Why "Home Bias" Is Shortsighted

A world of shifting performance among regions and countries makes it exceedingly difficult to pick winners at all the right times over the long run. It may also favor those who simply choose to go global.

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Vontobel

Look at a world map from just half a century ago, and you'll easily spot its continents in the same locations as they are today. Yet the economic face of it—a dimension not captured by cartographers—has transformed beyond recognition: Levels of commerce and integration among people, businesses, and nations are immeasurably higher, as if any divisions of land have simply dissipated.

This process of globalization has been going on for quite some time. But we believe it has reached levels that should prompt investors to avoid "home bias" and to think beyond their borders in pursuit of attractive performance in the longer run—for a number of reasons.

The globalization of company revenues

First, with a quick look around the world, investors can find strong companies on both sides of the hemisphere. What's more, these companies draw substantially on both local and foreign markets for business. Consider two eye-opening facts in recent data:

- The top 10 U.S. companies by market capitalization generated an average of about 37% of their revenues outside the American continent.[1]
- The top 10 companies by market capitalization throughout developed markets outside the United States and Canada generated approximately 41% of their revenues, on average, in the Americas.[1]

Indeed, thriving companies aren't bound by geography—not in where they are headquartered, nor in where they derive their income—and reflect an opportunity set for investors that is meaningfully distributed across major regions.

The shifting of regional and country performance

If you choose to limit your portfolio of companies to certain regions or countries, it would be difficult for you to predict which of them would

[1] Source: Factset. Year-end revenues for 2019 of the top 10 companies by market capitalization in the S&P 500® Index (excluding Berkshire Hathaway, a holding company) and MSCI EAFE® Index, respectively. Indexes defined on page 5.

outperform in any given year and time your allocations accordingly. In fact, over the past 15 years, no single region was able to claim top performance consistently, as bull markets have historically alternated among geographies (Figure 1).

Granted, regional portfolios could benefit during prosperous times for local economies. But no bull market is permanent, nor is the timing of different bull markets throughout the world necessarily synchronized. Thus, realizing the actual long-term returns of individual countries or regional markets can be challenging and takes patience during periods of meaningful underperformance.

FIGURE 1: THE WORLD'S STOCK MARKETS HAVE EXHIBITED DIVERSE PERFORMANCE BY TIME AND REGION

Top- and bottom-three annual performers among largest countries by weight in the MSCI ACWI

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
United States	Bottom	Bottom	Bottom	Top	Middle	Middle	Top	Middle	Top	Top	Top	Middle	Bottom	Top	Top
Japan	Middle	Bottom	Bottom	Top	Bottom	Middle	Middle	Bottom	Middle	Middle	Top	Middle	Middle	Middle	Bottom
United Kingdom	Bottom	Middle	Middle	Middle	Middle	Middle	Top	Middle	Middle	Middle	Middle	Bottom	Middle	Middle	Middle
China	Middle	Top	Top	Middle	Middle	Bottom	Bottom	Top	Bottom	Top	Middle	Middle	Top	Bottom	Middle
France	Middle	Middle	Middle	Middle	Middle	Bottom	Middle	Middle	Top	Middle	Middle	Middle	Middle	Middle	Middle
Canada	Middle	Middle	Middle	Middle	Middle	Top	Middle	Bottom	Middle	Middle	Bottom	Top	Bottom	Middle	Top
MSCI AC World Index	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
Germany	Bottom	Middle	Middle	Middle	Bottom	Middle	Middle	Top	Top	Bottom	Middle	Middle	Middle	Bottom	Middle
Switzerland	Middle	Middle	Bottom	Top	Bottom	Middle	Top	Middle	Middle	Middle	Top	Bottom	Middle	Middle	Top
Australia	Middle	Middle	Middle	Middle	Top	Middle	Middle	Middle	Middle	Middle	Bottom	Top	Bottom	Middle	Middle
Korea	Top	Bottom	Middle	Bottom	Middle	Top	Middle	Middle	Middle	Bottom	Middle	Middle	Top	Bottom	Bottom
India	Top	Top	Top	Bottom	Top	Top	Bottom	Top	Bottom	Top	Middle	Bottom	Top	Top	Bottom
Brazil	Top	Top	Top	Bottom	Top	Bottom	Bottom	Bottom	Bottom	Bottom	Bottom	Top	Middle	Top	Middle

Past performance is not indicative of future results. "Top" or "bottom" indicates that a country is one of the top- or bottom-three performers in a given year. "Middle" indicates that a country is neither a top-three nor a bottom-three performer.

Source: MSCI. Gross returns of MSCI's Country Indices, which measure the performance of individual country stock markets. For comparison purposes, over a 15 calendar-year period, Vontobel Asset Management has chosen to feature 12 of the world's major markets included in the MSCI World Index. All returns are in U.S. dollars.

The difficulty of achieving actual returns

As evidenced in Figure 1, plenty of countries shift from top to bottom performers over time. Poor performance periods can be emotionally stressful for investors and are often the most difficult to ride out in patience and remain invested. During such periods, it's common for investors to run for the exits or decrease their exposure at precisely the wrong times, thus finding themselves having bought high and sold low. For example, any country in

Figure 1 that had experienced two or more consecutive years as a bottom performer rose to become a top performer in a subsequent period, but you would have missed out on that opportunity if you hadn't stayed on for the entire ride.

This "fear factor" also has an effect on *investor returns*, which are defined as how the average investor fared in a fund over a period of time while taking into account the impact of cash inflows and outflows as a result of investor purchases and redemptions. (*Actual returns*, in contrast, do not take that impact into account.) Investor returns for regionally focused index funds, such as the Vanguard 500 Index Fund and Schwab International Index Fund, were lower than actual returns (Figure 2). Hence, unless there is zero inflow/outflow impact, it is difficult to achieve actual returns over the long term.

FIGURE 2: REALIZING *ACTUAL* RETURNS ISN'T ALWAYS EASY AND MAY RESULT IN LOWER *INVESTOR* RETURNS

INDEX FUND	15-YEAR **ACTUAL** RETURNS (2005–2019)	15-YEAR **INVESTOR** RETURNS (2005–2019)
Vanguard S&P 500 Index Fund	8.87%	5.72%
Schwab International Index Fund	4.88%	4.84%

Past performance is not indicative of future results. Sources: Vanguard, Charles Schwab, Standard & Poor's, and MSCI.

Investors may therefore consider diversifying their portfolios with a global allocation of investments—bearing no particular nationality—in pursuit of the best companies from around the globe, wherever they may be. Incidentally, within the time period outlined in Figure 1, the MSCI ACWI—a common benchmark for the global investor—was never among the top or bottom three performers. In other words, as a proxy of what a global portfolio could look like, it exhibited a less volatile return pattern that would have potentially made it easier for investors to digest. And if they had remained invested, they might have achieved greater actual returns over the period relative to their home-biased peers.

Vontobel: An organization aligned to pursue the best businesses around the world

Given such a broad global universe of companies, we realize that an investment team must be skilled, well-coordinated, and optimally organized to thoroughly research companies, share information, promote the cross-pollination of ideas, and ultimately identify strong businesses worldwide.

Our investment approach for the Virtus Vontobel Global Opportunities Fund is to pursue quality growth companies, which we broadly define as stable franchises with solid fundamentals, durable earnings power, skilled management teams and attractive growth prospects at reasonable valuations. Specifically, these are companies with business profiles that we believe lend themselves to a predictably positive outlook for the next 5 to 10 years—and that, in our opinion, would be able to withstand downturns in the economic cycle with resilience, thereby offering investors a measure of downside protection.

We seek to identify such companies—irrespective of benchmark exposures—by analyzing them from the bottom up. In so doing, we free ourselves from geographical or sectoral constraints while maintaining the liberty to pursue the best companies and aiming to optimize returns and risk on a global basis.

FIGURE 3: ON A GLOBAL BASIS, THE VIRTUS VONTOBEL GLOBAL OPPORTUNITIES FUND HAS EXHIBITED ATTRACTIVE RISK-ADJUSTED PERFORMANCE OVER THE PAST 10 YEARS

FUND/INDEX	ANNUALIZED RETURN (%)	ANNUALIZED STANDARD DEVIATION (%)	SHARPE RATIO
Virtus Vontobel Global Opportunities Fund (Net Returns)—A Share (NWWOX)	11.93	12.61	0.91
MSCI All Country World Index	9.16	14.02	0.65
MSCI USA	13.40	13.56	0.95
MSCI Australia	5.22	20.68	0.32
MSCI Brazil	-4.06	33.04	0.03
MSCI Canada	2.71	16.85	0.21
MSCI China	6.38	20.46	0.37
MSCI France	5.79	19.36	0.36
MSCI Germany	6.07	20.54	0.36
MSCI India	1.69	23.25	0.16
MSCI Japan	6.09	13.35	0.46
MSCI Korea	4.85	20.34	0.30
MSCI Switzerland	9.10	13.63	0.66
MSCI United Kingdom	3.90	16.00	0.28

Past performance is not indicative of future results. Source: Morningstar Direct. From July 1, 2010, through June 30, 2020. MSCI Country Indices serve as proxies for the equity markets of their respective countries, and performance figures presented are net returns.

Standard Deviation: Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Sharpe Ratio:** A statistic that measures the efficiency, or excess return per unit of risk, of a manager's returns. It is calculated by taking the portfolio's annualized return, minus the annualized risk-free rate (typically the 30-Day T-Bill return), divided by the portfolio's annualized standard deviation. The greater the Sharpe Ratio, the better the portfolio's risk-adjusted return.

Average Annual Total Returns (%) as of 6/30/20

Virtus Vontobel Global Opportunities Fund

Class A: NWWOX

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 5/13/1960
NAV	18.84	-2.43	6.05	8.75	9.96	11.93	8.10
POP	12.01	-8.04	-0.05	6.63	8.67	11.27	8.00
Index	19.22	-6.25	2.11	6.14	6.46	9.16	n/a

The fund class gross expense ratio is 1.40%. The net expense ratio is 1.36%, which reflects a contractual expense reimbursement in effect through 3/31/2021.

Class I: WWOIX

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 8/8/2012
NAV	18.98	-2.26	6.30	9.07	10.25	n/a	10.89
Index	19.22	-6.25	2.11	6.14	6.46	n/a	8.51

The fund class gross expense ratio is 1.17%. The net expense ratio is 1.09%, which reflects a contractual expense reimbursement in effect through 3/31/2021.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. Class A shares have a maximum sales charge of 5.75%. A contingent deferred sales charge of 1% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid. Class I shares have no sales charges and are not available to all investors. Other share classes have sales charges. See virtus.com for details.

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.

Index: The **MSCI AC World Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

MORNINGSTAR	OVERALL	3 YEAR	5 YEAR	10 YEAR
NWWOX Ratings Funds World Large Stock Category	★★★★ 761	★★★★ 761	★★★★ 626	★★★★ 367
WWOIX Ratings Funds World Large Stock Category	★★★★ 761	★★★★ 761	★★★★ 626	— NA

Morningstar ratings are based on risk-adjusted returns. Strong ratings are not indicative of positive fund performance.

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 effects of sales charges and loads.

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 **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 indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

About Vontobel Asset Management

Vontobel Asset Management, subadviser to the Virtus Vontobel Funds, believes long-term, stable, and superior earnings growth drives investment returns over time. To this end, Vontobel seeks sensibly priced high-quality companies that can grow earnings faster than the market on a sustainable basis.

About Virtus Investment Partners

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process, and individual brand.

VIRTUS FUNDS

To learn more about the Virtus Vontobel Global Opportunities Fund, visit virtus.com or call us at 800-243-4361.

IMPORTANT RISK CONSIDERATIONS

Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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