

Virtus Foreign Opportunities Fund

Fund News

Over the quarter and the full year, the Virtus Foreign Opportunities Fund (Class A shares at NAV) outperformed its benchmark, the MSCI EAFE® Index (net). Consumer staples companies in the United Kingdom, Switzerland, and Brazil helped absolute and relative performance during the year.

While we are pleased with the Fund's strong relative performance during 2011, we caution investors to remember that increased market volatility often results in periods of strong overperformance and, unfortunately, underperformance for funds like ours. Uncertainty still reigns supreme, and we would not be surprised if the Fund lagged significantly during a strong market rally. We do not want our investors to be surprised either. Our investment process is designed to protect assets during periods of market weakness and, hopefully, to capture a significant portion of the upside when markets perform well. Our objective is to outperform over full market cycles.

Market News

2011 is likely to be remembered for natural disasters, as well as policy gridlock and economic half-measures that failed to restore fiscal health. Early in the year, Japan's economy was severely disrupted by an earthquake, tsunami, and subsequent nuclear disaster. The country's equity markets suffered double-digit losses for the year. The European Union (EU) did not suffer a natural disaster, but made little economic progress. Charles De Gaulle once asked, "How can you govern a country which has 246 varieties of cheese?" A similar question could be asked of the EU's conglomeration of sovereign powers.

Global markets were volatile as confidence in the ability of the EU to resolve its fiscal issues waxed and waned. Growth in many emerging economies was hindered by higher interest rates, higher wages, and currency volatility, although, toward the end of 2011, China's central bank appeared to refocus its priorities on stimulating economic growth rather than managing inflation.

While we are cognizant of macroeconomic issues, we try to minimize their impact on the Fund by investing in companies that have the potential to perform in a variety of market conditions. The Fund is concentrated in companies that have idiosyncratic earnings drivers and fewer ties to the global economy.

Stock Selection and Avoiding Big Declines

At Vontobel, we think of ourselves, first and foremost, as stock pickers in search of quality companies. We define these companies, qualitatively, as having structural barriers and growth drivers that are likely to persist and, quantitatively, as having high and stable returns on equity and invested capital; stable, yet growing margins and earnings; an ability to generate cash; and low leverage.

A benefit of this approach is that the Fund tends to have fewer "blow-ups" — large declines in stock share prices — than the market. This is extremely important. When a stock's share price declines by 50%, investors must earn a 100% return just to break even. Over a full market cycle, avoiding stock blow-ups tends to lead to outperformance.

“While we are cognizant of macroeconomic issues, we try to minimize their impact on the Fund by investing in companies that have the potential to perform in a variety of market conditions.”

SYMBOL (CUSIP)

A: JVIAX (92828R859)

C: JVICX (92828R842)

I: JVXIX (92828R834)

INVESTMENT PROFESSIONAL

Rajiv Jain

Managing Director,

Senior Vice President and

Senior Portfolio Manager

Industry start date: 1989

Start date with the fund: 2002

The Virtus Foreign Opportunities Fund offers access to high-quality international companies with the objective of capturing part of the up-market cycle while protecting principal in down markets.

TOP TEN HOLDINGS % Fund

British American Tobacco PLC	7.14
Philip Morris International Inc.	6.82
Imperial Tobacco Group PLC	4.59
Nestle S.A.	4.21
Housing Development Finance Corp. Ltd.	3.50
Novo Nordisk A/S	3.24
Unilever N.V.	3.16
HDFC Bank Ltd.	2.96
Core Laboratories N.V.	2.54
Diageo PLC	2.32

Holdings are subject to change.

Virtus Foreign Opportunities Fund

Bottom-Up Stock Selection Determines Allocation

Our Fund's country and sector allocations are largely determined through bottom-up stock selection. Historically, our allocation tends not to mirror that of the Index. While some believe this

“Historically, our allocation tends not to mirror that of the Index. While some believe this increases risk, as the Fund often is significantly over- or underweight in a given sector or country, we believe that careful stock selection lowers absolute risk.”

increases risk, as the Fund often is significantly over- or underweight in a given sector or country, we believe that careful stock selection lowers absolute risk. There may be times when our performance lags on a relative basis because the Fund's allocation does not match the benchmark index; however, we believe our approach can deliver stronger performance than the Index, on both an absolute and relative basis, with lower volatility over full market cycles.

Our Investment Process Helps Protect In Down Markets

To demonstrate the strength of our selection process, we compared the 2011 returns of stocks held by the Fund and those held by the benchmark index. Negative-performing stocks were sorted into three groups based on a value loss of 50% or more, 25% to 50%, and 0% to 25%. Positive-performing stocks were sorted into three groups based on a value gain of 0% to 25%, 25% to 50%, and 50% or more. Our Fund held fewer stocks with extreme value declines than our benchmark. The average return for stocks held by our Fund was +0.43%, far better than the -12.79% average return of stocks held by the benchmark.

We also evaluated Fund holdings and those of the Index in terms of performance of countries and sectors. In each case, the pattern remained constant. The Fund held fewer stocks that experienced large value declines, leading to the Fund's outperformance.

Our investment process is designed to protect investors in declining markets while capturing significant upside in strong markets. As a result, the Fund's performance during the 2011 down market met our expectations.

Stock Selection Drives Fund Performance

Some think that our strong weighting of the consumer staples sector was responsible for the Fund's outperformance during 2011. In fact, our consumer staples investments performed better than the consumer staples sector. Furthermore, our allocation decisions were not top-down driven; rather, country and sector allocations were determined by our search for quality companies. We believe that careful stock selection was the primary driver behind the Fund's strong performance during the year.

India: Structural or Cyclical Issues?

As mentioned earlier, India was one of the worst-performing markets in the world last year. The stock market performed poorly in local terms, and the weak rupee made performance in dollar terms even worse. There were many reasons for India's poor performance:

- >> Multiple corruption probes of government officials
- >> Lack of agreement on regulatory affairs
- >> Continuing budget deficits
- >> Ongoing infrastructure bottlenecks
- >> Stubbornly high inflation despite tightening measures by India's central bank
- >> Weakening rupee

While these issues are real and material, we believe India's slower economic growth has already been largely discounted in the stock market. The country's structural issues – including heavy bureaucracy, corruption, poor infrastructure, and high inflation – have existed for years. In our opinion, they simply tend to be given more weight by investors during cyclical downturns. Once India is out of its cyclical malaise, we believe investors will, once again, recognize that businesses have operated and thrived in this environment for many years.

The Fund primarily holds Indian companies that rely on domestic demand to drive growth. On the consumer side, this includes companies such as **ITC** and **Nestle India**. Generally, these companies have well-established procurement and distribution systems, so they are less affected by a lack of infrastructure. In fact, in some cases, issues related to infrastructure help keep competitors at bay. Over the long term, the structural growth for these companies is huge. As the country continues to grow its middle class, disposable income will rise and these companies stand to profit for a very long time.

Indian Banks Under Pressure

Indian bank stocks came under particular pressure in 2011 on asset quality concerns. We believe this resulted from two main issues. First, the level of non-performing loans in the system is expected to increase as the Indian economy softens. While the banks we own are not immune, their underwriting standards are higher than those of the industry. They have sufficient loan loss reserves on their balance sheets to offset their expected losses as this should be a normal cyclical downturn. Second, concerns about the financial health of the power sector in India affected bank shares. The power sector issues are concentrated in the State Electricity Boards (SEBs), and the private-sector banks in the Fund do not lend to them; therefore, this should have little effect on the Fund.

In fact, the competitive situation may become more favorable for private-sector banks if their state-owned peers with exposure to SEBs are forced to take impairments on those assets. Over the longer term, we believe India's banking industry will absorb losses related to the power sector and continue to grow

Virtus Foreign Opportunities Fund

profitably. The financial services penetration rate remains low in India, despite strong growth in recent years. We expect that the well-tested banks in the Fund will continue to deliver strong earnings growth for the foreseeable future.

Countries

JAPAN

The Fund had limited exposure to Japanese companies during the fourth quarter, which helped performance.

SWITZERLAND

The Fund's holdings in Switzerland also delivered strong performance during the quarter. **Philip Morris International**, **Compagnie Financiere Richemont**, and **Nestle** made positive performance contributions.

BRAZIL

Our out-of-Index positions in Brazil also delivered strong performance during the quarter. **Ambev**, **Souza Cruz**, and **Redecard** helped performance.

INDIA

The Fund's out-of-Index positions in India hurt performance during the fourth quarter. **HDFC Bank** and **Housing Development Finance Corp.** detracted from performance.

Sectors

CONSUMER STAPLES

The Fund had significantly more exposure to consumer staples companies than the benchmark during the fourth quarter, which contributed to the strong relative performance. **Phillip Morris International**, **British American Tobacco**, and **Imperial Tobacco** helped performance.

UTILITIES

The Fund had less exposure to utilities companies than the benchmark during the fourth quarter, which helped performance. **CPFL Energia** and **AES Tiete** helped performance.

INFORMATION TECHNOLOGY

Strong stock selection helped the Fund's information technology exposure outperform. **Redecard** was a positive contributor.

FINANCIALS

Financial companies detracted from performance during the fourth quarter. The Fund had less exposure to the sector than the benchmark, and the companies held did not perform as well. **HDFC Bank** and **Housing Development Finance Corp.** detracted from performance.

Portfolio Changes

NEW/INCREASING POSITIONS

Valeant Pharmaceuticals International (Health Care — Canada): We added Valeant Pharmaceuticals, a specialty company, to the Fund during the fourth quarter. We are impressed with Valeant's management, which is razor-focused on generating high risk-adjusted returns on capital. The company spends less on internal

research and development, which has an inherently uncertain payoff, than do its peers. Instead, Valeant has created value for shareholders by acquiring smaller companies and products that have been ignored by its big pharmaceutical competitors. Valeant has proven to be a nimble and disciplined acquirer. It is quite efficient, moving quickly to eliminate redundancies and streamline the operations of new acquisitions. In addition, Valeant will enjoy very low tax rates for the foreseeable future, as a result of its merger with Biovail. We like the fact that Valeant is not facing large patent expirations, which have created major headwinds for many other pharmaceutical companies.

CLOSED OR TRIMMED POSITIONS

L'Oreal (Consumer Staples — France): We sold L'Oreal during the fourth quarter to free capital for investment in better relative opportunities.

Etablissements Franz Colruyt (Consumer Staples — Belgium): After a long investment period, we chose to sell our shares to free capital for investment in better relative opportunities. We still believe Colruyt is a world class Belgium food retail operator; however, at this time, we are highly aware of the investment risk associated with heavy exposure to a single geographic market. In addition, the company has been struggling to manage inflationary cost inputs in a weak economy and this has limited its ability to compensate with higher pricing. While we are confident that maximizing the value proposition for loyal Colruyt customers is the correct strategic move for the business over the long-term, it will continue to weigh on short- to medium-term financial results. This issue, coupled with a return on capital that has edged lower over time, has led us to allocate assets to better relative opportunities. We are likely to reevaluate the potential of Colruyt at some point in the future. We don't believe the company's franchise is being permanently damaged; we simply believe our investment capital has potential to perform better in alternative opportunities.

Bharat Heavy Electricals (Industrials — India): Bharat is a very good business that is operating in a tough environment with decreased visibility. Our Fund construction discipline requires that we constantly reduce capital in areas with less visibility and allocate it towards areas of higher visibility. It is because of Bharat's limited visibility that we closed this position. We will reassess Bharat's investment potential for this Fund in the future.

STOCKS THAT HELPED PERFORMANCE

Phillip Morris International, **British American Tobacco**, and **Core Labs** made some of the strongest contributions to performance during the quarter.

STOCKS THAT HURT PERFORMANCE

HDFC Bank, **Admiral Group**, and **Housing Development Finance Corp.** detracted from performance during the quarter.

Outlook

Uncertainty continues to underpin our outlook for the global economy. Confidence has diminished that governments of developed countries have the power or will to resolve pressing

Virtus Foreign Opportunities Fund

fiscal issues. If upcoming U.S. and European Union policy decisions help restore confidence, then the global growth outlook may improve. If they do not, then we may see continued economic weakness. The underlying structural issues driving global market volatility remain unchanged. As we have stated in the past, there is no quick or easy way to resolve these issues, and some may play out over several years. There are many possible outcomes, but the path to economic health is unlikely to be smooth.

While we like the way the Fund is positioned in these uncertain times, we caution investors to remember that volatility often results in periods of strong overperformance and underperformance. A great year may be followed by a weaker one. Macroeconomic concerns will heighten and diminish, causing the Fund to fluctuate as the market's mood changes. As bottom-up investors, we will continue to focus on underlying growth drivers, profitability, and earnings potential as we pursue our objective: outperformance over full market cycles.

Morningstar Ratings™ Class A as of 12/30/11

		Overall	3 Year	5 Year	10 Year
Virtus Foreign Opportunities Fund	Load Waived	★★★★★	★★★★	★★★★★	★★★★★
JVIAX	With Load	★★★★	★★★	★★★★★	★★★★★
	Foreign Large Growth	213 funds	213 funds	164 funds	96 funds

Annualized Performance Class A as of 12/30/11 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/6/1990	
NAV	7.33	0.26	0.26	11.37	-0.93	8.24	6.84	QTD, YTD and 1 Year performance is not annualized. Benchmark since inception performance is reported from 7/31/1990. Class A operating expenses are 1.47%.
POP	1.16	-5.51	-5.51	9.19	-2.10	7.60	6.54	
Index	3.33	-12.14	-12.14	7.65	-4.72	4.67	4.07	

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 5.75%. A contingent deferred sales charge of 1% may apply on certain redemptions made within 18 months following purchases on which a finder's fee has been paid.

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit Virtus.com for performance data current to the most recent month-end.

Index: The MSCI EAFE® Index (net) is a free float-adjusted market capitalization-weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged and not available for direct investment.

Notes on Risk: Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic and market risk. A portfolio that is heavily weighted in a single sector will be impacted by that sector's performance more than a portfolio with broader sector diversification.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for a variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in an investment category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. Ratings are for the A Shares as shown only; other share classes bear different fees and expenses, which affect performance.

Load-waived A share star ratings do not include any front-end sales load and are intended for those investors who have access to such purchase terms (e.g., plan participants of a defined contribution plan). Not all A share mutual funds for which Morningstar calculates a load-waived A share star rating may actually waive their front-end sales load. Therefore, Morningstar strongly encourages investors to contact their investment professional to determine whether they are eligible to purchase the A share without paying the front load.

© 2012 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

Please carefully consider the Fund's investment objectives, risks, charges and expenses before investing. For this and other information about any Virtus mutual fund, call 1-800-243-4361 or visit Virtus.com for a prospectus. Read it carefully before you invest or send money.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by VP Distributors, LLC, member FINRA and subsidiary of Virtus Investment Partners, Inc.

2003 1-12 © 2012 Virtus Investment Partners, Inc.