

Quarterly Investment Report

December 31, 2009

PVIT Global Multi-Asset 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

PVIT Global Multi-Asset Portfolio

Market Commentary	Market Outlook
<ul style="list-style-type: none"> ▪ 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 2009 as risk appetites revived, crimping demand for Treasuries and other sovereign bonds ▪ Equities gained in the fourth quarter and for all of 2009 as government policies helped push investors out of cash and toward riskier assets 	<ul style="list-style-type: none"> ▪ 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 in this setting, so it will be critical to assess a range of outcomes and keep strategies nimble
Portfolio Recap	Portfolio Strategy
<ul style="list-style-type: none"> ▪ The Portfolio underperformed the index for the quarter ▪ An emphasis on high-quality, non-Treasury assets was strongly beneficial for returns in 2009 as government policies supported these bonds ▪ The following strategies helped fourth quarter returns: <ul style="list-style-type: none"> ➢ Exposure to emerging market equities, as emerging markets showed strong resilience ➢ Allocations to commodities and gold, which gained on strong demand and concerns about inflation ➢ An overweight to bonds of financial companies, which continued to outperform the broader corporate market ➢ Exposure to emerging market bonds, as credit premiums compressed over the quarter; EM currency positions also added value ▪ The following strategies were negative for quarterly returns: <ul style="list-style-type: none"> ➢ An underweight to global developed equities, as they continued to rally, despite weak longer-term fundamentals ➢ Above-index duration as yields rose ➢ An underweight to Agency mortgages, which continued to gain despite historically rich valuations ➢ Tail risk hedges, which declined in value due to time decay and the rally in risk assets 	<ul style="list-style-type: none"> ▪ Policy uncertainty and leveraged government balance sheets argue for caution in overall risk exposures, but prudent strategies are available to enhance potential returns ▪ Plan to overweight emerging market equities and underweight global developed equities as growth is likely to be more robust in emerging economies ▪ Seek to maintain overweight of commodities, given the prospect of a spike in inflation over the secular horizon ▪ Look to obtain equity exposure higher up in the capital structure via emerging market and investment grade debt ▪ Target duration near the index; while short term rates are unlikely to rise, longer maturity yields could be more volatile as the Fed prepares to exit its unorthodox monetary policies ▪ Look to underweight Agency MBS, which trade near their most expensive levels ever. Better opportunities to own these securities could arise as the Fed's mortgage purchase program ends in March ▪ Plan on taking modest exposure to high quality emerging market credits such as Mexico, Brazil, and Korea that have low levels of debt relative to the size of their economies ▪ Plan to maintain positions in select emerging market currencies in light of an expected long-run decline in the U.S. dollar

Key Risk Factor Positioning

PVIT Global Multi-Asset Fund

Risk Measures	12/31/2009	9/30/2009	Definitions of Risk Measures:
Equity Risk			
Portfolio	0.4	0.4	The Fund's price sensitivity to a change in the equity markets as proxied by the S&P500 Index. For every 1% increase(decrease) in the total return of the S&P500 Index, a portfolio with an Equity Risk factor of 1.0 can be expected to rise(fall) in price by 1% under normal market conditions.
60/40 Static Blend**	0.6	0.6	
Duration (yrs)			
Portfolio	2.2	2.9	The Fund'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.
60/40 Static Blend**	1.7	1.7	
Total Curve Duration (yrs)	0.2	0.5	A portfolio's price sensitivity relative to the 60/40 Static Blend** 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 60/40 Static Blend**.
Mortgage Spread Risk* (yrs)			
Portfolio	0.3	0.2	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.
60/40 Static Blend**	0.7	0.6	
Corporate Spread Risk* (yrs)			
Portfolio	0.4	0.6	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.
60/40 Static Blend**	0.5	0.6	
Real Assets Risk			
Portfolio	0.1	0.1	The Fund's price sensitivity to a change in the total return of a diversified basket of commodities as proxied by the Dow UBS Commodity Index. For every 1% increase(decrease) in the total return of the DJ UBS Commodities Index, a portfolio with a Real Assets risk factor of 1.0 is likely to rise(fall) in price by 1% under normal market conditions.
60/40 Static Blend**	0.0	0.0	

* 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.

** 60/40 Static Blend refers to 60% MSCI World Index / 40% Barclays Capital U.S. Aggregate Index. The Fund is designed to have an absolute return orientation and seeks to outperform this 60/40 static allocation blend over a full business cycle while seeking to mitigate the downside during bear markets.

Portfolio Breakdown, Monthly Summary, by % of Market Value

PVIT Global Multi-Asset Fund

Allocation By Asset Type	Definitions	Operating Range	Dec-09	Nov-09	Oct-09	Sep-09
Developed Market Equities	Fund's exposure to International equities.	20% - 80%	20.6%	21.1%	21.1%	18.9%
Developing Market Equities	Fund's exposure to Emerging Markets equities.	A 55% - 65% exposure between all equity classes is considered Neutral.	11.5%	12.1%	12.2%	8.4%
Commodities	Fund's cumulative exposure to commodities.	Maximum 25%	11.8%	7.8%	7.5%	7.8%
Real Estate	Fund's cumulative exposure to real estate.	Maximum 25%	0.0%	0.0%	0.0%	0.0%
Developed Market Bonds	Fund's exposure to International bonds.	0% - 100%	31.5%	42.4%	49.5%	52.5%
Inflation Linked Bonds	Fund's cumulative exposure to TIPS and other inflation related securities.	Varies	0.0%	0.0%	0.0%	0.5%
Developing Market Bonds	Fund's exposure to Emerging Markets bonds.	A 45% - 55% exposure between all fixed income classes is considered Neutral.	10.2%	9.4%	6.3%	5.8%
Net Cash and Other*	Fund's net exposure to tail-risk hedges, alpha strategies, hedge offsets, overlay collateral, short-term liquid instruments and cash.	Varies	14.4%	7.2%	3.4%	6.1%

* Represents Fund's exposure to net cash and cash equivalents, tail risk hedges, and alpha trades.

Summary of Performance Data and Portfolio Statistics

PVIT Global Multi-Asset Portfolio
Administrative Class

Performance Periods Ended 12/31/2009	Since Inception	6 mos	3 mos
Total Portfolio¹			
Before Fees (%)	20.17	13.86	3.00
After Fees (%)	19.25	13.25	2.72
(Inception 04/15/09)			
MSCI World Net Dividend in USD (%)	32.70	22.23	4.07
60% MSCI World Index/40% Barclays Capital U.S. Aggregate Index (%)	21.19	14.68	2.54

The performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that Fund 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 Fund's total annual operating expense ratio is 1.87%. Total net annual fund operating expenses excluding interest and line of credit expense is 1.10%. Details regarding any Fund's operating expenses can be found in the Fund's prospectus. Performance data current to the most recent month-end is available at <http://www.pimcofunds.com/pvit/index1.aspx> or by calling (800) 927-4648.

Summary Information	9/30/2009	12/31/2009
Total Net Assets (USD in millions)	9.0	36.6

Stocks Rise Sharply in 2009, Leading Risk Asset Rally

Global equity markets staged a strong rally in 2009 from their lows in March as investors quickly regained their appetite for risky assets. The S&P 500 Index rose by 6.0 percent in the fourth quarter and ended the year 26.5 percent higher. As an indication of the degree to which volatility in equity markets has subsided, the Chicago Board Options Exchange Volatility Index, or VIX ended the quarter at a level of 21.7, having reached a high of 80.9 during the height of the financial crisis in late 2008.

The Russell 3000, a commonly referenced index for the broad U.S. stock market, gained 5.9 percent in the fourth quarter and 28.3 percent for all of 2009. Large cap stocks beat small cap stocks, with the Russell 1000 outperforming the Russell 2000 6.1 percent to 3.9 percent over the quarter. Among large cap stocks, growth outperformed value as evidenced by the Russell 1000 Growth and Value Indexes, which returned 7.9 and 4.2 percent, respectively. Similarly, growth beat value in small cap space, though by a smaller margin, with the Russell 2000 Growth returning 4.1 percent versus a return of 3.6 percent for its value counterpart.

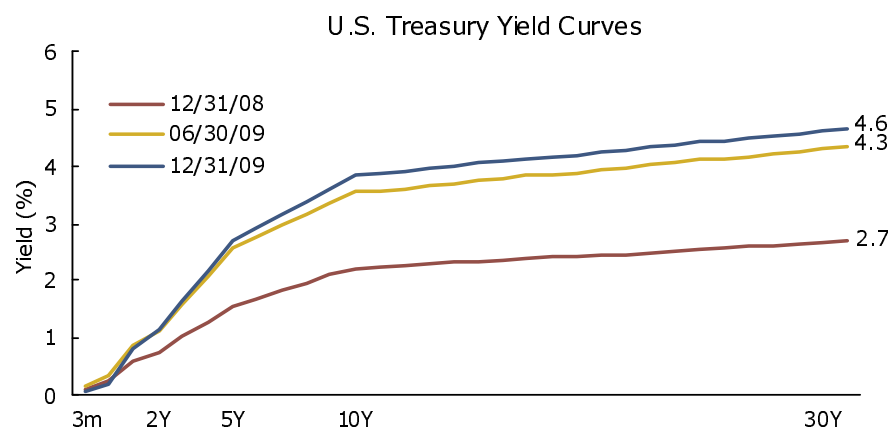
Equity markets in developed non-U.S. economies, as represented by the MSCI EAFE Index, returned 2.2 percent over the quarter in U.S. dollars and 3.3 percent in local currency terms. Among emerging economies, stocks posted a total return of 8.6 percent in U.S. dollars and 7.2 percent in local currency terms as measured by the MSCI EM Index.

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. The Barclays Capital U.S. Aggregate Index, a widely

used index of U.S. high-grade bonds, returned 0.20 percent during the fourth quarter and 5.93 percent for all of 2009.

Initiatives such as the Federal Reserve'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.



SOURCE: Bloomberg Financial Markets

Past performance is no guarantee of future results.

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

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

The difference between the two and 10-year 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 steeper 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 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.

Better-than-expected economic data near year end put upward pressure on intermediate and longer maturity Treasury yields. The 10-year Treasury yield closed the year at 3.84 percent, up 53 basis points in the fourth quarter and 163 basis points for the full year. Perhaps the most important data were signs of higher consumer spending and incomes, indicating that the biggest part of the U.S. economy might be poised to recover.

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 in 2008. 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.

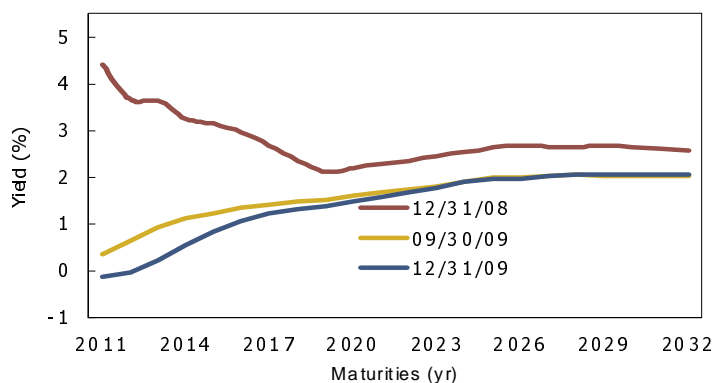
Summary of Real Assets

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.

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.

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.

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.

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.

The Dow-Jones U.S. Select Real Estate Investment Trust (REIT) Total Return Index posted a gain of 9.18 percent during the fourth quarter and 28.51 percent for all of 2009. For the quarter, the REIT index benefited from continued economic recovery, compression of credit spreads, and the ability to raise significant amounts of both equity and debt in the capital markets.

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 prolonged asset price bubbles.

- **The Federal Reserve and the ECB** – Other multi-dimensional scenarios involve the Federal Reserve and the European Central Bank. 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 European Central Bank 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.

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 all risky 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 potential returns. The following is a summary of PIMCO's planned investment strategies:

- **Overall Asset Allocation** - Tactical asset allocation will likely focus on reduction of assets that have rallied in favor of assets that display strong underlying fundamentals such as emerging market equities and bonds. Within the equity allocation, we plan on continuing to overweight emerging market and international developed equities, but may pare our exposure if the current rally continues. PIMCO believes the current equity rally was primarily driven by technical factors and government stimulus; future returns will depend on qualitative factors such as how and when the Fed exits.

Following a 31 percent P/E multiple expansion since March 2009, future equity returns are likely to depend more on earnings growth¹. Given a weak demand outlook, companies may find it difficult to grow sales, but controlled input costs may help preserve profit margins. In fixed income, we will focus even more on security selection and continue to use emerging market and investment grade debt to obtain equity risk factor exposure higher-up in the capital structure. In real assets, we will seek to overweight diversified commodities and may increase exposure to gold, which we view as an inflation hedge as well a hedge against a falling U.S. dollar.

- **Interest Rate Strategies** – We will target flat to modestly overweight duration, with an increased emphasis on intermediate maturity European interest rates. This European exposure offers relatively attractive yields but potentially less risk than a comparable U.S. position, which could be vulnerable to the unwinding of the Fed's unorthodox monetary policies. PIMCO plans to retain modest money market futures positions in the U.S., Europe and the U.K. as we anticipate that central banks in these countries will tighten more slowly than markets expect.
- **Plan to Retain Underweight in Agency Mortgages** – This position should allow PIMCO to take advantage of a

potential cheapening of Agency MBS, which trade near their most expensive levels ever. More favorable opportunities to own these securities could arise later in 2010 after the Fed's mortgage purchase program ends in March.

- **Boost Premium Income** – To help offset loss of yield from the mortgage underweight, PIMCO will seek to collect premiums from written options on fixed income securities.
- **Target Select Corporate Bond Holdings** – Corporate bonds also have rallied strongly so PIMCO will target a neutral weighting. However, we will plan on continuing to emphasize recession-resistant sectors such as telecom and utilities as well as energy. We plan to retain holdings of larger and well-capitalized banking and financial institutions that still offer value. In addition, the rally in high yield bonds has prompted stronger demand for new issues and reduced interest in better quality, short maturity high yield credits among some institutional investors. We will therefore look to add some of these shorter dated high yield securities to portfolios.
- **Emerging Markets and Currency** – PIMCO plans to take exposure to high quality EM credits such as Mexico, Brazil, Korea and Russia, which have low levels of debt relative to the size of their economies. We also will look to take positions in select EM currencies, such as Brazil and China, anticipating that faster growth in these economies should allow their currencies to gain versus the U.S. dollar.
- **TIPS and Commodities** – While TIPS offer a potential hedge against long-run inflation risks, their valuations compared to nominal bonds are unappealing over a cyclical time frame. As a consequence, our TIPS holdings will likely be relatively light. With respect to commodities, PIMCO believes there could be a spike in inflation over the secular horizon. We will look to overweight commodities as they may reduce the risk of unexpected changes in the rate of inflation.

¹ Bloomberg Financial Markets

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 Fund'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. Neither Before nor After Fees performance figures reflect any applicable redemption fees, the performance figures would be lower if the fee was applied. The redemption fee of 2% may apply to shares that are redeemed or exchanged within 7 or 30 days of acquisition, depending on the Fund. Redemption fees are paid to and retained by the Fund and are not sales charges. Details regarding any Fund's fees and expenses can be found in the Fund's prospectus. The Board of Trustees for PIMCO Funds approved the elimination of redemption fees for all Funds effective May 1, 2009.

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 Fund 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 Fund that invests in high-yield, lower-rated securities, will generally involve greater volatility and risk to principal than investments in higher-rated securities. 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

Market Commentary and Market Outlook

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

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

Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk.

Small-Cap debt securities are issued by entities and usually have a market capitalization of \$500 million or less. These types of securities are usually taxable at the State and Federal level. These securities are not guaranteed by the federal government and are thus more susceptible to default risk.

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

Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk.

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.

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.

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

Continued

Index Descriptions

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

The benchmark is a blend of 60% MSCI World Index and 40% Barclays Capital U.S. Aggregate Index. The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers.

MSCI (Morgan Stanley Capital International) World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. It is not possible to invest directly in an unmanaged index.

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