

PORTFOLIO OVERVIEW

- > The first quarter of 2012 witnessed the best first quarter performance for the equity market in 14 years, as measured by the 12.6% return of the S&P 500® Index. Further, the S&P 500's gain ranked among the best handful of all rolling 90-day periods over the last decade, placing it above 94% of all other rolling 90-day periods in the past 11 years.
- > Equity volatility levels, as measured by our proprietary quantitative models, were markedly lower than in 2011 – a positive sign for the markets. The S&P 500 had a loss of more than 1% only one day in the quarter (March 6), as compared to an average of 12 days for each of the previous four quarters.
- > The Virtus Premium AlphaSector Series underperformed its benchmark, the S&P 500® Index, for the quarter. This type of lag is to be expected during such an extreme upward move for the market coming on the heels of a period of high risk (August 2011 – December 2011). While the Series gained nearly 8% for the quarter, the gain represented about 62% of the upside performance of the S&P 500 Index.

MARKET ENVIRONMENT

There were a number of factors behind the strong advance in the equity market, including the absence of material negative news from Europe; a gradually declining unemployment rate in the U.S. with new jobless claims dropping to a four-year low; and improving investor sentiment. Even the housing industry posted some encouraging signs. Still, all was not rosy on the economic front, as the related factors of a three-year high in the U.S. trade deficit and higher prices at the pump dampened some investors' enthusiasm.

AN "OFF THE CHARTS" QUARTER FOR THE S&P 500

At F-Squared, one of our key mantras is that we are not benchmark-centric. Instead, we are shareholder-centric, meaning that we align the goals of our investment process with the goals of Series shareholders. We are focused on seeking to avoid losses (minimizing drawdowns), and do not manage to traditional tracking errors versus a benchmark. For those unfamiliar with the terms "drawdown" and "tracking error," a drawdown is the amount an investment would have lost from its highest value to lowest value in a given period, and tracking error is a measure of how closely a portfolio follows or "tracks" the index to which it is benchmarked. The lower a portfolio's tracking error, the more in line its performance is with that of its benchmark.

Many of the Series' large-cap core competitors tend to be benchmark-centric and therefore track closely to their relevant benchmark. As the bear years 2002 and 2008 taught us, however, low tracking error can be a risky pursuit as the S&P 500 in those years would have lost 22% and 37%, respectively.

As noted earlier, the first quarter of 2012 was the strongest first quarter for equities, since 1998, as measured by the S&P 500 Index. Even more compelling, the 12.6%% return of the S&P 500 in the first quarter ranks its performance among the top 6% (94th percentile) of all rolling 90-day periods since April of 2001. As a result, benchmark-centric, low tracking error managers had their day (or 90 days) in the sun in the first quarter, while the Series was penalized for staying true to its objective, performing as expected, exactly as it should and shielding shareholders from excessive losses.

“At F-Squared, one of our key mantras is that we are not benchmark-centric.... We are focused on seeking to avoid losses (minimizing drawdowns), and do not manage to traditional “tracking errors” versus a benchmark.”

VIRTUS VARIABLE INSURANCE TRUST

CUSIP 92829L885

The Virtus Premium AlphaSector™ Series provides active asset allocation with the goal of limiting losses in down markets and enhancing returns (alpha) in up markets.

NOTES ON RISK

Lack of liquidity in an ETF could result in its value being more volatile than the underlying portfolio of securities. Sector ETFs are subject to sector risks and nondiversification risks, which may result in greater price fluctuations than the overall market. Because the Series invests in ETFs, it indirectly bears its proportionate share of the operating expenses of the underlying funds. Indirectly, the Series is subject to all risks associated with the underlying ETFs. The guarantee on U.S. government securities applies only to the underlying securities of the portfolio, and not to the value of the portfolio's shares. 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. Asset allocation does not guarantee a profit or protect against a loss in declining markets. Actual performance will depend on the ability of the asset allocation model in determining asset class allocations and the performance of the underlying market sectors. The proportions allocated to each market sector may cause a portfolio to underperform relevant benchmarks or other investments with a similar objective.

Virtus Premium AlphaSector™ Series Commentary

PERFORMANCE REVIEW

As recently as mid-December 2011, the Series had a very bearish positioning with a 50% cash weighting. By the beginning of January, the Series had progressed to a fully invested position in the equity market, with five sectors active. As the first quarter progressed, the increasingly positive tone of the market was reflected in our quantitative model, and by quarter's end, seven sectors were on.

Just about all sectors benefited from the strong market, with utilities the only sector to decline in the quarter, after a year in which utilities was the best-performing S&P 500 sector. Financials exhibited the strongest move in the quarter, followed closely by technology.

Utilities has been a mainstay of the Series throughout the past year. In fact, it is one of only two sectors (with consumer staples the other) that have stayed on for over a year. While detracting from performance in the first quarter, utilities has been a solid core holding over the past year. The absence of financials also hurt the Series' relative performance in the quarter, but the quantitative model will not signal a re-engagement in the sector until it discerns that stability has returned.

OUTLOOK

Because analysis done for the Series is quantitatively based and the data is historical in nature, we do not make formal projections or outlook statements. However, some potential insight can be gained by looking at trends in volatility and overall positioning.

U.S. and international equity markets surged in the first quarter of 2012, with lower volatility than in 2011. The U.S. market witnessed broad participation among the nine sectors, with only utilities not participating. The signals generated by our quantitative model have become progressively more bullish since the closing months of 2011.

There are many positive signs on the investment landscape, and our quantitative model has adapted to reflect this. However, it is also important to note that early March marked the three-year anniversary of the market bottom – the S&P 500 Index was up over 20% per annum in this period – about double the historical average for the Index.

While we are not market prognosticators, we do know that markets move in cycles, and having a “tool in your toolbox” for the bear phases of the market is of paramount importance. We have such a tool – a time-tested quantitative model that has the ability to move to cash in a toxic market environment. While we currently see no reversal of the bullish trend, it's helpful to remember that our quantitative engine can pivot fairly quickly. At the end of last July, all nine U.S. sectors were engaged, but by the beginning of September, seven sectors were off and the Series had an allocation to cash. Market tone can change, and our model is designed to adapt to that change as we seek to protect down, and participate up.

“As the first quarter progressed, the increasingly positive tone of the market was reflected in our quantitative model, and by quarter's end, seven sectors were on.”

Virtus Premium AlphaSector™ Series Commentary

Annualized Performance as of 3/31/12 in percent

	QTD	YTD	1 Year	Since Inception 2/14/2011	
Series	7.93	7.93	2.90	2.75	Performance for periods of less than one year are not annualized. Operating expenses are 1.90% and gross operating expenses are 6.24%.
Index	12.59	12.59	8.54	7.34	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.

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.

The series may also invest in stocks of primarily large-cap issuers. The series may invest in a basket of securities to represent a sector if it determines that investment in the ETF for that sector is not feasible or otherwise not in the best interest of the series.

Index: The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the 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.

Alpha: the excess return of the portfolio relative to the return of the benchmark index. **Correlation Coefficient** is a measure that determines the degree to which two variables' movements are associated. The correlation coefficient will vary from -1 to +1. A -1 indicates perfect negative correlation, and +1 indicates perfect positive correlation. **De-risk:** Refers to the removal of exposure to select market sectors in the fund in response to the weekly risk assessment by the quantitative model.

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 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.

2043 5-12 © 2012 Virtus Investment Partners, Inc.