

Virtus Global Infrastructure Fund

Portfolio Review

For the quarter ended September 30, 2010, the Virtus Global Infrastructure Fund, Class A at NAV, posted positive absolute returns and outperformed the benchmark. Both sector allocation and stock selection contributed to the Fund's relative outperformance. The overweight in transportation combined with positive stock selection was the primary contributor to relative performance. Due to sovereign debt concerns, the holdings within the transportation sector bounced significantly in the quarter from the weakness in the first half of the year. The exclusion of social services from the global infrastructure strategy also contributed to relative performance in the third quarter as that sector again had the worst absolute performance.

On a regional basis, the underweight in Asia helped relative performance as that region underperformed Europe and North America. Specifically, the Fund's significant underweight in Asian utilities was a primary driver as that group performed poorly. Strong stock selection across all regions also contributed positively to relative performance. In Europe and Asia this was due to the transportation holdings; in North America, it was due to utilities.

Year-to-date through September 30, 2010, the Fund (Class A) outperformed the benchmark with positive absolute returns on both a gross and net of fee basis. Stock selection in the communications and utilities sectors was the primary contributor, partly offset by the overweight in transportation, which underperformed all sectors in the Fund year-to-date, despite a third quarter rebound. Poor stock selection in energy was a detractor, year-to-date. Looking at regional contributions, stock selection and an overweight in North America contributed to relative performance. The Fund's underweight in Asia, combined with poor stock selection, was a partial detractor on a relative basis.

Market Environment

The Fund significantly outperformed the broader U.S. equity market as measured by the S&P 500® Index, in the third quarter, as the positive relative performance that began in June continued into July and August. Concerns regarding the global economy resurfaced and investors sought the defensiveness of infrastructure companies. All sectors in the Fund posted better returns than the broader U.S. equity market. As concerns about the sovereign debt crisis receded (if only temporarily) and the euro strengthened, European holdings in the Fund rebounded. Transportation went from the worst performing sector in the first half of 2010 to the best performer in the third quarter.

For the last twelve months, the Fund, Class A at NAV, has outperformed the broader U.S. equity market as our high-quality, lower-risk, above-market dividend yield strategy came into favor as the stock market rally lost some steam. Energy was the best performing infrastructure sector for the one year time period, while European sovereign credit concerns pressured transportation in the first half of 2010. Communications rallied in the quarter and have outperformed the broader equity market over the last year on the strength of dividends. Despite some recovery in the quarter, utilities have largely remained out of favor during the better part of the past twelve months.

Given the uncertainty that exists with respect to the economy and the equity markets, we continue to believe that an investment in infrastructure may help to provide stability, resilience, and income within a diversified portfolio. Our investment strategy is to buy high-quality companies that are owners and operators of infrastructure. These companies provide essential services and assets to society, with low levels of revenue variability. Many of the infrastructure companies have long-term contracts with inflation protection, stable cash flow, and above average yields. These attributes tend to provide lower levels

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SYMBOL (CUSIP)

A: PGUAX (92828R826)

C: PGUCX (92828R818)

I: PGIUX (92828R792)

INVESTMENT PROFESSIONALS

Connie Luecke, CFA

Portfolio Manager

Industry start date: 1983

Start date with the fund: 2004

Randle Smith, CFA

Portfolio Manager

Industry start date: 1990

Start date with the fund: 2004

The Virtus Global Infrastructure Fund invests globally in owners/operators of infrastructure companies in the communications, utilities, energy, and transportation industries.

TOP TEN HOLDINGS	% Fund
Enbridge Inc.	6.68%
AT&T Inc.	5.30
TransCanada Corp.	5.17
Vodafone Group PLC ADS	4.89
Spectra Energy Corp.	4.75
Williams Cos.	4.23
Koninklijke Vopak N.V.	3.03
Atlantia S.p.A.	2.98
Transurban Group	2.96
Telefonica S.A. ADS	2.91

Holdings are subject to change.

Virtus Global Infrastructure Fund

of risk and volatility than the broader equity market—in other words, a rather bond-like investment but with an equity component. Add in some attractive growth opportunities across the infrastructure sectors and we believe infrastructure should be a core portfolio holding due to its relative stability, growth potential, and attractive income component.

Sector Outlook

Communications – The area of most promise in communications continues to be the increased distribution of smart phones (i.e. iPhone, Blackberry, Droid) which is driving higher wireless data usage. We are positive on the tower companies as they are highly geared to wireless data growth. The Fund is underweight communications; competitive concerns for integrated carriers, primarily in the U.S., remains an overhang. In general, valuations are still somewhat attractive despite the recent rally in communications. The rally was driven by the compelling dividend yields which are supported by robust cash flow.

Utilities – The Fund is largely underweight European utilities which are generally more power price sensitive than those in the U.S. Given low natural gas prices globally, we expect power markets to remain depressed. Additionally, several of the European utility companies have been negatively impacted by political and regulatory risk. Our holdings are concentrated in regulated utilities (primarily in the U.S.), with limited power price exposure, which operate in favorable regulatory jurisdictions.

Energy – Given the dynamics of the pipeline business, the Fund is slightly overweight energy. We continue to like the natural gas business as it will play an increasing role in global energy markets going forward. There are several positive data points for the need to transport gas in the foreseeable future. Environmental pressure on coal, a delay in new nuclear plants, the expanded production of shale gas, and the increasing presence of wind generation (which needs gas plants for back-up power), will all contribute to the expected growth in gas transmission services. Pipelines will benefit as producers seek capacity to bring the new gas to market. The companies have visible earning and dividend growth drivers over the next 2-3 years.

Transportation – We remain positive on toll roads as we see stable toll traffic trends and tariff increases going forward. Additionally, inflation protection is built into many of the companies' tariff plans. We also favor marine ports due to steady demand for liquid storage, while contracts for the storage provide stability. The environment for airports is also positive with passenger traffic and air cargo volumes continuing to show improvement. As a result of these favorable trends, the Fund remains significantly overweight transportation.

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Notes on Risk: Investing internationally involves additional risks such as currency, political, accounting, economic and market risk. Investing in high yield bonds may subject the portfolio to greater credit and market risks. Infrastructure related entities are subject to factors that may adversely affect their business including government policies and regulation. The use of leverage, short selling, futures, options and/or derivatives may cause exposure to additional risks. 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.

Benchmark: The Global Infrastructure Linked Benchmark consists of the MSCI World Infrastructure Sector Capped Index. This is a market capitalization weighted index that measures performance of global infrastructure companies by capturing broad and diversified opportunities across telecommunication, utilities, energy, transportation and social infrastructure sectors. The telecommunication infrastructure and utilities sector each represent one-third of the index weight, while energy, transportation and social infrastructure sectors have a combined weight of the remaining one-third of the index. Performance of the Global Infrastructure Linked Benchmark prior to 9/1/2008 represents an allocation consisting of 65% MSCI USA/Utilities Index, 20% MSCI World Telecom Services Index, and 15% MSCI World ex USA/Utilities Index. The index is unmanaged and not available for direct investment.

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