

PIMCO

Quarterly Investment Report

June 30, 2010

## 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>▪ Volatility spiked across financial markets during the quarter; investors' confidence was shaken by a range of events, including signs that the U.S. and Chinese economies might be slowing and the ongoing debt crisis in Europe</li> <li>▪ Treasury yields fell sharply and the yield curve flattened as heightened uncertainty drove a flight to higher quality assets</li> <li>▪ High-grade bonds, led by Treasuries, posted solid gains in both the second quarter and first six months of 2010</li> </ul>	<ul style="list-style-type: none"> <li>▪ The global economy remains on a multi-year journey toward the "New Normal", but the journey is likely to be bumpier and the destination more unstable than we thought before</li> <li>▪ Financial markets will reflect a wider range of potential outcomes and a higher probability of extreme events</li> <li>▪ Disinflationary pressure will dominate over the next year as developed economies struggle to achieve self-sustaining growth amid heightened economic and political uncertainty</li> </ul>
Portfolio Recap	Portfolio Strategy
<ul style="list-style-type: none"> <li>▪ The Portfolio underperformed its index for the quarter and outperformed for the year</li> <li>▪ Flexible interest rate strategies and limited risk exposures helped protect the portfolio during a highly volatile period</li> <li>▪ The following strategies were positive for quarterly returns:                             <ul style="list-style-type: none"> <li>➢ Tactical duration exposure to core Europe early in the quarter as yields fell</li> <li>➢ Mortgage security selection that avoided the most expensive and least liquid coupons</li> <li>➢ Holdings of senior commercial and non-Agency mortgage-backed securities as demand improved for high quality assets offering extra yield over Treasuries</li> </ul> </li> <li>▪ The following strategies were negative for quarterly returns:                             <ul style="list-style-type: none"> <li>➢ Exposure to bonds of financial companies, which lagged the broader corporate market amid concern about sovereign bond risk within the global banking system</li> <li>➢ Exposure to emerging market local rates, which underperformed amid broader market turmoil</li> <li>➢ Exposure to the front end of the yield curve via Eurodollar futures which sold off during the quarter</li> <li>➢ Allocation to high yield bonds as general risk aversion negatively impacted the sector</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ PIMCO will remain cautious with risk exposures and look to make tactical shifts to protect portfolios in the face of high levels of expected volatility</li> <li>▪ Target an overweight to duration with a focus on the U.S., which currently benefits from its reserve currency and perceived safe-haven status; look to diversify interest rate exposure tactically with emphasis on economies with sound fiscal conditions from which investors are unlikely to flee</li> <li>▪ Focus on short-to-intermediate maturities in an attempt to reap gains as these securities "roll down", or mature along an historically steep yield curve</li> <li>▪ Plan to retain cash positions that enhance tactical flexibility and allow PIMCO to supply liquidity at attractive valuations</li> <li>▪ Look to increase our overall mortgage exposure by opportunistically adding exposure to attractively priced mortgage coupons</li> <li>▪ Plan to retain exposure to well-capitalized financial companies that may continue to benefit from a steep yield curve and improved asset quality; also target attractively priced energy companies that we believe have sufficient balance sheet strength and liquidity to meet their debt obligations</li> </ul>

## Summary of Performance Data and Portfolio Statistics

PVIT Low Duration Portfolio  
Administrative Class

Performance Periods Ended 6/30/2010	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>	5.62	5.76	6.09	7.73	9.80	3.13	0.90
<b>After Fees (%)</b>	4.94	5.07	5.40	7.03	9.09	2.80	0.74
<b>(Inception 02/16/99)</b>							
BofA Merrill Lynch 1-3 Year U.S. Treasury Index (%)	4.40	4.37	4.24	4.78	2.69	1.87	1.16

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

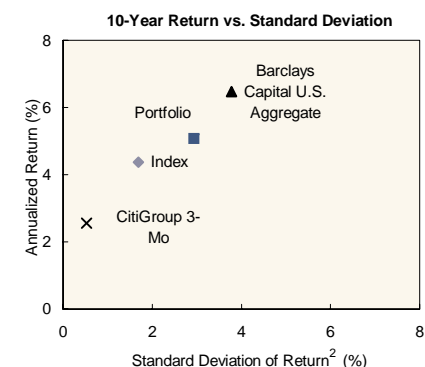
Expense Ratio	
The Fund's Total Annual Operating Expenses	0.67%
The Fund's Net Operating Expenses	0.65%

Total net annual fund operating expenses exclude interest expenses. Interest expenses are based on the amounts incurred during the Fund's most recent fiscal year as a result of entering into certain investments; the amount of interest expense (if any) will vary.

*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 <http://www.pimco-funds.com/VIT> or by calling (800) 927-4648.*

Summary Information	3/31/2010	6/30/2010
Total Net Assets (USD in millions)	1,257.9	<b>1,390.4</b>
SEC 30-Day Ann. Yield (%)	0.87	<b>0.95</b>
Distribution Yield (%) <sup>3</sup>	1.40	<b>1.44</b>
Effective Duration (yrs)	2.1	<b>1.9</b>
Benchmark Duration (yrs)	1.9	<b>1.9</b>
Effective Maturity (yrs)	2.9	<b>3.1</b>
Average Coupon (%)	2.1	<b>2.3</b>
Net Currency Exposure (%)	1.6	<b>0.1</b>
Tracking Error (10 yrs, %) <sup>5</sup>	2.8	<b>2.8</b>
Information Ratio (10 yrs) <sup>5</sup>	0.3	<b>0.3</b>

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



Sector Allocation	% of Market Value		% of Duration	
	3/31/2010	6/30/2010	3/31/2010	6/30/2010
Government-Related	26	<b>47</b>	26	<b>58</b>
Mortgage	7	<b>10</b>	7	<b>9</b>
Invest. Grade Credit	5	<b>6</b>	3	<b>5</b>
High Yield Credit	4	<b>5</b>	4	<b>4</b>
Non U.S. Developed	8	<b>2</b>	14	<b>1</b>
Emerging Markets	6	<b>10</b>	5	<b>10</b>
Municipal	1	<b>1</b>	0	<b>0</b>
Other	1	<b>1</b>	2	<b>3</b>
Net Cash Equivalents: <sup>4</sup>	42	<b>18</b>	39	<b>10</b>
Commercial Paper / STIF	30	<b>32</b>	3	<b>3</b>
ST Government-Related	10	<b>2</b>	0	<b>0</b>
ST Mortgage	6	<b>5</b>	1	<b>1</b>
ST Credit	15	<b>14</b>	1	<b>1</b>
U.S. Money Market Futures/Options	65	<b>8</b>	30	<b>4</b>
Non-U.S. Money Market Futures	6	<b>0</b>	3	<b>0</b>
Other	5	<b>8</b>	1	<b>1</b>
Less: Liabilities	-95	<b>-51</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, 2010

## 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>INSTITUTIONAL Class:</b>											
Low Duration Portfolio, Institutional	0.51	0.50	USD	Apr-10-00	5.27	5.23	5.56	7.19	9.25	2.87	0.78
BofA Merrill Lynch 1-3 Year U.S. Treasury Index			-		4.43	4.37	4.24	4.78	2.69	1.87	1.16
<b>ADVISORY Class:</b>											
Low Duration Portfolio, Advisory	0.75	0.75	USD	Mar-31-06	6.15	-	-	6.95	8.98	2.75	0.71
BofA Merrill Lynch 1-3 Year U.S. Treasury Index			-		4.72	-	-	4.78	2.69	1.87	1.16

Total net annual fund operating expenses exclude interest expenses. Interest expenses are based on the amounts incurred during the Fund's most recent fiscal year as a result of entering into certain investments; the amount of interest expense (if any) will vary.

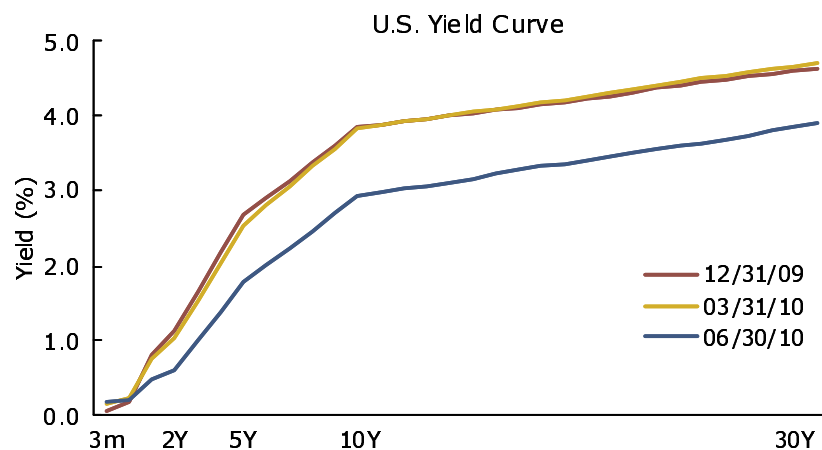
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### Volatility Spikes, Risk Appetites Wane in Second Quarter

Volatility spiked across global financial markets during the second quarter of 2010 after a relatively calm first quarter. Investors' confidence was shaken by a range of macroeconomic events, including signs that the U.S. and Chinese economies might be slowing and the ongoing debt crisis in Europe.

Yields fell sharply as heightened uncertainty drove a flight to higher quality assets. The 10-year Treasury yield fell 90 basis points during the quarter, closing at 2.94 percent on June 30 after barely moving in the first three months of the year. The two-year Treasury note touched an all-time low of 0.59 percent before finishing the quarter at 0.61 percent. In an indication that concerns about disinflation or even deflation were on the rise, the Treasury yield curve flattened during the second quarter as 10 and 30-year Treasury yields fell by more than their shorter maturity counterparts. The graphic below shows recent positions of the Treasury yield curve:



SOURCE: Bloomberg Financial Markets

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Investors had plenty to worry about worldwide. In the U.S., concerns centered on the waning effects of policy stimulus as unemployment remained stubbornly high, consumer confidence appeared to weaken and housing sales fell after the expiration of special tax credits for home buyers. A host of other issues added to the anxiety, including the uncertain impact of new regulations for the health care and financial services industries, the Gulf of Mexico oil spill and weak fiscal conditions of many state and local governments.

Europe was perhaps the biggest problem as growing budget shortfalls in Greece, Spain and Portugal raised fears that the region might derail the global economy's recovery from the crisis that began in 2008. Greece saw its credit rating cut to junk status during the second quarter while Moody's Investors Service put Spain's AAA rating on review for a downgrade.

China, whose rapid growth has helped to cushion the global economy while developed countries pulled themselves out of recession, took steps late in the quarter to liberalize its exchange rate regime. The move followed recent tightening in lending standards to avert real estate and asset price bubbles.

### Bonds Gain; Treasuries Fare Best Amid Flight to Quality

The Barclays Capital U.S. Aggregate Index, a widely used index of U.S. high-grade bonds that includes Treasuries, gained 3.49 percent in the second quarter and 5.33 percent for the first six months of 2010. Treasuries led virtually all sectors in the second quarter amid the global flight to less risky assets. The following summarizes fixed income sector returns for the second quarter:

- Agency mortgage-backed securities (MBS) performed near Treasuries on a like-duration basis in the second quarter. Limited Agency MBS issuance combined with demand from non-U.S. buyers to support valuations. Non-Agency and commercial mortgage-backed securities (CMBS) overall performed near to somewhat worse than Treasuries of similar duration amid the broader market volatility. Non-

Agency and CMBS tranches senior in capital structures tended to fare better than their more subordinated counterparts as investors favored higher quality assets.

- Corporate bonds, including high yield credits, lagged well behind Treasuries during the quarter, as worries over sovereign credit risk in Greece and elsewhere in Europe pressured credit markets across the board. Credit premiums on both investment grade and high yield bonds jumped in the second quarter. Financial companies were among the worst performers amid concern about contagion effects from European banks' potential losses on sovereign bonds. In an indication of this concern, the three-month London Interbank Offered Rate, or LIBOR, rose above 50 basis points during quarter, up from 25 basis points at the beginning of the year.
- Municipal bonds generally underperformed comparable Treasuries in the second quarter. While municipal yields fell and the sector benefitted from investors' flight to higher quality assets, the municipal sector could not keep pace with Treasuries in this regard. Taxable Build America Bonds (BABS) fared better than the municipal sector overall as investors viewed them as an attractive substitute for corporate credit exposure.
- In an environment where disinflation was a growing concern, Treasury Inflation-Protected Securities (TIPS) lagged behind their nominal Treasury counterparts during the second quarter. Breakeven inflation levels (the difference between nominal and real yields) for intermediate maturity TIPS narrowed during the quarter.
- Emerging market (EM) bond performance also trailed that of the Treasury market during the second quarter. As with the U.S. corporate credit market, credit premiums widened out across the quality spectrum amid heightened global risk aversion that was rooted mainly in Eurozone troubles. However, EM credit fundamentals remained relatively strong. External EM markets fared better than local currency markets as the flight to quality included a move toward the U.S. dollar, which worked against most EM currencies.
- Treasuries were among the best performing sovereign bond markets in the second quarter of 2010. Core Eurozone bonds also performed well as investors fled the periphery of Europe and moved toward sovereign credits with sound fiscal conditions.

### Secular Outlook: Driving Without a Spare Tire

PIMCO continues to believe that the global economy is on a bumpy, multi-year journey toward the “New Normal.” This destination is likely to include: weak growth in developed economies and migration of growth toward emerging markets; a protracted period of private sector balance sheet rehabilitation along with deteriorated public finances; and the increased importance of politics amid heightened government involvement in private markets, especially finance and health care.

The journey will be bumpier and the destination more unstable than PIMCO thought before. It will be a world of shifting risks and opportunities with a wider range of potential outcomes and a higher probability of extreme events. ***An analogy is that of a car driving in unfamiliar territory on an uneven road having used its spare tire(s).*** The analogy is based on an analysis of traditional issues of growth, balance sheets and inflation:

- **Differentiated Growth** – Emerging economies such as China, India and Brazil are likely to maintain stronger growth and broaden their engines for income and employment creation. Developed economies such as Europe and Japan should grow more slowly. Europe is in the midst of a fiscal deflationary drag that calls into question the very makeup of the Eurozone. Japan will face increasing demographic and debt headwinds that will blunt already weakened drivers of sustainable growth. The picture for the U.S. is more mixed. Its reserve currency status and dynamic economy are important assets, but the U.S. faces structural challenges. Chief among these are highly leveraged government and household balance sheets and toxic political polarization.
- **Serial Balance Sheet Contamination** – Governments have moved to support balance sheets that expanded beyond sustainable levels, the latest example being attempts by the European Union to shore up Greece. With public finances of many developed countries stretched to the limit, it will be hard to find an unencumbered balance sheet - ***another***

***spare tire*** – to sustain existing debt levels. Attempts to shift sovereign debt onto central bank balance sheets could raise the risk of debt monetization and fuel inflation expectations.

- **Disinflation to Inflation** – This evolution will proceed at different speeds in different parts of the world. It is already under way in some parts of the emerging markets and will likely remain so. Slack in labor and product markets in developed economies such as the U.S., Europe and Japan will slow the evolution there.

### Cyclical Outlook: Near Term Risks Tilt Toward Disinflation

Achieving self-sustaining growth in final demand will prove an elusive target for developed economies over the next year, suggesting that disinflationary pressures will dominate. Several sources of uncertainty are likely to dampen prospects for global growth in the second half of 2010:

- **Fiscal Austerity Measures** – Governments in the U.K., Japan, New Zealand and Germany enacted fiscal austerity measures after observing the reluctance of bond markets to fund Eurozone countries with large deficits. The U.S. has not yet announced an austerity plan. The impact of these initiatives on growth is unclear but is unlikely to be positive.
- **Re-Regulation** – The U.S. has enacted complex new regulations for the health care sector and is likely to do so for banking and finance as well. It is difficult to forecast the consequences of this re-regulation.
- **Municipal Balance Sheets** – Many state balance sheets face large and growing deficits with little prospect of help from the federal government, which remains focused on job creation at the national level.
- **Renminbi Appreciation** – Changes in China’s currency policy should help rebalance global consumption and investment and could support riskier assets, but the pace and extent of renminbi appreciation remains unclear.

**Look to De-Risk Portfolios; Retain Tactical Flexibility**

Amid the uncertainty of the cyclical outlook, PIMCO will remain cautious with risk exposures and look to make tactical shifts to protect portfolios in the face of high levels of expected volatility. PIMCO's planned investment strategies include:

- **Interest Rate Strategies** – PIMCO's longer-than-index duration is a tactical response to heightened risk aversion in financial markets. This exposure will likely focus on the U.S. which currently benefits from its reserve currency and perceived safe-haven status. Where permitted and when market conditions dictate, we plan to diversify our interest rate exposure with holdings in core Europe (Germany), Canada and Brazil, economies with sound fiscal conditions from which investors are unlikely to flee over a cyclical time frame.

With respect to yield curve, we will generally focus on short-to-intermediate maturities in an attempt to reap gains as these securities "roll down", or mature along a historically steep yield curve. In addition, we will emphasize shorter maturities in the U.S., Europe, the U.K. and Brazil in an effort to benefit from markets' pricing in more and faster central bank tightening than we expect.

- **Liquidity and Cash Targets** – PIMCO has often gained from being a supplier of liquidity at attractive valuations during times of risk aversion. We will look to maintain cash positions that enhance tactical flexibility and allow us to respond to pressures on liquidity in fixed income markets.
- **Focus on Security Selection in Mortgage Sector** – We plan to look to reduce our mortgage underweight by opportunistically adding exposure to mortgage coupons that are least impacted by the distorting effects of the Federal Reserve's Agency MBS purchase program. We also plan to hold non-Agency mortgages and commercial mortgage-backed securities (CMBS) that have senior positions in the

capital structure and currently offer relatively attractive yields.

- **Corporate Bonds** – PIMCO expects to continue to overweight large, well-capitalized banks and insurance companies that offer value versus the broader market. These holdings are a way to take advantage of the steep yield curve as well as the improved asset quality of money center financial institutions. In addition, we will target select, attractively priced energy companies that we believe have sufficient balance sheet strength and liquidity to meet their debt obligations.
- **Emerging Markets and Currency** – PIMCO plans to hold and possibly add to high quality EM sovereign and corporate credits such as those in Mexico and Brazil that have strong credit fundamentals. In addition, we plan to take modest currency exposure to countries with sound fiscal conditions and banking systems, such as Brazil, Australia and Canada. We will also hold a basket of Asian currencies including the Chinese renminbi, which stand to benefit versus the U.S. dollar in light of China's potential currency flexibility. Lastly, we plan to take positions that might gain from an expected depreciation of the British pound, euro and yen. These currencies could be challenged by slow growth and deteriorating fiscal conditions.
- **Municipals and TIPS** – In the municipal sector we will continue to favor longer maturity taxable issues, especially Build America Bonds (BABs). Valuations currently remain attractive for BABs, which are a useful means of diversifying credit risk versus the corporate market. TIPS offer a potential hedge against inflation risk, but their valuations continue to be unappealing over a cyclical time frame. As a consequence, our TIPS holdings will likely be light.

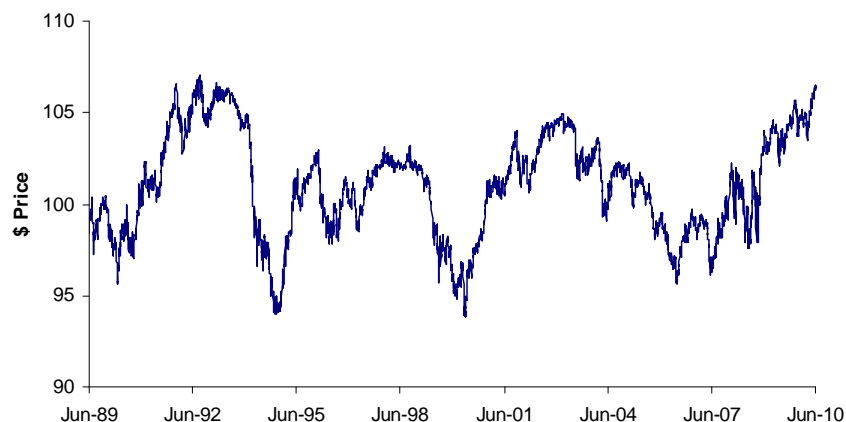
## Market Commentary

- Agency Mortgage-Backed Securities performed in line with like-duration Treasuries during the second quarter of 2010.
- Agency MBS performance continued to be dominated by the effects of the Federal Reserve Agency MBS Purchase program. The Fed purchased a majority of the tradable Agency MBS supply throughout 2009 and 2010, impacting liquidity and driving certain Agency MBS to their all-time richest valuations.
- Fannie Mae completed its purchases of seriously delinquent loans out of Agency MBS pools in June. The \$200 billion of delinquent loan purchases led to higher prepayments and in effect further reduced the outstanding supply of Agency MBS.
- Par mortgage rates fell 77 basis points over the course of the quarter from 4.51 percent to 3.74 percent and are near record low levels.

## Market Outlook

- Agency MBS will likely continue to be the primary arena for mortgage financing as non-agency origination channels have been completely shut by the credit crisis.
- Technical factors continue to be the driving force behind relative coupon valuation. PIMCO will continue to avoid areas of the market where the Fed's purchases have most distorted liquidity and valuations.
- Prepayment speeds will accelerate on recent vintage Agency MBS. Tighter lending standards and higher quality borrowers will cause recent vintages to be much more sensitive to changes in prepayment incentives.

Barclays MBS Index Price



SOURCE: Barclays

FNMA 30yr Par Coupon Rate



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 3.27 percent in the second quarter, the fifth straight quarter of positive total return. However, U.S. credit underperformed Treasuries by 2.23 percent. Positive total return was driven by Treasury yields rallying more than credit spreads widened.
- Spreads in the investment grade credit market widened 43 basis points, finishing the quarter at an average level of 179 basis points\*. Credit fundamentals are improving generally as evident by declining leverage, increasing cash on balance sheets and lower default rates. Nevertheless, the European sovereign debt crisis and the focus on financial regulatory reform in the U.S. contributed to caution regarding investor risk positions.
- Financials was the weakest performing sector, returning only 1.82 percent, while Utilities was the strongest returning 4.75 percent. Industrials also had strong performance, returning 4.21 percent last quarter.

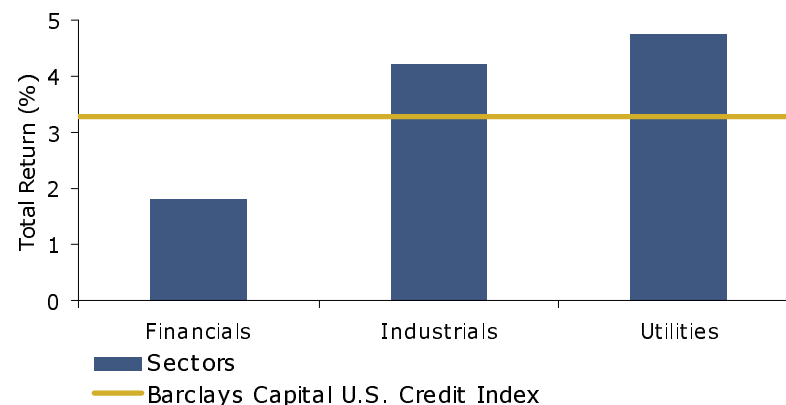
**Market Outlook**

- With the long-term economic outlook still unclear, corporate hiring and capital spending remain subdued, despite ample credit and cash balances. High unemployment continues to weigh upon consumers. We continue to maintain our bias away from consumer-related industries such as retailers, gaming and home construction and other cyclical issuers.
- We intend to maintain our preference towards sectors where credit fundamentals are stable and improving such as in select high-quality U.S. banks and other financials.

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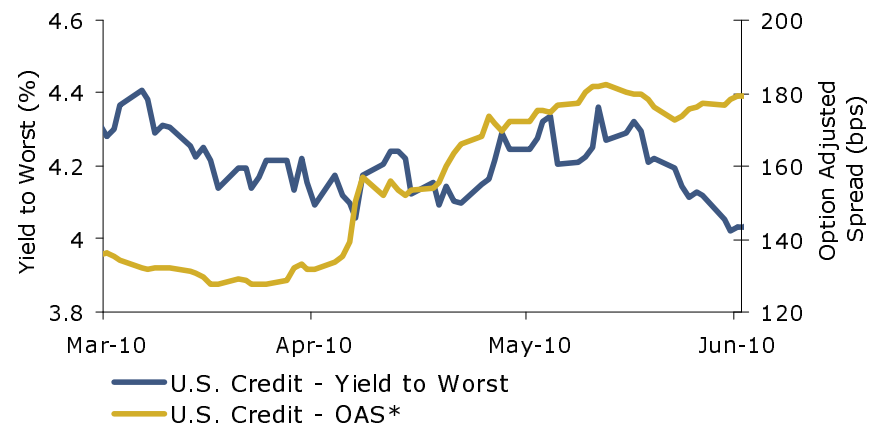
Second Quarter Returns



Source: Barclays Capital

The sectors referenced above are components of the Barclays Capital U.S. Credit Index.

Credit Spreads and Yields Diverge



Source: Barclays Capital

\* The option adjusted spread is generated by Barclays Capital and the individual securities within the index are predominantly measured against like-duration U.S. Treasuries. The performance figures are as reported by Barclays Capital for the Barclays Capital U.S. Credit Index and its respective sub-sectors. The Barclays U.S. Investment Grade Credit Index underperformed the Barclays Capital U.S. Treasury Index for the time period.

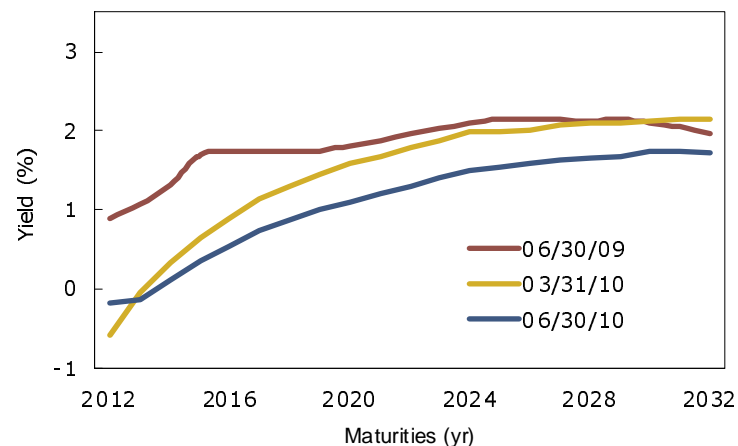
**Market Commentary**

- Treasury Inflation Protected Securities (TIPS) gained 3.82 percent during the second quarter as represented by the Barclays Capital U.S. TIPS Index. Real yields increased in the 2-year sector and experienced a moderate decline across the remaining maturity sectors of the yield curve. Real coupons helped returns as did positive inflation accruals. TIPS gained despite continued near-term disinflationary pressures weighing on market sentiment, but underperformed comparable maturity nominal bonds overall.
- Shorter maturity TIPS experienced price losses as the European debt crisis and continued disappointing U.S. employment figures increased near-term disinflationary pressures, causing two-year TIPS to sell off. Longer dated issues rallied as the global flight to quality supported U.S. real yields amid the European debt crisis.
- Breakeven inflation levels (i.e. the difference between nominal and real yields) narrowed across the maturity spectrum as nominal yields fell sharply, resulting in nominal Treasuries outperforming TIPS. Although longer term real yields were supported by the concerns about European sovereign debt risk, accompanying deflationary pressures diminished gains in the TIPS sector relative to nominal Treasuries.

**Market Outlook**

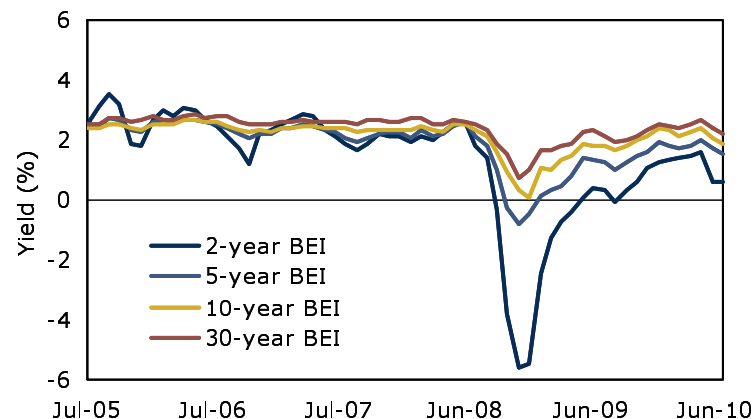
- Developed economies are likely to face structural headwinds in the form of highly leveraged government and household balance sheets and excess labor capacity. Thus PIMCO foresees modest disinflationary pressures over the cyclical horizon.
- However, attempts to shift sovereign debt onto central bank balance sheets could fuel inflation expectations over the longer term. This evolution from disinflation to inflation will proceed at different speeds in different parts of the world. It is already under way in emerging economies, though slack in labor and product markets in developed economies will slow the process there.
- Relative to nominal Treasuries and given current breakeven inflation rates, TIPS are trading above what we view as their fundamental value. However, valuations for TIPS continue to be attractive as longer term inflationary pressures build.

**U.S. TIPS Yield Curve**



SOURCE: Barclays Capital

**Breakeven Inflation (BEI) Rates**



SOURCE: Barclays Capital

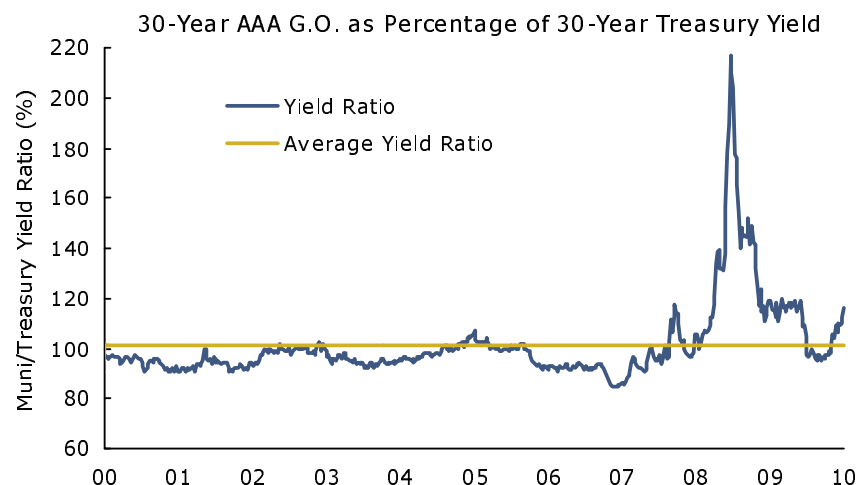
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**Market Commentary**

- The municipal market continued its positive performance in the second quarter of 2010. Lower quality municipals outperformed as investors moved out the risk spectrum to pick up yield. Municipal yields moved lower across the curve with shorter maturities falling more than longer maturities. Amid the significant rally in Treasuries, municipals underperformed and the 30-year Municipal/Treasury yield ratio moved above 100 percent (See graph on the right.)
- Credit issues have moved to the forefront as a major issue in the municipal market. Performance became even more bifurcated over the period among different issuers depending on their credit situation. Build America Bonds (BABS) performed well over the period, with the sector becoming a greater proportion of overall municipal issuance.

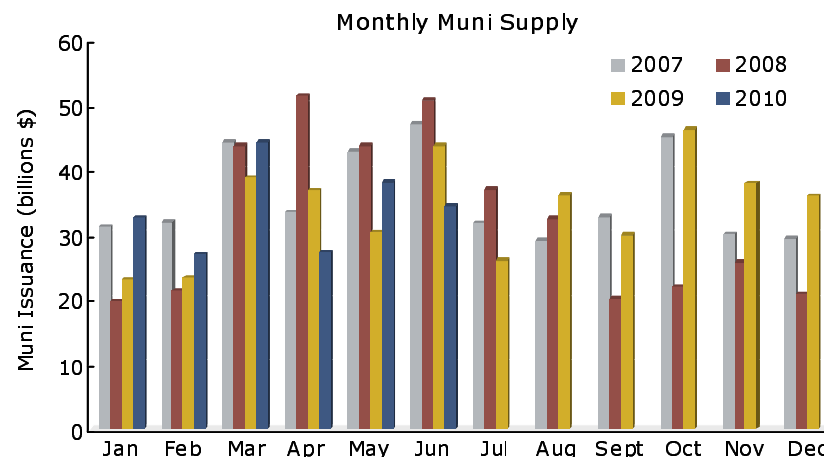
**Market Outlook**

- Credit concerns and headlines will dominate the municipal market in the third quarter. With most municipalities nearing or already past their fiscal year ends, headlines related to budget deficits will be numerous.
- New issue supply should continue on a pace that would see greater than \$400 billion in issuance for the year with BABS continuing to be a larger component of supply. Because the future of the program is uncertain at this time, municipalities will likely continue to increase issuance of BABS to take advantage of the interest subsidy.



SOURCE: Bloomberg Financial Markets.

The 30-Year AAA G.O. Yield is proprietary data from Thomson Municipal Market Data. 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

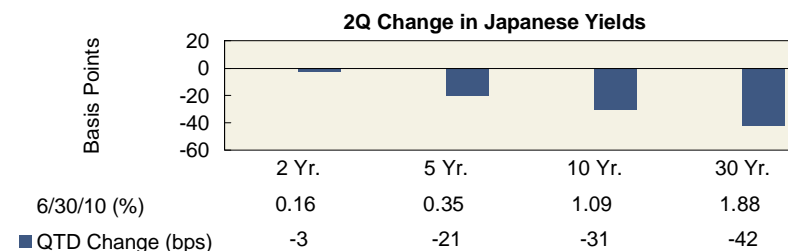
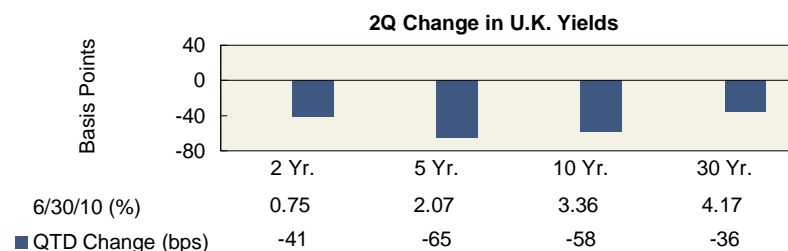
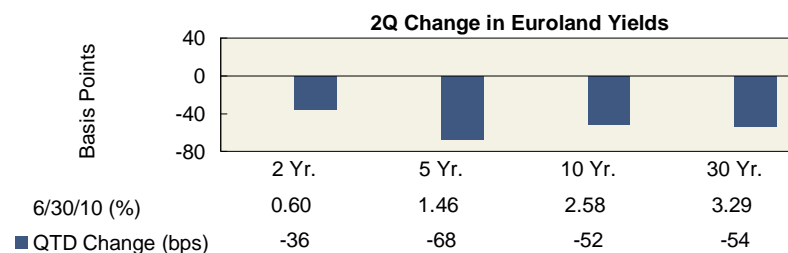
**Past performance is no guarantee of future results.**  
 Graphs are for illustrative purposes only and are not indicative of the performance of any particular investment.

**Market Commentary**

- Volatility spiked across global financial markets during the second quarter of 2010 after a relatively calm first quarter. Investors' confidence was shaken by a range of macroeconomic events, including signs that the U.S. and Chinese economies might be slowing and the ongoing debt crisis in Europe.
- In Germany, the U.K. and Japan, government bond yields fell across the curve as investors sought the safety of sovereign debt over equity and corporate debt.
- Safe-haven currencies such as the U.S. dollar and Japanese yen outperformed currencies perceived as riskier in the quarter. Australia's resource tax reforms and fear of an economic slowdown in China weighed on currencies or commodity-driven economies.

**Market Outlook**

- PIMCO continues to believe that the global economy is on a bumpy, multi-year journey toward the "New Normal", characterized by divergent growth paths due to distinct initial conditions, the continual mending of private-sector balance sheets and increased regulations.
- Given austerity measures in Europe and continued slack in U.S. economic growth, PIMCO believes that G3 central banks will likely keep rates on hold through at least 2010. Even countries such as Australia that have already begun tightening are likely to remain cautious on further rate hikes.
- In the months ahead, investors will continue to navigate a highly uncertain environment, as a potential growth relapse collides with ongoing structural issues.



	6/30 Spot	% Change	
		2Q	YTD
<b>Euro</b>	1.224	-9.4	-14.5
<b>Yen</b>	88.43	+5.7	+5.2
<b>Australian \$</b>	0.841	-8.3	-6.3
<b>Canadian \$</b>	1.064	-4.6	-1.0
<b>British Pound</b>	1.495	-1.6	-7.6

SOURCE: Bloomberg

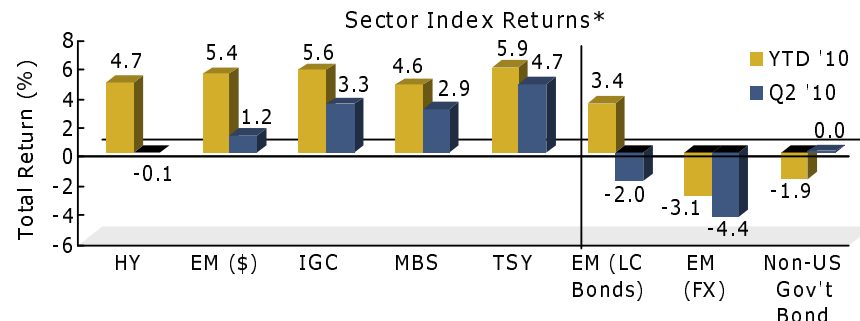
**Past performance is no guarantee of future results.**  
 Graphs are for illustrative purposes only and are not indicative of the performance of any particular investment.

## Market Commentary

- Longer term concerns over debt solvency in peripheral Europe - the recent support package notwithstanding - failed to quell market volatility in the second quarter. Amid heightened uncertainty and a flight to higher quality assets, EM assets had mixed performance.
- In EM external debt, spreads\*\* widened by 97 basis points during the period to finish at 358 basis points over Treasuries, as seen in the graph on the bottom right. The EMBIG Index returned 1.16 percent for the second quarter.
- In EM local markets, amid a flight to the perceived safety of the U.S. dollar, EM currencies weakened. The JPMorgan ELMI+ Index, returned -4.42 percent. EM local debt, with its implicit currency exposure, lost -1.98 percent as measured by the GBI-EM Global Diversified Index.

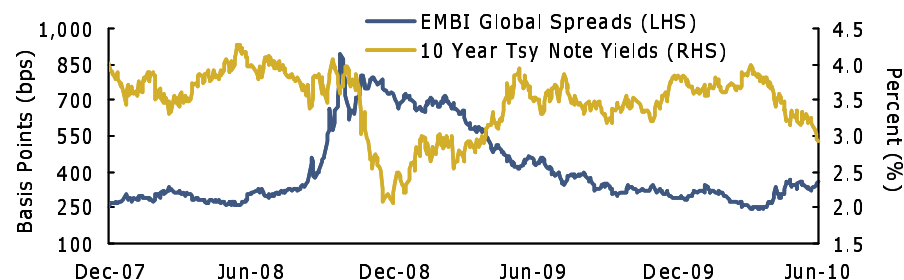
## Market Outlook

- EM economies are likely to maintain positive growth trajectories due to strong initial conditions, greater domestic consumption and more intra-emerging markets trade.
- EM local fixed income markets continue to be particularly attractive given the strength of policy and fundamentals, appealing valuations and powerful headwinds facing the major global economies.
- EM corporate names related to the infrastructure sector also present compelling opportunities. Their advantages include: strong credit quality relative to developed country credit; a critical role in facilitating economic growth; and the potential for government support given their focus on sectors of national importance.



\* High Yield is represented by BofA Merrill Lynch High Yield II Index; EM(\$)

SOURCE: JPMorgan, Bloomberg Financial Markets, Barclays Capital



\*\* 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 underperformed U.S. Treasuries (as measured by the Citigroup Treasury Index) for the quarter.

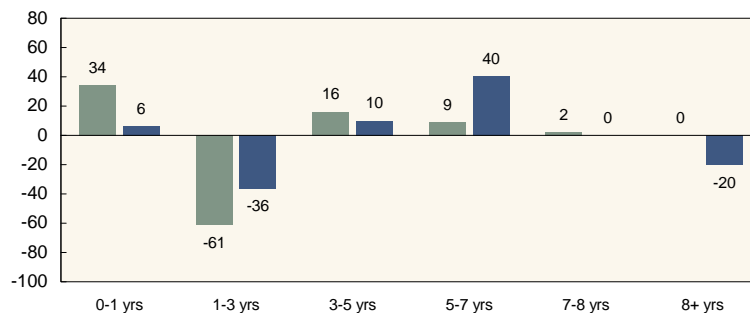
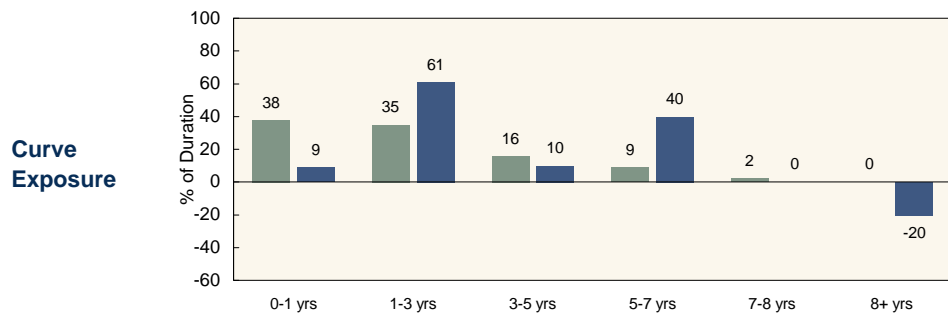
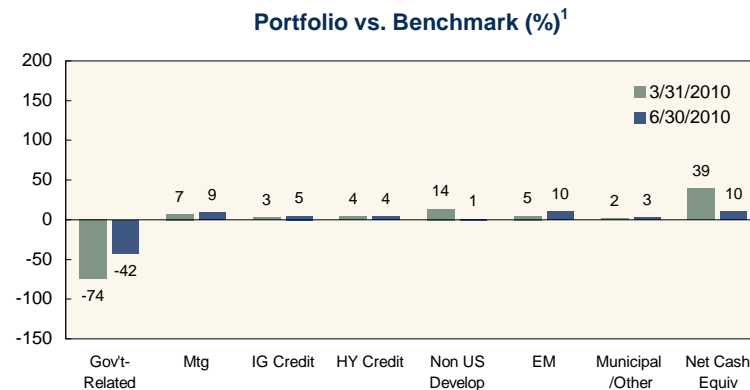
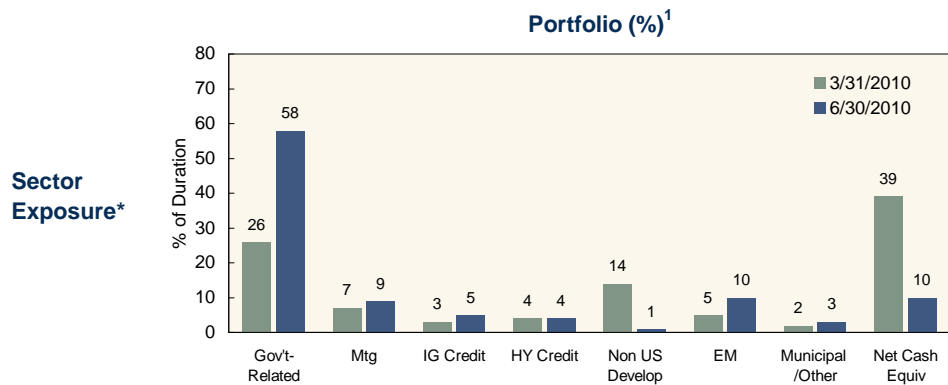
SOURCE: JPMorgan, Bloomberg Financial Markets

### 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.

# 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 03/31/2010				Portfolio 06/30/2010			
	% of Duration	Market Value Weighted (%)			% of Duration	Market Value Weighted (%)		
		Bonds	Cash Equiv.	Currency Exposure <sup>2</sup> (%)		Bonds	Cash Equiv.	Currency Exposure <sup>2</sup> (%)
<b>North America</b>	<b>80.7</b>	<b>46.0</b>	<b>133.3</b>	<b>0.1</b>	<b>91.3</b>	<b>72.8</b>	<b>68.2</b>	<b>0.1</b>
Canada	1.4	0.0	2.6	0.1	0.0	0.0	0.0	0.1
United States	79.3	46.0	130.7	0.0	91.3	72.8	68.2	0.0
<b>Europe - EMU</b>	<b>13.2</b>	<b>7.0</b>	<b>0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.9</b>	<b>0.1</b>	<b>-0.2</b>
France	0.0	0.0	0.0	-	0.0	0.1	0.0	-
Germany	5.7	2.8	0.0	-	0.0	0.0	0.0	-
Other <sup>3</sup>	7.5	4.2	0.2	-	0.0	0.8	0.1	-
<b>United Kingdom</b>	<b>1.4</b>	<b>0.0</b>	<b>3.0</b>	<b>-0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>-0.3</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>
<b>Japan</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>-1.2</b>
<b>Asia Pacific ex-Japan</b>	<b>0.9</b>	<b>1.1</b>	<b>0.0</b>	<b>0.5</b>	<b>1.1</b>	<b>1.0</b>	<b>0.0</b>	<b>0.3</b>
Australia	0.9	1.1	0.0	0.1	1.1	1.0	0.0	0.1
Singapore	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
South Korea	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.1
Taiwan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
<b>Emerging Markets</b>	<b>3.8</b>	<b>3.9</b>	<b>0.0</b>	<b>1.6</b>	<b>7.6</b>	<b>7.3</b>	<b>0.0</b>	<b>1.5</b>
Brazil	3.8	3.9	0.0	0.5	7.6	7.3	0.0	0.5
China	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.7
Indonesia	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Malaysia	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Mexico	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Philippines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Liabilities <sup>4</sup>	<u>0.0</u>	<u>0.0</u>	<u>-94.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-50.4</u>	<u>0.0</u>
<b>Total Direct Exposure</b>	<b>100.0</b>	<b>58.0</b>	<b>42.0</b>	<b>1.6</b>	<b>100.0</b>	<b>82.0</b>	<b>18.0</b>	<b>0.1</b>

Small allocations may round to zero.

## Direct Emerging Markets Bond Exposure

PVIT Low Duration Portfolio

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

	3/31/2010			6/30/2010		
	<u>% of MV Cash Equiv.</u>	<u>% of MV Bonds</u>	<u>% of Duration</u>	<u>% of MV Cash Equiv.</u>	<u>% of MV Bonds</u>	<u>% of Duration</u>
Brazil	0.43	4.00	3.54	<b>0.40</b>	<b>7.41</b>	<b>7.36</b>
Chile	0.00	0.36	0.42	<b>0.17</b>	<b>0.32</b>	<b>0.40</b>
China	-0.01	0.00	0.00	<b>-0.01</b>	<b>0.00</b>	<b>0.00</b>
EM Index Products	0.00	0.38	0.05	<b>0.00</b>	<b>0.77</b>	<b>0.10</b>
Indonesia	0.00	0.44	0.00	<b>0.01</b>	<b>0.39</b>	<b>0.00</b>
Malaysia	0.01	0.00	0.00	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Mexico	0.55	0.00	0.00	<b>0.49</b>	<b>0.00</b>	<b>0.00</b>
Philippines	0.00	0.00	0.00	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Russia	<u>1.52</u>	<u>0.64</u>	<u>0.92</u>	<b><u>0.98</u></b>	<b><u>0.96</u></b>	<b><u>1.53</u></b>
<b>Total Direct Emerging Markets</b>	<b>2.50</b>	<b>5.82</b>	<b>4.93</b>	<b>2.04</b>	<b>9.85</b>	<b>9.39</b>

Small allocations may round to zero.

## PIMCO Proprietary Portfolio Level Risk Measures

### PVIT Low Duration Portfolio

Risk Measures (yrs)	3/31/2010	6/30/2010	Definitions of Risk Measures:
<b>Interest Rate Exposures:</b>			
<b>Effective Duration</b>			
Portfolio	2.1	<b>1.9</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	1.5	<b>1.6</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	2.6	<b>2.1</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>			
	-0.1	<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>0.6</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	0.5	<b>0.5</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	0.2	<b>0.2</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	1.3	<b>-0.1</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)	3/31/2010	6/30/2010	Characteristics of Derivatives:	Control Measures
<b>Government Futures</b>	13.1	<b>15.7</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>	11.6	<b>11.6</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>	10.0	<b>9.7</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	10.0	<b>9.7</b>		
Purchased	0.0	<b>0.0</b>		
<b>Options</b>	-0.2	<b>-22.3</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	-0.2	<b>-22.3</b>		
Purchased	0.0	<b>0.0</b>		
<b>Mortgage Derivatives</b>	0.0	<b>0.0</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>	33.2	<b>4.3</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	33.2	<b>4.3</b>		
Interest Rate Swaps	0.0	<b>0.0</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.

## 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**

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

- 1 This Portfolio may use derivative instruments for hedging purposes or as part of its investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested.

## Index Descriptions

Citigroup 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 subdivided into

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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