VIRTUS FUNDS

Virtus SGA Global Growth Fund

A: SGAAX (92836N106) | C: SGACX (92836N205) | I: SGAPX (92836N304) | R6: SGARX (92836N403)

MARKET REVIEW

Global equity markets rebounded sharply in the fourth quarter as uncertainties that had weighed on stocks receded with a trade truce between the U.S. and China looking more probable (and a phase one deal ultimately agreed upon), uncertainty over Brexit disappearing with Boris Johnson's landslide victory in British Parliamentary elections, U.S. economic data coming in better than expected, and the Federal Reserve indicating it would remain accommodative for the foreseeable future.

PERFORMANCE

The Fund (Class I) returned 7.62% in the quarter, underperforming the MSCI ACWI return of 8.95%. For the year, the Fund outperformed with a return of 32.44% versus 26.60% for the Index. For the quarter, stock selection was the primary performance detractor due primarily to selection in the information technology and consumer staples sectors. For the year, outperformance was driven heavily by stock selection in consumer discretionary and real estate. While sector allocations are a byproduct of stock selection in our approach, they contributed positively to performance in both periods; market leadership was quite narrow with information technology being the strongest performer for the quarter and year.

For the quarter, Alibaba and Autodesk were the largest stock contributors to performance.

> Chinese e-commerce and cloud computing leader Alibaba's shares continued to rise following better-than-expected fiscal Q2 results. After delivering 40% revenue growth and 35% profit growth during the first half of fiscal year 2020, the company is reinvesting into its business to widen its competitive moat. As China's consumption continues to grow as a percentage of GDP and online commerce penetration increases, Alibaba remains positioned to benefit given the dominant size of its e-commerce platforms and resulting network effect. Alibaba continues to expand its global e-commerce and logistics footprint and invest where e-commerce penetration is low, such as Southeast Asia, Russia, and Europe, which can augment long-term growth opportunities. We expect Alibaba to capitalize on its 50% market-share advantage and expand outside China.

> Design and build-related software company Autodesk reported a solid quarter, beating expectations on all key metrics, but disappointed some on headline guidance for annual recurring revenues. A Q4 currency headwind and subscription revenues that had to be recognized in Q3 due to accounting rules, impacted expectations for Q4 revenues. Billings and free cash flow generation continued to be strong and our expectations for the full year rose. With our thesis for the business playing out and valuation still attractive, we continue to like the company, but trimmed the position given recent strength.

YUM! Brands and Danone were the largest detractors from performance in the quarter.

> Global restaurant company YUM! Brands' Q3 results failed to match the strength of its first half. Continued weakness in the U.S. Pizza Hut business and increased franchisee bad debt expense raised speculation that the new CEO might take action. Our YUM! thesis acknowledges weakness in Pizza Hut U.S., however, this business represents only ten percent of total profits. The number of weakening franchisees is small, and YUM has a conservative policy of writing down past due receivables. Likely, YUM is sending a message to pay bills on time. We see a low likelihood that Pizza Hut U.S. will require significant capital investment. The rest of YUM's businesses are performing well, and we maintain high conviction in its growth prospects. We maintained an above-average weight in the portfolio.

> Danone is the leading seller of fresh dairy products worldwide. Management announced disappointing Q3 dairy sales and trimmed their outlook. Water sales, which have been resilient amid weakness in other areas, also failed to meet expectations. On the positive side, long expected improvements in European dairy materialized, and the Chinese early life nutrition business also rebounded. While underlying results were mixed, management credibility suffered as recent acquisitions failed to benefit the company's North American and Russian businesses. We will be closely monitoring the company and are maintaining an average weight in the stock for now.

PORTFOLIO CHANGES

During the quarter, we initiated a new position in Thai convenience and wholesale store operator CP All; positions in Autodesk, Alphabet, HDFC Bank, and New Oriental Education were trimmed on strength while additional shares in Amazon, Salesforce.com, YUM! Brands, and others were purchased on weakness.

OUTLOOK

In this, the twelfth year of the global expansion, with muted growth across key economies despite unprecedented and massive monetary and fiscal stimulus, we are confident that the superior revenue and earnings growth of the businesses in the portfolio will stand out over our 3- to 5-year time horizon and be amply rewarded. Quarter to quarter, and even year to year, returns can be affected tremendously by changes in investor emotions similar to those witnessed in Q4. Given such variability, we remain focused on implementing a disciplined investment process aimed at reducing the variability of the portfolio's earnings growth over time and generating strong absolute and relative returns that will protect capital in periods of weakness and participate strongly in periods of optimism. Whether or not in favor from quarter to quarter, this approach has served us well over time and our team remains excited by the opportunities we see over the coming years.

Virtus SGA Global Growth Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Sustainable Growth Advisers

PORTFOLIO MANAGER

George P. Fraise
Industry start date: 1987
Start date as Fund Portfolio Manager: 2010

Gordon M. Marchand, CPA, CIC, CFA
Industry start date: 1984
Start date as Fund Portfolio Manager: 2010

Robert L. Rohn
Industry start date: 1983
Start date as Fund Portfolio Manager: 2010

TOP TEN HOLDINGS

TOP TEN HOLDINGS	% Fund
AIA Group Ltd.	3.95
Visa Inc.	3.95
Yum! Brands Inc.	3.92
HDFC Bank Ltd.	3.91
Alibaba Group Holding Ltd.	3.65
Amazon.com Inc.	3.55
salesforce.com Inc.	3.48
IHS Markit Ltd.	3.48
Abbott Laboratories	3.43
Autodesk Inc.	3.41

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/4/2013
Fund Class I	7.62	32.44	32.44	19.43	13.81	n/a	12.14
Index	8.95	26.60	26.60	12.44	8.41	n/a	8.52

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. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.25%. The net expense ratio is 1.14%, which reflects a contractual expense reimbursement in effect through 05/31/2021. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.13%.

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.

TOP FIVE CONTRIBUTORS

TOP FIVE CONTRIBUTORS	% Contribution
Alibaba Group Holding Ltd.	0.88
Autodesk Inc.	0.82
Regeneron Pharmaceuticals Inc.	0.63
HDFC Bank Ltd.	0.45
IHS Markit Ltd.	0.43

TOP FIVE DETRACTORS

TOP FIVE DETRACTORS	% Contribution
Yum! Brands Inc.	-0.40
Danone SA	-0.18
Infosys Ltd.	-0.14
Heineken NV	-0.04
CP All PCL	-0.03

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

Notes on Risk: 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. **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. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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