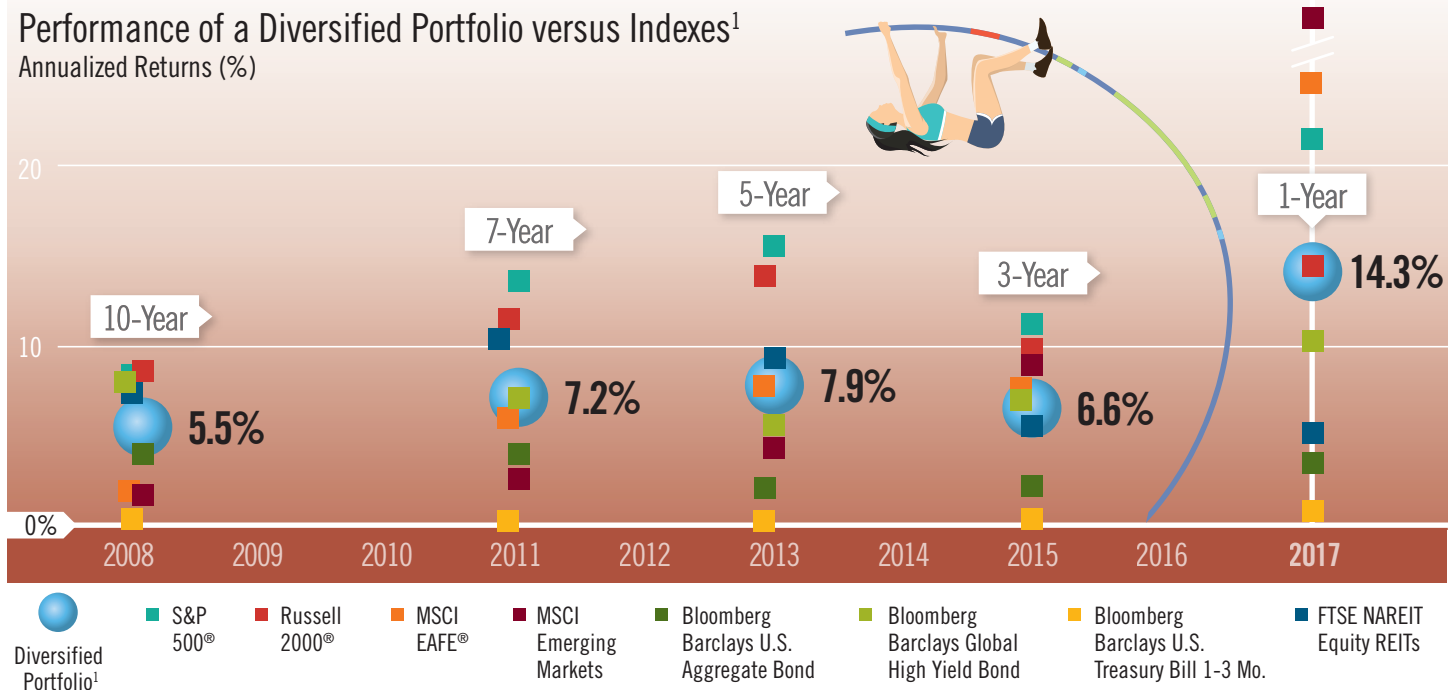
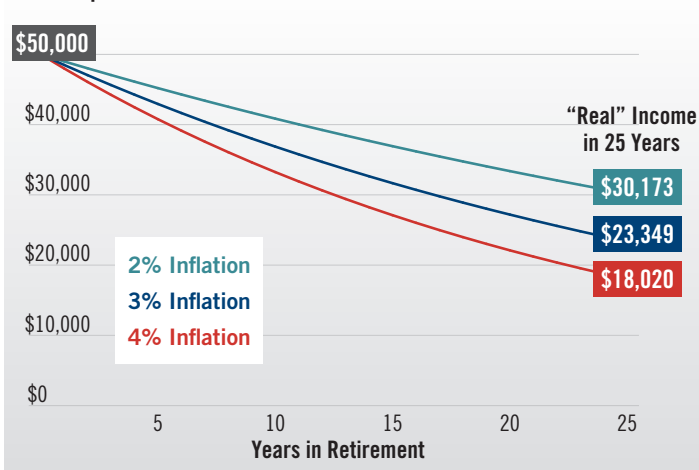


## VAULTING AHEAD: 2017 in Perspective

There's no exaggeration in saying that 2017 was one of the most comfortably profitable years in modern market history. All major asset classes notched positive returns and volatility hit all-time lows. The U.S. stock market was positive in all 12 calendar months for the first time in history. Yet when assets hit such levels, prudence is always necessary. This sort of environment can create "irrational exuberance," chasing the hottest dots, and mismanaged expectations. At loftier heights, principles of valuation, diversification, and risk management are most needed even when easy to ignore.



### The Specter of Inflation<sup>2</sup>



- Inflation is a quiet but dangerous enemy of long-term wealth creation. While it has been at historically low levels of late, inflation might be on the rise once again. No financial plan should ignore inflation.

### Performance of a Diversified Portfolio in 2017<sup>1</sup>

# 14.3%

- A broadly diversified portfolio returned 14.3% in 2017, led by strong global equity returns.
- The S&P 500<sup>®</sup> Index, led by growth stocks, topped 21% last year. The index has been positive in 14 of the past 15 years.
- At just 6.7%, annualized volatility for the S&P 500<sup>®</sup> Index was the 2nd lowest on record (1964) back to 1928.<sup>3</sup>
- The U.S. dollar was relatively weak during the year, falling -10.3%, boosting returns on unhedged international investments.

Past performance is not indicative of future results.

<sup>1</sup>Source: Virtus Performance Analytics. See following page for composition and definitions. <sup>2</sup>Source: Virtus Performance Analytics. For illustrative purposes only. Calculations based on hypothetical inflation rates of 2%, 3%, and 4% to demonstrate the impact of inflation over time. Actual inflation rates will vary and may be more or less than shown. <sup>3</sup>Source: Pension Partners, <https://pensionpartners.com/2017-the-year-in-charts>.

# 2017 in Perspective

## ANNUALIZED RETURNS IN %, as of 12/31/2017

	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
Diversified Portfolio	14.3	11.2	6.6	7.9	7.2	5.5
S&P 500® Index	21.8	16.8	11.4	15.8	13.8	8.5
Russell 2000® Index	14.7	17.9	10.0	14.1	11.6	8.7
MSCI EAFE® Index (net)	25.0	12.4	7.8	7.9	6.0	1.9
MSCI Emerging Markets Index (net)	37.3	23.6	9.1	4.4	2.6	1.7
Bloomberg Barclays U.S. Aggregate Bond Index	3.5	3.1	2.2	2.1	3.2	4.0
Bloomberg Barclays Global High Yield Bond Index	10.4	12.3	7.1	5.7	7.2	8.1
Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index	0.8	0.5	0.4	0.2	0.2	0.3
Bloomberg Commodity Index	1.7	6.6	-5.0	-8.5	-8.2	-6.8
FTSE NAREIT Equity REITs Index	5.2	6.9	5.6	9.5	10.5	7.4

The Diversified Portfolio assumes the following weights: 25% in the S&P 500®, 10% in the Russell 2000®, 15% in the MSCI EAFE®, 5% in the MSCI EM, 25% in the Bloomberg Barclays U.S. Aggregate, 5% in the Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index, 5% in the Bloomberg Barclays Global High Yield Bond Index, 5% in the Bloomberg Commodity Index, and 5% in the FTSE NAREIT Equity REITs Index. Assumes annual rebalancing. Data represents total return for stated period. The Diversified Portfolio is not representative of any Virtus portfolio. Investors should consult their financial professional to identify suitable portfolio allocations. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk.

**Index Definitions**—The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **MSCI EAFE® Index (net)** is a free-float-adjusted market-capitalization weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg Barclays Global High Yield Bond Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities. The index is calculated on a total return basis. The **Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible. The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc. The **FTSE NAREIT Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ National Market System. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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