

Virtus Senior Floating Rate Fund

Market Update

Weakness in the credit markets during the quarter resulted from Europe's worsening debt crisis, the U.S. debt ceiling debate and subsequent loss of its long-term AAA rating by Standard & Poor's, and rising global growth concerns. While fixed income spread sectors underperformed U.S. Treasuries during the quarter, the overall economic picture remains supportive of spread sectors as economic growth is still expected to be positive, yet subdued enough, to likely keep inflation at low levels and the Federal Reserve from raising short-term interest rates in the near future. During the quarter, yields decreased across the U.S. Treasury curve with the curve steepening slightly.

The bank loan market underperformed most high-quality fixed income sectors on a total and excess return basis due to a decline in rates across the U.S. Treasury yield curve that generally benefited longer duration assets and the overall underperformance in spread sectors relative to U.S. Treasuries. Bank loans significantly outperformed both high yield and equities during the quarter. Bank loans had a total return of -3.85% during the third quarter, as tracked by the S&P/LSTA Leveraged Loan Index, and -3.76%, as tracked by the Credit Suisse Leveraged Loan Index. Bank loan returns by rating tier saw a fair amount of differentiation for the quarter, with distressed (-15.30%) and CCCs (-11.48%) the underperformers and split BBBs (-0.48%), BBs (-2.01%), and split BBs (-2.99%) the outperformers.

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In addition to the factors impacting all spread sectors, the bank loan sector was pressured by outflows from bank loan mutual funds, which forced many managers to sell bank loans to fund redemptions, putting downward pressure on loan prices. However, positive factors remain in the bank loan market, such as attractive valuations, expectations that the default rate will remain very low for the next year, and historically low interest rates that are likely to rise as the economy recovers.

Fund Performance

The Virtus Senior Floating Rate Fund (Class A shares at NAV) underperformed its benchmark, the S&P/LSTA Leveraged Loan Index, for the quarter ended September 30, 2011. The negative performance of the overall bank loan market in the quarter contributed negatively to the Fund's total return.

The primary driver of the Fund's underperformance for the quarter was the allocation to non-bank loans, primarily corporate high yield and emerging markets. The primary positive contributor to performance was issue selection within the bank loan sector.

For the quarter, the bank loans within the Fund returned -3.06%, outperforming the CS Leveraged Loan Index return of -3.83%. An additional positive contributor for the quarter was industry weightings, which contributed 0.49% of outperformance relative to the Fund's benchmark index. Specifically the Fund's overweight to energy and information technology and its underweight to diversified media, broadcasting, and utilities contributed positively to performance.

The Fund ended the third quarter with 84.07% invested in senior secured first lien bank loans, 3.52% in non first lien bank loans, 0.83% in cash, and the majority of the remaining 11.58% invested in high yield bonds.

SYMBOL (CUSIP)

A: PSFRX (92828R545)

C: PFSRX (92828R537)

I: PSFIX (92828R529)

INVESTMENT PROFESSIONALS

David L. Albrycht, CFA
 Chief Investment Officer –
 Multi-Sector Fixed Income Strategies
 Industry start date: 1985
 Start date with the fund: 2008

Kyle A. Jennings, CFA
 Managing Director,
 Portfolio Manager
 Industry start date: 1991
 Start date with the fund: 2008

The Virtus Senior Floating Rate Fund offers the potential for attractive total return and income by investing in non-investment grade bank loans, with a focus on higher quality companies within the rating tier.

SECTOR DISTRIBUTION % Fund

1st Lien Bank Notes	84.07
Non-First Lien Bank Notes	3.52
Corporate High Yield	9.92
Emerging Markets High Yield	1.00
Other	0.66
Cash	0.83
Total	100.00

Sector weights are subject to change.

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Over the third quarter we maintained the Fund's overweight to loans with LIBOR floors, high yield bonds, and B-rated and split BB-rated bank loans. The Fund is underweight both not-rated and CCC-and-below-rated bank loans.

We continued to invest selectively in attractively priced loans in the new issue market coming with LIBOR floors and more attractive capital structures. Due to heightened market volatility and poor technicals during the quarter, we focused on higher quality and generally avoided adding to lower-rating tiers, especially CCCs, as we believe, in general, that these tiers have less attractive risk-adjusted valuations than the higher rating tiers and generally lower liquidity. We also looked to be tactical as well as to optimize our exposure to high yield bonds and other non-loan sectors during the quarter. Some of the Fund's largest industry overweights are to transportation and energy, while the largest underweights are to utilities and food/drug and healthcare.

Outlook

We will continue to look for the best total-return opportunities within both the primary and secondary markets. We will focus on adding higher quality loans with attractive capital structures in the new issue market, most of which have LIBOR floors. We expect to maintain similar portfolio positioning with regard to ratings over- and underweights as we held at the end of the quarter and will also continue to be tactical in order to optimize our exposure to high yield bonds and other non-loan sectors.

We continue to have a favorable outlook for bank loans, due to a combination of strong fundamentals and attractive valuations, and the expected modest but still positive growth we see in the

economy over the next six to 12 months.

We expect the default rate for the bank loan market to continue to remain at low levels over the next year and well below the long-term average over the next 12 to 18 months.

In addition, we expect recovery rates to remain at normalized levels. Valuations on bank loans remain attractive relative to the expected default outlook. They offer good total-return opportunities given the average price of bank loans at \$90.35 (Credit Suisse Leveraged Loan

Index) as of 9/30/2011, which is still below the historical average price of \$97 for bank loans prior to the peak of the 2008 credit crunch in the second half of 2008.* The primary risk to our outlook would be a weaker-than-anticipated economic recovery.

Another positive for the bank loan market is the extremely low rate environment which may continue to force investors out the risk curve in search of yield. Additionally, the sector can act as a hedge against a rate increase when interest rates eventually rise.

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*Includes loan prices from January 31, 1997 through July 31, 2008.

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

	QTD	YTD	1 Year	3 Year	Since Inception 1/31/2008
NAV	-4.16	-1.75	1.62	7.06	5.12
POP	-6.80	-4.45	-1.17	6.07	4.33
Index	-3.85	-1.34	1.80	8.28	5.26

QTD, YTD and 1 Year performance is not annualized.
Class A operating expenses are 1.20%.

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: The use of leverage, short selling, futures, options and/or derivatives may expose the portfolio to additional risks. 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. 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. The Fund may invest in illiquid loans which have a limited trading market and may not be sold at a favorable price.

Index: The S&P/LSTA Leveraged Loan Index is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the Index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the Index represent a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. 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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