

INVESTMENT OVERVIEW

The Fund seeks to provide a high level of current interest income exempt from federal and state income taxes consistent with the preservation of capital by primarily investing in municipal bonds issued in the state of California. Issuers are selected based on relative value within the California market.

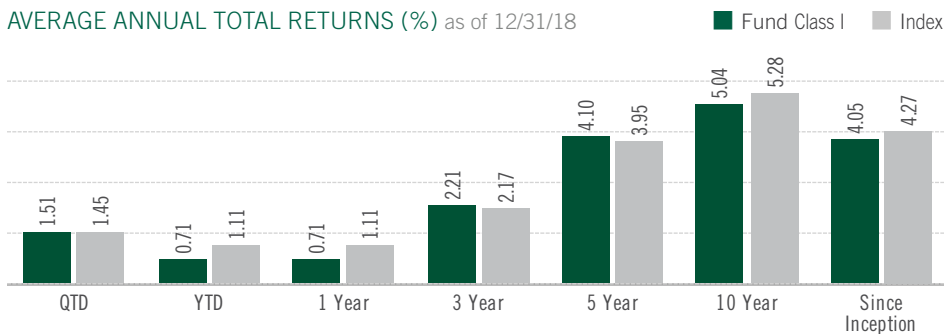
KEY FEATURES

Tax-Exempt Income — Strives to generate income free from federal and California state income taxes

High-Quality Focus — Emphasis on higher-rated California tax-exempt municipal bonds, gauging each security by issue type, credit quality, and bond structure

Extensive Fundamental Research — A research-based approach that searches for undervalued issues, taking into account tax implications when buying and selling, maintaining a duration similar to the benchmark

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18



Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so your shares, when redeemed, may be worth more or less than their original cost. Please visit Virtus.com for performance data current to the most recent month-end.

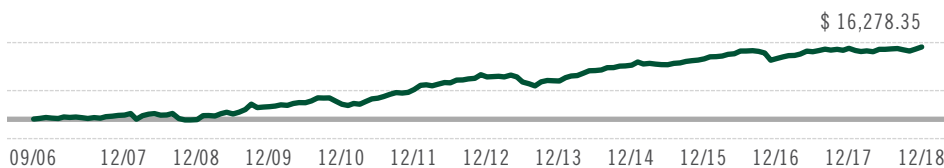
The fund class gross expense ratio is 0.95%. The net expense ratio is 0.60%, which reflects a contractual expense reimbursement in effect through 1/31/2020.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

ANNUAL PERFORMANCE (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fund	0.71	5.86	0.17	3.73	10.36	-2.60	8.72	11.38	1.89	11.34
Index	1.11	5.63	-0.14	3.51	9.96	-1.76	8.15	12.28	2.97	12.23

GROWTH OF \$10,000



This chart assumes an initial investment of \$10,000 made on 9/29/2006. As of 12/31/2018 the fund value would have been \$16,278.35. Fund performance assumes reinvestment of dividends and capital gain distributions. This growth reflects no front end sales charges.

FUND INFORMATION

	Ticker	CUSIP
A Shares	CTESX	92828R503
I Shares	CTXEX	92828R602
Inception Date	09/29/06	
AUM (\$ millions)	24.0	
Number of Holdings	96	
Dividends	Daily	
Morningstar Category	Muni California Long	
Lipper Category	California Municipal Debt Funds	
Index	Bloomberg Barclays California Municipal Bond Index	

MORNINGSTAR RATINGS

Time Period	# of Stars	# of Funds
Overall	★★★	90
3 Year	★★★	90
5 Year	★★★	87
10 Year	★★	71

Strong ratings are not indicative of positive fund performance.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER



Newfleet Asset Management leverages the knowledge and skill of a team of investment professionals with expertise in every sector of the bond market, including evolving, specialized, and out-of-favor sectors. The team employs active sector rotation and disciplined risk management to portfolio construction.

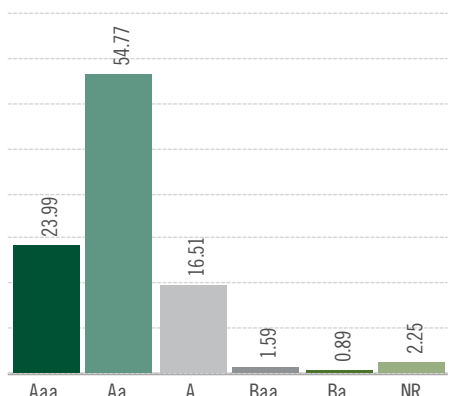
PORTFOLIO MANAGER

Tim Heaney, CFA

Industry start date: 1990

Start date with Fund: 1997

RATINGS DISTRIBUTION



CHARACTERISTICS

Characteristic	Fund
Effective Duration	6.25
Weighted Average Maturity	6.15
SEC Yield ¹	1.96

¹ SEC Yield (Class I share only) represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. Performance figures represent a partial waiver/reimbursement of fees where applicable. Without the partial waiver/reimbursement of fees, performance figures would be lower and the SEC Yield would have been: 1.53%.

TOP TEN HOLDINGS

Holder	% Fund
County of Riverside CA, 7.8000% 05/01/2021	5.37
California Infrastructure & Economic Development Bank, 5.1250% 07/01/2037	2.69
California Infrastructure & Economic Development Bank, 5.0000% 10/01/2033	2.46
California State Public Works Board, 6.1250% 04/01/2029	2.11
Roseville Natural Gas Financing Authority, 5.0000% 02/15/2024	2.10
Grossmont Healthcare District, 5.0000% 07/15/2025	1.98
Garden Grove Agency Community Development Successor Agency, 5.0000% 10/01/2029	1.70
Golden State Tobacco Securitization Corp, 5.0000% 06/01/2029	1.62
San Diego Regional Building Authority, 5.0000% 10/15/2035	1.61
Ross Valley School District/CA, 5.0000% 08/01/2037	1.60

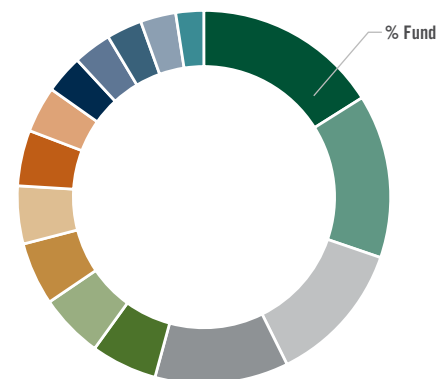
DISTRIBUTIONS

Month	NAV at Month-End
October 2018	\$0.028886
November 2018	\$0.030180
December 2018	\$0.024886

RISK STATISTICS (3 YEAR)

	Fund	Index
Alpha	0.05	n/a
Beta	1.00	1.00
R ²	0.99	1.00
Sharpe Ratio	0.35	0.34
Standard Deviation	3.47	3.46

SECTOR ALLOCATIONS



Sector	% Fund
Tax Allocation	16.08
Prerefunded / Escrowed to Maturity	14.17
Hospital	12.42
Local General Obligation	11.57
Water & Sewer	5.74
Miscellaneous Revenue	5.54
Leasing	5.45
Education	5.02
Electric	4.82
State General Obligation	3.99
Special Tax	3.33
Cash	3.31
Airport Revenue	3.08
Transportation	3.06
Tobacco Asset-Backed	2.43

Holdings and sector weightings are subject to change.

IMPORTANT RISK CONSIDERATIONS

Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political, and other developments affecting the fiscal stability of that location. **Municipal Market:** Events negatively impacting a municipal security, or the municipal bond market in general, may cause the fund to decrease in value. **State & AMT Tax:** A portion of income may be subject to some state and/or local taxes and, for certain investors, a portion may be subject to the federal alternative minimum tax. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **Prospectus:** For additional information on risks, please see the fund's prospectus.

GLOSSARY

Effective Duration: The change in the value of a fixed income security that will result from a 1% change in interest rates while taking into account the way changes in rates will affect the expected cash flows of any bond with an embedded option such as call or prepayment option. This measure assigns a probability to the exercise of a call option, where applicable, based on specified shifts in the yield curve. Duration is expressed as a number of years, and generally, the larger the duration, the greater the interest rate risk or reward for a portfolio's underlying bond prices. **Weighted Average Maturity:** The length of time until the average security in a fund will mature, be redeemed by its issuer, or paid down over time, which is the case with most securitized assets. **Alpha:** A risk-adjusted measure of an investment's excess return relative to a benchmark. **Beta:** A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **R²:** A measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

INDEX DEFINITION

Index: The Bloomberg Barclays California Municipal Bond Index measures long-term investment grade, tax-exempt and fixed rate bonds issued in California. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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RATINGS DISTRIBUTION METHODOLOGY

The ratings issued by Nationally Recognized Statistical Rating Organizations assess the credit worthiness of a corporation's or government's debt issues. The ratings apply to the fund's holdings and not the fund itself. The higher of the ratings between Moody's, Standard & Poor's, and Fitch is used. If one of the three agencies does not have a rating, the higher of the other two ratings is used. If only one agency has rated the bond, the rating from that agency is used. If none of the three agencies have rated the bond, the bond is placed in the Not Rated category. Credit ratings are subject to change. Aaa, Aa, A, and Baa are investment grade ratings; Ba, B, Caa, Ca, C, and D are below-investment grade ratings.

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Morningstar Rating™ for funds, or 'star rating,' is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effect of sales charges and loads.

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