-to-GDP ratios reduce the need for additional issuance. This European exposure also currently offers relatively attractive yields but potentially less risk than a comparable U.S. position. Despite the market pricing in the ECB's hawkish rhetoric, the central bank will likely keep interest rates on hold given diverging growth trends in countries like Germany and Greece.
 - Likely maintain breakeven inflation swap position in France, receiving fixed breakeven inflation and paying actual French inflation as cyclical disinflation forces outweigh secular inflation risks
 - Target neutral duration in the U.S. where unfavorable debt dynamics from running massive fiscal deficits drive increased issuance, creating a supply imbalance and potentially causing both TIPS and Treasury yields to sell-off. Likely maintain underweight TIPS overall, particularly in shorter maturities as they are more sensitive to near-term deflation risk. However, PIMCO will likely maintain money market futures positions as we expect the Fed to tighten monetary policy more slowly than markets anticipate.
- **Modest Emerging Market Currency Exposure** – PIMCO will likely favor countries such as China, South Korea, and Mexico that are expected to benefit from improved fiscal balances, strong dollar reserves, and improved growth prospects in the wake of the financial crisis.

Portfolio Characteristics

PVIT CommodityRealReturn Strategy Portfolio

The statistics below represent the fixed income portion of the Fund.

Portfolio (%)¹



Direct Country and Currency Exposure

PVIT CommodityRealReturn Strategy Portfolio

Country Exposure (by issue currency)¹

	Portfolio 09/30/2009				Portfolio 12/31/2009			
	Market Value Weighted (%)				Market Value Weighted (%)			
(by issue currency)	% of Duration	Bonds	Cash Equiv.	Currency Exposure ² (%)	% of Duration	Bonds	Cash Equiv.	Currency Exposure ² (%)
North America	94.6	105.7	55.1	0.0	96.2	105.3	43.8	0.0
United States	94.6	105.7	55.1	0.0	96.2	105.3	43.8	0.0
Europe - EMU	1.5	0.0	6.4	0.0	3.3	2.8	0.8	0.0
France	0.2	0.0	0.0	-	0.0	0.0	0.0	-
Germany	0.2	0.3	0.0	-	3.1	2.7	0.0	-
Other ³	1.1	-0.3	6.4	-	0.2	0.1	0.8	-
United Kingdom	1.1	0.3	3.5	0.1	0.0	0.0	0.5	0.1
Europe - Non-EMU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Switzerland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	2.4	2.0	0.1	0.0	0.0	0.0	0.0	0.0
Asia Pacific ex-Japan	0.0	0.0	0.0	0.5	0.0	0.0	0.0	1.5
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
South Korea	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.9
Emerging Markets	0.4	1.0	0.1	1.0	0.5	0.9	0.1	1.6
Brazil	0.4	1.0	0.1	0.0	0.5	0.9	0.1	0.0
China	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.7
Mexico	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.9
Net Liabilities ⁴	<u>0.0</u>	<u>0.0</u>	<u>-74.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-54.2</u>	<u>0.0</u>
Total Direct Exposure	100.0	109.0	-9.0	1.6	100.0	109.0	-9.0	3.1

Small allocations may round to zero.

Direct Emerging Markets Bond Exposure

PVIT CommodityRealReturn Strategy Portfolio

Emerging Markets Exposure (by country of issuer)

	9/30/2009			12/31/2009		
	<u>% of MV Cash Equiv.</u>	<u>% of MV Bonds</u>	<u>% of Duration</u>	<u>% of MV Cash Equiv.</u>	<u>% of MV Bonds</u>	<u>% of Duration</u>
Brazil	0.11	0.95	0.41	0.10	0.85	0.36
China	0.00	0.00	0.00	-0.01	0.00	0.00
Malaysia	0.00	0.00	0.00	0.00	0.00	0.00
Mexico	0.00	0.00	0.00	0.01	0.00	0.00
Philippines	0.00	0.00	0.00	0.00	0.00	0.00
Russia	<u>0.00</u>	<u>0.04</u>	<u>0.06</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Direct Emerging Markets	0.11	0.99	0.47	0.10	0.85	0.36

Small allocations may round to zero.

PIMCO Proprietary Portfolio Level Risk Measures

PVIT CommodityRealReturn Strategy Portfolio

Risk Measures (yrs) ¹	9/30/2009	12/31/2009	Definitions of Risk Measures:
Interest Rate Exposures:			
Effective Duration			
Portfolio	4.6	4.2	A portfolio's price sensitivity to changes in interest rates. An accurate predictor of price changes only for small, parallel shifts of the yield curve. For every 1 basis point fall (rise) in interest rates, a portfolio with duration of 1 year will rise (fall) in price by 1 bp.
- Inflation-Linked Bond Duration	3.2	2.7	
- Nominal Interest Duration	1.4	1.5	
Yield Beta			
Less than or equal to 10 years to maturity	0.80	0.80	Duration is defined as the price sensitivity of a bond to changes in nominal yields. Inflation-linked bonds are sensitive to changes in real yields. To relate the price sensitivity of ILBs to changes in nominal yields, a yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A yield beta of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.
Greater than 10 years to maturity	0.80	0.80	
Bull Market Duration			
Portfolio	4.6	3.9	A portfolio's effective duration after a 50 bp decline in rates. The extent to which a portfolio's duration exceeds its bull market duration is a gauge of contraction risk.
Bear Market Duration			
Portfolio	4.8	4.5	A portfolio's effective duration after a 50 bp rise in rates. The extent to which a portfolio's bear market duration exceeds its duration is a gauge of extension risk.
Total Curve Duration	0.4	0.2	A portfolio's price sensitivity relative to the benchmark to changes in the slope of the yield curve, measured between the 2-30 year Government yields, holding the 10-year yield constant. For every 1 bp of steepening (flattening), a portfolio with curve duration of 1 year will rise (fall) in price by 1 bp relative to the benchmark.
Sector Exposures*:			
Mortgage Spread Duration			
Portfolio	0.3	0.4	The contribution of mortgages to spread duration. For every 1 bp of mortgage spread tightening (widening), a portfolio with mortgage spread duration of 1 year will rise (fall) in price by 1 bp.
Corporate Spread Duration			
Portfolio	0.1	0.2	The contribution of corporate bonds to spread duration. For every 1 bp of corporate spread tightening (widening), a portfolio with corporate spread duration of 1 year will rise (fall) in price by 1 bp.
Emerging Markets Spread Duration			
Portfolio	0.0	0.0	The contribution of emerging market bonds to spread duration. For every 1 bp of emerging market spread tightening (widening), a portfolio with an emerging market spread duration of 1 year will rise (fall) in price by 1 bp.
Swap Spread Duration			
Portfolio	1.2	1.1	The contribution of swaps to spread duration. Includes the impact of non-swap instruments such as agencies that are sensitive to swap spreads. For every 1 bp of swap spread tightening (widening), a portfolio with swap spread duration of 1 year will rise (fall) in price by 1 bp. A negative swap spread duration indicates that the portfolio will benefit from widening swap spreads.

* As measured by spread duration, which represents a portfolio's price sensitivity to changes in spreads, or yield premiums, that affect the value of bonds that trade at a spread to Governments. These include mortgage-backed, corporate and emerging market bonds, as well as swaps.

¹ Data in years except for Yield Beta

Summary of Derivatives

PVIT CommodityRealReturn Strategy Portfolio

Derivatives (% of Market Value)	9/30/2009	12/31/2009	Characteristics of Derivatives:	Control Measures
Commodity Exposure	98.8	100.1	Includes index and other swaps used to gain commodity exposure. Cash-settled at maturity, the market value of commodity swaps increase in value as the value of the Dow Jones - UBS Commodity Index increases in value.	Monitor notional plus market value of swaps to maintain 100% exposure to market value of account.
(Duration in Years)				
Government Futures	0.0	0.1	Used to adjust interest rate exposures and to replicate government bond positions. Frequently offers the opportunity to outperform government securities due to cheapness of futures contracts and active management of the liquid, short duration securities backing the futures.	Bond-equivalent exposure included in portfolio duration. Back long futures positions with high grade, liquid debt securities.
Other Futures	0.0	0.0	Includes municipal, mortgage-backed and interest rate swap futures.	See Government Futures.
Interest Rate Swaps	0.0	0.0	Includes swaps with duration greater than 1 year. Used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("receive fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure.	Bond-equivalent exposure included in portfolio duration. Back long swaps positions with high grade, liquid debt securities.
Credit Default Swaps**	-10.5	-7.0	Credit default swaps are used to manage credit exposure without buying or selling securities outright. Written CDS increase credit exposure ("selling protection"), obligating the portfolio to buy bonds from counterparties in the event of a default. Purchased CDS decrease exposure ("buying protection"), providing the right to "put" bonds to the counterparty in the event of a default.	Bond-equivalent exposure included in portfolio credit risk measures. Back long exposures with high grade, liquid debt securities. Continually monitor underlying credit exposure.
Written	0.0	0.0		
Purchased	-10.5	-7.0		
Options	0.1	0.4	Written options generate income in expected rate scenarios and may generate capital losses if unexpected interest rate environments are realized. Purchased options are used to manage interest rate and volatility exposures. Both written and purchased options will become worthless at expiration if the underlying instrument does not reach the strike price of the option.	Bond-equivalent exposure (weighted by probability of exercise) included in portfolio duration. Back underlying exposure with high grade, liquid debt securities.
Written	0.1	0.4		
Purchased	0.0	0.0		
Mortgage Derivatives	0.0	0.0	Used to manage portfolio duration and/or enhance yield. Includes securities determined by PIMCO to have potentially less stable duration characteristics, such as Interest Only strips (IOs), Principal Only strips (POs), Support Class CMOs and Inverse Floaters. Value will fluctuate as prepayment speeds respond to rising and falling interest rates.	Bond exposure included in portfolio duration, convexity, and prepayment risk measures. Use IO's and PO's in moderation and in an overall portfolio context.
Money Market Derivatives	0.3	0.2	Used to manage exposures at the short end of the yield curve and express PIMCO's expectations for future short-term rates. Includes swaps with duration of 1 year or less, and Eurodollar, Euribor and other futures based on short-term interest rates.	Bond-equivalent exposure included in portfolio duration. MM derivatives are not backed by other assets as they represent short-maturity exposures and have no deliverable at expiration.
Futures	0.3	0.2		
Interest Rate Swaps	0.0	0.0		

** Credit default swaps are shown as percentage of market value to reflect potential default risk.

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

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

Risk Disclosures

Summary of Performance Data and Portfolio Statistics

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

All time periods longer than one year are annualized and returns include reinvestment of dividends, income and capital gains, if any. The Portfolio can invest a portion of its assets in non-U.S. securities, which can entail greater risks due to non-U.S. economic and political developments. This risk may be enhanced when investing in Emerging Markets. Investment in a Portfolio that invests in high-yield, lower-rated securities, will generally involve greater volatility and risk to principal than investments in higher-rated securities. This Portfolio is non-diversified, which means it may concentrate its assets in a smaller number of issuers than a diversified fund. In an environment where interest rates may trend upward, rising rates will negatively impact the performance of most bond funds, and fixed income securities held by a fund are likely to decrease in value. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. The CommodityRealReturn Strategy Portfolio is intended for long-term investors and an investment in the Portfolio should be no more than a small part of a typical diversified portfolio. The Portfolio's share price is expected to be more volatile than that of other funds. This Portfolio will typically seek to gain exposure to the commodity markets by investing in commodity-linked derivative instruments such as index- and commodity-linked "structured" notes. These instruments and commodities in general may subject the Portfolio to greater volatility than investments in traditional securities. Commodities and commodity-index-linked securities may be affected by changes in overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, or political and regulatory developments, as well as the trading activity of speculators and arbitrageurs in the underlying commodities.

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

3 Distribution yield is calculated by annualizing actual dividends for the month ended on the date shown and dividing by net asset value per share on the last business day of the same

4 The duration contribution of inflation-linked to the overall duration of the Portfolio as adjusted by a yield beta.

5 The duration contribution of nominal bonds to the overall duration of the Portfolio.

6 Net cash equivalents includes STIF, CP, ST Government, BAs and CDs, less the amount used to back liabilities such as futures, forwards and unsettled trades. Money Market Futures/Options include Eurodollar and Euribor futures that are based on short term interest rates and represent short maturity exposures. They are not backed by other assets and have no deliverable at expiration as they are cash settled. The notional amount of money market futures, captured in the column labeled "% of Market Value", is based on an annualized 3-month interest rate and follows the industry convention of dividing the notional amount by 4 to reflect the underlying 3-month rate exposure. Money market futures' contribution to overall portfolio duration is captured in the column labeled "Duration in Yrs" Other includes repurchase agreements, accrued interest and bankers acceptances.

7 Tracking error, a measure of risk, is defined as the standard deviation of the portfolio's excess return vs.the benchmark expressed in percent. The information ratio is defined as the portfolio's excess return per unit of risk, or tracking error. For example, an information ratio of 1 means that a portfolio manager generates 100 basis points, or one percent of excess return for every 100 basis points of risk taken.

8 The Average Credit Quality ratings are provided to indicate the credit worthiness of the underlying bonds in the portfolio and generally range from Aaa (highest) to B (lowest).

Market Commentary and Market Outlook

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

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

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

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

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

Continued

Market Commentary and Market Outlook continued

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

Municipal bonds are guaranteed by the United States Government, state or locality in which they are issued. Guarantee does not eliminate market risk. Municipal bonds are not taxable at the Federal level. The issuing state or locality have the right to demand tax; however, many states and localities forgo tax on municipal bonds to entice investment. State and locality municipal bonds are not guaranteed by the Federal Government.

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

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

Asset backed securities are financial securities backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. These securities can be an alternative to investing in corporate debt.

Portfolio Characteristics

1 Market value data based on percentage of net assets of the mutual fund. Data differs from compliance calculations based on total assets of the mutual fund. All mutual funds are separately monitored for compliance with prospectus and regulatory requirements. Other includes Yankee/Euro bonds, convertibles and municipal bonds. Net cash equivalents equal cash equivalents less the amount used to back liabilities such as futures, forwards and unsettled trades. In the duration weighted category also includes money market futures, which consist of Eurodollar and Euribor futures.

Direct Country and Currency Exposure

- 1 Country exposures reflect the portfolio's effective exposure to non-U.S. markets, inclusive of forward settled holdings. Small allocations may round to zero.
- 2 Includes currency exposure due to non-U.S. holdings, hedging transactions and outright currency transactions. Positive numbers reflect long currency positions relative to base currency. Allocations may not add to totals due to rounding.
- 3 Other includes swaps and securities issued in euros by issuers outside of core Europe.
- 4 Includes liabilities associated with futures, forwards and unsettled trades.

Summary of Derivatives

1 This Portfolio may use derivative instruments for hedging purposes or as part of its 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 a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

Index Descriptions

Citigroup 1- 10 Year Treasury STRIPS Index represents a composition of outstanding Treasury Bond and Notes with a maturity of at least one year but less than ten years. The index is rebalanced each month in accordance with underlying Treasury figures and profiles provided as of the previous month- end. The included STRIPS are derived only from bonds in the Citigroup U. S. Treasury Bond Index, which include coupon strips with less than one year remaining to maturity. It is not possible to invest directly in an unmanaged index.

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

Federal Funds Rate is the federal rate at which banks borrow reserves from each other. This rate is set by the United States Federal Open Market Committee.

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

The BofA Merrill Lynch 1-3 Year U.S. Treasury Index is an unmanaged index that tracks the performance of the direct Sovereign debt of the US Government having a maturity of at least 1 year and less than 3 years. It is not possible to invest directly in an unmanaged index.

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