PIMCO

Quarterly Investment Report

March 31, 2011

PVIT Global Multi-Asset Portfolio

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PVIT Global Multi-Asset Portfolio

Market Commentary

- Global equities rallied in a volatile first quarter of 2011, with developed equities outpacing emerging markets equities
- Most bonds generated positive returns during the quarter as markets struggled to absorb political upheaval in the Middle East and northern Africa and the natural disasters in Japan
- Diversified commodities, particularly crude oil, rallied during the quarter, aided by a weaker U.S. dollar

Portfolio Recap

- The following strategies posted positive quarterly returns on an absolute basis:
  - Exposure to U.S. equities and equities of other developed countries
  - Allocation to gold as gold prices increased amid safe-haven demand
  - Continued allocation to a diversified basket of commodities as commodity prices continued to rally
  - Tactical asset allocation decisions to benefit from a dislocation in Japanese equities after the earthquake
  - Exposure to a diversified basket of non-U.S. developed and emerging market currencies
  - Allocation to emerging market sovereign and corporate debt as emerging market bonds rallied
- The following strategies detracted from quarterly returns on an absolute basis:
  - Tail risk hedges, which seek to protect the portfolio against sudden market shocks, lost value over the quarter as risk assets rallied

Market Outlook

- The U.S. should grow between 3% and 3.5% over the remainder of the year, but without more fiscal stimulus the U.S. is unlikely to generate sustainable growth
- The winding down of the Fed's second quantitative easing program and the threat to the U.S. posed by fiscal deficits could cause pressure on the long-end of the yield curve
- Inflation is likely to rise as central banks err on the side of re-flation and emerging economies approach capacity limits

Portfolio Strategy

- Continue to focus on tactical asset allocation decisions amid an environment of policy uncertainty and higher volatility
- Plan to maintain an overweight to emerging market equities based on long-term growth fundamentals. Within global equities, we will focus on security and sector selection among emerging market equities and international developed equities where we believe pockets of value exist
- As equity valuations continue to richen, we will look to diversify portfolio exposures to other risk assets including commodities, emerging market bonds, and non-U.S. dollar currencies
- With interest rates in U.S. and elsewhere poised to move higher, we plan on continuing to reduce the Fund's exposure to nominal interest rate duration
- We plan to take long positions in high yielding emerging market currencies in an effort to benefit from an expected depreciation in currencies of indebted nations such as the U.S., Eurozone, U.K., and Japan
- In fixed income, we will look to own corporate and quasi-sovereign bonds in high-quality emerging market countries
- As always, we plan on continuing to hold a diversified basket of tail hedges in an attempt to protect the portfolio during periods of sudden market stress

Risk Disclosures and Index Descriptions are located in the Important Information section of the Appendix

Key Risk Factor Positioning

PVIT Global Multi-Asset Portfolio

Risk Measures	3/31/2011	12/31/2010	Definitions of Risk Measures:
Equity Risk			The Fund's price sensitivity to a change in the equity markets as proxied by the S&P 500 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.
Portfolio	0.6	0.5	
60/40 Static Blend**	0.7	0.6	
Duration (yrs)			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.
Portfolio	1.8	2.6	
60/40 Static Blend**	1.9	1.9	
Total Curve Duration (yrs)			The Fund's price sensitivity 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.
Portfolio	1.0	0.9	
60/40 Static Blend**	0.3	0.3	
Mortgage Spread Risk* (yrs)			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.
Portfolio	0.2	0.3	
60/40 Static Blend**	0.5	0.5	
Corporate Spread Risk* (yrs)			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.
Portfolio	0.8	0.8	
60/40 Static Blend**	0.6	0.6	
Real Assets Risk			The Fund's price sensitivity to a change in the total return of a diversified basket of commodities as proxied by the Dow Jones-UBS Commodity Index. For every 1% increase(decrease) in the total return of the DJ-UBS Commodity 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.
Portfolio	0.1	0.1	
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.

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PIMCO Variable Insurance Trust Global Multi-Asset Portfolio Allocation As Of 3/31/2011

	6/30/2009	9/30/2009	12/31/2009	3/31/2010	6/30/2010	9/30/2010	12/31/2010	1/31/2011	2/28/2011	3/31/2011
Developed Market Equities:	**9.0%**	**18.9%**	**20.6%**	**27.1%**	**34.5%**	**36.9%**	**29.3%**	**29.7%**	**29.1%**	**33.5%**
U.S. Equities	5.0%	10.9%	11.4%	17.4%	24.5%	25.7%	19.0%			
Global ex-U.S. Developed Equities	4.0%	8.0%	9.2%	9.7%	10.0%	11.2%	10.3%			
Emerging Market Equities:	**9.0%**	**8.4%**	**11.5%**	**11.3%**	**10.1%**	**10.6%**	**10.6%**	**10.5%**	**11.1%**	**12.2%**
Commodities:	**7.0%**	**7.8%**	**11.8%**	**16.6%**	**13.0%**	**9.3%**	**13.1%**	**16.5%**	**21.5%**	**10.2%**
Diversified Commodities	4.0%	5.1%	7.0%	9.8%	10.4%	4.9%	7.4%			
Gold	3.0%	2.7%	4.8%	6.8%	2.6%	4.4%	5.7%			
Real Estate:	**2.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.2%**
Developed Market Bonds:	**32.0%**	**52.5%**	**31.5%**	**29.5%**	**26.6%**	**23.3%**	**24.0%**	**21.4%**	**20.5%**	**20.6%**
U.S. Bonds	27.0%	40.7%	18.0%	16.3%	12.6%	11.9%	13.3%			
Global ex-U.S. Developed Bonds	5.0%	11.8%	13.5%	13.2%	14.0%	11.4%	10.7%			
Inflation Linked Bonds	**2.0%**	**0.5%**	**0.0%**	**0.0%**	**0.0%**	**1.9%**	**1.7%**	**1.1%**	**0.0%**	**0.0%**
Emerging Market Bonds:	**8.0%**	**5.8%**	**10.2%**	**12.7%**	**13.6%**	**12.7%**	**12.4%**	**11.9%**	**11.3%**	**11.4%**
Net Cash and Other*	**31.0%**	**6.1%**	**14.4%**	**2.8%**	**2.2%**	**5.3%**	**8.9%**	**8.8%**	**6.3%**	**11.9%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Represents Portfolio'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 3/31/2011	Since Inception	1 yr	6 mos	3 mos
Total Portfolio[1]				
Before Fees (%)	**19.06**	**14.80**	**8.81**	**4.01**
After Fees (%)	**17.76**	**13.54**	**8.22**	**3.73**
(Inception 04/15/09)				
MSCI World Index (%)	27.54	13.45	14.18	4.80
60% MSCI World Index/40% Barclays Capital U.S. Aggregate Bond Index (%)	19.00	10.56	8.02	3.04

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

Expense Ratio	
The Fund's Total Annual Operating Expenses	1.54%
The Fund's Net Operating Expenses	1.30%

The net expense ratio reflects a contractual expense reduction agreement through the Fund's current fiscal year, as detailed in the prospectus supplemented to date.

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. 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 pvit.pimco-funds.com or by calling (888) 87-PIMCO.

Summary Information	12/31/2010	3/31/2011
Total Net Assets (USD in millions)	905.7	**1,164.5**

Additional Share Class Performance

March 31, 2011

PVIT Global Multi-Asset Portfolio

Net of Fees Performance	Gross Expense Ratio	Net Expense Ratio	NAV Currency	Inception Date	Since Inception	10 Year	5 Year	3 Year	1 Year	6 Month	3 Month
ADVISORY Class:											
Global Multi-Asset Portfolio, Advisory	**1.64**	**1.37**	**USD**	**Apr-15-09**	**17.67**	**-**	**-**	**-**	**13.42**	**8.12**	**3.70**
MSCI World Index			-		27.54	-	-	-	13.45	14.18	4.80
60% MSCI World Index/40% Barclays Capital U.S. Aggregate Bond Index			-		19.00	-	-	-	10.56	8.02	3.04

The net expense ratio reflects a contractual expense reduction agreement through the Fund's current fiscal year, as detailed in the prospectus supplemented to date.

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

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Risk Assets Rally on Strong Economic Data

Risk assets gained in the first quarter on the back of strong economic data despite political upheaval in the Middle East, rising inflationary pressures and the devastating earthquake and tsunami in Japan.

Indicators of underlying strength in the U.S. economy during the quarter included a decrease in the unemployment rate as well as robust corporate profits. Gasoline and food prices moved higher but consumers were partially insulated from these effects by fiscal stimulus measures enacted late last year, including a cut in payroll taxes. Continued monetary easing also helped as the Fed reaffirmed plans to buy $600 billion of Treasuries through June (as part of its second round of quantitative easing, or QE2) and keep the federal funds rate near zero for "an extended period".

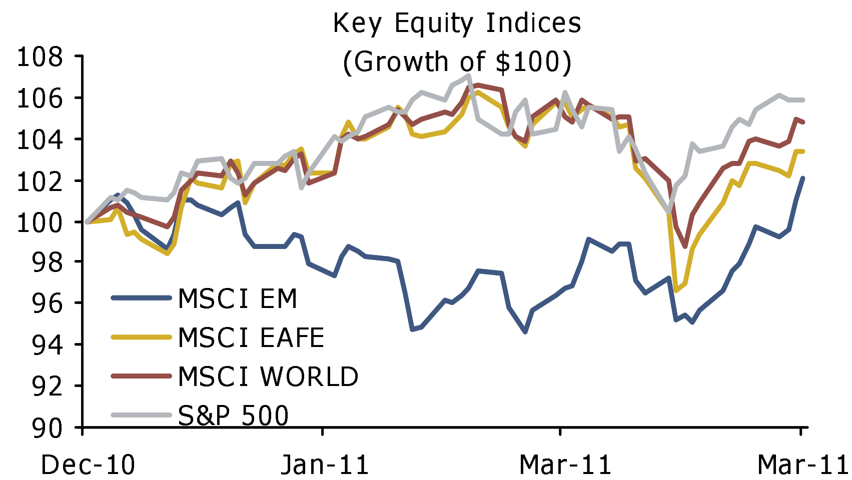
Global Equities Withstand Geopolitical Headwinds

Global equities demonstrated resilience during the quarter that witnessed a number of major geopolitical events. Stocks were broadly higher as the MSCI All Country World Index, a global equity index that encompasses both developed and emerging economies, returned 4.4 percent in U.S. dollar terms.

In the U.S., small cap companies were among the best performing stocks as the Russell 2000 Index returned 7.9 percent, while the S&P 500 Index finished the quarter 5.9 percent higher.

Stock markets in developed economies outside of the U.S., as measured by the MSCI EAFE Index, rose by 3.4 percent in U.S. dollar terms. Equities in peripheral Europe posted strong returns for the quarter, while Japanese equities declined sharply following the catastrophic events in March.

With respect to emerging markets equities, a late quarter rally helped bring the MSCI EM Index into positive territory with a return of 2.1 percent in U.S. dollar terms. From a country standpoint, Egypt and other countries in the region experienced negative returns amid political turmoil. At the same time, Eastern Europe, including Russia, generated some of the strongest returns in the emerging markets category.



SOURCE: PIMCO

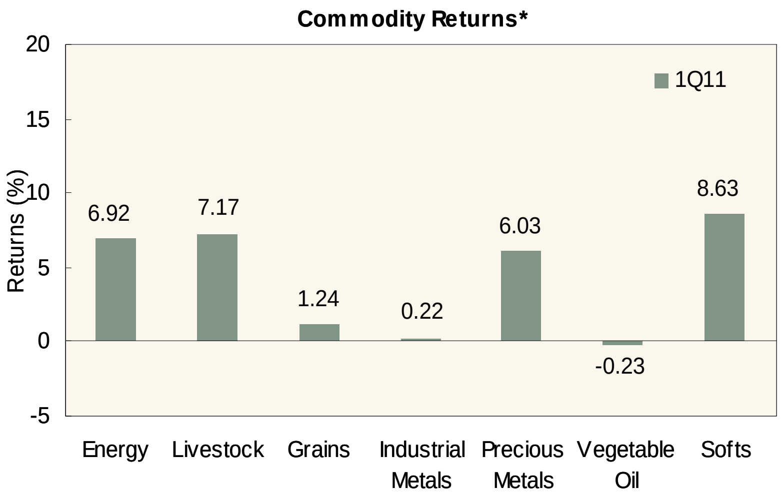
Past performance is no guarantee of future results. Graphs are for illustrative purposes only and are not indicative of the performance of any particular investment.

Real Assets Continue to Post Strong Gains

The Dow Jones-UBS Commodity Total Return Index gained 4.5 percent in the first quarter amid a decline in the U.S. dollar and a continued recovery of the global economy. The energy sector rallied as oil prices were pushed up by conflicts in the Middle East and northern Africa and the accompanying fears of supply disruptions. However, the upside for the index was limited by losses in natural gas sector.

Industrial metals sector returns were tepid in the first quarter. Robust growth in the U.S. and expectations of improving 2011 demand were counteracted by worries about further monetary tightening in China and higher oil prices posing a threat to global recovery. Meanwhile, precious metals gained as tensions in the Middle East boosted safe-haven demand for gold. Gold was up 0.8 percent, while silver rallied 21.8 percent quarter**.

The soft commodity sector was a strong performer primarily as a result of higher cotton prices which were boosted by tight supplies in the U.S. and Canada. Cotton prices rose to their highest levels in over 150 years. Sugar detracted from sector returns as prices declined on news that one of the world's largest sugar producers was planning to boost its annual sugar production and that India has allowed unrestricted exports of 500kt of product.



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

** Bloomberg

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During the first quarter, Treasury Inflation Protected Securities (TIPS) gained 2.1 percent, as represented by the Barclays Capital U.S. TIPS Index as the real yield curve steepened. In addition, inflation accruals were positive for the quarter at 0.7 percent. TIPS strongly outperformed their nominal bond counterparts as breakeven inflation (i.e., the difference between nominal and real yields) levels widened.

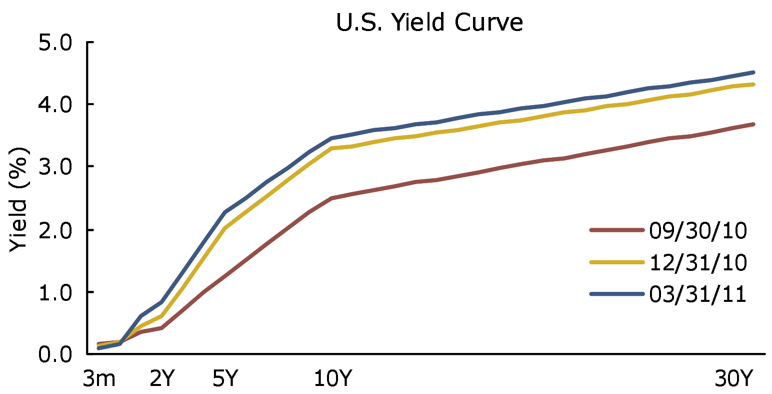
Shorter maturity TIPS gained in response to rising commodity prices, a key indicator of inflation. Shorter maturity TIPS advanced more than long-dated issues given the demand for the expected value of the outstanding coupon payments of shorter maturities.

In real estate, the Dow-Jones U.S. Select Real Estate Investment Trust (REIT) Total Return Index gained 6.70 percent during the quarter. The continued recovery in REIT fundamentals, improving credit, record low interest rates, higher asset quality, and the improving outlook of the U.S economy have boosted returns. The industrial sector was the highest returning sector at a 12.82 percent gain for the quarter, while the hotels sector was the weakest, shedding -1.22 percent.

High Yield Fixed Income Fares Best During Volatile Quarter

Most fixed income sectors generated positive returns during the first quarter of 2011. The Barclays Capital U.S. Aggregate (BCAG) Index, a widely used index of U.S. high-grade bonds, returned 0.4 percent during the quarter.

Yields on U.S. Treasuries rose overall amid signs of economic recovery in the U.S. and concern that higher commodity prices and the Fed's QE2 might spark inflation. As the quarter neared its close, the confluence of global events prompted a move toward the perceived safety of Treasuries, mitigating losses for the quarter. The 10-year Treasury yield closed the quarter at 3.5 percent, a 17 basis point increase during the period. The graph depicts changes in the Treasury yield curve:



SOURCE: Bloomberg Financial Markets

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Bonds offering extra income above Treasuries fared best during the quarter. The following summarizes other fixed income sector returns:

- Emerging market sovereign and corporate external debt outperformed U.S. Treasuries in the first quarter despite continued turmoil in many emerging market countries. EM corporate spreads and yields narrowed in spite of increased volatility.
- In EM local markets, some emerging market central banks expressed concern over increased inflationary pressures leading some banks to raise interest rates while others warned that rate hikes may be forthcoming. Despite this hawkish outlook in domestic emerging markets, local currency denominated instruments performed well, driven largely by currency appreciation versus the U.S. dollar. All told, local currency denominated emerging market bonds returned 2.86 percent as measured by the JPMorgan GBI-EM Global Diversified Index, a return mostly attributable to strengthening currencies.
- Corporate bonds, particularly high yield credits, outpaced Treasuries during the quarter. Improving U.S. and global growth prospects, stronger corporate fundamentals, and favorable technical conditions were factors supporting the corporate sector. Another contributor to stronger corporate credit profiles has been ability of companies to trim costs while boosting productivity. Compared to like-duration Treasuries, investment grade and non-investment grade banks, finance companies, and life insurers were among the best performing sectors in the first quarter as financial institutions continue to de-lever, raise capital, and report higher profits.

Growth in U.S. May Stall After 2011 Without Fiscal Stimulus

PIMCO expects the U.S. economy to grow between 3 and 3.5 percent over the rest of 2011, bolstered by last year's fiscal stimulus package and the Federal Reserve's quantitative easing program. Europe and the U.K. will expand more slowly owing to their more austere fiscal policies. Japan's economy is likely to contract in the aftermath of the devastating earthquake and tsunami, which will be a drag on global growth, but should rebound later this year amid massive reconstruction spending. Emerging economies should continue their relatively rapid growth and move closer over the secular horizon toward closing wealth and income gaps with the developed world.

- **Multi-Speed Recovery Underway** – PIMCO's secular forecast for a multi-speed global economy remains firmly intact. Europe, the U.K. and Japan already exhibit the subdued growth that we expect from most developed economies over the secular horizon. We forecast that the U.S. will likely head in the same direction. Without continued fiscal stimulus, the U.S. is not likely to achieve "escape velocity" and move toward sustainable growth. Fiscal contraction is the more likely outcome as the U.S. political system struggles to address structural fiscal deficits that appear intractable.

- **Threats to Sovereign Balance Sheets** – The U.S. and other developed countries could face sovereign balance sheet degradation unless legislators find a way to deal with fiscal deficits. Beyond the erosion of sovereign credit quality, there is the risk that governments will accommodate deficits with monetary policy, which may fuel inflation.

- **Escape Velocity Requires Investment** – For the U.S. to reach escape velocity, PIMCO believes that national savings (both the private and public sectors) need to grow in line with the overall economy. Since consumers and corporations should continue to be net savers, the biggest impediment to achieving this goal is the persistent U.S. fiscal deficit. A strong sign that the U.S. is making progress toward sustainable growth would be for investment to expand as a share of the economy, but companies are holding back as they assess a range of risk factors that cloud the global macroeconomic outlook.

- **Unwinding of QE2** – Monetary policy is one risk factor, specifically the affect on Treasury yields and risk premiums, as the Fed's second quantitative easing program (QE2) winds down in mid-2011. The long end of the yield curve and riskier assets generally could face pressure as the Fed withdraws. With this effective tightening looming on the horizon and substantial excess capacity remaining in the U.S., PIMCO expects the Fed to move more slowly in raising short term rates than markets now expect.

- **Impact of Rising Energy Prices** – Another constraint on the Fed will be political unrest in the Middle East and risks of more energy supply shocks. While higher energy prices will affect headline inflation, the inflationary impact will be mitigated by slack in labor and product markets in the U.S. that makes an oil price induced wage-price spiral unlikely. The greater impact of higher energy prices should come as a tax on consumption that inhibits growth.

- **Inflationary Pressure Grows** – Inflationary pressures are expected to increase worldwide as central banks err on the side of reflation and rapidly growing emerging economies begin to approach capacity constraints. Emerging economies, especially China, are transitioning into net exporters of inflation as opposed to disinflation, reversing a 20-year trend that was one of the defining features of globalization. Another push toward inflation over the longer term could come from ageing, and hence more consumption prone, populations in developed economies.

Emphasize Tactical Asset Allocation Adjustments in Face of Higher Expected Volatility

Risk assets have enjoyed a strong rally, which has been enhanced by the global liquidity from QE2. Over the next quarter as QE2 winds down a more cautious approach is necessary. The end of QE2 and threats to the U.S. sovereign balance sheet posed by structural fiscal deficits leads PIMCO to believe that interest rates and inflation may be headed higher over the secular horizon. In light of this environment, we will look to own high-quality assets that may offer attractive inflation-adjusted returns.

PIMCO's strategies will include:

- **Tactical and Strategic Asset Allocation**– PIMCO will attempt to generate excess returns in asset allocation portfolios through top down strategic and tactical asset allocation decisions, as well as bottom-up opportunities in individual securities and sectors. Amid an investment environment characterized by elevated geopolitical risk and sudden market shocks, PIMCO plans to emphasize tactical asset allocation decisions over the next quarter. The portfolio's mix of asset classes will change, at times meaningfully, as opportunities present themselves and markets become dislocated. Consistent with our investment theme of a secular handoff of growth from developed to emerging economies; PIMCO will likely maintain exposure to the emerging markets via EM equities, EM sovereign and corporate debt, as well as direct positions in EM currencies. With interest rates in U.S. and elsewhere poised to head higher, PIMCO will plan to reduce nominal duration (sensitivity to interest rates) at the portfolio level. Finally, as inflationary pressures mount, we plan to maintain exposure to a diversified basket of commodities, gold, and a basket of non-USD currencies.
- **Global Equities** – The equity allocation to developed countries will likely remain diversified across the U.S., European, and East Asian regions, while we plan on an overweight to emerging markets. We will likely place greater emphasis on individual security selection within the equity allocation when we see pockets of value in European and emerging market equities, where companies have faced cyclical headwinds affecting their earnings, despite the fact that the underlying positioning and quality of the businesses remain strong.
- **Real Assets** – We will look to maintain an overweight to real assets given our inflation outlook. Over the secular horizon, the degradation of sovereign balance sheets, the structural inflexibility of fiscal deficits, and higher wages in emerging markets should all increase inflationary risk. Within the real assets allocation, we will likely continue to maintain a healthy allocation to energy-based commodities, given the potential for further price spikes due to geopolitical events.
- **Interest Rate Strategies** – PIMCO will look to remain underweight duration with very limited Treasury exposure, though we will adjust duration tactically as rates move within our forecasted range of 3-4 percent on the 10-year Treasury yield. We expect to remain focused on the short end of the yield curve, where markets are pricing in more aggressive Fed tightening than we foresee. This focus offers the potential to enhance returns via the maturing of discounted bonds along the relatively steep short maturity curve.
- **Emerging Markets** – We plan on continuing to overweight emerging markets corporate and quasi-sovereign bonds with an emphasis on high quality countries such as Brazil, Mexico, and Russia. In emerging markets, we plan to focus on corporate bonds in the energy, pipeline, and banking sectors, which we believe offer attractive valuations to comparable U.S. corporates. We also plan to maintain exposure to relatively high nominal and real local interest rates in Brazil.

- **Corporate Bonds** – Corporate bonds will continue to be an important driver of returns, especially the banking and financial sector, which remain attractively valued relative to the broader market. However, we plan on continuing to consolidate corporate exposure, choosing instead for a more narrow focus over broader sector exposures in the face of rising uncertainty in the global economy.
- **Currency** – We plan to emphasize currency as an important source of added value to the Fund. PIMCO will plan to take select currency exposure in an attempt to gain from differentiated growth prospects across various regions of the world. We will plan on continuing to hold a basket of emerging market currencies, including the Mexican peso, the Chinese renminbi, and other Asian currencies. These currencies have the potential to gain versus the U.S. dollar due to their fundamental undervaluation and potential for faster growth. To help diversify this basket, we will also look to hold currencies of resource rich and fiscally sound developed economies, such as Canada, Australia, and Norway.

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.

Cover Page

The Morningstar Fund Manager of the Decade award is based on risk-adjusted results over the past 10 years (2000-2009), and other considerations, including the strength of the manager, strategy, and stewardship.

Risk Disclosures

Summary of Performance Data and Portfolio Statistics

1 All time periods longer than one year are annualized and returns include reinvestment of dividends, income and capital gains, if any. The 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 shorter durations.

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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