

Inflation Managed Portfolio

Available through Pacific Life Variable Products

Third Quarter 2002

OVERVIEW

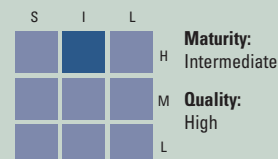
DESCRIPTION

The Inflation Managed Portfolio invests primarily in inflation-indexed fixed income securities issued by the U.S. Government. This strategy seeks to maximize total return and to protect purchasing power from the negative effects of inflation.

FUND INCEPTION DATE

January 4, 1988

MATURITY / QUALITY



HIGHLIGHTS

- Invests primarily in inflation-indexed bonds that index both coupon and principal to inflation – a unique asset class that protects investors' purchasing power from inflation
- Low correlation to stocks and conventional bonds enhances diversification
- Treasury Inflation Protected Securities (TIPS) are issued by the U.S. Government
- Wharton professor Jeremy Siegel in his book *Stocks for the Long Run* says that inflation-indexed Treasuries are the "asset of choice" to combine with stocks over the long-term

MARKET COMMENTARY

- Investors fled to safer assets, driving Treasury yields to their lowest levels in 40 years, amid worries about sluggish growth, corporate scandals and a potential war with Iraq
- U.S. consumers, bolstered by cheap mortgage rates, zero interest car loans and rising real wages, remained the only significant source of demand in the global economy
- TIPS gained along with nominal Treasuries, as real rates fell along with nominal rates

PORTFOLIO RECAP

- The portfolio's above-benchmark duration contributed to returns as rates fell.
- The purchase of TIPS on a forward settled basis was positive for performance, as the carry of the TIPS outperformed the imbedded financing rate.
- Corporate exposure was a negative as corporates underperformed TIPS
- Exposure to longer maturity TIPS was a negative to performance the real yield curve steepened

MARKET OUTLOOK

- The modest U.S. recovery from 2001's recession will continue as the consumer/housing sector holds fast while the battered business sector heals
- Interest rates will be range-bound around their current low levels as tepid growth constrains any upward pressure
- TIPS will outperform nominal Treasuries on average, but will still require tactical judgment for optimal returns

PORTFOLIO STRATEGY

- The portfolio will continue to maintain a slight barbell strategy, while duration will be held close to benchmark.
- The portfolio will be overweight in the very long end, where yields are slightly higher, and this will be balanced by also being overweight shorter maturities.
- The portfolio will employ a small amount of cash-backing for yield enhancement, but be very selective in gaining corporates exposure.
- Maintain a high average credit quality (AAA/AA+)
- Look for opportunities in non-U.S. inflation-linked bonds, considering both real rates and inflation expectations

PORTFOLIO MANAGER



JOHN
BRYNJOLFSSON

Mr. Brynjolfsson is Executive Vice President and portfolio manager of the Pacific Select Inflation Managed Portfolio. He is co-author of *Inflation-Protection Bonds* and co-editor of *The Handbook of Inflation-Indexed Bonds*. Prior to joining PIMCO in 1989, he was associated with Charles River Associates and JP Morgan Securities. Mr. Brynjolfsson has 16 years of investment experience, and holds a bachelor's degree in Physics and Mathematics from Columbia College and an MBA in Finance and Economics from the M.I.T. Sloan School of Management.

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PERFORMANCE

INVESTMENT RESULTS					
Pacific Select Inflation Managed Portfolio ¹					
For Periods Ended 9/30/02	3 mos	1 yr	3yrs	5 yrs	10 yrs
Total Portfolio (%) ²	7.28	13.91	9.92	8.16	7.28
LBGB/Real US TIPS Index (%) ³	7.94	14.69	10.66	8.64	7.64

INVESTMENT PROCESS

PIMCO's top-down investment process starts with an annual secular forum at which PIMCO investment professionals develop a three- to five-year outlook for the global economy and interest rates. We hold quarterly meetings to refine our outlook based on forecasts of interest rate volatility, yield curve movements and credit trends over the next three to 12 months. Taken together these sessions set the basic portfolio parameters, including duration, yield-curve positioning, sector weightings and credit quality. We then mesh bottom-up strategies, including credit analysis, quantitative research and individual issue selection, with the top-down strategies to create value.

PORTFOLIO ANALYSIS *

SECTOR	
U.S. Treasury/Agency	84%
Mortgage-Backed Securities	2%
Corporate Bonds	3%
Non-U.S.\$ Bonds	3%
Net Cash & Equivalents	8%

QUALITY	
A1/P1	0%
AAA	93%
AA	1%
A	4%
BAA	1%
BB	1%
Average Quality	AAA

MATURITY	
<1 Year	8%
1-3 Years	6%
3-5 Years	7%
5-10 Years	39%
10-20 Years	0%
20+ Years	40%
Average Maturity	14.02 yrs
Duration	6.03 yrs

¹ From 1/4/88 through 4/30/01, the portfolio operated under the name Government Securities Portfolio and had a different investment focus. Effective May 1, 2001, the portfolio changed its name and investment focus as reflected in the prospectus.

² All time periods longer than one year are annualized. Performance returns reflect the deduction of actual investment advisory fees. Portfolio returns do not reflect the deduction of contract level fees and charges. Holdings are subject to change. There is no guarantee that these or any other investment techniques will be effective under all market conditions. Contracts have limitations. Inflation-indexed treasuries are guaranteed as to timely payment of interest and principal by the U.S. Government, not shares of the portfolio.

³ Lehman Government Bond Index through 4/30/01; Lehman Global Real: U.S. TIPS Index going forward.

Past performance is no guarantee of future results. The portfolio may invest in non-U.S. securities which involve potentially higher risks including non-U.S. currency fluctuations and political and economic uncertainties. For additional details about Pacific Life variable products, call for a free prospectus that contains more complete information including charges and expenses. Read it carefully before investing or sending money. **Distributed by Pacific Select Distributors, Inc.** a subsidiary of Pacific Life Insurance Company and an affiliate of Pacific Life & Annuity Company, 700 Newport Center Drive, Newport Beach, CA 92660, 888-595-6996. Pacific Investment Management Company, LLC (PIMCO), 840 Newport Center Drive, Suite 300, Newport Beach, CA 92660, 800-842-3815, is the sub-advisor for the Pacific Select Inflation Managed Portfolio.

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