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VIRTUS.COM

## Form ADV, Part 2A Firm Brochure

### Item 1 – Cover Page

**Virtus Investment Advisers, Inc.**  
**100 Pearl Street**  
**Hartford, CT 06103**  
**800-248-7971**

[www.virtus.com](http://www.virtus.com)

March 31, 2014

This Brochure provides information about the qualifications and business practices of Virtus Investment Advisers, Inc. (“VIA”). If you have any questions about the contents of this brochure, please contact us at 800-248-7971. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission nor by any state securities authority.

VIA is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information you may use to determine to hire or retain an adviser.

Additional information about VIA is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Pursuant to SEC Rules, you will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, which is December 31<sup>st</sup>. We may further disclose information about material changes as necessary.

We will provide you with a new Brochure, as necessary, based on changes or new information, at any time, without charge.

You may request our Brochure by contacting VIA's Chief Compliance Officer at **860-263-4732**, or [David.Fusco@virtus.com](mailto:David.Fusco@virtus.com). Our Brochure is available free of charge upon request.

Additional information about VIA is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with VIA who are registered, or are required to be registered, as investment adviser representatives of VIA.

This Brochure does not contain material changes from our last update, dated September 19, 2013, although the following non-material changes have been made:

### Item 4:

- We have added some additional descriptions of the following: our CDO business; and our relationship with F-Squared Investments, Inc. and its involvement with our wrap advisory business; and
- Updated the amount of assets under management.

### Item 5:

- We have updated our description of our advisory fees for CDOs to reflect continuing obligations of VIA subsequent to the liquidations of CDOs served by VIA as a collateral manager.

### Item 6:

- Updated our descriptions concerning Side-by-Side Management to indicate that VIA has written compliance policies and procedures designed to mitigate or manage conflicts of interest relating thereto.

### Item 8:

- Updated our description of Methods of Analysis, Investment Strategies and Risk of Loss to outline risks of loss to client portfolios; and
- Updated our description of Equity and Fixed Income portfolio management processes and risks related to Equity and Fixed Income strategies.

### Item 10:

- Updated our affiliate list to include our new affiliate, Cliffwater Investments, LLC and to describe a minority interest of a VIA affiliate in a joint venture (Klienwort Benson Investors International, Ltd. which serves VIA as a subadviser; and
- Added disclosure concerning VIA's affiliate's pending application as a commodity pool operator.

Item 12:

- Updated our description of concerning VIA's use of step out trades with respect to its wrap clients;
- Updated our description of our soft dollar practices and soft dollar providers; and
- Updated our description of directed brokerage and trade aggregation and allocation.

Item 13:

- Updated our descriptions of our reviews of accounts; and
- Added a description of our error correction practices.

Item 16:

- Updated our description of our authority when afforded full discretion by our clients.

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## Item 4 – Advisory Business

VIA is an indirect, wholly-owned subsidiary of Virtus Investment Partners, Inc. (“Virtus”) a publicly traded multi-manager asset management business, as of December 31, 2008 (NASDAQ: VRTS). VIA has acted as an investment adviser for over 70 years, and has been an SEC registered investment adviser since 1969.

VIA offers investment advisory services to registered investment companies, a UCITS, a collective investment trust, institutional clients and separately managed accounts or individuals (directly or through wrap programs). The needs and investment guidelines of each client are carefully considered when VIA accepts new accounts. Client guidelines may include, but are not limited to, risk tolerance; security, type of security or industry restrictions; and cash or income requirements.

VIA provides investment management services under advisory and/or sub-advisory relationships. VIA may employ affiliated and non-affiliated advisers under sub-advisory relationships to perform investment management services on behalf of its registered investment company, UCITS, separately managed account and collective investment trust clients.

VIA is the collateral manager for structured products (Collateralized Debt Obligations “CDOs”) which are administered by an affiliate, Newfleet Asset Management, LLC, under a service agreement. The CDOs, which have been liquidated or are currently undergoing the process of liquidation.

VIA serves as an investment adviser or subadviser for certain separately managed (“wrap”) accounts that utilize the AlphaSector strategies. F-Squared Investments, Inc. (“F2”), an unaffiliated investment adviser, serves as a model manager for wrap accounts. VIA has entered into sub-advisory contracts with F-Squared Institutional Advisors, LLC (“F2 Institutional”) and F-Squared Alternative Investments, LLC (“F2 Alternative”), unaffiliated registered investment advisers, pursuant to which F2 Institutional or F2 Alternative provides one or more model portfolios utilized in the Virtus AlphaSector strategies for certain funds of the Virtus Opportunities Trust and the Virtus Variable Insurance Trust. VIA delegates its discretion in the implementation of the AlphaSector strategies for the aforementioned funds of the Virtus Opportunities Trust and Virtus Variable Insurance Trust to its affiliated sub-adviser, Euclid Advisors LLC. F2, F2 Institutional and F2 Alternative are affiliated with each other. In implementing the model for its wrap clients, VIA may utilize the same or different investments than those utilized in implementing the models for its mutual fund clients. VIA delegates certain wrap program trading and administrative activities to its affiliate, Kayne Anderson Rudnick, LLC. VIA receives a portion of the wrap fee for its services. See Item 5 for additional information related to fees and compensation. See Item 12 describing brokerage practices related to wrap programs.

VIA may manage accounts on a discretionary or non-discretionary basis. When managing accounts on a discretionary basis, VIA has full authority in determining which securities are purchased or sold. When

managing accounts on a non-discretionary basis, VIA performs its duties in accordance with the limitations described in the client contract. VIA primarily provides advice on publicly traded securities.

### **Types of Investments**

VIA, directly or through sub-advisory relationships, invests principally in the following types of instruments: equity securities (common stocks and equivalents) including exchange-listed securities, securities traded over-the-counter, foreign issues, American Depositary Receipts ("ADRs"), warrants, corporate debt securities (other than commercial paper), certificates of deposit, municipal securities, investment company securities, including traditional mutual fund shares and exchange traded funds ("ETFs") and United States government securities. VIA may also utilize, where appropriate, derivatives, options contracts on securities, futures contracts on intangibles, credit default swaps, participation notes, bank loans and foreign currencies both to purchase foreign securities and to hedge against the risk of a decline in the dollar.

### **Assets Under Management**

The total assets under management of VIA, as of December 31, 2013, amounted to \$39,992,600,000, all managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

VIA offers investment advisory services for a fee generally based on a percentage of assets under management. In limited circumstances, VIA may offer fixed or other fee arrangements.

Item 5 describes VIA's basic fee schedule, however, fees may be negotiable where special circumstances prevail, and arrangements with any particular client may vary from what is described. VIA may group multiple accounts of one client relationship together for purposes of calculating the fee, or VIA may not charge a fee to small accounts of a client because of the fee the client is paying on the total relationship. VIA reserves the right to negotiate fees with clients, and may charge higher or lower fees than those described above. VIA believes that its fees are competitive with those charged by other investment advisers for comparable services; however, similar services may be available from another resource for fees below those charged by VIA.

### **Advisory Fees – Registered Investment Companies**

The fee charged by VIA to any particular registered investment company client is determined by the provisions of an investment advisory contract between VIA and such investment company, which contract is approved by the investment company in accordance with the provisions of the Investment Company Act of 1940, as amended (the "Investment Company Act"). The contracts may provide that VIA shall furnish to the investment company office space and all necessary office facilities, equipment and personnel for managing the investment and reinvestment of the assets of the investment company.

The contracts may also provide for members of VIA's staff to serve, without salaries from the investment company, as officers or agents of the investment company.

Advisory fees for services rendered under existing investment advisory contracts with registered investment companies may be up to 1.50% depending upon the type and size of the portfolio. Specific advisory fees and expense related information may be found in the prospectus and/or statement of additional information describing the investment policies and restrictions for the respective portfolio.

VIA's mutual fund client agreements provide for termination without penalty generally on sixty days' notice by the client or adviser. The agreements provide for automatic termination in the event of an assignment (as such term is defined in the Investment Company Act). Terminated accounts will be charged advisory fees and additional expenses incurred by VIA in the transfer or final disposition of an advisory account.

VIA may purchase affiliated (affiliated funds are investment companies within the Virtus Mutual Funds or Virtus Variable Insurance Trust, or other funds advised or sub-advised by an affiliated adviser) or non-affiliated closed-end mutual funds, open-end mutual funds, exchange traded funds, or alternative types of investments for certain client accounts. These types of investments bear their own operating expenses, including compensation paid to their advisers and other service providers as well as other expenses and fees. An account with assets invested in these types of investment instruments will indirectly pay its share of the compensation and fees paid by these instruments, in addition to advisory fees paid to VIA. To the extent that account assets are invested in an affiliated fund, such assets are not subject to the advisory fees otherwise applicable to the account.

### **Advisory Fees - Institutional and Separately Managed Accounts**

Advisory fees for non-investment company clients are subject to negotiation, and are based on the fair market value of the assets, on an annual basis, depending on the size of the account and strategy selected. Fees are generally payable quarterly in arrears upon receipt of an invoice based on the asset values as of the close of business on the last day of the billing cycle. VIA may negotiate and enter into a performance fee arrangement with eligible clients that meet the criteria set forth under Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act").

### **Advisory Fees – Separately Managed Accounts: AlphaSector Strategies**

Separately managed ("wrap") accounts utilizing the AlphaSector strategies may receive investment advisory services directly or through wrap fee programs. Third-party wrap program sponsors with whom VIA contracts itself will typically offer comprehensive brokerage, custodial, and advisory services for a single "wrap fee," based on a percentage of assets under management. Wrap sponsors pay VIA a portion of the wrap fee in connection with VIA's advisory services. The wrap sponsor and VIA may each charge a separate fee for their respective services, under some arrangements.

- Where VIA acts as a wrap investment adviser, there will be a separate contract for each participating client, providing generally the same recordkeeping and reporting services as provided to direct fee clients. In such cases, the fee is generally paid directly by the client or authorized by the client for payment directly from the client's account.
- Where VIA acts as a wrap investment sub-adviser, it contracts with the wrap sponsor for its services rather than directly with the clients of the wrap sponsor. The wrap sponsor serves as a master investment adviser and is responsible for much of the client record-keeping and reporting. The management fees payable to the investment sub-adviser are generally lower than those paid to the investment adviser, reflecting that fewer services are provided by the investment sub-adviser.

Investment advisory fees are payable quarterly in advance based on the fair market value of the account's assets at the close of the last trading day of the preceding quarter. The fee for Premium AlphaSector is 0.95%; the fee for AlphaSector Rotation is 0.60%.

Non-mutual fund clients may terminate VIA's investment advisory contract upon appropriate written notice at any time and receive a pro-rata refund of fees that were paid in advance. A termination fee may be applicable, as discussed in specific fee schedules. At termination, VIA liquidates the client portfolio if directed by the client. In some cases, particularly in portfolios holding fixed income securities, the liquidation of such positions may require an extended period of time.

Each client should evaluate whether a given wrap program is suitable for his or her needs. The client should consider, depending upon the level of the single fee charged under a wrap program, the package of services provided. Based upon the amount of portfolio activity in the account and the value of custodial and portfolio monitoring services, the single fee may be higher or lower than the total cost of all services the client is receiving were he or she to pay for each service separately.

### **Advisory Fees – UCITS**

VIA serves as the promoter and investment manager of investment vehicles offered to non-US investors in the form of UCITS domiciled in Ireland and registered with, and regulated by, the Central Bank of Ireland.

The fee charged by VIA to any particular UCITS client is determined by the provisions of an investment manager and promoter contract between VIA and such UCITS, which contracts are approved by the UCITS in accordance with the provisions of the Central Bank of Ireland. The contracts may provide that VIA shall furnish to the UCITS office space and all necessary office facilities, equipment and personnel for managing the investment and reinvestment of the assets of the investment company. The contracts may also provide for members of VIA's staff to serve, without salaries from the investment company, as officers or agents of the investment company.



Advisory fees for services rendered under existing investment advisory contracts with UCITS may be up to 1.15% depending upon the type and size of the portfolio.

### **Advisory Fees – CDOs**

VIA has served as the collateral manager for Collateralized Debt Obligations (“CDOs”) that have been or are being liquidated but the trusts remain outstanding because certain illiquid or unmarketable investments remain in the respective portfolios. Through the liquidation dates, VIA collected a senior collateral management fee up to 0.25% per annum. In addition, VIA was eligible for but did not meet required contingencies for a cumulative subordinated fee of up to .125% per annum. All of the fees derived from the structured product for which VIA acts as collateral manager are paid to its affiliated service provider.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

VIA may receive fees based upon documented performance metrics for designated client accounts. In all cases where VIA or its affiliates charge a performance-based fee, any such arrangements will comply with Section 205 of the Advisers Act, and the rules there under, and all applicable laws and regulations.

### **Performance Based Fees – Registered Investment Companies**

VIA currently serves as adviser to a registered investment company (the “Fund”) that is subject to a performance fee that is accrued daily at an annual base rate of 1.5% of the first \$1 billion of the fund’s average daily managed assets and 1.4% of the fund’s average daily managed assets of the fund exceeding \$1 billion. The performance adjustment increases or decreases the Fund’s management fee based on how well the Fund has performed relative to the S&P 500® Index (the “Index”). The fee rate will be adjusted by adding or subtracting 0.10% (10 basis points) for each 1.00% of absolute performance by which the Fund’s performance exceeds or lags that of the Index. The maximum performance adjustment is plus or minus 1.00% (100 basis points), which would occur if the Fund performed 10 percentage points better or worse than the Index. VIA pays the sub-advisers to the Fund 100% of the performance adjustment.

Performance is measured for purposes of the performance adjustment over the most recent 36-month period (i.e., a rolling 36-month period), consisting of the current month for which performance is available plus the previous 35 months. This comparison will be made, and the advisory fee adjusted, at the end of each month. During the period from February 6, 2012 to February 5, 2013, no performance adjustment applied, and the Fund paid the base fee without adjustment. Beginning on February 6, 2013, the performance adjustment is calculated based upon the cumulative performance period since February 6, 2012; after 36 months have elapsed since that date, the Fund will begin calculating the performance adjustment based upon the most recent 36-month period on a rolling basis. In calculating the Fund’s investment management fee when the performance adjustment applies, the fee rate as adjusted will be multiplied by the Fund’s average daily Managed Assets over the same time period used to determine the level of the adjustment (generally, a rolling 36-month period, as set forth above). “Managed Assets”

means the total assets of the Fund, including any assets attributable to borrowings, minus the Fund's accrued liabilities other than such borrowings.

Any performance adjustment will be based upon the Fund's performance compared to the performance of the Index. A performance adjustment will not be based on whether the Fund's absolute performance is positive or negative, but rather based on whether the Fund's performance is better or worse than the performance of the Index. The Fund could therefore pay a performance adjustment for positive relative performance even if the Fund's shares decrease in value, so long as the fund's performance exceeds that of the Index.

Clients should be aware that the account subject to this performance fee may hold short positions while other client accounts hold long positions in the same or similar issuer. In addition, VIA or its subadviser may be selling an issuer for this account while other accounts are purchasing the same or similar issuer or vice versa.

### **Side-by-Side Management**

"Side-by-side management" refers to the simultaneous management of multiple types of client accounts/investment products. VIA, sub-advisers and/or affiliates manage numerous accounts with a variety of strategies, which may present conflicts of interest. VIA, sub-advisers and/or affiliates may be short a security in one client account and long the same or substantially similar security in another client account due to different client investment objectives and strategies. Additionally, VIA, its sub-advisers and/or affiliates may be selling or selling-short securities for one or more client accounts while purchasing the same or substantially similar securities for other client accounts. VIA has written compliance policies and procedures designed to mitigate or manage these conflicts of interest, including policies and procedures regarding the equitable allocation of investment opportunities.

### **Item 7 – Types of Clients**

VIA currently provides investment services and manages investment advisory accounts for: open-end investment companies, closed-end investment companies, UCITS, separately managed accounts (including individuals and trusts), a collective investment trust structured financial products ("CDOs").

VIA also offers investment advisory services to separately managed accounts, directly or through wrap fee programs, which utilize the AlphaSector strategies. VIA has entered into model manager agreements with F2 pursuant to which F2 provides the model portfolios of AlphaSector strategies.

VIA serves as a promoter and investment manager of investment vehicles offered to non-US investors in the form of UCITS domiciled in Ireland and registered with, and regulated by, the Central Bank of Ireland.

Each new client of VIA is required to enter into a signed written investment agreement outlining investment guidelines, fees, and other conditions for starting or maintaining an account (such as minimum account size). The Board of Trustees or Directors for each registered investment company establish guidelines and restrictions. These guidelines may be found in each fund's prospectus.

Generally, the minimum size of an institutional managed account is \$10 million. The minimum size for the separately managed accounts are typically determined by the separately managed account platform sponsor or operational provider, and can range from \$100,000 to \$250,000. VIA may waive any and all minimum account requirements at its sole discretion, and may accept or continue to provide services to smaller accounts at its sole discretion.

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

The results for individual portfolios will vary depending on market conditions and the portfolio's overall composition. All investments carry a certain degree of risk including the possible loss of principal and there is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results. Clients should not assume that portfolio investments in securities will be profitable.

When VIA does not enter into model manager agreements (as described above with respect to certain wrap fee programs) or sub-advisory arrangements, VIA's security analysis methods may include fundamental and technical analysis, as well as charting and cyclical review.

Sources of information VIA may use include financial newspapers and magazines, research materials provided by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases. Other sources may include discussions of company activities with company spokespersons and others with knowledge of such activities, industry and trade publications, and statistical data prepared by others.

The investment strategies used to implement any investment advice given to clients may include one or all of the following:

- Long term purchases (securities held at least one year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Leverage in the form of borrowing
- Short Sales of securities
- Option writing, including covered options, uncovered options or spread strategies
- Derivative contracts, credit default swaps and participation notes to gain or reduce synthetic exposure to one or more portfolio risks.

The value of securities used in any of these strategies, whether equity or fixed, may go up, or down, in response to factors not within the control of the investment manager, such as the status of an individual company underlying a security, or the general economic climate.

*Investors should be aware their investment is not guaranteed and understand that there is a risk of loss of value in their investment.*

## **Equity**

When not employing the services of a model manager (as described above with respect to certain wrap fee programs) or a sub-adviser, equity strategies which may be used by VIA or a sub-adviser include, in addition to common stock, other equity securities (e.g., preferred stock), affiliated and unaffiliated open-end mutual funds, and exchange traded funds. Methods VIA may employ when managing direct accounts include econometric analysis as the framework for security selection that is influenced by macro forces, quantitative factors, and bottom-up fundamental research. The stock selection process begins with a top-down approach and econometric sector analysis. Industry level and fundamental security analysis is then utilized to identify securities that the portfolio managers believe offer superior return opportunity and growth at a reasonable price.

VIA may use a variety of sources of information to facilitate such analysis. In particular, VIA may consult with securities analysts, selected broker-dealers, market-makers, economists, and others in formulating investment strategies. VIA also may attend company presentations and participate in interviews and inspections of certain companies. In addition to inspections of corporate activities, VIA may engage in discussions with management and others having business with the company or expertise in a particular industry. VIA also regularly monitors newspapers, magazines, and industry and trade journals; websites; information and research provided by affiliated and unaffiliated analysts and consultants; corporate rating services; annual reports, prospectuses, and other regulatory filings; and information published by the company, such as press releases.

### Principal Risks related to Equity Strategies:

#### *Equity Securities Risk*

Generally, prices of equity securities are more volatile than those of fixed income securities. The prices of equity securities will rise and fall in response to a number of different factors. In particular, equity securities will respond to events that affect entire financial markets or industries (such as changes in inflation or consumer demand) and to events that affect particular issuers (such as news about the success or failure of a new product). Equity securities also are subject to “stock market risk,” meaning that stock prices in general may decline over short or extended periods of time.

#### *Foreign Investments Risk*

Investing in securities of non-U.S. companies involves special risks and considerations not typically associated with investing in U.S. companies, and the values of non-U.S. securities may be more volatile than those of U.S. securities. The values of non-U.S. securities are subject to economic and political developments in countries and regions where the issuers operate or are domiciled, or where the securities

are traded, such as changes in economic or monetary policies, and to changes in currency exchange rates. Values may also be affected by restrictions on receiving the investment proceeds from a non-U.S. country.

#### *Depository Receipts Risk*

Depository Receipts are typically issued by a financial institution (“depository”) and evidence ownership interests in a security or a pool of securities (“underlying securities”) that have been deposited with the depository. For ADRs, the depository is typically a U.S. financial institution and the underlying securities are issued by a foreign issuer. Depository Receipts will not necessarily be denominated in the same currency as their underlying securities. Depository Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities traded in the form of Depository Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depository Receipts.

#### *Emerging Markets Risk*

The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Emerging market countries typically have economic and political systems that are less fully developed, and can be expected to be less stable than those of more developed countries. For example, the economies of such countries can be subject to rapid and unpredictable rates of inflation or deflation. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. They may also have policies that restrict investment by foreigners, or that prevent foreign investors from withdrawing their money at will. Certain emerging markets may also face other significant internal or external risks, including the risk of war and civil unrest. For all of these reasons, investments in emerging markets may be considered speculative.

### **Fixed Income**

When not employing the services of a model manager (as described above with respect to certain wrap fee programs) or a sub-adviser, VIA may invest in corporate, municipal, sovereign domestic and foreign fixed income securities of varying maturities. VIA’s fixed income investment process employs a relative value approach. Many sources of information may be utilized including credit research, yield curve positioning, specific security structure, sector valuations and geographic prospects to identify the best opportunities within the bond market to meet investment objectives.

The individual issue selection process for fixed income securities is based on fundamental credit analysis, which includes reviewing financial statements to measure the issuer’s debt-paying ability over the term of the bond, analyzing the bond’s sector and its future prospects, speaking with key issuer personnel, and/or reviewing the bond’s rating history with the major rating agencies and credit enhancer if insured. After

reviewing the creditworthiness of the issuer, the bond's price is reviewed on a historical basis and relative to similar issues in the market to determine fair valuation. Lastly, technical market conditions are analyzed, specifically the supply and demand of the issuer, sector, structure, or geographic region to identify the relative value of the individual bond.

Oversight continues with review of unusual price movements, online news and rating events, issuer financials and relative valuation changes among securities. Some of the tools that may be utilized in the process include in-house credit research, broker-dealer research and strategy ideas, rating agency research and reports (access to Moody's, S&P, and Fitch rating information), Bloomberg, Barclay's index reports, and proprietary portfolio reporting and analysis software. Independent third party credit research and market analysis may also be utilized for the selection process.

#### Principal Risks related to Fixed Income Strategies:

##### *Debt securities risk:*

Debt securities are subject to various risks, the most prominent of which are credit risk and interest rate risk. Credit risk is the risk that the issuer of a security will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of the security to decline. Debt securities rated below investment-grade are especially susceptible to this risk. Interest rate risk exists because the values of debt securities usually rise and fall in response to changes in interest rates. Interest rate risk is generally greater for investments with longer maturities. These risks can affect a security's price volatility to varying degrees, depending upon the nature of the instrument.

##### **Other**

When not employing the services of a model manager (as described above with respect to certain wrap fee programs) or a sub-adviser, VIA may enter into other types of financial or securities transactions including the following:

- VIA may enter into derivative transactions for its clients so long as the use thereof is consistent with established client investment guidelines. A derivative is a financial arrangement between two parties whose payments or values are based on, or "derived" from, the performance of some agreed upon benchmark. Common benchmarks include securities, indices, commodities, interest rates, currency exchange rates, securities spreads and other assets or economic benchmarks with varying degrees and types of associated risks. Derivatives can be used for a variety of reasons. For example, hedging against price movements in markets in which a portfolio anticipates increasing its exposure; reducing the risk of fluctuations in the value of investments denominated in foreign currencies; modifying the risk/return profile of a portfolio without trading securities held by the portfolio; and more efficient transactions costs. Derivatives can be used to achieve these and other goals. VIA may write covered call options on securities and securities indices and purchase call and put options on securities and securities indices. In addition, an appropriate transaction may be utilized to close an open options position.



- VIA may also utilize financial futures and related options for hedging and risk management purposes.

VIA may employ leverage in the form of borrowing and VIA may sell securities short as part of its overall portfolio management strategies and in accordance with established client guidelines. A short sale is a transaction in which a security not owned by the client is sold in anticipation that the market price of that security will decline.

There are significant risks associated with derivatives, credit default swaps, participation notes, borrowing, short sales of securities and options that can result in the loss of principal, or, in certain cases, the loss of more than the initial investment.

#### *Risks Associated with Derivatives, Credit Default Swaps and Participation Notes*

The primary risks associated with derivatives, credit default swaps and participation notes are (i) market risk, which is the risk that the market value of the investment will decline, (ii) credit risk, which is the risk that the counterparty to the transaction will default on its obligations, (iii) liquidity risk, which is the risk that the instrument will not be readily marketable and (iv) valuation risk, which is the risk that because the instrument is thinly traded, it may have only one pricing source.

#### *Borrowing Risk*

When an account that is a registered investment company borrows money, it may be required to maintain continuous asset coverage (total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed. If the asset coverage declines, for example as a result of market fluctuations, the account may be required to sell some of its portfolio holdings quickly to reduce the debt and restore the required asset coverage, even though it may be disadvantageous from an investment standpoint to do so. Borrowing may exaggerate the effect on the account's net asset value of any increase or decrease in the market value of the portfolio. Money borrowed will be subject to interest costs that may or may not be offset by appreciation of the securities purchased. The account also may be subject to other conditions or fees that would increase the cost of borrowing over the stated interest rate. The various costs of borrowing may therefore ultimately exceed the income or potential capital gains from investments made with such leverage.

#### *Short Sales Risk*

In order to establish a short position in a security, an account must first borrow the security from a broker or other institution to complete the sale. The account may not always be able to borrow a security, or to close out a short position at a particular time or at an acceptable price. If the price of the borrowed security increases between the date of the short sale and the date on which the account replaces the security, the account may experience a loss. The account's loss on a short sale is limited only by the maximum attainable price of the security (which could be limitless) less the price the account received for the security at the time it was borrowed. When engaging in short sales, the account will transact with a prime broker. In the event that the prime broker becomes insolvent, the account may be unable to settle pending short sales, engage in additional short sales and/or access its assets that are held by the broker for a period of time.

*Risks Associated with the Purchase and Writing of Options*

During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity to profit from a price increase in the underlying securities above the exercise price, but, as long as its obligation as a writer continues, has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying securities at the exercise price. If a call option purchased for a client account is not sold when it has remaining value, and if the market price of the underlying security remains less than or equal to the exercise price, the client account will lose its entire investment in the option. Also, where an option on a particular security is purchased to hedge against price movements in a related security, the price of the option may move more or less than the price of the related security. There can be no assurance that a liquid market will exist when seeking to close out an option position. Furthermore, closing out an option position may not be possible if trading restrictions or suspensions are imposed on the options market.

Investment strategy and use of derivatives, borrowing, short sales of securities and options by sub-advisers is further disclosed in the sub-advisers Form ADV Part 2 and/or the fund's prospectus and statement of additional information.

## Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of VIA, or the integrity of VIA's management. VIA has no information applicable to this item.

## Item 10 - Other Financial Industry Activities and Affiliations

VIA is an indirect, wholly-owned subsidiary of Virtus, a publicly traded multi-manager asset management business, as of December 31, 2008 (NASDAQ: VRTS).

VIA acts as investment adviser to registered investment companies offered by the Virtus Mutual Funds (i.e., Virtus Equity Trust, Virtus Insight Trust, Virtus Opportunities Trust) Virtus Total Return Fund, Virtus Global Multi-Sector Income Fund and Virtus Variable Insurance Trust.

VIA serves as a promoter and investment manager of the Virtus Global Funds plc, an investment vehicle offered to non-US investors in the form of a UCITS domiciled in Ireland and registered with, and regulated by, the Central Bank of Ireland.

VP Distributors, LLC, a subsidiary of Virtus, is a registered broker-dealer, which serves as the underwriter and distributor of the open-end registered investment companies for which VIA acts as



adviser. Virtus Fund Services, LLC, an affiliate of VIA serves as the administrator and transfer agent to certain funds for which VIA and its affiliates act as the adviser or subadviser. Additionally, Virtus Fund Services, LLC is the administrator for the open-end registered investment companies advised by other affiliates of VIA, including the Duff & Phelps Global Utility Income Fund Inc., The Zweig Fund, Inc. and The Zweig Total Return Fund, Inc. Personnel of VIA, including management persons, may be FINRA registered representatives under VP Distributors. Marketing and sales employees of Virtus affiliates, who are registered representatives, may only represent Virtus products and services of Virtus affiliated advisers to other registered representatives and advisers, never directly to the consumer.

The following advisers are all subsidiaries of Virtus and affiliates of VIA: Cliffwater Investments LLC, Duff & Phelps Investment Management Co., Euclid Advisors LLC ("Euclid"), Kayne Anderson Rudnick Investment Management, LLC, Newfleet Asset Management, LLC, Newfound Investments, LLC, Rampart Investment Management Company, LLC, Virtus Alternative Investment Advisers, Inc. ("VAIA") and Zweig Advisors LLC. Certain of these are sub-advisers to funds for which VIA is the investment adviser. In addition, Virtus holds a 24 percent interest in [Kleinwort Benson Investors International, Ltd.](#) ("KBII"). KBII is a subadviser for VIA.

VAIA has an application pending to register as a commodity pool operator. Management persons of Euclid may be an associated person of the foregoing entity.

The investment management services of VIA are offered by Virtus under its multi-adviser asset management platform. Distribution of investment products and services offered in conjunction with this platform may involve VIA, its affiliates, and other entities in support of these activities. There may exist certain potential or actual conflicts of interests within these interrelationships, which may or may not be readily apparent to an investor.

In a variety of instances, VIA may utilize the personnel and/or services of one or more of its affiliates in the performance of its business including, without limitation, investment advice and portfolio management, trading, back office processing, accounting, reporting and client servicing. Such utilization may take a variety of forms including dual employee or delegation arrangements, formal sub-advisory or servicing agreements, or other formal and informal arrangements among VIA and its affiliates. When VIA utilizes such personnel and services of its affiliates, VIA remains responsible for the account within the framework of the Advisers Act and/or other applicable regulatory frameworks and the relevant investment management agreement, and no additional fees are charged to the client for the affiliates' services except as set forth in the investment management agreement.

Additionally, Virtus and its affiliates may enter into marketing or sponsorship arrangements with third parties, sub-advisers and brokerage firms to promote the distribution of proprietary investment products including, but not limited to, mutual funds, closed-end funds, managed accounts or the general enhancement of the Virtus marketing image. Such third parties, sub-advisers and brokerage firms may concurrently have advisory, distribution or other relationships with VIA. These arrangements may or may not necessarily result in additional assets under management by VIA or inure to the direct or indirect benefit of clients of VIA.

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

To fully protect the interests of VIA's clients, VIA has adopted the Virtus Code of Conduct and a Code of Ethics for personal trading, which are designed to prevent and detect possible conflicts of interest with client trades. Compliance with these codes is a condition of employment. All of our supervised persons must acknowledge their terms annually, or as amended.

Any employee found to have engaged in improper or unlawful activity faces appropriate administrative and legal action. It is the responsibility of each associate to ensure that they and those they manage are conducting business professionally and are complying with the procedures and policies governing VIA's collective responsibility. Any employee becoming aware of others engaged in wrongdoing or improper conduct must immediately report such activity to their supervisor and compliance officer. Failure to do so may result in additional action being taken against that individual. Virtus has established formal reporting procedures and a confidential 24-hour "hotline" for the purpose of employees requesting assistance concerning the reporting of violations of the Code of Conduct or other related policies.

VIA or a related person may recommend that clients buy or sell securities or investment products in which VIA or a related person has some financial interest. Likewise, VIA or a related person may buy or sell securities that VIA also recommends to clients. The following highlights some of the provisions of the Virtus Code of Conduct:

### *Virtus Code of Conduct*

#### Commitment to Shareholders

- Conflicts of interest
- Insider trading and personal trading
- Market timing

#### Commitment to Customers

- Safeguarding assets
- Other market conduct
- Privacy

#### Commitment to Corporate Citizenship

- Complying with the legal and regulatory requirements
- Anti-money laundering
- Lobbying and political contributions

#### Commitment to Employees

- Equal opportunities
- Sexual harassment
- Workplace safety

#### Commitment to Ethics and Compliance

- Ethical decision-making
- Monitoring Code compliance
- Whistleblower protection

A complete copy of the Virtus Code of Conduct is available upon request.

#### *VIA Code of Ethics*

The following highlights some of the provisions of the VIA Code of Ethics:

- Pre-clearance is required for all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling at the same time as the firm.
- 60 day holding period for covered securities.
- Brokerage provision of duplicate copies of brokerage statements and confirmations to our Compliance Department, or the electronic equivalent.
- Employee provision of Initial Holdings Reports, Quarterly Transaction Reports, and Annual Certification and Holdings Reports, which our Compliance Department reviews for trading activity.
- Requirement that personal transactions be consistent with the Code of Ethics in a manner that avoids any actual or potential conflict of interest.
- Any covered employee not in observance of the above may be subject to discipline.

VIA does not purchase or sell securities for its own account. VIA's directors, officers, and employees may buy, hold, or sell the same investments for their own accounts as are held or to be held or sold for a client account.

None of VIA's directors, officers, or advisory persons may buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction and that they know at the time of such transaction that is being bought, sold, or considered for purchase or sale for a client account, unless:

- they have no influence or control over the transaction from which they will acquire a beneficial interest
- the transaction is non-volitional on their part or the client's
- the transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer's securities, or
- they have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations

VIA's officers and employees are encouraged to invest in shares of Virtus Mutual Funds.

VIA has adopted the Insider Trading Policy and Procedures designed to mitigate the risks of VIA and its employees misusing and misappropriating any material non-public information that they may become aware of, either on behalf of VIA's clients or for their own benefit. The policy applies to every

Supervised Person of VIA and extends to activities both within and outside their duties to VIA, including for an employee's personal account.

VIA endeavors to ensure that the investment management and overall business of the firm complies with both VIA and Virtus policies and applicable U.S. federal and state securities laws and regulations.

A complete copy of VIA's current Code of Ethics is available by sending a written request to Virtus Investment Advisers, Inc., Attn: Corporate Compliance, 100 Pearl Street, Hartford, CT 06103.

## Item 12 – Brokerage Practices

VIA is aware of its fiduciary obligation to seek the "best execution" of client transactions. Best execution is not measured solely by reference to commission rates. VIA believes that paying fair and reasonable commission rates to broker-dealers in return for quality execution services benefits clients. Best execution is a process that entails the efficient placement of orders, clearance, settlement and overall execution quality, as well as the price obtained for the transaction. VIA allocates client transactions to unaffiliated broker-dealers in the best interest of its clients, based on its review of the current market, and the broker-dealer. Various factors must be considered in the selection of broker. The primary factors include the broker's execution capabilities, particularly with the size and difficulty of the transaction, the commission rate to be charged for the transaction, and the broker's operational facilities which should allow the timely and error-free settlement of the transaction. Other factors which may be considered when placing trades are the overall quality of the service provided by the broker, including transactional brokerage and research, and the value of an ongoing relationship with the broker.

VIA may utilize "step-out" trades if it believes such trades will help obtain best execution. Step-out trades may benefit clients by allowing VIA to find liquidity and execute trades with natural buyers or sellers on terms more favorable than might otherwise be available from the designated broker-dealer, whether directed or non-directed. VIA will do so when it believes that doing so will cause trades to be effected more efficiently for its clients. A step-out trade is one in which VIA places the order for a transaction for one or more client accounts with a broker (the "Step-out Broker"), other than the broker that the client has directed VIA to utilize (the "Directed Broker"). The Step-out Broker reports a net price, which may include a mark-up for executing the transaction. The Directed Broker receives the compensation, if any, shown on the confirmation. This compensation is at whatever commission rate or wrap fee the client has negotiated. Thus, the clients that participate in a step-out transaction may pay different transaction costs. The Directed Broker receives the agreed upon commission or wrap fee and the client obtains the execution at a favorable price. A wrap client may incur an additional "net" trade cost if a trade is made away from their wrap sponsor. For fixed income trades, the commission is not shown on the trade confirmation, but is reflected in the negotiated price of the bond. VIA believes that it is able to effect trades away from the designated broker in order to obtain best execution without jeopardizing its business relationships and, in any case, its policy and practice is to act in the best interest of its clients. Directed brokerage clients that do not allow VIA to participate in step-out trades may pay a higher cost than clients

that allow VIA to participate in step-out trades. Accounts that participate in step-out trades may incur additional transaction costs.

VIA generally has full authority to determine the broker-dealers through which transactions for any directly managed investment company(ies) are executed. VIA will consider the same factors to seek best execution for its managed investment companies as are described above.

With respect to its investment company clients delegated to sub-advisers, VIA allows the sub-adviser to determine the broker-dealers through which such transactions are allocated.

With respect to any trading not delegated to sub-advisers or service providers, VIA has established a formal Brokerage Committee consisting of members from investment management, trading and compliance. The Brokerage Committee meets regularly to review the brokerage allocation activity of the firm. The Brokerage Committee reviews and approves any new arrangements for research and brokerage services provided by brokers. This committee serves as a focal point in managing VIA's brokerage allocation practices in an effort to ensure there are no improprieties or undisclosed referrals affecting the selection of brokers or allocation of brokerage transactions.

#### **Research and Other Soft Dollar Benefits**

The following information is applicable when VIA does not delegate investment management services to subadvisers:

- Each year, VIA considers the amount and nature of research and research services provided by brokers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its clients on the basis of that consideration. The actual allocation of brokerage business may vary from year to year, depending on VIA's evaluations of all applicable considerations. In no case will VIA make binding commitments as to the level of brokerage commissions it will allocate to a broker, nor will it commit to pay cash if an informal target is not met.
- Subject to the criteria of Section 28(e), VIA may pay a broker commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by or through the broker. VIA believes it is important to its investment decision-making processes to have access to independent research. Research and data furnished by brokers may be used to service any or all of VIA's clients and may be used in connection with accounts other than those making the payment to the broker providing the research and/or data, as permitted by Section 28(e).
- VIA generally seeks to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate but does not represent that this will always be the case. There can be no assurance that VIA will allocate in a particular manner. A conflict of interest may exist by reason of VIA's allocation of the costs of such services and benefits between those that

primarily benefit VIA and those that primarily benefit its clients. When VIA uses client brokerage commissions to obtain research and other products or services, VIA receives a benefit because VIA does not need to produce or pay for the research, other products or services. VIA further benefits from the ability to obtain this information without additional expense related to personnel costs or direct payments to providers. VIA may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services rather than our clients interest in receiving the most favorable execution.

- The risks associated with soft dollars are managed through the Brokerage Review Committee.
- Brokerage and research services provided by brokers may include effecting securities transactions and performing services incidental thereto (such as clearance, settlement, and custody), and providing information regarding: the economy; industries; sectors of securities; individual companies; statistical information; taxation; political developments; legal developments; technical market action; pricing and appraisal services; credit analysis; risk measurement analysis and performance analysis. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, computer software, and meetings arranged with corporate and industry spokespersons, economists and government representatives.
- In some cases, research services are generated by third parties but may be provided to VIA by or through brokers VIA utilizes for execution of transactions. Such brokers may pay for all or a portion of data-feed service costs relating to the pricing of securities. VIA uses a variety of securities quotation services for day-to-day portfolio management of some or all of its accounts and also for end of the month pricing for its portfolio accounting needs. These services include Bloomberg, Factset, New York Stock Exchange, National Association of Security Quotations, Option Price Reporting, and Chicago Board of Trade. Additional statistics, analytical tools and news used solely for portfolio management purposes may be received from Bloomberg, Factset, Stovel Research, Dow Jones and Company, Holt Lens, The Markets.com, Valu-Trac Research, ISI Group, Silver Dog and Renaissance Macro Research.

From time to time, VIA or its sub-advisers may purchase new issues of securities for an account when appropriate, including affiliated and proprietary accounts, in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling the securities to clients, provide VIA with research. The Financial Industry Regulatory Authority (formerly National Association of Securities Dealers) has adopted rules expressly permitting these types of arrangements under certain circumstances. Generally, the seller will provide research “credits” in these situations at a rate that is higher than that which is available for typical secondary market transactions. These arrangements may not fall within the safe harbor of Section 28(e).



**Directed Brokerage**

VIA accepts direction from clients regarding the brokers to be used for such clients' accounts. Clients may have existing arrangements permitting them to offset certain administration, accounting, custody, consultant, or other fees in relation to the amount of brokerage transactions handled by a specific broker. At the same time, VIA and/or related entities may have arrangements to receive products or services provided by the same intermediary, which are separate from the arrangement negotiated by the client. Nevertheless, in following the client's direction to use a particular broker to execute either all or part of the brokerage transactions from their accounts, clients must be aware that, in so doing, they may adversely affect VIA's ability to, among other things, obtain volume discounts on blocked orders to obtain best price and execution.

Other than to satisfy its obligation to seek best execution, VIA does not have authority to determine the broker/dealer(s) to be used for a wrap account or for a direct fee account when the client has directed VIA to use a specific broker/dealer. Generally, in the absence of specific written instructions from a client, VIA will have complete discretion with respect to the accounts of non-investment company clients without any limitations on its authority. However, whether an account is accepted or the management of an account is continued may depend upon the nature and extent of the instructions given by a client.

When directed trades for selected accounts are placed through a brokerage firm other than that which is executing the block trade, those trades may trail the complete block-trading program. The prices of those securities may have already been impacted by the prior block trade, so that the cost or sales prices of the securities in the directed account will not necessarily be the same as those executed as part of the block. Therefore, performance of the directed account may differ from that of the non-directed accounts.

Different accounts, or types of accounts, utilizing the same investment model, may generate buy and/or sell programs that are not communicated at the same time.

**Trade Aggregation and Allocation**

VIA performs investment advisory services for various clients. VIA may give advice, and take action, with respect to any of those clients which may differ from the advice given, or the timing or nature of action taken, with respect to any one other account. When not employing services of a sub-adviser, VIA, to the extent practical and over a period of time, allocates investment opportunities to each account on a fair and equitable basis relative to other similarly-situated client accounts.

The separately managed accounts, wrap fee programs, collective investment trust and mutual funds may trade in the same securities at different times, through different brokers, and, therefore, may obtain different execution of trades.

VIA causes trades to be effected through various broker-dealers that have different operating procedures for different clients requiring varying levels of administrative attention. This means that orders generated as a result of buy and sell programs generally are not communicated at the same time. In some cases,

particularly those involving the wrap fee programs, an extended period may be required for completion. VIA utilizes services provided by its affiliate, Kayne Anderson Rudnick Investment Management, LLC ("KAR") to administer trading on behalf of its wrap fee program clients. KAR may rotate the sequence in which orders are communicated to the various broker-dealers in an effort to ensure equal treatment to clients over time. When trades are made through this rotation, different clients will receive different prices; however, the computer-driven rotation statistically balances the impact of the potential price differences. The AlphaSector strategy mutual funds advised by VIA and sub-advised by Euclid Advisors LLC do not participate in this rotation.

When not employing services of a sub-adviser, VIA may aggregate orders, or "block trade," for several clients as part of its effort to obtain best execution. Each client that participates in a block trade receives the average share prices and, subject to any individually negotiated commission and/or fee arrangements, a pro-rata portion of the transaction cost. Because some clients may have different brokerage arrangements, some client accounts may not be eligible to participate in block trades. In addition, VIA may allocate on a basis other than pro rata, if, under the circumstances, such other method of allocation is reasonable, does not result in improper or undisclosed advantage or disadvantage to non-client accounts, and results in fair access over time to trading opportunities for all eligible managed accounts. For example, VIA may identify investment opportunities that are more appropriate for certain accounts than others, based on such factors as security restrictions, tax status, account size, available cash and cash flows. Consequently, VIA may decide it is more appropriate to place a given security in one account rather than another account. Other non-pro rata methods include rotation allocation and random allocation. Alternative methods of allocation are appropriate, for example, when the transaction size is too limited to be effectively allocated pro rata among all eligible accounts. There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner.

Clients should be aware that some types of purchase or sale transactions cannot be included in aggregated orders. For instance, trades resulting from the opening and closing of accounts, from contributions or withdrawals from existing accounts, or accounts with highly particularized investment policies or restrictions, often must be executed on an individual basis rather than aggregated with other trades. In such cases, clients may not receive as favorable executions as they might otherwise receive from aggregated orders.

When not employing services of a sub-adviser, fixed income trade allocations are usually determined prior to the placement of a trade. However in those circumstances where an order is only partially filled or when a security is acquired prior to determining the allocation, the trader allocates the trade in a manner that is intended to be fair and equitable to all affected accounts.

Securities for fixed-income discretionary accounts are traded either through competitive bid/offers by comparison of bids/offers, or thorough comparison of price level with levels seen in the market. In the case of broker directed trades, every effort is made to being the trade in-line with the institutional market.

When not employing services of a sub-adviser, VIA may purchase municipal bonds for discretionary accounts. When doing so, comparisons are made between the bond being offered and bonds with similar



characteristics trading in the market at the time. Comparisons are made based on credit name, structure (e.g. coupon, maturity, and call/put options), underlying credit rating, credit enhancement, municipal sector, etc. When selling municipal bonds for broker discretionary accounts multiple bids are sought. In the case of broker directed trades, best efforts are made to bring the trade price in line with the institutional market. On broker directed accounts where the client or broker does not allow VIA to step-out trades, the client could incur a higher cost than broker discretionary accounts.

VIA may direct the purchase of securities on behalf of clients, including affiliated and proprietary accounts, in secondary market transactions, in public offerings directly from an underwriter or in privately negotiated transactions with an issuer. Securities purchased in public offerings may be resold shortly after acquisition in the immediate aftermarket for the security in order to take advantage of price appreciation from the public offering price or for other reasons. Short-term trading of securities acquired in public offerings, or otherwise, may result in higher portfolio turnover and associated brokerage expenses.

Where consistent with a client's investment objectives, investment restrictions, and risk tolerance, VIA may purchase securities sold in underwritten public offerings for client accounts, affiliated accounts and proprietary accounts. Securities obtained through such public offerings are allocated among participating client accounts in a manner believed to be fair and equitable so as not to unfairly discriminate in favor of certain clients or types of accounts. When a VIA receives a reduced amount of the offering, the portfolio manager will reduced allocation amounts proportionally among the client accounts set forth in the initial allocation instructions, except where this would result in de minimis allocation to any client account.

To reduce transaction costs and promote trading efficiency, VIA may engage in inter-account transactions between certain client portfolios and/or portfolios managed by affiliates of VIA for which VIA shares traders and portfolio managers. VIA and, if applicable, its affiliate(s) will only enter into inter-account transactions when determined to be in the best interests of all affected clients. Furthermore, such transactions will be consistent with Advisers Act and other applicable regulations including Rule 17a-7 of the Investment Company Act (to the extent that such transactions include mutual funds), ERISA (to the extent that such transactions include entities regulated there under); or will be made only when permitted by the advisory account(s) affected.. VIA will comply with the applicable disclosure and consent requirements associated with such transactions under the Advisers Act, as necessary.

### Item 13 – Review of Accounts

VIA provides investment advisory services to registered investment companies, UCITS and a collective investment trust and CDOs. The respective Board of Trustees (or Directors, as applicable) of each of the aforementioned entities establishes guidelines and restrictions with respect to investment strategies that include the types of securities to be bought and sold. Such guidelines can be found in the applicable prospectus and Statement of Additional Information.

VIA monitors its client portfolios for performance and compliance with applicable investment restrictions. In its capacity as manager of affiliated and unaffiliated sub-advisers to the Virtus Mutual

Funds, Virtus Global Multi-Sector Income Fund, Virtus Total Return Fund, Virtus Variable Insurance Trust, UCITS and collective investment trust, VIA sets the overall investment strategies; evaluates, selects, and recommends to the Board of Trustees sub-advisers needed to manage all or part of the assets within these series; monitors and evaluates the sub-advisers' investment programs and results; and reviews the series' compliance with the stated investment objectives policies and restrictions.

Information maintained in separately managed accounts, wrap program accounts, and institutional client files includes the client's investment objectives and guidelines, overall investment strategy, asset allocation targets, cash distribution requirements, and any special portfolio restrictions. Generally, VIA representatives meet with the respective Mutual Fund Boards of Trustees (or Directors) at least quarterly to review the performance and other account attributes. This information is used as a basis for the review of client accounts. Generally, wrap program accounts are provided quarterly reports identifying holdings, and for some programs, performance. Where accounts are managed through a sub-advisory relationship with a wrap program, the program sponsor maintains the client account information and provides the adviser, and/or administrator for the adviser, with electronic access to the information.

In the case of wrap programs where VIA serves as investment sub-adviser, the program sponsor maintains and provides VIA (or its affiliate) with electronic access to the information contained in client record-keeping accounts. Generally, each account is invested using an approved model portfolio for the chosen strategy. Once initially invested, the account is continuously monitored for any drift or variance from the model portfolio weightings and client guidelines. This process is conducted by portfolio management associates at our affiliate Kayne Anderson Rudnick. Based upon the sponsor's preference, generally wrap program accounts are provided quarterly reports identifying holdings and, for some programs, performance.

### **Error Correction**

Although VIA takes all reasonable steps to avoid errors in our trading process, occasionally errors do occur. It is our policy that trade errors be identified and resolved promptly, and resolved in a manner consistent with VIA's fiduciary duty to its clients. Consistent with this duty, the overriding goal in trade error resolution is to seek to place the client in the same position that the client would have been in had the error not occurred. There is no single method of calculating gains, losses or compensation due as a result of a trade error. The determination of which method is highly dependent on the facts and circumstances of an error. VIA will determine the most appropriate calculation methodology on a case-by-case basis in light of the specific facts and circumstances of each trade error.

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

VIA, or a related person, does not have any arrangements where it receives compensation (including cash, commissions, equipment or non-research services) from a non-client in connection with giving advice to clients. VIA may enter into such arrangements pursuant to written agreement.

VIA may have arrangements through which an individual or entity not considered a supervised person of VIA may be compensated for client referrals. VIA may permit certain designated persons (referred to as "Solicitors") to refer potential clients to VIA. Any solicitor will be required to enter into a written agreement with VIA that contains an undertaking that the Solicitor will deliver a disclosure document

relating to VIA and a separate disclosure document relating to the Solicitor's relationship with VIA. Payments to Solicitors will be subject to negotiation on a case-by-case basis.

Certain designated employees of VIA's parent firm may act on behalf of VIA to provide information regarding VIA's non-investment company advisory services. VP Distributors will also pay additional marketing and related expenses to continue to offer its retail and separately managed products under formally sponsored programs through unaffiliated brokerage firms.

### Item 15 – Custody

VIA does not have custody of client assets.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. VIA urges you to carefully review such statements and compare such official custodian records to the account statements that we may provide to you.

### Item 16 – Investment Discretion

VIA may manage accounts on a discretionary or non-discretionary basis. When managing accounts on a discretionary basis, VIA has full authority to buy and sell securities without prior client approval under its investment advisory contracts. VIA exercises its investment discretion consistent with its investment policies, as well as with any investment guidelines or restrictions adopted by a client and accepted by VIA. When managing accounts on a non-discretionary basis, VIA performs its duties in accordance with the limitations described in the client contract.

Generally, in the absence of specific written instructions from a client, VIA will have complete discretion with respect to the accounts on non-investment company clients, without any limitations on its authority. Whether an account is accepted for management by VIA or management is continued may depend upon the nature and extent of the instructions given by a client.

### **Class Actions**

Securities litigation can be a potential additional income source for individual investment portfolios that have had trade activity in a security that subsequently became the source of an organized class action lawsuit. With respect to VIA's registered investment company clients, the activities required for participation in class action settlements are carried out by a non-affiliated third party vendor. The vendor determines the eligibility pertinent to the specific class action, files the claim as appropriate, monitors the class action and processes receipt of any settlement.

VIA will not file for institutional or separately managed accounts unless agreed to by client contract.

## Item 17 – Voting Client Securities

VIA acknowledges its fiduciary responsibility to handle proxies in a manner that ensures accrual to the benefit of the underlying participants and beneficiaries, while using the care, skill and diligence that a prudent person acting in a like capacity and familiar with such matters would use under the circumstances then prevailing. Unless directed otherwise by its clients, VIA's basic policies and procedures are as follows:

VIA may delegate, to a non-affiliated third party vendor, the responsibility to review proxy proposals and make voting recommendations on its behalf. Additionally, VIA may vote a proxy contrary to the Guidelines if it determines that such action is in the best interests of clients.

Conflicts of Interests relating to proxy proposals will be handled in various ways depending on the type and materiality. Generally, where the Guidelines outline VIA's voting position, as either "for" or "against" such proxy proposal, voting will be in accordance with the Guidelines. Where the Guidelines outline the voting position to be determined on a "case by case" basis for such proxy proposal, or such proposal is not listed in the Guidelines, then VIA will choose either to vote the proxy in accordance with the voting recommendation of a non-affiliated third party vendor, or vote the proxy pursuant to client direction. The method selected by VIA will depend upon the facts and circumstances of each situation and the requirements of applicable law.

VIA may choose not to vote proxies in certain situations or for certain accounts, such as: 1) where a client has retained the right to vote the proxy, 2) where the cost of voting is deemed to exceed any anticipated benefit to the client, 3) where a proxy is received for a client account that has been terminated, 4) where a proxy is received for a security no longer managed within the account (i.e. the entire position had previously been sold), and/or 5) where the exercise of voting rights could restrict the ability of the portfolio manager to freely trade the security.

A complete copy of VIA's current Proxy Voting Policies, Procedures and Guidelines may be obtained by sending a written request to Virtus Investment Advisers, Inc., Attn: Corporate Compliance, 100 Pearl Street, Hartford, Connecticut 06103.

## Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. VIA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. VIA does not require or solicit prepayment of advisory fees six months or more in advance. VIA does not act as custodian for any client account. VIA has not been the subject of a bankruptcy proceeding.