

## Virtus AllianzGI Water Fund

A: AWTAX (92838V494) | C: AWTCX (92838V486) | INST: AWTIX (92838V460) | P: AWTPX (92838V478)

### MARKET OVERVIEW

Global equities delivered strong gains over the second quarter as sentiment was boosted by optimism over the strength of the economic recovery. In general, Western markets were among the strongest performers with economies recovering swiftly as COVID-19 infection levels eased. In contrast, Asian markets generally lagged as several countries were forced to re-impose/tighten restrictions to control fresh outbreaks. For the second consecutive quarter, energy stocks surged, as oil prices rallied on expectations of strong demand. While technology companies initially lagged the broader market advance as investors rotated into more cyclical areas, they moved to the forefront again in June when the reflation trade reversed following a change in the Federal Reserve's projections of the future path of interest rates.

Water investments continued to offer strong absolute returns during the second quarter given ongoing structural support and ongoing supply and quality issues throughout the world, with record breaking droughts across the southwestern US and water shortages in Europe and Asia. As a sector, water offered returns in line with the global equity market due to weaker relative performance in June. Relative weakness in June was riven by the rotation into higher growth names in sectors with little water opportunity. While water investments are not immune to short term sentiment driven shifts, the long term theme remains uninterrupted allowing water companies to continue to offer attractive long term, resilient growth characteristics.

### PERFORMANCE

The Virtus AllianzGI Water Fund (INST Shares) delivered 7.37% in line with the global equity market represented by the MSCI ACWI, which returned 7.39%. Positive performance was driven by strong stock selection, particularly with the healthcare and industrial sectors, whereas sector allocation detracted.

On a single stock basis, the largest absolute contributors were Geberit, Xylem, and Danaher. Geberit, a leading provider of water-saving sanitary equipment, experienced strong results after delivering strong organic growth, supported by trends in the residential housing market such as increased home improvements and upgrades in the residential construction market. Bathroom systems and flushing systems stood out the most. Xylem, a leader in water supply and quality-monitoring technology, saw strong quarterly results, outpacing expectations across all three segments of its business. Xylem has seen increased demand from industrial and commercial end markets, while also benefiting from the trend towards increased digitalization of water utility networks. Danaher, a leading water filtration and diagnostics company offering water quality solutions, has also been a top performer. The company has benefited from COVID-19-related tailwinds, while continuing to offer leading diagnostic and disinfection solutions for the water industry.

In contrast, Tetra Tech, Agco, and Deere were the largest detractors during the second quarter, coming down off strong performance earlier this year. Both agricultural companies Agco and Deere suffered towards the end of the quarter as inflationary concerns began to lift and changing market sentiment drove investors out of inflationary beneficiaries into more traditional growth sectors. Both names continue to have strong growth prospects as increased farmer income levels and demand for efficiency-related equipment

is likely to be a theme that remains in play for some time. Tetra Tech, a leading environmental consulting firm, was also impacted by changing sentiment, however, it remains attractive given it is well positioned to benefit from an uptick in environmental projects from both the federal and commercial sides.

### OUTLOOK

We believe the global water strategy continues to be an attractive one, with significant structural support regardless of the political or macroeconomic environment. Clean water is essential for human life, and supply and quality issues continue to prevail around the world. Looking forward into a post-COVID world, this continues to be the case, with the pandemic further highlighting this basic need and climate related weather events, such as the record drought in the southwestern U.S., fuelling additional water supply and quality concerns.

The global water strategy continues to invest in the companies that are delivering solutions to the most pressing water supply and quality issues. As we seek to position the portfolio for a post-COVID world, we have increased exposure to more cyclical areas and reduced our allocation to the more defensively oriented utilities sector. We also see some positive short- to medium-term drivers for the theme in this environment, such as the Biden Infrastructure Bill in the U.S. and heightened water quality regulations. Outside of the U.S., the EU's Green Deal is also supportive as it contains a focus on improved sustainability and preservation of natural capital. Lastly, the water space stands to benefit as corporates around the world look to improve their own sustainability profiles and water stewardship. That said, it continues to be an exciting time to invest in the water space.

In order to capitalize on these opportunities, we invest in companies that offer solutions to growing water scarcity issues. These companies stand to benefit from the required investments in water infrastructure and resource management solutions. We target investments with the most attractive combination of alignment to the United Nation Sustainable Development Goals (SDGs) related to water resource management and clean water access and high-quality companies with significant exposure to the water end markets. We believe this combination offers investors the most attractive and effective long-term exposure to the water theme.

**INVESTMENT ADVISER**

Virtus Investment Advisers, Inc.

**INVESTMENT SUBADVISER**

Allianz Global Investors

**PORTFOLIO MANAGER**



**Andreas Fruschki, CFA**  
 Industry start date: 2000  
 Start date as Fund Portfolio Manager: 2008

**TOP TEN HOLDINGS**

**% Fund**

Xylem Inc.	6.13
American Water Works Company, Inc.	5.43
Alfa Laval AB	4.95
Geberit AG	4.46
IDEX Corp.	3.78
Georg Fischer AG	3.76
Halma PLC	3.60
Pennon Group PLC	3.46
Danaher Corp.	3.40
Thermo Fisher Scientific Inc.	3.37

Holdings are subject to change.

**TOP FIVE CONTRIBUTORS % Contribution**

Geberit AG	0.74
Danaher Corp.	0.71
Xylem Inc.	0.66
Alfa Laval AB	0.64
Halma PLC	0.59

**TOP FIVE DETRACTORS % Contribution**

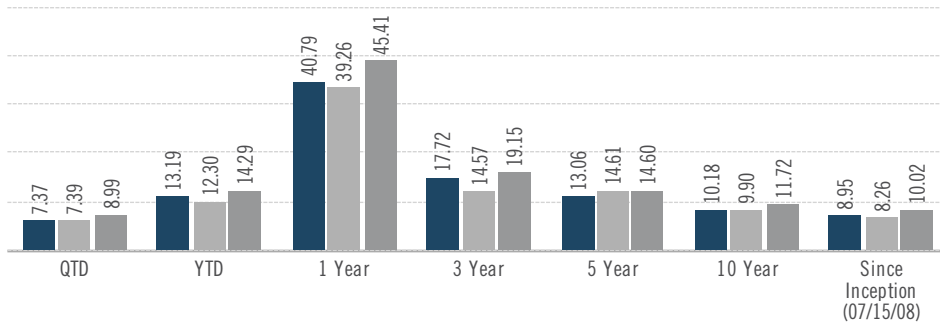
Tetra Tech, Inc.	-0.38
Kubota Corp.	-0.22
AGCO Corp.	-0.18
Deere & Co.	-0.15
Algonquin Power & Utilities Corp.	-0.09

% Contribution: Absolute weighted contribution.

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

**AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/21**

■ Fund Class INST ■ Index 1 ■ Index 2



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](http://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](http://virtus.com) for details.

The fund class gross expense ratio is 1.27%. The net expense ratio is 0.93%, which reflects a contractual expense reimbursement in effect through 2/1/2023.

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 1: 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.

Index 2: The **S&P Global Water Index (net)** is a modified capitalization-weighted index comprised of 50 of the largest publicly traded companies in water-related businesses that meet specific invest ability requirements. The index is designed to provide liquid exposure to the leading publicly-listed companies in the global water industry, from both developed markets 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.

**Notes on 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. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **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. **Water-Related Risk:** Because the portfolio focuses its investments in water-related companies, it is particularly affected by events or factors relating to this sector, which may increase risk and volatility. **Focused Investments:** To the extent the portfolio focuses its investments on a limited number of issuers, sectors, industries or geographic regions, it may be subject to increased risk and volatility. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Sustainable Investing:** Because the portfolio focuses on investments in companies that the Manager believes exhibit strong environmental, social, and corporate governance records, the portfolio's universe of investments may be smaller than that of other portfolios and broad equity benchmark indices. **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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