

## Virtus Mid-Cap Value Fund

The Virtus Mid-Cap Value Fund (Class A shares at NAV) produced strong relative results and outperformed its benchmark, the Russell Midcap® Value Index, for the quarter and full year.

Following the market's steep decline in the third quarter, stocks hit a low in early October as investors stayed focused on the euro crisis and slowing global economy. With stocks oversold, however, strong earnings reports in October and November and signs of a pick-up in the U.S. economy helped change investors' sentiment. Third-quarter losers became fourth-quarter winners, and materials, energy, and consumer discretionary stocks rebounded significantly. Small- and mid-cap stocks outperformed large-cap stocks, and value outperformed growth.

During the quarter, the Fund benefitted from a balanced structure of economically sensitive and defensive stocks, fundamental stock selection, and the minimal presence of detractors. The strongest performer was our largest position, El Paso Corp., a stock we have held for over three years. The company received a buyout bid from Kinder Morgan in October, which contributed handsomely to performance. Other positive contributors during the quarter were ONEOK, Williams Companies, J.C. Penney, and Thomas & Betts. Low exposure to some of the lagging sectors – healthcare, technology, and utilities – also added to relative performance. Only three stocks had a slightly negative effect on performance in the quarter: Exelis, ITT's defense business spin-off; GenOn Energy, an electricity wholesaler; and Republic Services, a waste management services company.

During the quarter, ITT completed a three-way split: Exelis (defense), Xylem (water), and ITT Industrial. We sold Industrial as we thought it was fairly valued. We are currently holding a small position in Exelis in light of defensive spending headwinds, versus low valuation. We identified Xylem as a "jewel" and purchased more. Secular trends in the water industry are favorable and the company generates free cash flow which will be directed to debt reduction and bolt-on acquisitions.

We added to our position in Williams Companies, which, at year-end, spun off its oil and gas company from the natural gas pipeline/NGL businesses. We also added to our position in Safeway, as the company continues to battle tough competitive conditions in groceries and the stock came under pressure; the company recently announced another billion dollar share buyback. We reduced our position in El Paso following significant appreciation in the stock.

In a tough year characterized by extreme volatility, we are pleased with the Fund's performance. For the full year, a few big stocks fueled most of our performance: El Paso, ONEOK, Williams, TJX, and Dominion while a number of our economically sensitive stocks suffered declines.

Despite gains for the quarter and the year, we are maintaining our cautionary outlook as the political and economic headwinds are still daunting. We continue to be focused, trimming stocks that have reached our price targets and recycling the proceeds into new, undervalued restructuring ideas. We believe the current environment offers a great opportunity for fundamental stock-pickers like Sasco. We look forward to continuing to build on our long-term record of success.

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### SYMBOL (CUSIP)

A: FMIVX (92828N726)

C: FMICX (92828N718)

I: PIMVX (92828N692)

### INVESTMENT PROFESSIONALS

Daniel Leary

*Managing Director*

Industry start date: 1971

Start date with the fund: 1997

Bruce Bottomley, CFA

*Managing Director*

Industry start date: 1972

Start date with the fund: 1997

Mark Helderman

*Managing Director*

Industry start date: 1986

Start date with the fund: 2004

*The Virtus Mid-Cap Value Fund employs a contrarian value approach to identify undervalued, diversified companies where low-return divisions are masking the profitability of high-return businesses.*

### TOP TEN HOLDINGS % Fund

J.C. Penney Co. Inc.	5.23
Sara Lee Corp.	5.11
Williams Companies Inc	5.10
Big Lots Inc.	4.27
Safeway Inc.	4.24
Republic Services Inc.	4.09
ONEOK Inc.	4.02
Dominion Resources Inc. (Virginia)	3.93
Beam Inc	3.77
Crown Holdings Inc.	3.74

*Holdings are subject to change.*

*continued*

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Morningstar Ratings™ Class A as of 12/30/11		Overall	3 Year	5 Year	10 Year
Virtus Mid-Cap Value Fund FMIVX	Load Waived	★★★★★	★★★★★	★★★	★★★★★
	With Load	★★★	★★★	★★	★★★
	Mid-Cap Value	354 funds	354 funds	307 funds	145 funds

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 12/30/97	
NAV	20.56	5.85	5.85	19.03	0.51	7.61	7.56	<i>QTD, YTD and 1 Year performance is not annualized. Class A operating expenses are 1.48% and gross operating expenses are 1.49%. Operating expenses reflect a voluntary expense reimbursement, which may be discontinued at any time.</i>
POP	13.63	-0.23	-0.23	16.71	-0.68	6.97	7.11	
Index	13.37	-1.38	-1.38	18.19	0.04	7.67	7.34	

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](http://Virtus.com) for performance data current to the most recent month-end.

Index: The Russell Midcap® Value Index is a market capitalization-weighted index of medium-capitalization, value-oriented stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged and not available for direct investment.

Notes on Risk: Investing in the securities of small and mid-sized companies involves greater risks and price volatility than larger, more established companies. 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.

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**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](http://Virtus.com) for a prospectus. Read it carefully before you invest or send money.**

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