

P I M C O

Quarterly Investment Report

June 30, 2011

## PVIT Low Duration Portfolio

A company of **Allianz**   
Global Investors



**Fund Manager of the Decade**  
Fixed-Income

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PVIT Low Duration Portfolio

Market Commentary	Market Outlook
<ul style="list-style-type: none"> <li>▪ Bonds gained during the quarter, helped by a decline in Treasury yields amid slower U.S. growth and concern about the sovereign debt crisis in the Eurozone</li> <li>▪ While yields on Treasuries fell overall for the quarter, they reversed course over the last several days of the period</li> <li>▪ The Treasury rally stalled as concern about an imminent Greek default eased and U.S. manufacturing businesses unexpectedly expanded at a faster pace in June</li> </ul>	<ul style="list-style-type: none"> <li>▪ PIMCO sees a multi-speed world over the secular horizon, with developed countries expected to grow at about 2 percent a year and emerging economies at 6 percent overall</li> <li>▪ We foresee a slowing U.S. economy over the next year; a Federal Reserve rate hike is unlikely until sometime in 2013</li> <li>▪ The Eurozone sovereign debt crisis will remain a major source of volatility over our cyclical timeframe. The risk of disorderly debt deflation in Europe is escalating</li> </ul>
Portfolio Recap	Portfolio Strategy
<ul style="list-style-type: none"> <li>▪ The Portfolio moderately outperformed its index for the quarter</li> <li>▪ The following strategies were positive for quarterly returns:                             <ul style="list-style-type: none"> <li>➢ An allocation to Agency mortgage-backed securities, which outperformed like-duration Treasuries</li> <li>➢ An allocation to investment grade corporates, as these securities outperformed short maturity Treasuries</li> <li>➢ Exposure to emerging markets securities, especially to external debt in Brazil; exposure to a select basket of EM currencies also added to returns</li> </ul> </li> <li>▪ The following strategies were negative or neutral for returns:                             <ul style="list-style-type: none"> <li>➢ An underweight to U.S. duration as interest rates fell</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Seek high quality real yields; look to avoid effects of financial repression and heightened European sovereign credit risk</li> <li>▪ Target duration closer to index amid slowing U.S. economy; focus on the short end of the yield curve, where markets are pricing in more Fed tightening than we foresee. This offers potential to gain from “rolling down” the relatively steep short maturity curve</li> <li>▪ Plan to retain Agency mortgages as an important source of high quality yield; continue efforts to take advantage of relative value opportunities across mortgage coupons</li> <li>▪ Take select exposure to high grade corporates, especially U.S. banking and financial credits, where valuations and fundamentals remain compelling versus their counterparts in Europe and the broader corporate market</li> <li>▪ Plan to take long positions in relatively high yielding, high quality EM currencies; reduce emphasis on commodity-based currencies and rotate toward Asian currencies where we see appreciation potential</li> </ul>

## Summary of Performance Data and Portfolio Statistics

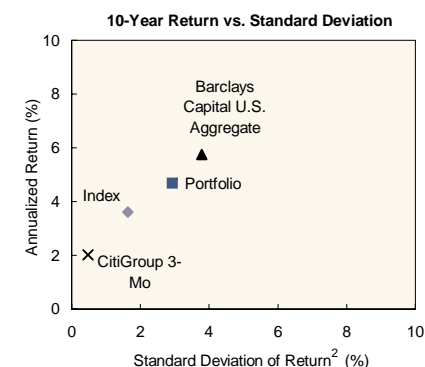
PVIT Low Duration Portfolio  
Administrative Class

Performance Periods Ended 6/30/2011	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mos	3 mos
<b>Total Portfolio<sup>1</sup></b>							
<b>Before Fees (%)</b>	<b>5.57</b>	<b>5.36</b>	<b>6.74</b>	<b>6.85</b>	<b>4.97</b>	<b>2.15</b>	<b>1.04</b>
<b>After Fees (%)</b>	<b>4.89</b>	<b>4.68</b>	<b>6.05</b>	<b>6.16</b>	<b>4.29</b>	<b>1.82</b>	<b>0.88</b>
<b>(Inception 02/16/99)</b>							
BofA Merrill Lynch 1-3 Year U.S. Treasury Index (%)	4.15	3.61	4.14	2.80	1.34	0.86	0.83

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	0.65%

*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](http://pvit.pimco-funds.com) or by calling (888) 87-PIMCO.*



Summary Information	3/31/2011	6/30/2011
Total Net Assets (USD in millions)	1,675.3	<b>1,777.2</b>
SEC 30-Day Ann. Yield (%)	0.94	<b>0.84</b>
Distribution Yield (%) <sup>3</sup>	1.68	<b>1.54</b>
Effective Duration (yrs)	1.9	<b>1.3</b>
Benchmark Duration (yrs)	1.9	<b>1.9</b>
Effective Maturity (yrs)	2.4	<b>2.1</b>
Average Coupon (%)	3.4	<b>3.1</b>
Net Currency Exposure (%)	10.3	<b>9.0</b>
Tracking Error (10 yrs, %) <sup>5</sup>	2.8	<b>2.8</b>
Information Ratio (10 yrs) <sup>5</sup>	0.4	<b>0.4</b>

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

Sector Allocation	% of Market Value		% of Duration	
	3/31/2011	6/30/2011	3/31/2011	6/30/2011
Government-Related	1	<b>-3</b>	13	<b>-33</b>
Mortgage	12	<b>7</b>	15	<b>10</b>
Invest. Grade Credit	13	<b>14</b>	13	<b>18</b>
High Yield Credit	7	<b>5</b>	5	<b>5</b>
Non U.S. Developed	6	<b>5</b>	5	<b>9</b>
Emerging Markets	8	<b>8</b>	6	<b>8</b>
Municipal	0	<b>0</b>	0	<b>0</b>
Other	3	<b>3</b>	7	<b>9</b>
Net Cash Equivalents: <sup>4</sup>	50	<b>61</b>	36	<b>74</b>
Commercial Paper / STIF	32	<b>29</b>	6	<b>7</b>
ST Government-Related	6	<b>5</b>	2	<b>2</b>
ST Mortgage	8	<b>8</b>	0	<b>1</b>
ST Credit	22	<b>35</b>	2	<b>4</b>
U.S. Money Market Futures/Options	51	<b>75</b>	26	<b>60</b>
Non-U.S. Money Market Futures	0	<b>0</b>	0	<b>0</b>
Other	4	<b>3</b>	0	<b>0</b>
Less: Liabilities	-73	<b>-94</b>	0	<b>0</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Government-Related may include nominal and inflation-protected Treasuries, agencies, interest rate swaps, Treasury futures and options, and FDIC-guaranteed corporate securities.

# Additional Share Class Performance

June 30, 2011

## PVIT Low Duration Portfolio

Net of Fees Performance	Gross Expense Ratio	Net Expense Ratio	NAV Currency	Inception Date	Since Inception	10 Year	5 Year	3 Year	1 Year	6 Month	3 Month
<b><u>INSTITUTIONAL Class:</u></b>											
Low Duration Portfolio, Institutional	0.50	-	USD	Apr-10-00	5.20	4.83	6.21	6.32	4.45	1.90	0.91
BofA Merrill Lynch 1-3 Year U.S. Treasury Index			-		4.15	3.61	4.14	2.80	1.34	0.86	0.83
<b><u>ADVISORY Class:</u></b>											
Low Duration Portfolio, Advisory	0.75	-	USD	Mar-31-06	5.77	-	5.96	6.05	4.19	1.78	0.85
BofA Merrill Lynch 1-3 Year U.S. Treasury Index			-		4.15	-	4.14	2.80	1.34	0.86	0.83

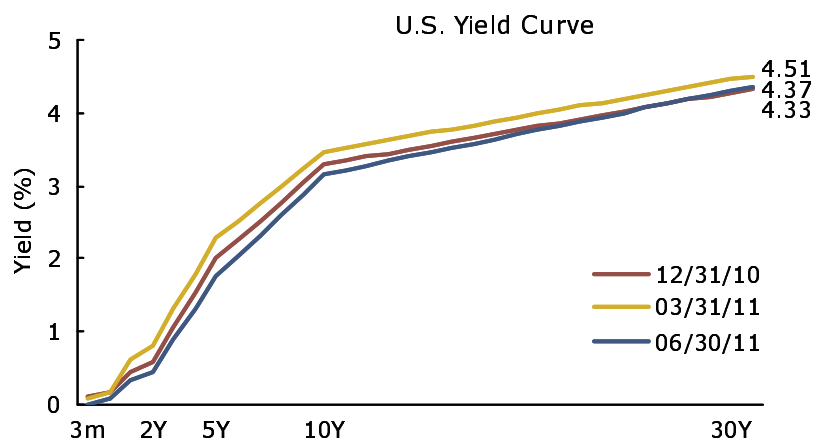
Average total returns do not include fees and charges of the variable product. If these fees and charges were reflected performance would be lower.

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### Treasury Yields Fall During Quarter as Growth Slows

Treasury yields fell during the second quarter as higher gasoline prices and lingering effects of Japan's recent earthquake on global supply chains crimped U.S. growth. Concern about the sovereign debt crisis in the Eurozone sparked a flight to safety and boosted demand for Treasuries. The Barclays Capital U.S. Aggregate (BCAG) Index, a widely used index of U.S. high-grade bonds, returned 2.29 percent during the quarter.

While yields fell across the Treasury curve for most of the quarter, they reversed course near the end of the period. The 10-year Treasury yielded 3.16 percent at the end of the second quarter. While this was 31 basis points lower than at the beginning of the quarter, the 10-year Treasury yield had fallen below 2.90 percent only a few days earlier. The following depicts recent changes in the Treasury yield curve:



SOURCE: Bloomberg Financial Markets

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The Treasury rally stalled late in the quarter as Greece's parliament approved austerity measures, easing concerns (at least temporarily) about the potential for the Euro area's first sovereign default. In addition, U.S. manufacturing businesses unexpectedly expanded at a faster pace in June, suggesting that the supply chain disruption from the Japanese earthquake was easing.

Another indicator that raised hopes for stronger growth in the second half of 2011 was falling commodity prices. Lower retail fuel prices relieved some stress on consumers coping with an official unemployment rate over 9 percent and continued weakness in residential property markets. On June 30 the Federal Reserve ended its \$600 billion program of buying Treasuries known as QE2, and indicated its intent to continue buying Treasuries with proceeds from maturing debt on its \$2.9 trillion balance sheet. The Fed also reiterated its "extended period" language for a near-zero federal funds rate.

### Fixed Income Sectors Gain Amid Lower Interest Rates

The following summarizes fixed income sector returns during the second quarter of 2011:

- Agency mortgage-backed securities (MBS) outperformed like-duration Treasuries during the quarter. Muted prepayment speeds and strong demand from foreign investors, banks and mortgage REITs contributed to Agency MBS outperformance. Non-Agency mortgages and commercial mortgage-backed securities (CMBS) underperformed like-duration Treasuries as European sovereign debt concerns resulted in risk aversion across the commercial and residential mortgage sectors.
- Corporate bonds generally underperformed like-duration Treasuries during the quarter. High yield credits in particular tended to lag Treasuries as weaker economic sentiment contributed to increased risk aversion in broader markets. However, corporate fundamentals remain favorable as most

companies have reported growing revenues, strong profit margins and increasing cash balances.

- Municipal bonds, both tax-exempt and taxable Build America Bonds (BABs), posted strong returns during the quarter. Tax-exempt municipal bond performance was driven by a significant decline in municipal issuance and stabilization of mutual fund outflows. BABs also had a strong quarter, both on an absolute basis and relative to like-duration Treasuries. Technical factors continue to positively impact BABs performance, following a large volume of new issuance in late 2010. Since the BABs program was not extended past 2010, investors have been forced to buy in the secondary market, resulting in tightening spreads. Demand for these securities remains strong as BABs continue to provide attractive risk-adjusted yields versus similarly rated corporate bonds.
- Treasury Inflation-Protected Securities (TIPS) outperformed nominal Treasuries in the second quarter. Despite breakeven inflation levels (the difference between nominal and real yields) narrowing over the quarter, inflation accruals were strong on the back of higher energy prices. This led TIPS to outperform their nominal counterparts.
- Emerging Market (EM) fixed income assets outperformed Treasuries in the second quarter. EM bonds benefitted from stronger initial conditions against a backdrop of an increasingly uncertain economic outlook in developed countries, ongoing challenges in Greece and the end of QE 2. EM spreads tightened modestly over the quarter, while the JPMorgan EM Bond Index (EMBIG) returned 4.03 percent for the second quarter. EM local assets outperformed Treasuries during the quarter, returning 3.95 percent as measured by the JPMorgan GBI – EM Global Diversified Index. EM currencies, as measured by the JPMorgan ELMI+ Index, returned 1.81 percent.
- U.S. Treasuries generally outperformed other developed sovereign bond markets on a hedged basis in the second quarter. Investors grew increasingly bullish on U.S. government debt in response to poor economic data, tame inflation, and continued distress in Eurozone peripheral countries.

### PIMCO's Secular Outlook: Navigating a Multi-Speed World

PIMCO believes that the global economy over the next three to five years will remain a multi-speed world. We foresee a “hobble through” outcome for developed economies in which they grow only around 2 percent per year in real terms. Growth in developing economies should cool from its recent pace as these countries grapple with inflation challenges, but the emerging economies should still be able to expand at around 6 percent annually on average. The following are key elements of our Secular Outlook.

#### Developed Economies

- **Structural Impediments to Growth** – Developed economies such as the U.S. are unlikely to keep pace with developing countries because of the former's more challenging initial conditions prior to the 2008 financial crisis. These conditions include high unemployment that is increasingly structural in nature as well as high levels of consumer and sovereign debt.
- **Grand Bargains Unlikely** – Resolution of major policy issues such as the U.S. fiscal deficit and the sovereign debt crisis in the Eurozone periphery could stimulate faster growth. However, political polarization in the U.S. and the generally intractable nature of these issues make a series of “mini-bargains” more likely. At least one sovereign debt restructuring in Europe is a virtual certainty.
- **Financial Repression, Mild Inflation** – Most developed economies expanded their balance sheets to weather the financial crisis and must now de-lever in the face of threats to their sovereign credit ratings. To do so, their governments will continue to practice financial repression, which means maintaining policies that create low or even negative real yields on sovereign debt along with mild but persistent inflation. Taken together, these policies will effectively pick the pockets of investors in real terms.

#### Emerging Economies

- **Income and Wealth to Converge** – Relatively high growth in EM countries will produce a continued convergence in income and wealth with the developed world, lifting millions out of poverty. This progress will, however, be accompanied by recurrent inflationary concerns and uneven surges in capital inflows that will challenge policymakers.
- **Sovereign Creditworthiness to Diverge** – Continued improvement in emerging economies' financial conditions should render even more obsolete the traditional interest rate/credit distinctions between developed and emerging sovereign bonds. This development will have major implications for investment indices and guidelines.

### PIMCO's Cyclical Outlook: A Slowing Global Economy

PIMCO's outlook for slowing global growth over the cyclical horizon is in line with our secular New Normal thesis. In the developed world, many sovereign balance sheets remain under pressure. Fiscal and monetary stimulus programs are not gaining much traction in economies with weak initial conditions prior to the 2008 financial crisis. In emerging economies, anti-inflation measures such as monetary tightening and capital controls will continue to temper growth. The appetite for investment-led growth in developing countries such as China is waning as such investment is increasingly seen as less productive than it should have been. We do not expect EM economies overall to be as stimulative for the rest of the world as they have been in the recent past.

The Eurozone's sovereign debt crisis will remain a major source of volatility over our cyclical time frame. The risk of contagion and disorderly debt deflation in Europe is escalating, which could heighten global risk aversion and dampen growth elsewhere. A default by Greece on its government debt is a high probability over the next year and the likelihood that Portugal and Ireland will follow suit is growing.

**Investment Strategies: Avoid Financial Repression; Limit Sovereign Credit Risk**

PIMCO will continue to focus on avoiding low or even negative real interest rates created by financial repression. At the same time, we will look to protect portfolios from potential contagion effects arising from deteriorating sovereign credit markets, particularly in Europe. The following is a summary of strategies we expect to pursue:

- **Interest Rate Strategies** – We intend to reduce our duration underweight and move duration closer to benchmark levels, while seeking to mitigate sovereign credit risk. Where permitted, PIMCO will diversify U.S. duration exposure with allocations to core Europe, Canada, Brazil and Mexico. Within interest rate strategies, PIMCO will likely retain a major exposure on the short end of the yield curve, where markets continue to price in more and faster Fed tightening than we foresee. This emphasis offers the potential to enhance returns via “roll down”, or the maturing of bonds along the relatively steep short maturity curve.
- **Mortgages** – Agency mortgages will likely remain an important source of high quality yield for portfolios, serving as a substitute for Treasuries. PIMCO will continue to take advantage of relative value opportunities across mortgage coupons. We plan to hold non-Agency mortgages and commercial mortgage-backed securities (CMBS) that have senior positions in the capital structure and are another source of attractive yield.
- **Corporate Bonds** – PIMCO will avoid adding to global credit risk and look to reduce exposures linked to Europe. From a valuation perspective, we favor investment grade over high yield credits in the current environment. In terms of sector exposure, we continue to favor U.S. banking and financial credits, where valuations and fundamentals are attractive, especially compared to their counterparts in Europe as well as the broader corporate market.

- **Emerging Markets (EM)** – PIMCO plans to retain exposure to select corporate and quasi-sovereign bonds in high quality countries such as Brazil, Mexico and Russia. We may add to holdings of these credits in connection with reverse inquiries, or direct discussions with issuers. As noted, we also plan to take exposure to relatively high nominal and real local interest rates in Brazil.
- **Currency** – We expect to maintain our long exposure to a basket of high quality EM currencies that are likely to outperform developed currencies burdened with deteriorating sovereign debt dynamics. These EM currencies offer strong fundamentals and relatively high real yields, and appear undervalued relative to longer term metrics. Moreover, higher frequency data point to appreciation potential for these EM currencies over the cyclical horizon.

We are reducing our focus on Brazil, Norway and Canada as such commodity-linked currencies have likely run too far from a valuation perspective. PIMCO is rotating more toward China and other Asian currencies where expected monetary tightening should produce increasingly positive real yields.

- **Municipals and TIPS** – We are currently maintaining our holdings in longer maturity Build America Bonds (BABs) in the municipal sector, as they offer attractive valuations relative to similarly rated corporates. While some states and municipalities are struggling with budget deficits, PIMCO continues to believe that municipal debt service will be manageable in general over the cyclical horizon. PIMCO will look to hold positions on the longer end of the steep TIPS yield curve to take advantage of relatively high real yields on these bonds.

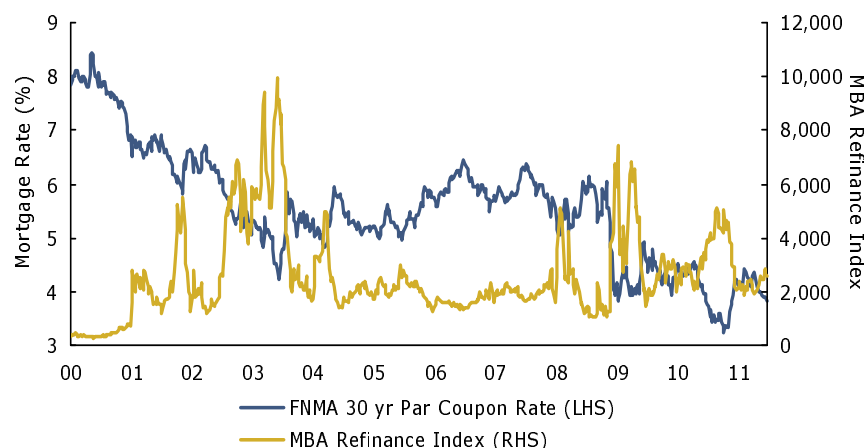
**Market Commentary**

- Agency mortgage-backed securities (MBS) outperformed like-duration Treasuries during the quarter, driven by broader risk aversion, muted prepayment risk and strong demand from international investors, banks and mortgage REITs.
- Par mortgage rates decreased 25 basis points over the course of the quarter from 4.27% to 4.02%. Issuance was primarily concentrated in 4.5% and 5.0% coupons.
- The Treasury Market Practices Group (TMPG) announced a revised fail charge for Agency MBS equal to the greater of 0% and 2% minus the Fed Funds target rate, scheduled to be implemented in February 2012.

**Market Outlook**

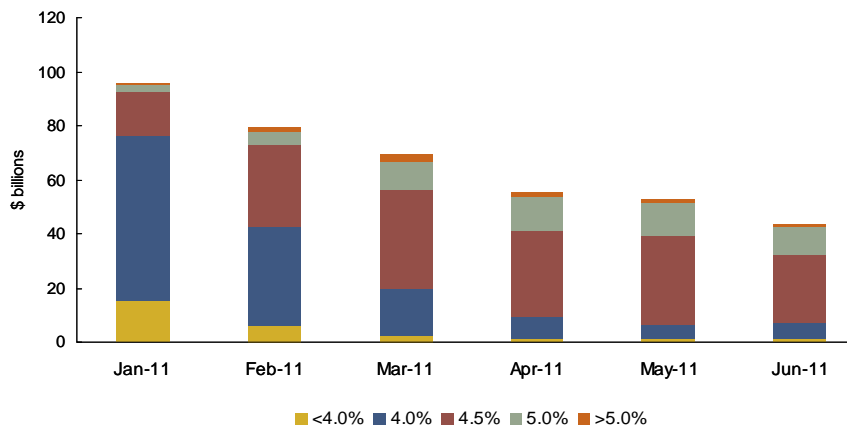
- The mortgage finance reform discussion has been active with recent policy proposals. These range from winding down GSEs and prohibiting government involvement in mortgage finance to creating new GSE-like entities that will serve a similar role as Fannie Mae and Freddie Mac have in the past. Reductions in the availability of conforming mortgage credit are expected to improve the convexity profile of outstanding Agency MBS.
- Liquidity remains low relative to historical levels, especially in higher coupons. The TMPG announcement will likely further reduce liquidity, especially in coupons with limited outstanding tradable supply.
- Prepayment speeds remain extremely subdued despite the current low level of mortgage rates. We expect newer vintage 4.5% and 5.0% coupons to continue to be the most sensitive to changes in interest rates as these borrowers are at the cusp of the refinancing window.

Par Coupon Rate vs MBA Refinance Index



SOURCE: Bloomberg

Agency MBS 30yr Fixed Rate Issuance By Coupon



SOURCE: Bloomberg

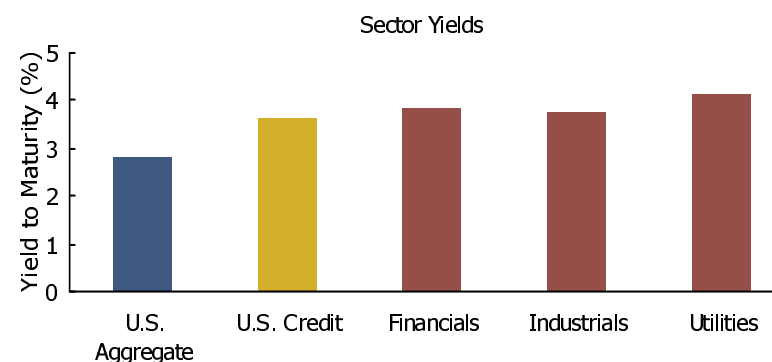
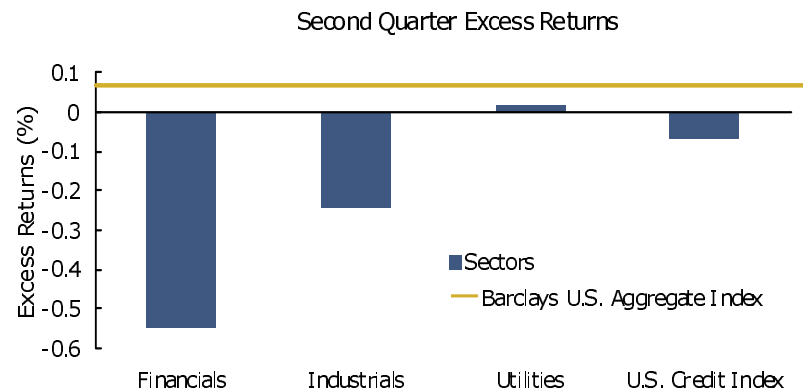
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**Market Commentary**

- The U.S. high grade credit market, as represented by the Barclays Capital U.S. Credit Index, returned 2.50% in the second quarter. U.S. credit underperformed Treasuries by 0.07%. Slight underperformance of U.S. Treasuries was driven by modest spread widening due to heightened sovereign credit risk abroad and weaker than expected growth.
- Current valuations remain favorable for Investment Grade Credit, given the strength in corporate balance sheets and improving fundamentals. Leverage has declined as revenues have grown, and extensive cost cutting has broadly reduced companies' sensitivity to slower growth.
- Utilities were the strongest performing sector, outperforming Treasuries by 0.02% while Industrials and Financials underperformed by 0.24% and 0.55%, respectively.

**Market Outlook**

- Credit fundamentals continue to improve and the outlook for corporate bonds remains positive. Corporate balance sheets continue to grow healthier and companies are seeking to diversify their revenue more toward faster growing emerging markets.
- In terms of specific sectors, investments in emerging market credits and multinational companies, U.S. banks and select "rising star" high yield candidates currently offer compelling investment opportunities.



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Unless otherwise noted, graph data represents the excess return performance of the Barclays Capital U.S. Credit Index and its sub-indices. The corporate sectors shown are not equally weighted in the index but instead are market weighted. The sectors shown represent the broad components of the index. Excess Return is a duration-adjusted measure of performance relative to a term structure-matched position. The predominate method for calculating excess return uses U.S. Treasuries and key rate durations. It measures the amount by which the return on an investment credit exceeds the equivalent risk free rate of return.

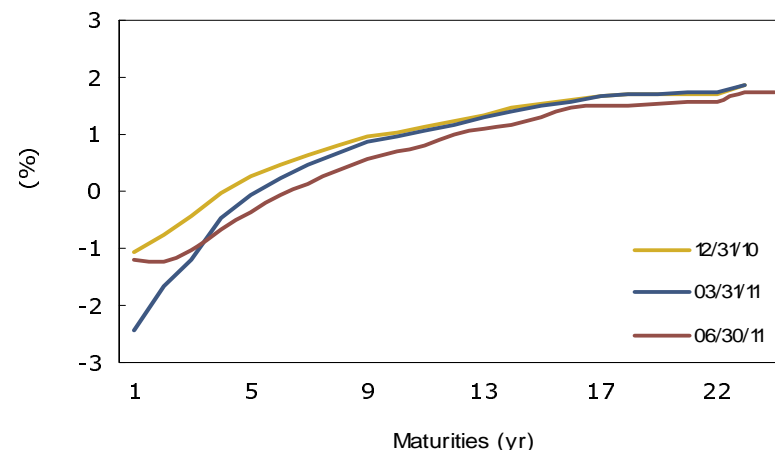
**Market Commentary**

- During the second quarter, Treasury Inflation-Protected Securities (TIPS) gained 3.66 percent and 5.81 percent year-to-date, as represented by the Barclays Capital U.S. TIPS Index. Strong inflation accruals contributed to quarterly returns, adding 2.13 percent. As a result, TIPS strongly outperformed their nominal Treasury bond counterparts despite breakeven inflation levels narrowing (i.e. the difference between nominal and real yields), or nominal yields declining more than real yields.
- Shorter maturity TIPS weakened as investors sold their holdings given significantly lower commodity prices in addition to overall investor de-risking. Intermediate and long-dated TIPS rallied as economic growth prospects continued to wane. Also, strong global demand for long-dated TIPS given relatively high real yields helped to support these bonds. The net result was a significant flattening of the real yield curve as seen in the upper right chart.
- Breakeven inflation (BEI) levels, also a measure of market inflation expectations, narrowed for most maturities except for the long end where they remained flat. BEI narrowing was most pronounced for shorter maturities given front-end weakness as described above. However, despite these lower inflation expectations, TIPS still managed to outperform their nominal Treasury bond counterparts given high inflation accretion from surging food and energy prices in prior months.

**Market Outlook**

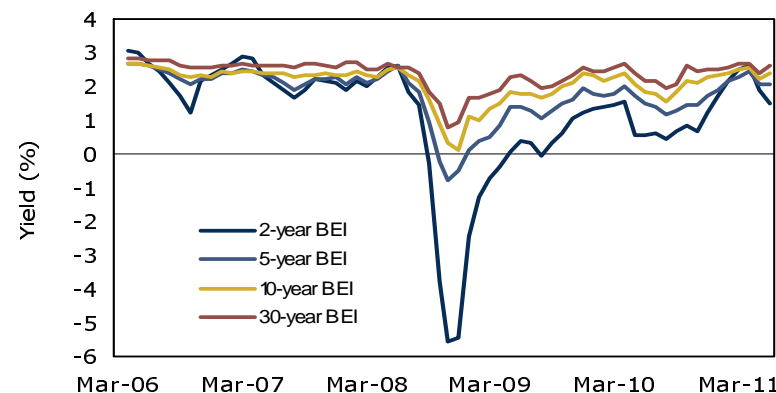
- Developed economies, including the U.S., continue to face structural headwinds in the form of highly leveraged government and household balance sheets and excess labor capacity. Thus PIMCO foresees muted inflation over the cyclical horizon. However, continued negative real interest rates, a declining U.S. dollar and increasing commodity prices could fuel inflation expectations. This reflationary evolution is proceeding at different speeds throughout the world. While it is already under way in emerging economies, the slack in labor and product markets in developed economies will slow the process. TIPS may benefit over nominal Treasuries in this environment as GDP growth remains low, stabilizing real yields, while inflation may rise.

**\*U.S. TIPS Yield Curve**



SOURCE: Barclays Capital

**Breakeven Inflation (BEI) Rates**



SOURCE: Bloomberg

\*The negative real rates in U.S. TIPS Yield Curve chart are directly observable in market traded TIPS. The yield curves represent TIPS yields at specific points in time as referenced in the chart.

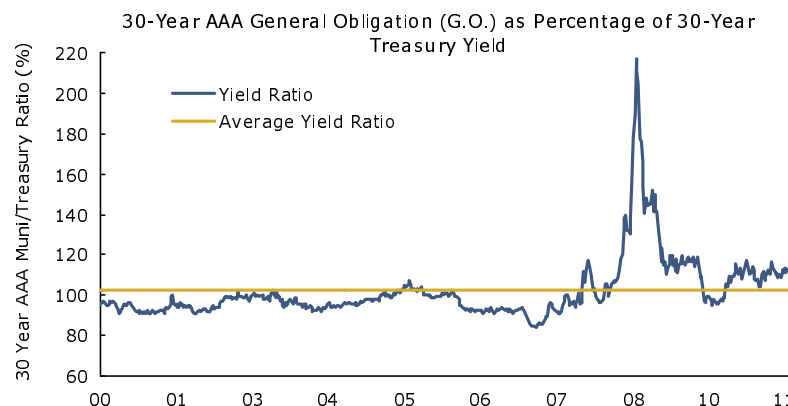
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**Market Commentary**

- The municipal market continued to recover in the second quarter as the asset class posted strong returns. Longer dated municipals, California bonds, and select high yield sectors performed best while New York bonds and utility revenue bonds lagged the market. 30-year municipals outperformed Treasuries over the period; however, they still remain at elevated rates (see graph on the right). Taxable Build America Bonds (BABs) also continued to be top fixed income performers for the quarter due to lack of supply and attractive spreads versus comparable corporate credits.
- New Issue municipal bonds sold in the second quarter totaled just \$66 billion, according to data from The Bond Buyer. That is the slimmest sum in second quarter since 2000 and 35% less than the same period last year.

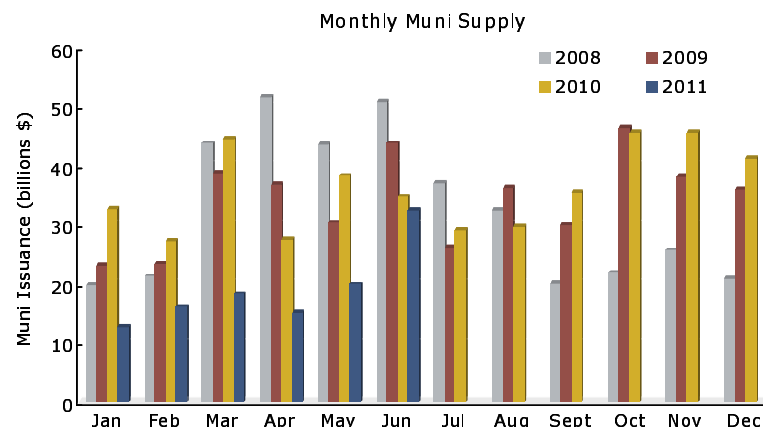
**Market Outlook**

- Credit concerns and headlines will likely continue to dominate the municipal market in the third quarter. More pressure will likely be placed on local cities and counties as localities receive less state aid, experience property tax weakness, and have inflexible costs (public safety). We remain focused on essential service revenue bonds, primarily credits with monopoly and pricing power. We also plan to selectively add general obligation bonds to our portfolios as municipalities' structural imbalances are being addressed by improving sales and income taxes and spending cuts.
- Following another weak quarter in new issue supply, we expect the calendar to grow at a more rapid pace in the third quarter. For the year, new issue supply will likely remain well below last year's total with an expectation of \$225-\$250 billion.



SOURCE: Bloomberg Financial Markets.

The 30-Year AAA G.O. Yield is proprietary data from Municipal Market Advisors. The yield consists of all general obligation municipal bonds issued in the United States with 30 years remaining to maturity, which have been rated in the highest rating category by a Nationally Recognized Statistical Rating Organization.



SOURCE: The Bond Buyer

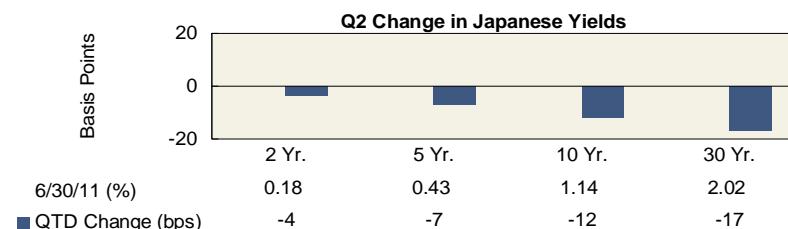
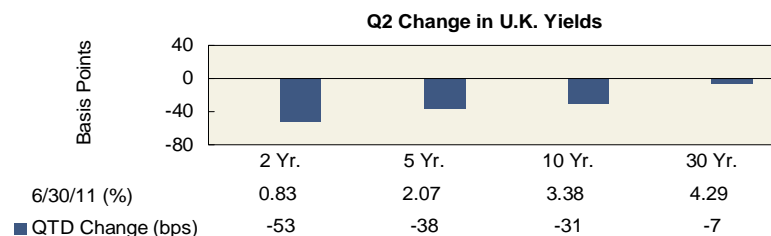
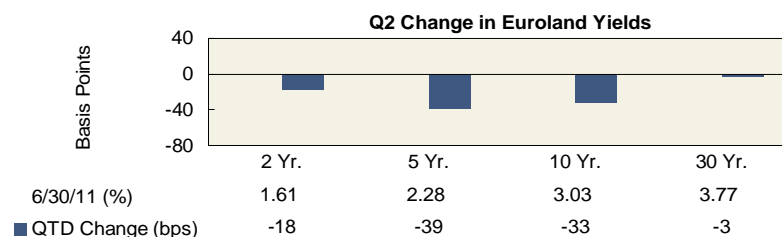
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**Market Commentary**

- Lack of clarity on peripheral Europe and the global recovery continued to drive market volatility and made for generally skittish risk appetite in the second quarter. Rising commodity prices saw persistent hawkishness at the ECB, while the Fed and Bank of England continued to look through headline and focus on core inflation.
- In Germany, the U.K. and Japan, government bond yields fell across the curve as markets realigned investments with weak growth indicators and a deteriorating situation in Greece.
- The U.S. dollar depreciated against most developed and EM currencies. Safe-haven franc (+9.4%) and yen (+3.2%) rode risk-aversion and the euro (+2.4%) benefitted from rate hike expectations. Yield-seeking investors saw the New Zealand kiwi spike (+8.9%) and commodity currencies like the Australian dollar (+3.8%) and the Canadian dollar (+0.7%) rally.

**Market Outlook**

- Cyclically, we expect growth to align with our secular views as the developed world slows to below-potential and emerging markets cool to slightly above-potential levels.
- The Fed and BoE are likely to keep rates low. A more hawkish ECB is more inclined to continue tightening, but may move slowly as headline inflation eases on oil prices.
- Against this backdrop, concern about tail risk events remains at the fore, particularly in Europe, with systemic implications for spillover in Spain and Italy.



	6/30 Spot	% Change	
		Q2	YTD
Euro	1.45	+2.4	+8.4
Yen	80.56	+3.2	+0.7
Australian \$	1.07	+3.8	+4.8
Canadian \$	0.96	+0.7	+3.6
British Pound	1.61	+0.2	+2.8

SOURCE: Bloomberg

**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.

## Market Commentary

Despite increased market volatility, emerging market (EM) assets generally posted strong performance in the second quarter relative to other developed market asset classes. Emerging countries benefitted from stronger initial conditions against a backdrop of an increasingly uncertain economic outlook in the developed countries.

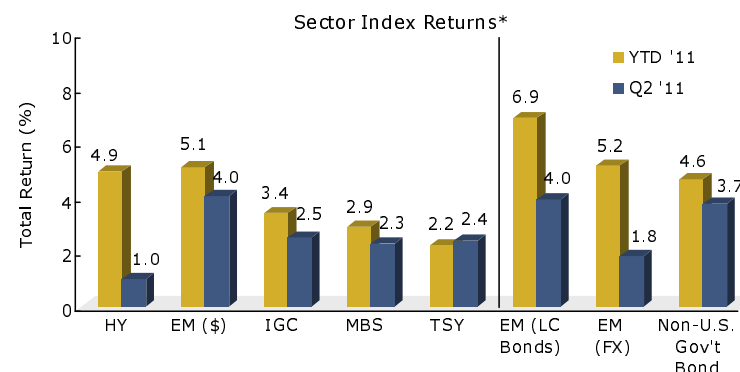
Largely unchanged closing EM spread levels masked gyrations in risk sentiment during the quarter. Investors responded to ongoing challenges in Greece, slowing U.S. growth, and the end of QE 2. EM spreads\*\* ended 10 basis points tighter from the first quarter. EMBIG yields tightened by 36 basis points, driven by a decrease of 31 basis points in U.S. Treasury yields. The EMBIG Index returned 4.03 percent for the second quarter.

In EM domestic markets, as central banks adopted a more cautious approach to tightening, local debt instruments posted positive performance for the quarter, returning 3.95 percent as measured by the GBI - EM Global Diversified Index. EM currencies, as measured by the JPMorgan ELMI+ Index, returned 1.81 percent.

## Market Outlook

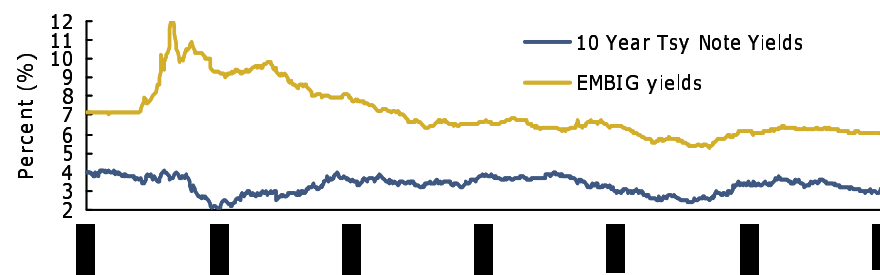
Global growth will continue to be driven by the emerging world even as developed economies struggle to facilitate the handoff between policy-induced and private sector-driven growth. Nonetheless, not all EM economies are equally well positioned to deal with uncertainty imparted by divergent growth trends, hence the importance of credit differentiation.

On the cyclical horizon the case for EM remains intact, in spite of risks associated with the drag from developed countries, unsustainable debt dynamics in the periphery of Europe, and the ongoing Middle East/ North Africa (MENA) crisis.



\* High Yield is represented by BofA Merrill Lynch High Yield II Index; EM(\$\$) is represented by the JPMorgan EMBI Global; MBS is represented by the Barclays Capital Agency Fixed Rate MBS Index; TSY is represented by Barclays Capital U.S. Treasury Index; IGC is represented by Barclays Capital Investment Grade Index; Non-U.S. is presented by the JPMorgan Non-U.S. Gov't Bond Unhedged Index; EM (LC Bonds) is represented by the JPMorgan GBI-EM Global Div Unhedged USD; EM (LC) is represented by the JPMorgan ELMI + Unhedged

SOURCE: JPMorgan, Bloomberg Financial Markets, Barclays Capital



SOURCE: JPMorgan, Bloomberg Financial Markets

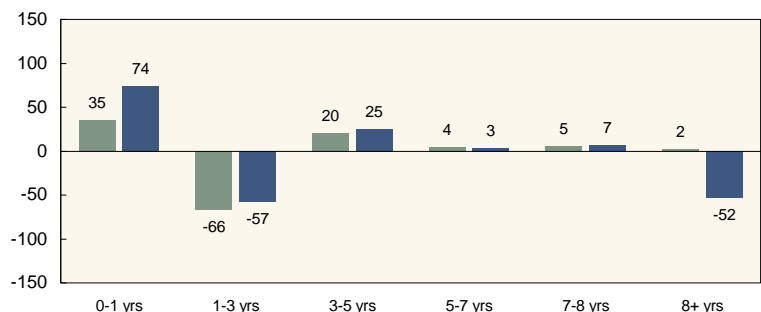
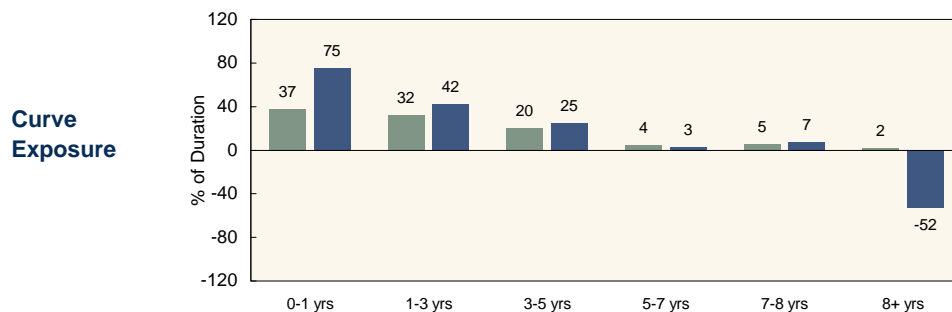
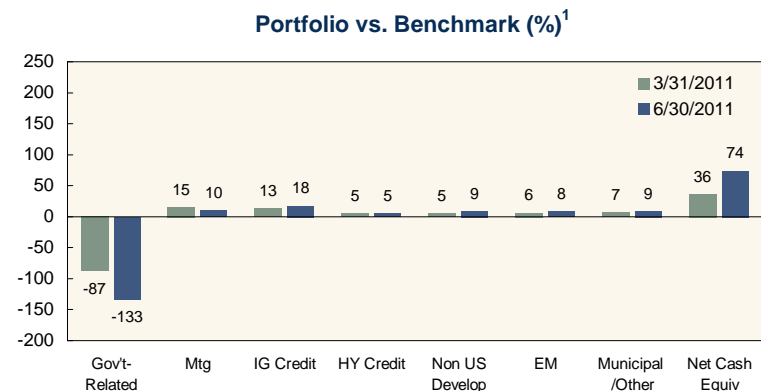
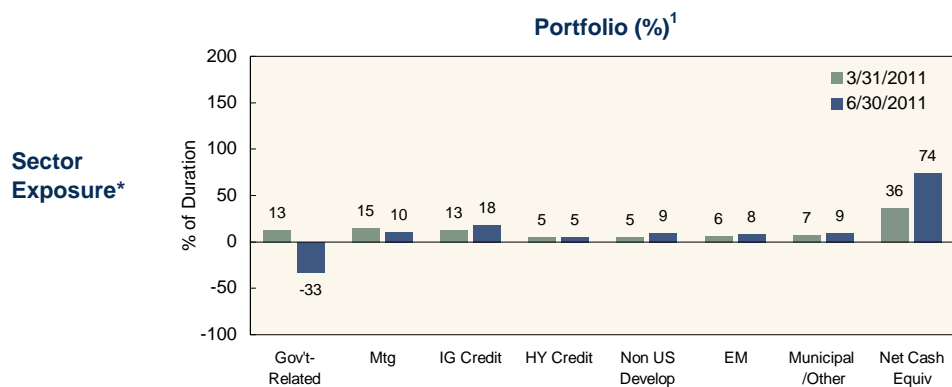
### Past performance is no guarantee of future results.

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

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

# Portfolio Characteristics and Benchmark Variance

PVIT Low Duration Portfolio



Gov't-Related may include nominal and inflation-protected Treasuries, agencies, interest rate swaps, Treasury futures and options, and FDIC-guaranteed corporate securities.

\* Net cash equivalents include U.S. and non-U.S. money market futures, where permitted. See Sector Allocation on Summary of Performance Data and Portfolio Statistics Page.

## Direct Country and Currency Exposure

PVIT Low Duration Portfolio

### Country Exposure (by currency of settlement)<sup>1</sup>

(settlement currency)	Portfolio 03/31/2011				Portfolio 06/30/2011			
	Market Value Weighted (%)				Market Value Weighted (%)			
	% of <u>Duration</u>	<u>Bonds</u>	Cash <u>Equiv.</u>	Currency <u>Exposure<sup>2</sup> (%)</u>	% of <u>Duration</u>	<u>Bonds</u>	Cash <u>Equiv.</u>	Currency <u>Exposure<sup>2</sup> (%)</u>
<b>North America</b>	<b>94.6</b>	<b>44.1</b>	<b>118.0</b>	<b>3.3</b>	<b>91.2</b>	<b>33.0</b>	<b>146.9</b>	<b>2.5</b>
Canada	4.9	3.3	0.0	3.3	6.4	3.1	0.2	2.5
United States	89.7	40.8	118.0	0.0	84.8	29.9	146.7	0.0
<b>Europe - EMU</b>	<b>0.5</b>	<b>2.3</b>	<b>0.7</b>	<b>-0.5</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>	<b>-1.2</b>
France	0.0	0.1	0.0	-	0.0	0.0	0.7	-
Netherlands	0.0	0.1	0.0	-	0.0	0.0	0.0	-
Spain	0.0	0.0	0.0	-	2.0	0.3	0.0	-
Other <sup>3</sup>	0.5	2.1	0.7	-	0.4	2.0	1.9	-
<b>United Kingdom</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>-0.1</b>
<b>Europe - Non-EMU</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Sweden	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
<b>Japan</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Asia Pacific ex-Japan</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>1.8</b>
Australia	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.0
Singapore	0.0	0.0	0.1	0.8	0.0	0.0	0.1	0.7
South Korea	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0
Taiwan	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
<b>Emerging Markets</b>	<b>4.9</b>	<b>3.5</b>	<b>4.2</b>	<b>5.8</b>	<b>6.4</b>	<b>3.6</b>	<b>4.3</b>	<b>6.0</b>
Brazil	4.9	3.5	4.2	1.7	6.4	3.6	4.3	1.7
China	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.7
India	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.4
Indonesia	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
Malaysia	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Mexico	0.0	0.0	0.0	1.3	0.0	0.0	0.0	1.4
Philippines	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
Russia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Africa	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.3
Turkey	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.3
Net Liabilities <sup>4</sup>	<u>0.0</u>	<u>0.0</u>	<u>-73.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-93.5</u>	<u>0.0</u>
<b>Total Direct Exposure</b>	<b>100.0</b>	<b>50.0</b>	<b>50.0</b>	<b>10.3</b>	<b>100.0</b>	<b>39.0</b>	<b>61.0</b>	<b>9.0</b>

Small allocations may round to zero.

## Direct Emerging Markets Bond Exposure

PVIT Low Duration Portfolio

### Emerging Markets Exposure (by country of issuer)

	3/31/2011			6/30/2011		
	<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	6.25	3.57	5.74	<b>8.34</b>	<b>3.60</b>	<b>6.98</b>
Chile	0.14	0.44	0.61	<b>0.13</b>	<b>0.42</b>	<b>0.78</b>
China	0.22	0.00	0.26	<b>0.63</b>	<b>0.00</b>	<b>0.37</b>
EM Index Products	0.00	2.56	0.34	<b>0.00</b>	<b>2.40</b>	<b>0.42</b>
India	0.01	0.00	0.05	<b>0.01</b>	<b>0.00</b>	<b>0.06</b>
Indonesia	0.01	0.33	0.16	<b>0.02</b>	<b>0.00</b>	<b>0.25</b>
Malaysia	0.00	0.00	0.03	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>
Mexico	0.53	0.11	0.42	<b>0.98</b>	<b>0.10</b>	<b>0.72</b>
Philippines	0.01	0.00	0.12	<b>0.00</b>	<b>0.00</b>	<b>0.24</b>
Russia	0.16	1.19	1.54	<b>0.15</b>	<b>1.11</b>	<b>1.94</b>
South Africa	0.00	0.00	0.06	<b>0.00</b>	<b>0.00</b>	<b>0.08</b>
Turkey	<u>0.00</u>	<u>0.00</u>	<u>0.04</u>	<b><u>-0.01</u></b>	<b><u>0.00</u></b>	<b><u>0.08</u></b>
<b>Total Direct Emerging Markets</b>	<b>7.33</b>	<b>8.20</b>	<b>9.37</b>	<b>10.25</b>	<b>7.63</b>	<b>11.93</b>

Small allocations may round to zero.

## PIMCO Proprietary Portfolio Level Risk Measures

### PVIT Low Duration Portfolio

Risk Measures (yrs)	3/31/2011	6/30/2011	Definitions of Risk Measures:
<b>Interest Rate Exposures:</b>			
<b>Effective Duration</b>			
Portfolio	1.9	<b>1.3</b>	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.
Benchmark	1.9	<b>1.9</b>	
<b>Bull Market Duration</b>			
Portfolio	1.6	<b>1.1</b>	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.
Benchmark	1.9	<b>1.9</b>	
<b>Bear Market Duration</b>			
Portfolio	2.1	<b>1.4</b>	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.
Benchmark	1.9	<b>1.9</b>	
<b>Total Curve Duration</b>			
	-0.3	<b>-0.1</b>	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.
<b>Sector Exposures*:</b>			
<b>Mortgage Spread Duration</b>			
Portfolio	0.6	<b>0.4</b>	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.
Benchmark	0.0	<b>0.0</b>	
<b>Corporate Spread Duration</b>			
Portfolio	0.9	<b>1.3</b>	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.
Benchmark	0.0	<b>0.0</b>	
<b>Emerging Markets Spread Duration</b>			
Portfolio	0.4	<b>0.5</b>	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.
Benchmark	0.0	<b>0.0</b>	
<b>Swap Spread Duration</b>			
Portfolio	0.9	<b>0.4</b>	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.
Benchmark	0.0	<b>0.0</b>	

\* 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.

## Summary of Derivatives

### PVIT Low Duration Portfolio

Derivatives <sup>1</sup> (% of Duration)	3/31/2011	6/30/2011	Characteristics of Derivatives:	Control Measures
<b>Government Futures</b>	0.0	<b>0.0</b>	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.
<b>Other Futures</b>	0.0	<b>0.0</b>	Includes municipal, mortgage-backed and interest rate swap futures.	See Government Futures.
<b>Interest Rate Swaps</b>	3.0	<b>-50.4</b>	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.
<b>Credit Default Swaps*</b>	10.4	<b>18.0</b>	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	10.4	<b>18.0</b>		
Purchased	0.0	<b>0.0</b>		
<b>Options</b>	10.9	<b>7.4</b>	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	10.9	<b>7.4</b>		
Purchased	0.0	<b>0.0</b>		
<b>Mortgage Derivatives</b>	0.0	<b>0.2</b>	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.
<b>Money Market Derivatives</b>	27.4	<b>61.9</b>	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	25.9	<b>60.4</b>		
Interest Rate Swaps	1.5	<b>1.5</b>		

\* 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 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 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. 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.
- 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 period.
- 4 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.
- 5 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.

### Market Commentary and Market Outlook

Investment grade corporate bonds are considered among the higher rated in the corporate bond sector. These securities are not guaranteed by the federal government and are thus more susceptible to default risk. Generally most corporate bonds are taxable at the state and federal level. Treasuries are guaranteed by the United States government and are only taxable at the Federal level. Guarantee does not eliminate market risk. It is important to note that longer maturity bonds have greater volatility and risk when compared to shorter maturity bonds.

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.

Municipal bonds are guaranteed by the states in which they are issued. Guarantee does not eliminate market risk. Municipal bonds are not taxable at the Federal level and the issuing state has the right to demand tax; however, many states forgo tax on municipal bonds to entice investment.

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.

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.

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.

Nominal Bonds are any security issued, both domestic and foreign, that do not have inflation protection. The risks of nominal bonds fluctuate with the characteristics and credit rating of the issuing entity or government.

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.

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

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.

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 and Benchmark Variance

<sup>1</sup> 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. The benchmark is: Merrill Lynch 1-3 Year Treasury Index.

#### 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

<sup>1</sup> 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 3 Month Treasury Bill Index is an average of the last 3-month treasury bill issues (excluding the current month-end bill). It is not possible to invest directly in this index.

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

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.

JPMorgan EMBI Global Index hedged in USD is an index that tracks total returns for United States Dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments. This index only tracks the particular region or country. It is not possible to invest directly in this index.

JPMorgan Non-U.S. Global Government Index (Hedged) is an unmanaged market index representative of the total return performance in U.S. dollars of major non-U.S. bond markets. It is not possible to invest directly in such an unmanaged index.

Barclays Capital Credit Investment Grade Index consists of publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. It is not possible to invest directly in such an unmanaged index.

Barclays Capital Long Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. It is not possible to invest directly in such an Unmanaged index.

Barclays Capital Long-Term Treasury consists of U.S. Treasury issues with maturities of 10 or more years. It is not possible to invest directly in such an unmanaged index.

Barclays Capital General Municipal Bond consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. It is not possible to invest directly in such an unmanaged index.

Barclays Capital High Yield Index covers the universe of fixed rate, non- investment grade debt. Pay- in- kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e. g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non- EMG countries are included. Original issue zeroes, step- up coupon structures, and 144-As are also included. It is not possible to invest directly in such an unmanaged index.

Barclays Capital Mortgage Index is an unmanaged index market representing fixed rate mortgages issued by GNMA, FNMA and FHLMC. It is not possible to invest directly in such an unmanaged index.

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

Barclays Capital U.S. Credit Index is an unmanaged index comprised of publicly issued U. S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. The index includes both corporate and non- corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U. S. and non- U. S. corporations. The non- corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. To qualify, bonds must be SEC- registered. It is not possible to invest directly in such an unmanaged index.

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

Barclays Capital Treasury Index consists of public obligations of the U. S. Treasury with a remaining maturity of one year or more. It is not possible to invest directly in such an unmanaged index.

The BofA Merrill Lynch 1-3 Year 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 the index.

S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market. It is not possible to invest directly in the index.

JPMorgan Emerging Local Markets Index Plus tracks total returns for local-currency-denominated money market instruments in 22 emerging markets countries with at least US\$10 billion of external trade. It is not possible to invest directly in an unmanaged index.

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