

## Portfolio Review

The Virtus Capital Growth Series outperformed its benchmark, the Russell 1000® Growth Index, during the quarter ended March 31, 2012. Despite the strong performance of lower quality securities during the quarter, the Series outperformed the benchmark due to strong stock selection. Performance was primarily driven by strong stock selection in the information technology, energy, and consumer discretionary sectors. Performance was hurt by poor stock selection in the industrials and materials sectors.

Companies contributing the most to performance during the quarter included Apple and Amphenol, one of the world's largest manufacturers of interconnect products. Apple continues to outperform and exceed expectations with record revenue and earnings. In addition, the company announced a quarterly dividend and share buyback program during the quarter. Given concerns about the global economy and military spending heading into the quarter, results for Amphenol were generally better than expected. Increasing order levels and positive guidance from management suggested a bottom in the inventory destocking cycle, helping to lift Amphenol shares.

Companies contributing the least to performance during the quarter included C.H. Robinson Worldwide and McDonald's. C.H. Robinson Worldwide, a third party logistics provider, missed fourth quarter 2011 expectations due to a tough year-over-year margin comparison. Historically, C.H. Robinson's business model has generated a 15% earnings-per-share compounded annual growth rate over the past 30 years, with a return on equity exceeding 35% with no debt and a large cash balance. Because of these strong results historically, we are not concerned with the recent weakness in the stock price and remain long-term investors in the company. McDonald's reported strong sales for the fourth quarter 2011, however, monthly sales reported for February 2012 were weaker than expected due, in part, to softness in Europe. Also, during the quarter, long-time CEO Jim Skinner, who led McDonald's resurgence over the past 10 years, announced he would be retiring this summer. We view these factors as transitory, and we believe they do not diminish the iconic nature of the McDonald's brand. The company continues to generate a best-in-class pre-tax margin of 29%, which is double the margin of competitors like Yum! Brands and Chipotle.

## Purchases & Sales

For the Series, we purchased Salesforce.com and Teradata. There were no complete sales during the quarter.

Salesforce.com is a leading provider of enterprise cloud computing applications. The company's primary product is customer relationship management software, offered to customers on a subscription basis via the internet. The company is expanding into new software verticals and platforms.

Teradata is the global leader in enterprise data warehousing (EDW), including enterprise analytic technologies and services. The company's data warehousing solutions, which include software, hardware, and related consulting and support services, integrate an organization's departmental and enterprise-wide data about customers, financials, operations, and more into a single enterprise-wide data warehouse. Its enterprise analytical technologies then transform that data into actionable enterprise intelligence.

“Performance [of the Series] was primarily driven by strong stock selection in the information technology, energy, and consumer discretionary sectors.”

## VIRTUS VARIABLE INSURANCE TRUST

CUSIP 92829L109

### INVESTMENT PROFESSIONALS

Doug Foreman, CFA  
 Director of Equities and  
 Portfolio Manager  
 Industry start date: 1989  
 Start date with Series: 2011

Gregory Toppe, CFA  
 Portfolio Manager and  
 Senior Research Analyst  
 Industry start date: 2001  
 Start date with Series: 2011

*The Virtus Capital Growth Series offers a concentrated portfolio that focuses on companies with growth rates believed to exceed the general market.*

TOP TEN HOLDINGS	% Series
Apple Inc.	6.72
Amphenol Corp. CI A	3.47
Intuitive Surgical Inc.	3.18
Visa Inc.	3.17
QUALCOMM Inc.	3.14
Coach Inc.	3.09
T. Rowe Price Group Inc.	3.07
National Oilwell Varco Inc.	3.00
Sigma-Aldrich Corp.	2.97
Xilinx Inc.	2.94

*Holdings are subject to change.*

### 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. 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.*

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# Virtus Capital Growth Series Commentary

## Outlook

The economic recovery has clearly taken hold, and there are a number of key factors that have improved: 1) Reduced unemployment is driving improved consumer spending; 2) corporate cash balances are plentiful and ready to be deployed into investment opportunities; and 3) the Fed remains vigilant in sustaining positive economic growth.

Despite these positive developments, we continue to operate in an environment where small- and mid-sized businesses, the backbone of the U.S. economy, are increasingly optimistic about future growth but still hesitant to commit to meaningful increases in human and physical capital. Further, improved unemployment levels still remain high, thus restraining ongoing consumer spending, which accounts for nearly three-quarters of the U.S. economy; and the housing market appears to be in a long drawn-out bottoming phase. November's presidential election further contributes to already-elevated overall uncertainty levels.

“... we continue to operate in an environment where small- and mid-sized businesses, the backbone of the U.S. economy, are increasingly optimistic about future growth but still hesitant to commit to meaningful increases in human and physical capital.”

All of these factors diminish the likelihood of a swift economic recovery. We believe the economy will continue to grow at a below-average rate over the next year or two. It will take time to work off excessive government debt, both in the U.S. and abroad. While fears of the eurozone collapse have subsided, we are by no means confident that policymakers have permanently resolved the European debt crisis, and the European Union's future as an economic entity remains highly uncertain, in our view.

We believe that the businesses in which we invest—those that have significant control over their markets and do not depend on external financing—will prosper in such an environment. As always, we endeavor to manage the Series with the highest quality businesses, outgrowing their markets, purchased at discount values.

## Annualized Performance as of 3/31/12 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 12/31/1982
Series	16.59	16.59	2.58	19.92	1.48	1.97	9.34
Index	14.69	14.69	11.02	25.28	5.10	4.28	10.01

QTD, YTD and 1 Year performance is not annualized. Operating expenses are 0.96% and gross operating expenses are 1.19%. Operating expenses reflect a contractual expense reimbursement in effect through 11/30/2012.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains.

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 monthend.

Index: The Russell 1000® Growth Index is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest 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.

The investments for the Series are managed by the same portfolio manager(s) who manage one or more of the other funds that have similar names, investment objectives and investment styles as the Series. You should be aware that the Series is likely to differ from the other mutual funds in size, cash flow pattern and tax matters. Accordingly, the holdings and performance of the Series can be expected to vary from those of the other mutual funds.

Shares of the separate Series of Virtus Variable Insurance Trust are sold only through the currently effective prospectuses and are not available to the general public. Shares of the VIT Series may be purchased only by life insurance companies to be used with their separate accounts which fund variable annuity and variable life insurance policies or qualified retirement plans and are also available as an underlying investment fund for certain qualified retirement plans. The performance information for the Series does not reflect fees and expenses of the insurance companies. If such fees and expenses were deducted, performance would be lower.

**Please carefully consider the investment objectives, risks, charges, and expenses of the Series before investing. For this and other information about any Virtus Variable Insurance Trust Series, call 1-800-367-5877 or visit [Virtus.com](http://Virtus.com) for a prospectus. Read it carefully before you invest or send money.**

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