

Virtus Quality Small-Cap Fund

Portfolio Overview

The Virtus Quality Small-Cap Quality Fund (Class A shares at NAV) outperformed its benchmark, the Russell 2000® Value Index, during the quarter. Our strategy of owning businesses with secure competitive positions produced good relative results in a difficult market. The ability to resist declines during times of stress is a cornerstone of our investment approach and the third quarter certainly tested this objective.

The source of this trait lies in the nature of the businesses in which we invest. These businesses have created competitive protections that, in our view, provide them with more resilient earning power and greater discretionary cash flow.

Companies contributing the most to performance during the quarter included RLI and WD-40. RLI's stock performed strongly following the company's reports of excellent second quarter 2011 results driven by solid top-line growth and positive operating leverage. These results were particularly impressive as they were achieved despite the company's highly challenging operating environment driven by the ongoing softness in the P&C insurance market and weak general economic conditions. In July 2011, RLI was named to the Ward's 50® Top P&C performers list for the 21st consecutive year, one of only four P&C insurers to be so recognized every year since the list's inception in 1991. WD-40 saw its shares rise in the quarter after reporting sales growth through its first three fiscal quarters in 2011. The company has leveraged its WD-40 brand into new products, including Blue Works and WD-40 Specialist, both of which serve markets not currently penetrated by the existing brand.

Companies contributing the least to performance during the quarter included CARBO Ceramics and Graco. CARBO Ceramics' stock declined along with energy stocks and overall equity markets as investors' concern about a possible double-dip recession and its effects on energy demand drove the stock price down in the quarter. However, year to date, CARBO's stock performance is still positive and is one of the portfolio's best performers. During the quarter, the FTC requested additional information from Graco about the finishing business the company had agreed to purchase from ITW. Management indicated they see this as a relatively normal request, however, this will delay the closing of the deal into the fourth quarter.

Purchases and Sales

We purchased Badger Meter, The Corporate Executive Board, and John Wiley & Sons. There were no complete sales from the portfolio during the quarter.

Badger Meter manufactures and markets flow measurement and control products (primarily water metering systems) for water utilities, municipalities, and industrial customers worldwide. Within the water meter industry, the top five players account for nearly 90% of total meters sold, with Badger's market share close to that of the market leader Neptune Technology Group, a subsidiary of Roper Industries.

The Corporate Executive Board provides best practices research, analysis, executive education and leadership development, and decision support tools to business executives and professionals worldwide. The company's business model provides high barriers to entry with its 5,200 member-strong "blue chip" client network (that includes 94% of Fortune 100, 85% of Fortune 500, 70% of Fortune 1000, and 70% of FTSE 100 companies) providing synergies in compiling new studies that are then resold to participating members.

“The ability to resist declines during times of stress is a cornerstone of our investment approach and the third quarter certainly tested this objective.”

SYMBOL (CUSIP)

A: PQSAX (92828N684)

C: PQSCX (92828N676)

I: PXQXS (92828N668)

INVESTMENT PROFESSIONALS

Robert A. Schwarzkopf, CFA
Chief Investment Officer
 Industry start date: 1980
 Start date with the fund: 2006

Julie Kutasov
*Portfolio Manager &
 Senior Research Analyst*
 Industry start date: 2001
 Start date with the fund: 2008

Craig Stone
*Portfolio Manager &
 Senior Research Analyst*
 Industry start date: 1999
 Start date with the fund: 1990

The Virtus Quality Small-Cap Fund invests in a select group of small-cap value companies that exhibit a competitive advantage, have strong management and low financial risk, and that are able to grow over market cycles.

TOP TEN HOLDINGS % Fund

World Fuel Services Corp.	5.42
WD-40 Co.	5.26
Landstar System Inc.	5.18
Owens & Minor Inc.	5.10
John Wiley & Sons Inc. (CI A)	4.98
First Cash Financial Services Inc.	4.95
Hillenbrand Inc.	4.93
RLI Corp.	4.75
Ares Capital Corp.	4.49
Tempur-Pedic International Inc.	4.34

Holdings are subject to change.

Virtus Quality Small-Cap Fund

John Wiley & Sons is a global publisher of print and electronic products, specializing in professional and consumer books; scientific, technical, and medical books and subscription journals; and textbooks and educational materials for undergraduate and graduate students. The company's strong family of titles includes the "For Dummies" series, "CliffsNotes," and "Frommer's," among others. John Wiley & Sons' brands have leading positions in targeted segments of attractive markets. The company has a deep catalog of "must-have" content for use in a wide breadth of businesses.

Outlook

Small-capitalization equity valuations are certainly lower now compared to just three months ago, but remain elevated. However, high-quality small companies are more reasonably priced and should therefore provide superior investment results over the next several years relative to the Russell 2000® Value Index. The Fund's strategy is centered on investing in high-quality small capitalization stocks, and we therefore expect our relative results to compare favorably to the Index over the intermediate and long term.

The best times to invest can often be those times when circumstances appear the worst. We do not know precisely how the current challenges will turn out, but we will continue to invest in businesses that have the greatest control over their markets with excellent business-level economics. We focus on purchasing these businesses at good prices with the expectation to own them for many years. This approach has historically produced healthy excess returns with less risk and we expect that to continue in the future.

“... high-quality small companies are more reasonably priced and should therefore provide superior investment results over the next several years relative to the Russell 2000® Value Index.”

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

	QTD	YTD	1 Year	3 Year	5 Year	Since Inception 6/28/2006
NAV	-15.96	-5.07	6.79	5.15	2.19	2.51
POP	-20.79	-10.53	0.65	3.10	0.99	1.36
Index	-21.47	-18.51	-5.99	-2.78	-3.08	-1.55

*QTD, YTD and 1 Year performance is not annualized.
Class A operating expenses are 1.42%.*

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: A portfolio that holds a limited number of securities will be impacted by each security's performance more than a portfolio with a larger number of holdings. Investing in the securities of small and mid-sized companies involves greater risks and price volatility than larger, more established companies. Because the portfolio is heavily weighted in a single sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification.

Index: The Russell 2000® Value Index is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 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.

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.

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 for a prospectus. Read it carefully before you invest or send money.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by VP Distributors, LLC, member FINRA and subsidiary of Virtus Investment Partners, Inc.

2019 10-11 © 2011 Virtus Investment Partners, Inc.