

# Virtus Global Infrastructure Fund

## Portfolio Review

For the final quarter of 2011, the Virtus Global Infrastructure Fund (class A shares at NAV) outperformed its benchmark, the MSCI World Infrastructure Sector Capped Index.

Stock selection was the primary driver of outperformance as stocks within the utilities, communications, and transportation sectors made positive contributions. Both utilities and telecommunications benefitted from relative

underweight positions in Europe as many European stocks remained under pressure from the sovereign debt crisis and associated government austerity measures. The Fund was overweight European transportation stocks, which were also negatively impacted by sovereign debt concerns; however, superior stock selection contributed to our relative outperformance.

Stock selection in the energy sector was a slight detractor from performance, primarily because a large benchmark component, which we didn't own, received an acquisition bid at a significant premium.

During the quarter, sector selection had a slightly negative impact on relative performance. Positive contributions from the utilities, telecommunications, and energy sectors were offset by negative contributions from the transportation and social services sectors. We were underweight both utilities and telecommunications, slightly overweight energy, heavily overweight transportation, and we do not invest in social services.

On a regional basis, sector underweights in both Europe and Asia, and an overweight in North America, all contributed positively to performance.

For the year 2011, the Fund (class A at NAV) outperformed its benchmark. Stock selection in utilities made a significant contribution, followed by strong contributions from telecommunications, a slightly positive contribution from transportation, and a negative contribution from energy. A nearly neutral contribution from sector allocation was due to the positives from utilities, energy, and telecommunication being offset by a negative from transportation. On a regional basis, stock selections in Europe and Asia were positive contributors, and sector allocations across all regions were also positive.

## Market Environment

The Fund posted its strongest performance of the year during the fourth quarter, primarily due to the strength of the energy sector. Yet, it was still outpaced by the broader U.S. equity market, as measured by the S&P 500® Index, which sharply rebounded off of a difficult third quarter as double dip

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recession concerns eased on the back of better-than-expected economic data. The energy sector exhibited the strongest infrastructure performance by far, due to positive natural gas liquids (NGLs) dynamics and acquisitions/restructurings. The telecommunications, utilities, and transportation sectors all had positive returns for the quarter, even though our European holdings experienced high volatility related to the sovereign debt crisis. For both utilities and telecoms, U.S. holdings outpaced their European counterparts, given more stable economic and regulatory backdrops.

“Stock selection was the primary driver of outperformance as stocks within the utilities, communications, and transportation sectors made positive contributions.”

## 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.	7.10
Williams Companies Inc	6.16
Spectra Energy Corp.	5.50
TransCanada Corp.	5.11
Vodafone Group PLC ADS	4.68
AT&T Inc.	4.68
Transurban Group	3.05
American Tower Corp.	2.66
Koninklijke Vopak N.V.	2.42
Verizon Communications Inc.	2.34

*Holdings are subject to change.*

*continued*

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Over the last 12 months, the market has been plagued by volatility associated with high unemployment, an uncertain economic outlook, and political brinksmanship in the U.S. In addition, Europe's seemingly never-ending sovereign debt crisis has taken a toll. After a sharp fourth-quarter rebound, the broader U.S. equity market, as measured by the S&P 500, finished on the plus side for the year. Infrastructure's defensive characteristics paid off during 2011 as the Fund significantly outpaced U.S. equities. The energy sector led the way with outstanding performance as investors turned to the security of North American energy in an uncertain global environment.

U.S. utilities also exhibited strong performance given supportive regulatory environments. This is in contrast to the difficult performance of European utilities, which were directly impacted by economic/budget-related austerity measures, and Asian utilities that experienced steep stock declines due to the fallout from the Fukushima nuclear disaster. Like utilities, U.S. communications companies outperformed the broader market, bolstered by the most attractive dividend yields within infrastructure, while European communications lagged. The transportation sector was the lone laggard, with negative performance for the year. This was primarily due to the preponderance of European-based toll roads and airports.

As we head into 2012, caution is still warranted. While the U.S. economic environment seems to have stabilized, concerns remain around the impact that the European sovereign debt crisis could have on the global economy. Despite uncertainties, infrastructure has not shown many signs of fundamental weakness given the inelastic demand for essential services provided by companies within the space. The resilience of underlying infrastructure assets has resulted in these stocks being rewarded with relative outperformance versus the broader equity market in times of market turmoil.

We remain optimistic about the global equity income opportunity that infrastructure can provide to investors within a diversified portfolio. Bottom-up fundamental analysis will continue to drive our process to pick companies that capture the characteristics of infrastructure: steady and predictable equity income; capital appreciation potential; enhanced portfolio diversification and reduced volatility; and some inflation protection. As a result, the Fund may provide lower levels of risk and volatility than the broader equity market, particularly in uncertain times.

## Sector Outlook

**Communications** — We furthered our underweight to Europe in the fourth quarter with the sale of two telecommunications companies, as trends remain difficult due to slow economic growth, cuts to regulated mobile termination rates, and increased competition in certain markets. For the first time since the telecommunications bust in 2000-01, a major European telecommunications company announced a cut to its future dividend rate. U.S. telecommunications' fundamentals are somewhat more stable, with good cash flow generation supporting dividends. We continue to overweight towers and satellite companies due to their attractive revenue growth profiles and high margins.

**Utilities** — We continue to run a bifurcated utility sector strategy, and are greatly underweight Europe due to sovereign debt concerns, and significantly overweight U.S. utilities given strong fundamentals. While we believe that most, but not all, of the damage has been done in Europe in terms of tax increases, rate restrictions, and nuclear plant shutdowns, we still remain cautious in light of the continued inability of policymakers to steer the European Union out of the crisis.

**Energy** — North American energy markets continue to exhibit favorable conditions. As companies position to process and transport U.S. and Canadian unconventional natural gas resources, our holdings stand to benefit from the robust growth in production. We are actually more exposed to energy than it appears, as several of our U.S.-based utility holdings have material businesses in natural gas processing, transportation, and storage. In addition, near the end of the year, we purchased an Australian-based energy company that is technically classified a utility. Given the tremendous run in energy stock prices experienced in the fourth quarter, we are closely monitoring our positions.

**Transportation** — We remain overweight transportation stocks despite the volatility associated with the sovereign debt crisis, as many of our holdings are European-based. European toll roads, airports, and marine ports have all been less impacted by government austerity measures than the utility companies. However, transportation stock returns have still been disappointing, but better on average than those of continental European utilities. Given the potential economic strains that may result from austerity, we are closely monitoring road and air traffic data for related fundamental weakness.

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

		Overall	3 Year	5 Year	10 Year
Virtus Global Infrastructure Fund	Load Waived	★★★★	★★★★	★★★★★	N/A
PGUAX	With Load	★★★★	★★★	★★★★★	N/A
	World Stock	697 funds	697 funds	490 funds	

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

	QTD	YTD	1 Year	3 Year	5 Year	Since Inception 12/30/04	
NAV	9.80	10.16	10.16	11.51	3.06	6.65	QTD, YTD and 1 Year performance is not annualized. Benchmark life performance is reported from 12/31/2004. Class A operating expenses are 1.33%.
POP	3.48	3.83	3.83	9.33	1.84	5.76	
Index	7.61	5.54	5.54	8.89	1.40	6.02	

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 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.

**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.

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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