VIRTUS MUTUAL FUNDS

Virtus International Real Estate Securities Fund

Market Environment

The third quarter of 2011 became significantly more challenging for investors as market sentiment turned nearly as negative as was experienced at the height of the 2008-2009 financial crisis. This turn in sentiment began during July's contentious U.S. debt ceiling negotiations, continued to grow following the U.S. sovereign debt downgrade by Standard & Poor's in early August, and reached alarming levels during September as the European sovereign debt crisis raged on. In conjunction with this turn in market sentiment, consensus forecasts for second-half 2011 and 2012 global economic growth were reset at lower levels, which also added to the negative market environment as these lower forecasts filtered into lower expectations for future corporate profits as well.

Interestingly, many real-time economic indicators, and conversations with global real estate executives during the quarter, were not nearly as negative as the prevailing market sentiment. Company executives we met with during the quarter found it challenging to reconcile what was transpiring in the stock market with their on-the-ground business conditions. However, as the stock market serves as a mechanism for discounting future business conditions, it may only be a matter of time before business conditions fall in line with market sentiment. Nonetheless, market sentiment can be fickle and thus will be highly data- and event-dependent over the balance of 2011. Should we experience a pick-up in global economic indicators or some path to resolving the European sovereign debt crisis, market sentiment will reverse accordingly.

International Real Estate Securities Market Review

During the third quarter, the international real estate securities market reversed the positive momentum experienced during the first half of 2011 as market sentiment turned negative and market volatility and risk premiums increased. Relative to broader equity market indices, international real estate performed in line with international equities as demonstrated by the 18.1% decline in the FTSE EPRA NAREIT Developed Rental ex U.S. Index, the Fund's benchmark, versus the 18.9% contraction in the MSCI EAFE Index, both expressed in U.S. dollar (USD) terms.[1] However, as compared to U.S. equities, international real estate underperformed the 13.9% decline in the S&P 500® Index during the quarter.[2] The movement of the U.S. dollar during the quarter was a negative factor in driving total returns for international real estate in USD terms given its 5.7% appreciation during the quarter as measured by the U.S. Dollar Spot Index.[2]

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Given the negative top-down macro forces at work during the third quarter, the market environment shifted away from fundamentals at the margin and refocused on risk. This change in focus was clearly seen in the investment characteristics that outperformed, such as lower beta (i.e. less economic sensitivity) and lower leverage. The relative-performance environment and overall "risk-off" mentality of the quarter was reminiscent of the market environment during the 2008-2009 financial crisis.

[1]*Source: FTSE, Bloomberg Finance L.P.* [2]*Source: Bloomberg Finance L.P.*

continued

SYMBOL (CUSIP)

A: PXRAX (92828R750)
C: PXRCX (92828R743)
I: PXRIX (92828R735)

INVESTMENT PROFESSIONALS

Geoffrey P. Dybas, CFA
Senior Portfolio Manager
Global Head–REITs
Industry start date: 1989
Start date with the fund: 2007

Frank J. Haggerty, Jr., CFA
Portfolio Manager
Senior Vice President
Industry start date: 1996
Start date with the fund: 2007

The Virtus International Real Estate Securities Fund provides access to the international real estate securities market through a focus on companies with a rental business profile.

TOP TEN HOLDINGS
as of 8/31/11

	% Fund
Westfield Group Australia	8.02
Unibail-Rodamco S.A.	7.76
Westfield Retail Trust	4.52
Hongkong Land Holdings Ltd.	4.30
Land Securities Group PLC	3.62
Goodman Group	3.58
Brookfield Office Properties Inc.	3.50
RioCan Real Estate Investment Trust	3.27
Corio N.V. REIT	3.09
Dexus Property Group	3.07

Holdings are subject to change.

Taking a closer look at the performance of the individual countries represented within the FTSE EPRA NAREIT Developed Rental ex U.S. Index, the five top-performing countries during the quarter (on a relative total-return basis measured in U.S. dollars) were Japan, New Zealand, Switzerland, Israel, and Canada.[3] Japan's local market returns were helped by the appreciation of the Japanese yen relative to the U.S. dollar, the only major currency to do so during the quarter. As for Canada and Switzerland, despite the significant pull-back in their local currencies versus the U.S. dollar, these countries continued to prove their relative defensiveness during more volatile market environments, such as experienced during the third quarter.

The five bottom-performing countries during the quarter were Spain, Italy, Norway, Greece, and Austria.[3] Given the ongoing negative reverberations from Europe's sovereign debt crisis, the underperformance of Spain, Italy, and Greece was not surprising. Beyond these countries' association with the debt crisis, another commonality across the limited number of companies represented by the countries that underperformed during the quarter is their above-average financial leverage and higher-perceived risk, or beta.

Portfolio Review

Overall, the Virtus International Real Estate Securities Fund (Class A shares @ NAV) underperformed the benchmark, FTSE EPRA NAREIT Developed Rental ex U.S. Index, during the third quarter. Both country allocation and stock selection negatively contributed to performance during the quarter, however country allocation was a more meaningful detractor.

WHAT HELPED THIRD QUARTER PERFORMANCE

The most significant positive contributor to the Fund's performance was stock selection within Singapore. Driving the positive stock selection was the Fund's lack of exposure to a diversified office/retail REIT, which underperformed during the quarter. Additionally, our overweight exposure to a pan-Asian logistics REIT and a retail REIT focused on China (both based in Singapore) also helped.

The second most meaningful positive contributor to performance was stock selection within Hong Kong. Our lack of exposure to a large office/retail landlord, which underperformed during the quarter, was the primary driver.

WHAT HURT THIRD QUARTER PERFORMANCE

The most significant negative contributor to performance was stock selection within the U.K. Specifically, our overweight exposure to a large industrial REIT and our lack of exposure to a central London retail REIT were the primary drivers behind the negative performance.

The second most meaningful detractor to performance was our overweight allocation to Norway. Our overweight exposure to an Oslo-focused office landlord, which underperformed during the quarter, was the driver behind the negative performance.

Investment Outlook

As we head into the last quarter of 2011 and look forward to 2012, the global economic and real estate outlook has clearly become more uncertain. In the short term, market sentiment will clearly be dictated by the latest global economic data releases and the progress made by the International Monetary Fund, European Central Bank, and the eurozone governments to stem Europe's ongoing sovereign debt crisis. Recent market news on both of these fronts at the margin has been more positive, and it is possible we will see a bounce in the markets into the end of the year.

> "... the outlook for global real estate markets will ultimately depend on a return of global economic growth to more normalized levels to drive demand for commercial real estate space."

Over the intermediate to long term, we expect the markets to return to a focus on underlying business and real estate fundamentals. Hence, the outlook for global real estate markets will ultimately depend on a return of global economic growth to more normalized levels to drive demand for commercial real estate space. Given the muted outlook for commercial real estate supply over the intermediate horizon, the threshold amount of demand necessary for global real estate companies to experience decent cash flow and dividend growth is arguably lower than during previous cycles.

[3]*Source: FTSE*

Annualized Performance Class A as of 9/30/11 in percent

	QTD	YTD	1 Year	3 Year	Since Inception 10/1/2007
NAV	-20.27	-12.10	-7.15	0.10	-8.94
POP	-24.86	-17.16	-12.49	-1.85	-10.28
Index	-18.12	-9.46	-3.63	0.93	-9.63

QTD, YTD and 1 Year performance is not annualized.
Class A operating expenses are 1.50% and gross operating expenses are 1.70%. Operating expenses reflect a voluntary expense reimbursement, which may be discontinued at any time.

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

Index: The FTSE EPRA NAREIT Developed Rental ex US Index is a free-float market capitalization-weighted index measuring international real estate securities, which meet minimum size, liquidity and investment focus criteria. The index is a sub-set of the FTSE EPRA NAREIT Investment Focus Index Series, which separates the existing constituents into both Rental and Non-Rental Indices. A company is classified as Rental if the rental revenue from properties is greater than or equal to 70% of total revenue. The classification is based on revenue sources as disclosed in the latest published financial statement. The index is calculated on a total return basis with dividends reinvested. The S&P 500 Index is a free-float market capitalization-weighted index of 500 of the largest U.S. stocks and is generally representative of the performance of larger companies in the U.S. Indexes are unmanaged and not available for direct investment.

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