

Virtus AllianzGI Global Sustainability Fund

A: ASUAX (92838V650) | INST: ASTNX (92838V627) | P: ASTPX (92838V635)

MARKET REVIEW

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 reimpose/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 deflation trade reversed following a change in the U.S. Federal Reserve's projections for future interest rates.

Economic news confirmed that the global economy was continuing to recover from the pandemic-related shock. With surveys of manufacturing activity at or near record highs in many economies, service sector activity also rebounded in countries with high vaccination rates. Inflation became the key concern, with supply chain bottlenecks and surging commodity prices driving inflation rates above official targets.

PORTFOLIO REVIEW

The portfolio has delivered strong outperformance, sufficient to pull ahead of the previous quarter's headwinds. With markets more focused on fundamentals, stock selection has played the main part in driving returns, with picks in the information technology and health care sectors contributing significantly. Only picks in the financials sector have made any material impact to the negative.

Intuit made the strongest positive contribution at an absolute level. The provider of tax and accounting software reported strong quarterly results in line with its update in May, but also increased its full year guidance. Revenues have grown across all business divisions, with the result that management now expects FY revenue growth of 22%.

Adobe also boosted performance, thanks to strong results. The company now expects the accelerated rate of digitalization as a result of the pandemic to drive total sales growth of 20%, an increase on last year's 16% jump. Adobe's media segment has been driving the bulk of returns, but economic reopening may provide an additional boost to the digital experience segment, as document and marketing related spend returns.

Daikin Industries has been the largest single detractor to performance. Shares in the maker of air conditioning and refrigeration systems continue to be volatile as the company faces a combination of higher input prices, continued COVID-19 restrictions in factories, and the challenge of high comps from last year. Aggressive sales efforts and cost cutting is expected to be the main driver of margin improvement, offsetting higher material costs. The focus on air quality is likely to be an ongoing focus going forward, with Daikin's streamer plasma emission technology demonstrably effective in dealing with viruses. Commercial weakness may generate some volatility in the medium term, but higher residential sales are expected to be a longer-term fixture.

Munich Re also weakened returns. The German reinsurance company faced an above-average level of major losses that added 15.5 points to the 98.9% reinsurance combined ratio. The company also contended with 100 million euros of COVID-19 claims in P&C and 167 million in life reinsurance. However, Munich Re reiterated its 2.8-billion-euro profit target for 2021 after a 1Q profit of 589 million euros due largely to improved results from ERGO. Overall, the company is best placed within its sector to weather the challenge of lower interest rates.

SIGNIFICANT TRANSACTIONS

We initiated a position in Stora Enso. Stora is a Finnish producer of wood-based products including timber, packaging, and pulp for paper. It is also exploring more sophisticated use of wood for example in carbon anodes for electrolysis. We like the company for its long-term growth story as wood products are becoming increasingly attractive for recyclable/compostable packaging and as a store of carbon. Indeed, in combination with its own company-wide initiatives, the company is a net negative CO2 emitter.

We exited our holdings in Bright Horizons and Booking Holdings. The provider of childcare and online travel agent, respectively, occupy market-leading positions in their fields, however, valuations have soared in anticipation of an economic reopening while the medium-term growth picture is less clear. As parents return to work but under more flexible conditions, there is uncertainty as to the resilience of Bright Horizons' corporate partnership model. Similarly, Booking's share price already reflects growth above and beyond that which it was recording pre-COVID. We have thus opted to take profit and exit the shares.

OUTLOOK

On balance, the long-term environment may be less deflationary than it was during the 2010s, but we believe it is not yet an inflationary one. More expansionary fiscal policy and a less favorable environment for global trade still contend with long-term structural forces such as digitalization, automation and rising debt burdens. In combination, these trends not only exert deflationary pressure but also offer highly visible and long-term growth prospects.

In any case, we believe owning quality companies on sensible valuations, which are harnessing these trends, provides the best defense against a volatile and unpredictable inflationary environment. Such business models typically enjoy strong pricing power, making them well equipped to pass on the impact of higher costs to their end customers. In contrast, highly capital-intensive business models may suffer as they grapple with cost pressures and rising capex bills.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Allianz Global Investors

PORTFOLIO MANAGERS



Gunnar Miller
 Industry start date: 1987
 Start date as Fund Portfolio Manager: 2021



Robbie Miles, CFA
 Industry start date: 2010
 Start date as Fund Portfolio Manager: 2021

TOP TEN HOLDINGS

% Fund

Microsoft Corp.	6.19
Apple Inc.	5.06
Visa Inc.	3.87
Intuit Inc.	3.81
Alphabet Inc.	3.58
Adobe Inc.	3.24
S&P Global, Inc.	3.12
ASML Holding NV	2.92
Keyence Corp.	2.76
American Express Co.	2.67

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Intuit Inc.	0.92
Microsoft Corp.	0.85
Adobe Inc.	0.65
Alphabet Inc.	0.63
Apple Inc.	0.60

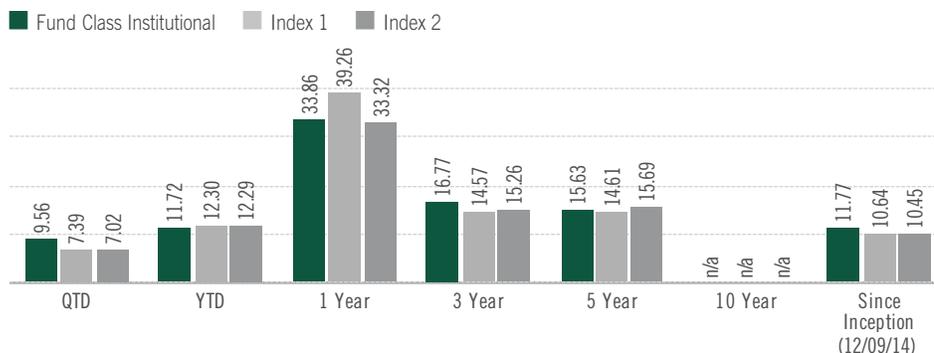
TOP FIVE DETRACTORS % Contribution

Daikin Industries, Ltd.	-0.18
Prudential plc	-0.17
Bright Horizons Family Solutions, Inc.	-0.16
Munich Reinsurance Co.	-0.15
Samsung Electronics Co., Ltd. Sponsored GDR	-0.04

% 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



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 1.13%. The net expense ratio is 0.69%, 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 **Dow Jones Sustainability World Index (net)** tracks the performance of the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index that are the world's sustainability leaders based on economic, environmental and social criteria. 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. **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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