

Virtus Rampart Equity Trend Fund

A: VAPAX (92828R255) | C: VAPCX (92828R248) | I: VAPIX (92828R230) | R6: VRPAX (92828W536)

MARKET REVIEW

After the histrionics of the first quarter, the second quarter represented a return to more normal market functioning. In fact, from a distance, the quarter was a non-event, as the S&P 500® Index rose only 3.43% from the end of March through June. Back in the hectic days of Q1, there were two days with bigger moves than in the entire second quarter.

As is often the case though, there are some points of interest just below the surface. For example, the first week of May appeared to set up for a continuation of the wild swings of the first quarter. In that single week, there were two upside moves in excess of 1%, and two downside moves in excess of 2%. Statistically speaking, a daily move greater than about 1% (either up or down) should occur roughly one-third of the time (based on the long-term standard deviation of S&P 500 Index daily returns). The second quarter began with four out of five days exceeding that threshold!

The end of the quarter had its share of volatility as well, even if much of it wasn't observable through end-of-day pricing. For example, the last week of June had multiple days where the intra-day trading range (high price to low price) far exceeded the S&P 500's moves during the entire month.

This highly dynamic price activity, with no commitment to directionality, indicates that market participants are highly reactive to immediate events, willing to quickly step in and out of the market depending on the latest headlines or rumors. And there has been no shortage of headlines and rumors, between escalating trade war tensions and domestic and global political dysfunction. As we might expect with this much news to trade on, we observed an increase in trading volumes as the quarter progressed.

As investors and market observers, it is difficult to draw any long-term or medium-term investment views from the current environment. Even if it were possible to accurately prognosticate the future direction of stock prices, the hair-trigger psychology currently dominating the trading environment could make for a bumpy ride.

PERFORMANCE

The Fund (Class I) returned 1.69% during the quarter, underperforming the 3.43% return of the S&P 500 Index. The Fund was outperforming the Index for much of the quarter, but the second half of June was not kind to the portfolio's holdings. In early June, the Fund made some allocation changes, focusing exposure on those sub-industries that were showing the strongest price performance. Generally, this approach aligns well with broad investment trends, as strength and weakness in the stock market tend to persist through time. In late June however, the stocks in which the Fund was invested (representing roughly half of S&P 500 Index constituents) underperformed the stocks that were excluded from the portfolio. In fact, looking at the performance at the sub-industry level (essentially buckets of 5-10 stocks, which are the basic building blocks of the Fund's investment process), more than half the Fund's investments had negative performance in June. While certainly not unprecedented, it is unusual for the strongest elements of the market to shift to underperformers so abruptly. Recently, the Fund made some additional portfolio changes, intended to recapture the momentum in the market.

POSITIONING AND OUTLOOK

Market strength has been relatively dynamic lately, with technology recently taking a backseat to more traditionally defensive sectors such as utilities. This may indicate that market participants are becoming increasingly uncomfortable with any number of factors, including: 1) the historically long bull market showing signs of age, 2) an inexorable rise in bond yields going forward, 3) the developing global trade war, and 4) the random externalities that are introduced to the investing discussion on a daily/hourly basis.

The Fund is intended to provide exposure to rising equity markets, and step out of the way of falling equity markets. As ever, we stand ready to implement defensive measures if necessary, including a 100% allocation to cash in order to protect investors' capital.

Virtus Rampart Equity Trend Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Rampart Investment Management Company, LLC

TECHNICAL ANALYSIS

Dorsey, Wright & Associates, LLC

PORTFOLIO MANAGERS



Warun Kumar
Industry start date: 1993
Start date with Fund: 2015



Michael Davis
Industry start date: 1999
Start date with Fund: 2016



Brendan R. Finneran, CMT
Industry start date: 2003
Start date with Fund: 2016



Robert F. Hofeman, Jr.
Industry start date: 2002
Start date with Fund: 2016

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/1/2010
Fund Class I	1.69	1.62	12.72	5.62	5.55	n/a	9.05
Index	3.43	2.65	14.37	11.93	13.42	n/a	15.33

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit virtus.com for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.31%.

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. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

Index: 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 index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Allocation:** The fund's exposure to different asset classes may not be optimal for market conditions at a given time. Asset allocation does not guarantee a profit or protect against a loss in declining markets. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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