

Virtus Real Estate Securities Fund

Market Environment

Equities recovered in the fourth quarter from a very tough macro and geopolitical backdrop in the third quarter, and economic data demonstrated an accelerating U.S. economy. Debt spreads contracted and unsecured debt issuance followed to meet increased demand.

REIT Market Review

REITs, as measured by the FTSE NAREIT Equity REITs Index, continued to outperform the S&P 500® Index, for both the fourth quarter and the year.

The best performing property sectors during the quarter were two shorter lease duration sectors, lodging and self storage, plus regional malls. Free standing retail, manufactured home sites, and diversified were the largest laggards.

REIT Portfolio Review

The Virtus Real Estate Securities Fund (Class A shares at NAV) outperformed its benchmark, the FTSE NAREIT Equity REITs Index, for both the fourth quarter and the year.

What helped and what hurt the Fund in the quarter? Both stock selection and property sector allocation helped. The largest positive contributions were from office, self storage, lodging, and freestanding retail. Manufactured home sites and apartments were modest detractors.

Allocation

Throughout 2011, we highlighted how a large amount of private capital seemed to be in the queue in pursuit of high quality core commercial real estate. This challenge continued through the year. We believe an allocation to REITs over private real estate vehicles is warranted and provides benefits of superior management, higher quality assets and market exposure, transparency, corporate governance, and liquidity.

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2012 Investment Outlook

Total returns in 2011 were driven by a more meaningful increase in cash flow growth as a result of better-than-expected internal and external growth across a number of the large property sectors (i.e., regional malls, apartments, and health care) and a couple of the niche property sectors (i.e., self storage and manufactured homes).

In 2012, we expect cash flow and dividend growth to once again be the driving forces behind total returns as internal growth prospects (i.e., occupancy and rents) continue to improve against a backdrop of fairly limited new supply, and companies remain active with external growth initiatives.

“Discussions surrounding development will continue to increase as 2012 progresses, and companies respond to growing tenant demand for high-quality, well-located commercial real estate. . .”

Above-average dividend growth in 2012 will be supported by cash flow growth, below-average historical dividend payout ratios, and proven access to capital markets.

Discussions surrounding development will continue to increase as 2012 progresses, and companies respond to growing tenant demand for high-quality, well-located commercial real estate, but sponsorship and access to capital will remain key constraints, which benefits listed REITs.

Real estate upside risks: Greater than anticipated increase in real estate demand driven by a more robust U.S. economy and upside to job growth expectations; and the re-emergence of public-to-private M&A activity fueled by the healthy appetite for high-quality, well-located commercial real estate.

SYMBOL (CUSIP)

A: PHRAX (92828R586)

C: PHRCX (92828R560)

I: PHRIX (92828R552)

INVESTMENT PROFESSIONALS

Geoffrey P. Dybas, CFA

Senior Portfolio Manager

Industry start date: 1989

Start date with the fund: 1998

Frank J. Haggerty, Jr., CFA

Portfolio Manager

Industry start date: 1996

Start date with the fund: 2007

The Virtus Real Estate Securities Fund provides exposure to the equity REIT market. The Fund is managed with the belief that the value of a REIT extends beyond the value of the underlying real estate and that through fundamental research, inefficiencies in the market can be uncovered and exploited.

TOP TEN HOLDINGS as of 11/30/11

	% Fund
Simon Property Group Inc.	12.09
Public Storage	6.04
Ventas Inc.	6.02
Equity Residential	5.43
Boston Properties Inc.	4.72
Prologis Inc.	4.03
AvalonBay Communities Inc.	3.87
Host Hotels & Resorts Inc.	3.72
Vornado Realty Trust	3.63
Kilroy Realty Corp.	3.20

Holdings are subject to change.

continued

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Real estate downside risks: Pressure on lower quality commercial real estate asset values as CMBS (collateralized mortgage-backed securities) loan expirations increase, and banks are more willing to deal with problem real estate; and negative fund flows in the listed sector as capital rotates from U.S. REITs to other areas of the market.

Macro risks: Negative macro forces such as a worsening of the European debt situation, a hard landing in China, or U.S. political/fiscal concerns.

We will position the Fund to best take advantage of current market trends, while remaining true to our investment philosophy, process, and style.

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

Virtus Real Estate Securities Fund
PHRAX

Load Waived
With Load
Real Estate

Overall	3 Year	5 Year	10 Year
★★★★★	★★★★★	★★★	★★★★★
★★★	★★	★★★	★★★★★
212 funds	212 funds	192 funds	105 funds

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/1/1995
NAV	16.37	9.63	9.63	21.42	-1.18	11.60	11.90
POP	9.68	3.33	3.33	19.04	-2.34	10.94	11.51
Index	15.22	8.29	8.29	21.05	-1.42	10.20	10.77

QTD, YTD and 1 Year performance is not annualized. Benchmark since inception performance is reported from 2/28/1995. Class A operating expenses are 1.48%

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.

Notes on Risk: Concentrating investments in REITs involves certain risks such as refinancing, property value changes and management skill. Investing in the securities of small and mid-sized companies involves greater risks and price volatility than larger, more established companies. A non-diversified portfolio may be more susceptible to any single economic, political or regulatory event affecting an issuer than a diversified portfolio.

Index: The FTSE NAREIT Equity REITs Index is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria that are listed on the New York Stock Exchange, American Stock Exchange and the NASDAQ National Market System. The index is calculated on a total return basis with dividends reinvested, and is unavailable for direct investment.

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The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest 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.

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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