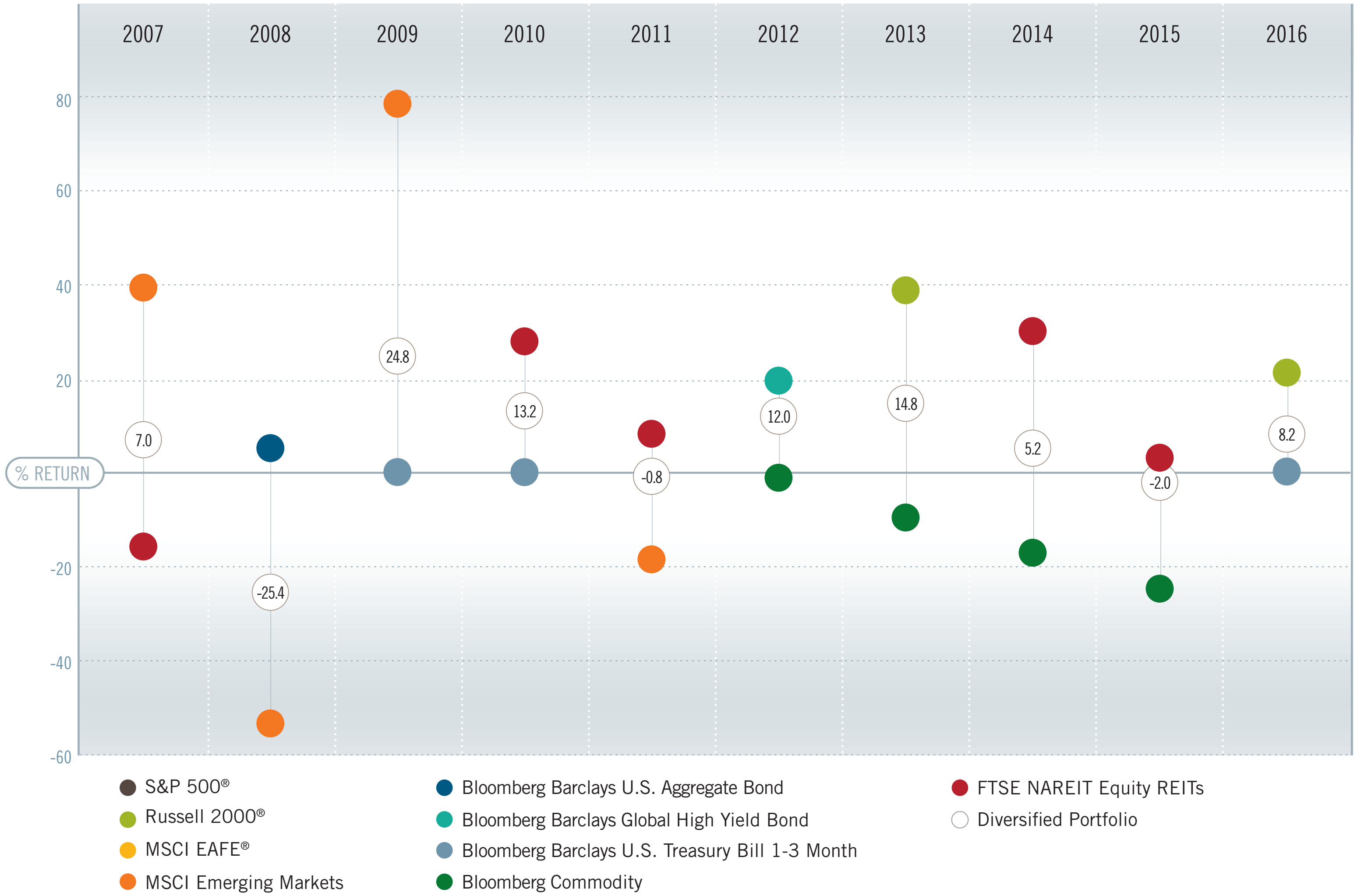
DIVERSIFICATION'S ROUGH EDGE

VIRTUS INVESTMENT PARTNERS

1K **Diversification is the bedrock to any well-managed portfolio.** But it has a downside: true diversification means that some of your investments are lagging. While that's inevitable with a broad mix of assets, the problem is that we are psychologically ill-equipped to own under-performers for long. We often swap into assets that we perceive to be "working." We see the top performers and feel an urge to own (more of) them. This tends to reinforce the harmful cycle of buying high and selling low, leading to poor outcomes.

Ultimately, the math of diversification makes sense. It's the psychology of diversification that is tough to swallow.

TOP AND BOTTOM PERFORMING ASSET CLASSES VS. A DIVERSIFIED PORTFOLIO[1]



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As of 12/30/16. Source: Virtus Performance Analytics.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The above table is presented for informational purposes only and is not meant to represent the performance of any Virtus product.

[1]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 Bond Index, 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. Data are as of 12/30/16. 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.**

See following page for index definitions.

ANNUAL RETURNS IN %

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Diversified Portfolio	7.03	-25.42	24.83	13.18	-0.76	12.03	14.78	5.22	-2.03	8.23
S&P 500® Index	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96
Russell 2000® Index	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31
MSCI EAFE® Index (net)	11.17	-43.38	31.78	7.75	-12.14	17.32	22.78	-4.90	-0.81	1.00
MSCI Emerging Markets Index (net)	39.39	-53.33	78.51	18.88	-18.42	18.22	-2.60	-2.19	-14.92	11.19
Bloomberg Barclays U.S. Aggregate Bond Index	6.97	5.24	5.93	6.54	7.84	4.22	-2.02	5.97	0.55	2.65
Bloomberg Barclays Global High Yield Bond Index	3.18	-26.89	59.40	14.82	3.12	19.60	7.33	0.01	-2.72	14.27
Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index	4.78	1.77	0.15	0.13	0.07	0.08	0.05	0.02	0.03	0.26
Bloomberg Commodity Index	16.23	-35.65	18.91	16.83	-13.32	-1.06	-9.52	-17.01	-24.66	11.77
FTSE NAREIT Equity REITs Index	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14	3.20	8.52

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 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 **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 an 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.