

Virtus Intermediate Tax-Exempt Bond Fund

For the quarter ended June 30, 2011, the Virtus Intermediate Tax-Exempt Bond Fund (Class A shares at NAV) underperformed its benchmark, the Barclays Capital 3-15 Year Blend (2-17) Municipal Bond Index.

Against a backdrop of stubborn job losses in the overall economy and a low inflation environment, municipal rates have trended lower since the beginning of 2011. In fact, during the second quarter 2011, 10-year municipal yields fell almost 50 basis points while 20- to 30-year municipal yields fell just slightly more. The municipal yield curve flattened during the second quarter of 2011 as investors sought the relative safety of municipal issuers while the equity markets displayed high volatility. Short-term municipal rates are at all-time record lows and investors pursued additional yield farther out on the maturity spectrum. The best part of the yield curve in which to be invested during the second quarter was the 30-year maturity range. Coupon income was a positive contributor to total return. Nearly all tax-exempt bonds are trading at yields near comparable term U.S. Treasury bonds. The predictions by various market sources of hundreds of billions of dollars of defaults are proving unfounded as the year progresses, adding additional price support to the municipal market.

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The Fund outperformed over the longer term as municipal yields were lower throughout the maturity spectrum. Short-term rates remain relatively well anchored. The Fund maintains neutral duration versus its benchmark; however, the Fund is overweight longer maturities due to the steepness of the yield curve. Credit spreads narrowed during the quarter which helped performance.

The Fund remains vigilant against the prospect of higher interest rates and favors higher-quality, liquid structures. Additionally, the Fund favors essential purpose revenue bonds and dedicated revenue bonds which outperformed during the first quarter. Essential purpose revenue bonds such as toll roads are largely immune to economic swings and benefit from a defined, segregated flow of revenue payments.

Municipal bond issuance has been near lows on a monthly basis all year, compared to previous years. Volume year to date is only \$113 billion, down from \$205 billion for the same period last year. Borrowing by municipalities has slowed for several reasons. First, municipal issuers accelerated issuance at the end of 2010 to take advantage of the expiration of the Build America Bond program, which gave municipalities favorable rates in the taxable market due to a federal subsidy. Second, government budget negotiations are not allowing borrowing for new projects as fiscal austerity is more popular. All in all, total new issue volume should pick up for the balance of 2011, as many market participants expect close to \$250 billion of total new issuance for 2011.

Looking forward to the balance of 2011, several factors should affect the outlook for municipal bonds. First, dedicated revenue bonds should continue to outperform, where the Fund is overweight. The additional new issue municipal bond supply caused by the elimination of the Build America Bond program should pressure lower-rated yield spreads. In addition, higher-quality bonds will continue to appeal to investors as media reports highlight the budget imbalances of certain municipalities. Second, the attractive relationship between municipal yields and U.S. Treasury yields should allow municipal bonds to outperform. In fact, municipal yields are close to U.S. Treasury yields along the yield curve. Throughout 2011, the municipal market should return to more traditional and historic credit relationships.

SYMBOL (CUSIP)

A: HIXZX (92828T798)

C: PCXIX (92828T780)

I: HIXIX (92828T772)

INVESTMENT PROFESSIONALS

George W. Selby
Partner and Senior Portfolio Manager
 Industry start date: 1983
 Start date with the fund: 1998

Michael Janik
Portfolio Manager and Senior Credit Analyst
 Industry start date: 1988
 Start date with the fund: 2010

The Virtus Intermediate Tax-Exempt Bond Fund invests primarily in intermediate-term municipal bonds with a focus on essential purpose and dedicated purpose revenue bonds which, historically, tend to be impacted less by economic swings.

SECTOR ALLOCATION	% Fund
Higher Education	20.73
Water/Sewer	13.23
Industrial Revenue/Pollution Control Revenue	10.69
Special Taxes	9.61
Electric	9.11
Sales Taxes	8.31
Other Revenue	6.38
Hospital	5.78
Transportation	5.13
General Obligation	4.04
Appropriation	3.55
Education	2.67
Tax-Exempt Money Mkt	0.77

Sector weights are subject to change.

continued

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Annualized Performance Class A as of 6/30/11 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 1/16/2001
NAV	2.94	2.84	2.82	5.01	4.38	4.25	4.23
POP	0.11	0.01	-0.01	4.04	3.80	3.96	3.95
Index	3.14	3.96	4.04	6.01	5.46	5.01	4.99

QTD, YTD and 1 Year performance is not annualized. Benchmark since inception performance is reported from 1/31/2001.

Class A operating expenses are 0.85% and gross operating expenses are 1.04%. 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 2.75%. A contingent deferred sales charge of 0.50% 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: A portion of income may be subject to some state and/or local taxes and, for certain investors, a portion may be subject to the federal alternative minimum tax. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates will affect the value of longer-term fixed income securities more than shorter-term securities. Investing in municipal bonds involves market risk and credit risk.

Index: The Barclays Capital 3-15 Yr Blend (2-17) Municipal Bond Index is an unmanaged index of investment grade municipal bonds with maturities of 3-15 years. The index is calculated on a total return basis. The index is unmanaged and not available for direct investment.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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