

**Item 1: Cover Page**

**Part 2A of Form ADV  
Firm Brochure**

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**Virtus Private Wealth Management  
SEC File No. 801-63975**

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This brochure provides information about the qualifications and business practices of Virtus Private Wealth Management. If you have any questions about the contents of this brochure, please contact us at 512-891-1230. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Virtus Private Wealth Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## Item 4: Advisory Business

### A. Description of Your Advisory Firm

Virtus is a partnership organized under the laws of the State of Texas. Terrell F. Gates and Marcy Steward founded the Austin, TX-based investment advisory firm in 2004 and, through a limited partnership, Gates is the principal owner. Virtus is an SEC-registered investment advisory firm.

Virtus provides investment advisory services to accomplished entrepreneurs.

### B. Description of Advisory Services Offered

#### B.1. Investment Management Services

Virtus offers both direct management services as well as access to third-party money managers.

Clients are required to provide Virtus with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify Virtus of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, Virtus's reports to clients will remind clients of their obligation to inform Virtus of any such changes or any restrictions that should be imposed on the management of the client's account. Virtus will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

##### B.1.a. Direct Management

Virtus acts as portfolio managers for the program. Virtus works with the client to identify his or her investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement the client's financial situation and personal circumstances. The portfolio may consist of a variety of investments including but not limited to equities, fixed income securities, mutual funds, and alternative investments. The investment strategies utilized depend on the client's investment objectives and goals as provided to Virtus. Portfolios are constructed along basic investment objective categories and focus primarily on a long-term buy and hold approach as opposed to short-term trading.

However, each client has the opportunity to place reasonable restrictions on the type of investments to be held in the portfolio. Accounts are managed on a discretionary or non-discretionary basis, at the client's discretion. The advisory representative may periodically rebalance the client's account to maintain the initially agreed upon strategic and tactical asset allocation. However, no changes are made to the agreed-upon asset allocation nor are assets rebalanced in nondiscretionary accounts without prior client review and consent.

##### B.1.b. Third-Party Money Managers

These programs provide the client an opportunity to utilize the investment skills of professional third-party money managers. The third-party manager will have discretionary authority with respect to investment management of your accounts. Neither Charles Schwab

nor Virtus acts in such a capacity or has such authority. The client selects one or more managers based upon the client's risk tolerance and investment objectives. Virtus assists the client in completing the client profile and choosing an investment manager that best matches his or her investment objectives and goals.

Clients may also impose reasonable restrictions upon the management of the account.

## **B.2. Financial Planning**

Virtus may prepare and provide the client with a written financial plan designed to help him or her achieve financial goals and investment objectives. The preparation of such a plan may necessitate that the client provide us with personal data such as family records, budgeting, personal liability, estate information, and additional financial goals.

The financial plan may include any or all of the following as requested and/or directed by the client:

- asset protection
- tax planning
- business succession
- strategies for exercising stock options
- cash flow
- education planning
- estate planning and wealth transfer
- charitable gifting
- long-term care and disability planning
- retirement planning
- insurance planning
- asset allocation comparisons
- risk management

Should the client choose to implement the recommendations contained in the plan, Virtus suggests that the client work closely with his or her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

In managing the client's investment portfolio and/or creating your financial plan, Virtus considers the client's

- financial situation
- risk tolerance
- investment horizon
- liquidity needs
- tax considerations
- investment objectives

- any other issues important to the client's state of affairs

The client is instructed to notify Virtus promptly if there are any changes in his or her financial situation or investment objectives, or if the client wishes to impose any reasonable restrictions upon the management of his or her account.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

Virtus does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

As of January 2, 2012, Virtus has \$102,000,000 of discretionary client assets under management.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule

Virtus offers investment management services on a fee-only basis. The fee is calculated based upon the market value of the assets in the client's account on the last day of the previous quarter. Broker-dealers and other financial institutions that hold client accounts are referred to as custodians ("custodian/ broker-dealer"). The client's custodian/broker-dealer determines the values of the assets in the client's portfolio.

Fees for the initial quarter are based on the value of the client's cash and securities on the date the custodian/broker-dealer receives them and are prorated based upon the number of calendar days in the calendar quarter that the investment advisory agreement is in effect. Virtus's fee schedule for direct management is described below:

<b>Assets Under Management</b>	<b>Advisory Fee*</b>
First \$1,000,000	1.50%
Next \$2,000,000	1.25%
Next \$2,000,000	1.10%
Next \$5,000,000	0.90%
Next \$15,000,000	0.70%
Next \$25,000,000	0.55%
Above \$50,000,000	Negotiable

\* All fees are negotiable at our sole discretion.

Under certain circumstances, clients may be charged \$250 per hour for additional services, which may include but are not limited to financial plan implementation, mortgage analysis and refinancing, due diligence of client introduced investments, and/or working with the client's other advisors. For clients with assets under management of \$2,000,000 or more, Virtus, will on a quarterly basis, reduce its next quarterly fee in an amount equal to the transaction based fees incurred by the client during the preceding quarter. Please be advised that for clients with less than \$2,000,000 in assets, clients may be able to find comparable services at a lower cost elsewhere.

Generally, fees will be charged quarterly in advance. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and Virtus.

For third-party money managers, a complete description of the programs and services provided, the amount of total fees, the payment structure, termination provisions and other aspects of each program are detailed and disclosed in the following, as applicable:

- Third Party Investment Advisory Service's disclosure documents
- Disclosure documents of the portfolio manager or managers selected



- Third Party Advisory Service's account opening documents

Clients should compare the statement Virtus sends to their custodian/broker-dealer's statement and verify the calculation of Virtus's fees. The client's custodian/broker-dealer does not verify the accuracy of fee calculations.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. Virtus may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

## **A.2. Financial Planning Fees**

Financial planning services are charged through a fixed fee arrangement as agreed upon between the client and Virtus. Financial planning services fixed fees range from \$1,000 to \$10,000 per plan.

Fees are negotiable and will vary depending upon the complexity of the client's situation and services to be provided. The cost of all plans will be recovered through a reduction in Virtus's investment advisory fee in an amount equal to the cost of the financial plan should the recipient of the financial plan choose to become a client. An estimate for total hours will be determined at the start of the advisory relationship. Similar financial planning services may be available elsewhere for a lower cost to the client.

## **A.3. Additional Terms for All Virtus Client Accounts**

Asset-based fees are always subject to the investment advisory agreement between the client and Virtus. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the month in which the change occurs.

A client investment advisory agreement may be canceled at any time by the client, or by Virtus with 30 days' prior written notice to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

# **B. Client Payment of Fees**

## **B.1. Asset-Based Fees**

Virtus will not take custody or possession of client funds or securities at any time except to the extent that Virtus may deduct fees directly from the client's account. Virtus will deduct advisory

and custodial fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. At our discretion, you may be billed for fees in lieu of having them debited from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **B.2. Financial Planning Fees**

A 50% retainer fee for financial planning services is due at inception of engagement and the remainder is paid at delivery. The financial plan will be presented to the client within 90 days of the contract date, provided that the client has promptly provided all information needed to prepare the financial plan.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, separate account managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each mutual fund's prospectus, each separate account manager's Form ADV or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using Virtus may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. Prepayment of Client Fees**

Virtus requires the prepayment of its advisory fees. Virtus's fees will either be paid directly by the client or disbursed to Virtus by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A 50% retainer fee for financial planning services is due at inception of engagement and the remainder is paid at delivery.

A client investment advisory agreement may be canceled at any time by the client, or by Virtus with 30 days' prior written notice to the client. An agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any unearned, prepaid fees will be promptly refunded and any earned, unpaid fees will be immediately due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **E. External Compensation for the Sale of Securities to Clients**

Virtus financial advisors are compensated solely through a salary and bonus structure. Virtus is not paid any sales, service, or administrative fees for the sale of mutual funds or any other investment products.

John Chatmas is an agent for certain insurance carriers. With respect to the provision of financial planning services, Mr. Chatmas may recommend insurance products offered by such carriers for whom he functions as an agent and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Virtus advisory clients may purchase insurance products through any insurance carrier or insurance agent of their choice and not those just offered through Virtus or Mr. Chatmas.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

Virtus does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## **Item 7: Types of Clients**

Virtus provides advisory services primarily to individuals including high-net-worth individuals, trusts, estates, retirement accounts, pension and profit sharing plans, charitable organizations, corporations, and other business entities. As a condition for starting and maintaining an advisory relationship, Virtus generally require a minimum portfolio size of \$1,000,000. Virtus, at its sole discretion, may accept clients with smaller portfolios based upon certain factors including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts, and pre-existing client relationships. Virtus may consider the portfolios of the client's family members to determine if the portfolio meets the minimum size requirement.

## **Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss**

### **A. Methods of Analysis and Investment Strategies**

Virtus selects specific investments for client portfolios through the use of fundamental analysis. Fundamental analysis is a method of evaluating a company that has issued a security by attempting to measure the value of its underlying assets. It entails studying overall economic and industry conditions as well as the financial condition and the quality of the company's management. Earnings, expenses, assets, and liabilities are all important in determining the value of a company. The value is then compared to the current price of the issuing company's security to determine whether to purchase, sell, or hold the security.

#### **A.1. Mutual Funds and Third-Party Separate Account Managers, Individual Equity and Fixed Income Securities, and Pooled Investment Vehicles**

Virtus may recommend (i) separate account managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles will include, among others, large-cap, mid-cap and small-cap value, growth and core; international and emerging markets; and alternative investments. Virtus may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that Virtus will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), managers, and pooled investment vehicles is set forth below.

Virtus has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, managers and pooled investment vehicles
- perform billing and certain other administrative tasks

Virtus may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers and pooled investment vehicles to clients as appropriate under the circumstances.

Virtus reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns

- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity. Virtus will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by Virtus on a quarterly basis or such other interval as mutually agreed upon by the client and Virtus. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by Virtus (both of which are negative factors in implementing an asset allocation structure). Based on its review, Virtus will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

Virtus may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. Virtus will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

Virtus will regularly review the activities of mutual funds and managers selected by the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

## **A.2. Material Risks of Investment Instruments**

The investment vehicles most commonly purchased for Virtus clients are shares of registered open-end mutual funds and exchange traded funds. Many of these investments can be purchased directly by clients without utilizing the services of an advisor. Registered investment companies charge their own management fees and expenses. These fees and expenses are detailed in each respective mutual fund's prospectus and are in addition to any fees charged by Virtus.

Virtus typically invests in open-end mutual funds and exchange-traded funds for the vast majority of its clients. However, for certain clients, Virtus may effect transactions in the following types of securities:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Asset-backed securities
- Collateralized obligations

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.



### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

### **A.2.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market.

The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

### **A.2.e. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

#### **A.2.f. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be pre-payment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.g. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.h. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.i. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and

subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, PDIV will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.2.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of

conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHMLC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the firm may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, PDIV may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

### **A.2.o. Asset-Backed Securities**

Like mortgages-backed securities, the collateral underlying asset-backed securities are subject to prepayment, which may reduce the overall return to holders of asset-backed securities. Asset-backed securities present certain additional and unique risks. Primarily, these securities do not always have the benefit of a security interest in collateral comparable to the security interests associated with mortgage-backed securities. Credit card receivables are in general unsecured. Debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set-off certain amounts owed on the credit cards, thereby reducing the balance due.

Generally, automobile receivables are secured by automobiles. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and the technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. As a result, the risk that recovery on repossessed collateral might be unavailable or inadequate to support payments on asset-backed securities is greater for asset-backed securities than for mortgage-backed securities. In addition, because asset-backed securities are relatively new, the market experience in these securities is limited and the market's ability to sustain liquidity through all phases of an interest rate or economic cycle has not been tested.

### **A.2.p. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

## **B. Investment Strategy and Method of Analysis Material Risks**

Virtus's investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **B.1. Margin Leverage**

Although Virtus, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, Virtus will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although Virtus, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

Virtus generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than

owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **B.4. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

#### **B.5. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

Virtus as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

##### **B.5.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration.



This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.5.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.5.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.5.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.5.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.5.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option.



The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.5.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.5.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

### **C. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer or Representative Registration**

Virtus is not registered as a broker-dealer and does not have an application for registration pending. In addition, none of Virtus's professionals are licensed as registered representatives of a broker-dealer.

### **B. Futures or Commodity Registration**

Neither Virtus nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Virtus Real Estate, LLC**

Virtus is affiliated with Virtus Real Estate, LLC, a Texas limited liability company and private fund adviser that structures, manages, promotes, sponsors, and through itself and affiliate entities serves as general partner and/or investment manager for various real estate private funds. Investment advisory clients of Virtus may be solicited to invest in one or more pooled investment vehicles, which are sponsored, managed, or advised by Virtus Real Estate and/or one of its affiliates. A potential conflict of interest arises in that there is an economic incentive for Virtus to solicit clients to invest directly in certain pooled investment vehicles. Virtus Real Estate, its members, managers, and employees, in their capacity as general partner or managing member, may receive a performance fee or carried interest, or otherwise earn a management fee. Virtus Real Estate or one of its affiliates' ability to earn performance-based fees, carried interest, and management fees may create an incentive for the Virtus Private Wealth investment professional to recommend to clients an investment in such pooled investment vehicles. In addition, performance-based fees, to the extent applicable, may create an incentive for the investment manager to incur acquisition and strategy risks to earn potentially higher fees. Higher risk also entails a higher probability of loss, which may conflict with an investor's risk tolerance and investment objectives.

In addition to the advisory fees set forth in Item 5: Fees and Compensation, assets invested in a pooled investment are subject to an additional management fee paid to a person or entity who is responsible for managing the pooled investment vehicle. Such person or entity may be a related person of Virtus, thus creating a conflict of interest to the extent the total compensation to the related person is increased. The controlling interest of the pooled investment vehicle by a related person also deems Virtus to have custody of client assets. All clients are informed of the advisory relationship of Virtus and its affiliates to the pooled investments, and clients are not required to purchase investments advised by Virtus. Clients should carefully review any

disclosure documents provided in connection with investments in pooled investment vehicles for disclosures regarding management fees, performance fees, and other expenses.

### **C.2. Insurance Activities**

Certain managers, members, and registered employees of Virtus are licensed insurance agents. With respect to the provision of financial planning services, Virtus professionals may recommend insurance products offered by various carriers. Please be advised that there is a potential conflict of interest in that there is an economic incentive to recommend insurance carriers and other investment products offered through such insurance carriers. The conflict exists because recommendations of such products may provide leverage for Virtus to secure more advantageous compensation arrangements as well as allow Virtus to manage the mutual fund sub-accounts of certain variable products for an additional advisory fee.

Please be advised that Virtus strives to put its clients' interests first and foremost. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with Virtus's employing broker-dealer.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Virtus does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

### **A. Code of Ethics Description**

Virtus has adopted a Code of Ethics ("Code") to address the securities-related conduct of its advisory representatives and employees. The Code includes Virtus's policies and procedures developed to protect clients' interests in relation to the following:

- The duty at all times to place clients' interests ahead of the firm's
- That all personal securities transactions of Virtus advisory representatives and employees be conducted in a manner consistent with the Code and avoid any actual or potential conflict of interest, or any abuse of an advisory representative's or employee's position of trust and responsibility
- That advisory representatives may not take inappropriate advantage of their positions
- That information concerning the identity of clients' security holdings and financial circumstances are confidential
- That independence in the investment decision-making process is paramount

Virtus will provide a copy of the Code to clients or any prospective client upon request.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Virtus does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, Virtus does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Virtus, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which Virtus specifically prohibits. Virtus has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,

- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow Virtus's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Virtus, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other Virtus clients. Virtus will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation (please refer to Item 12.B.4). Order Aggregation). It is the policy of Virtus to place the client's interests above those of Virtus and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

Virtus may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although Virtus may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. Virtus is independently owned and operated and not affiliated with Schwab.

For Virtus client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

In certain instances and subject to approval by the firm, Virtus will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Virtus will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities; as a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. Soft Dollar Arrangements

Virtus does not utilize soft dollar arrangements. Virtus does not direct brokerage transactions to executing brokers for research and brokerage services.

##### A.1.b. Institutional Trading and Custody Services

Schwab provides Virtus with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon Virtus committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

**A.1.c. Other Products and Services**

Schwab also makes available to Virtus other products and services that benefit Virtus but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of Virtus accounts, including accounts not maintained at Schwab. Schwab also makes available to Virtus its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of Virtus's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Schwab may also offer other services intended to help Virtus manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Virtus. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third-party providing these services to Virtus. Schwab may also provide other benefits such as educational events or occasional business entertainment of Virtus personnel. In evaluating whether to recommend that clients custody their assets at Schwab, Virtus may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

**A.1.d. Independent Third Parties**

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Virtus. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to Virtus.

**A.1.e. Additional Compensation Received from Custodians**

Virtus may participate in institutional customer programs sponsored by broker-dealers or custodians. Virtus may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between Virtus's participation in such programs and the investment advice it gives to its clients, although Virtus receives economic benefits through its participation in the programs that are typically not available to retail investors.



These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving Virtus participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to Virtus by third-party vendors

The custodian may also pay for business consulting and professional services received by Virtus's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for Virtus's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit Virtus but may not benefit its client accounts. These products or services may assist Virtus in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help Virtus manage and further develop its business enterprise. The benefits received by Virtus or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

Virtus also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require Virtus to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, Virtus will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by Virtus's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for Virtus's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, Virtus endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Virtus or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Virtus's recommendation of broker-dealers such as Schwab for custody and brokerage services.

## **A.2. Brokerage for Client Referrals**

Virtus does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. Virtus Recommendations**

Virtus typically recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct Virtus to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage Virtus derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. Virtus loses the ability to aggregate trades with other Virtus advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

Virtus, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions. Virtus recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. Virtus will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services

- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, Virtus seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of Virtus's knowledge, these custodians provide high-quality execution, and Virtus's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, Virtus believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation**

Since Virtus may be managing accounts with similar investment objectives, Virtus may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Virtus in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Virtus's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Virtus will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Virtus's advice to certain clients and entities and the action of Virtus for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of Virtus with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of Virtus to or on behalf of other clients.

## **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in

the best interests of other accounts, then the trade will only be performed for that account. This is true even if Virtus believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Virtus acts in accordance with its duty to seek best price and execution and will not continue any arrangements if Virtus determines that such arrangements are no longer in the best interest of its clients.

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## Item 13: Review of Accounts

### A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

All client accounts are monitored on an ongoing basis, with a formal review conducted at least annually or as agreed upon with individual clients. The reviews focus on the consistency of portfolio investments with each client's stated objectives and risk tolerances. Reviews also consider investment restrictions requested by individual clients, investment time horizons, liquidity needs, tax considerations, and other circumstances unique to each client.

On a quarterly basis, the performance of each client account is reviewed to monitor consistency with market benchmarks that we deem applicable. Account reviews may also be triggered by other factors such as changes in general economic and market conditions, analyst reports, issuer news, and interest rate movement.

Cash levels are reviewed at least quarterly. After consideration of the above factors, allocation and investment determinations are made. Thereafter, accounts are reviewed on a transaction, monthly, quarterly, or annual basis as needed. At least annually, accounts are rebalanced to their strategic and tactical allocations. Account reviews may be triggered by potential change (beyond client's needs) including analyst reports, company news, fund management change, and interest rate movement.

Virtus's CEO is responsible for all reviews.

### B. Review of Client Accounts on Non-Periodic Basis

Virtus may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how Virtus formulates investment advice.

### C. Content of Client-Provided Reports and Frequency

Clients will receive statements from their custodian/broker-dealer at least quarterly. These statements identify the current investment holdings, the cost of each of those investments, and their current market values. Clients will also receive performance analysis reports prepared by Virtus which describe the returns realized on the investments in their accounts.

The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Virtus.

## **Item 14: Client Referrals and Other Compensation**

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Virtus does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

Virtus may enter into agreements with solicitors who will refer prospective advisory clients to Virtus in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with Virtus. The solicitor must provide the client with a disclosure document describing the fees it receives from Virtus, whether those fees represent an increase in fees that Virtus would otherwise charge the client, and whether an affiliation exists between Virtus and the solicitor.

## **Item 15: Custody**

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. Virtus urges its clients to compare the account balance(s) shown on their Virtus Quarterly Portfolio Review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to Virtus with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, Virtus will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.



## **Item 17: Voting Client Securities**

Virtus does not take discretion with respect to voting proxies on behalf of its clients. Virtus will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of Virtus supervised and/or managed assets. In no event will Virtus take discretion with respect to voting proxies on behalf of its clients.

## **Item 18: Financial Information**

### **A. Balance Sheet**

Virtus does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Virtus does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.

## Brochure Supplements

## **Brochure Supplement**

October 16, 2012

### **Virtus Private Wealth Management SEC File No. 801-63975**

**John T Chatmas  
Chief Executive Officer  
CRD No. 2208046**

7004 Bee Cave Road  
Building III, Suite 300  
Austin, Texas 78746

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website: [www.virtusprivatewealth.com](http://www.virtusprivatewealth.com)

This brochure supplement provides information about John Chatmas that supplements the Virtus Private Wealth Management brochure. You should have received a copy of that brochure. If you did not receive a Virtus Private Wealth Management brochure or if you have any questions about the contents of this supplement, please contact us at 512-891-1230.

Additional information about John Chatmas is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2: Educational Background and Business Experience

John T. Chatmas (b. 1967) is the Chief Executive Officer of Virtus Private Wealth Management.

### A. Educational Background

B.B.A., Finance, University of Texas	1993
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### B. Business Background

Chief Executive Officer, Virtus Private Wealth Management	01/2010–Present
Registered Representative, NFP Securities Inc.	11/2007–12/2010
Registered Representative, Morgan Keegan & Company, Inc.	03/2001–11/2007
Registered Representative, Dean Witter Reynolds Inc.	04/1999–03/2001
Registered Representative, Salomon Smith Barney	08/1996–04/1999

## Item 3: Disciplinary Information

Mr. Chatmas has not been the subject of any legal or disciplinary event. Mr. Chatmas has a financial disclosure on his public record. Public information concerning Mr. Chatmas's registration as an investment advisor representative may be found by accessing the SEC's public disclosure site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 4: Other Business Activities

Mr. Chatmas founded Caddie Central, Inc., a leading provider of caddie services for high-end resorts and private clubs.

Mr. Chatmas is a registered insurance agent. With respect to the provision of financial planning services, he may recommend insurance products offered by such carriers for whom Virtus professionals function as agents and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Also be advised that Virtus professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with Virtus's professionals' employing broker-dealer.

## **Item 5: Additional Compensation**

Mr. Chatmas receives additional compensation with the activities described in Item 4 above.

## **Item 6: Supervision**

Supervision of John Chatmas is performed by Gery Sadzewicz, CCO, through reviews of internal transaction and security holdings reports, electronic and physical correspondence, and other internal reports as mandated by the firm and its regulatory authorities. Gery Sadzewicz can be reached at 815-782-1250.

## **Brochure Supplement**

October 16, 2012

### **Virtus Private Wealth Management SEC File No. 801-63975**

**Terrell F. Gates  
Chief Investment Officer  
CRD No. 4041793**

7004 Bee Cave Road  
Building III, Suite 300  
Austin, Texas 78746

phone: 512-891-1230  
email: [info@virtuspw.com](mailto:info@virtuspw.com)  
website: [www.virtusprivatewealth.com](http://www.virtusprivatewealth.com)

This brochure supplement provides information about Terrell F. Gates that supplements the Virtus Private Wealth Management brochure. You should have received a copy of that brochure. If you did not receive a Virtus Private Wealth Management brochure or if you have any questions about the contents of this supplement, please contact us at 512-891-1230.

Additional information about Terrell F. Gates is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2: Educational Background and Business Experience

Terrell F. Gates (b. 1973) is the Chief Investment Officer of Virtus Private Wealth Management.

### A. Educational Background

B.A., Spanish, University of Texas	1993
M.E., Economics, University of Texas	1996
J.D., Southern Methodist University School of Law	2002

### B. Business Background

Chief Investment Officer, Virtus Private Wealth Management	09/2004–Present
Registered Representative, Regal Securities	01/2007–12/2009
Registered Representative, Samco Financial Services, Inc.	04/2006–12/2006
Registered Representative, FSC Securities Corporation	09/2004–03/2006
Wealth Management Advisor, Registered Representative Merrill Lynch	12/1999–09/2004

## Item 3: Disciplinary Information

Terrell F. Gates has not been the subject of any legal or disciplinary event. Public information concerning Mr. Gates's registration as an investment advisor representative may be found by accessing the SEC's public disclosure site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 4: Other Business Activities

Mr. Gates is the CEO of Virtus Real Estate LLC, a commercial real estate private equity sponsor, that sponsors, manages, and advises several affiliate real estate private fund vehicles and receives compensation, including performance-based compensation.

## Item 5: Additional Compensation

Mr. Gates receives compensation for the activities described in Item 4 above. A conflict of interest may exist to the extent that Mr. Gates may receive additional compensation in connection with transactions sponsored by Virtus Real Estate LLC and its affiliate entities and recommended to advisory clients of Virtus Private Wealth.

In addition to the advisory fees set forth in Item 5: Fees and Compensation of the firm's Part 2A brochure, assets invested in a pooled investment are subject to an additional management fee paid to a person or entity who is responsible for managing the pooled investment vehicle. Mr.



Gates is a related person, thus creating a conflict of interest to the extent that his total compensation may be increased.

## **Item 6: Supervision**

Supervision of Terrell Gates is performed by John Chatmas, CEO, through reviews of internal transaction and security holdings reports, electronic and physical correspondence, and other internal reports as mandated by the firm and its regulatory authorities. John Chatmas can be reached at 512-891-1230.