VIRTUS MUTUAL FUNDS

Virtus Rampart Equity Trend Fund

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

MARKET REVIEW

The tranquility that characterized the U.S. stock market throughout 2017 was abruptly shattered in the first quarter of 2018. The quarter, and the year, started with the strongest January since 1997—even after giving up nearly 2% over the final few days of the month. This rally fell to pieces in dramatic fashion leading into early February, as the S&P 500® Index lost more than 10% over only nine trading sessions. Even the crash of January 2016—the worst start to a calendar year ever—was less severe. A subsequent rally was overturned in March, as the first shots in what may end up being a global trade war were fired. The stock market was not impressed, pushing the S&P 500 Index negative by the end of the quarter.

It was inevitable that the market would revert to more normal risk levels, after such a placid 2017. Last year was an aberration, as participants relentlessly pushed prices up, regardless of prevailing risk factors or potential stressors. Shifts from one risk regime to another can be traumatic, especially a shift from low risk to higher risk. Through that lens, the tumultuous market activity of early 2018 can be seen as a natural, and expected, reaction to a new environment. Less clear, and likely unknowable, is what event actually caused market participants to decide that first quarter 2018 was the time for the shift to higher risk.

There are credible explanations relating to activity in the volatility markets, particularly with respect to a handful of "short volatility" products. In certain situations, risk management mechanisms pertaining to these products can lead to outsize index buying in strong markets and outsize selling in falling markets. This activity can bleed into the pool of "risk parity" funds and products, and eventually can precipitate irrational buying/selling in the broader investor pool.

Even with the benefit of hindsight, though, it is futile to attempt to explain the reaction of a large and liquid market like the S&P 500 with a single cause. A variety of factors was certainly in effect. Among others: market levels at all-time highs leading into January, a long list of global macroeconomic and political stresses, and increasing bond yields. Equally futile, unfortunately, is the attempt to make actionable predictions about the future based on what has transpired to date. With the first quarter now closed, it is tempting to conclude that the shift from low volatility to higher volatility has stabilized. It is impossible to forecast the future directionality, of course, so we continue to advise preparation and planning for either a bullish or bearish eventuality.

PERFORMANCE

The Fund (Class I) slightly outperformed the S&P 500 Index, ending the quarter just short of flat with a return of -0.07%, compared to -0.76% for the Index. Of note, even with the remarkable Index moves discussed in the Market Review section, the Fund did not make any defensive allocations to cash. This positioning was beneficial to performance, and was due to the fact that the S&P 500 Index never breached the key 200-day moving average level (when dividends are included). The steep and abrupt price rise in January brought the Index to a significant distance from this key technical level, and even the severe decline in February left more than 2% of room. The 200-day level was tested once again in March, actually coming closer than in February, but the Index never crossed over to trigger defensive measures.

Even with this in mind, the defensive mechanisms used in the portfolio are intended to absorb a certain amount of market volatility. Specifically, the Fund will not make cash allocations based on short-term moves. It takes several days of persistent price activity below the key 200-day moving average level before the Fund moves to cash, seeking to mitigate the impact of short, abrupt "whipsaw" events.

The Fund's relative strength methodology for allocating to S&P 500 sub-industries added value during the quarter, as it did during the fourth quarter. On average, the sub-industries that were included in the portfolio significantly outperformed those that were excluded, demonstrating the effectiveness of the screening methodology and helping to eke out a slight quarterly outperformance.

POSITIONING AND OUTLOOK

Current portfolio positioning includes relatively small changes from first quarter-end, reflecting the market's continued confidence in both the strong and weak components. As expected, we continue to see strength in the highly ranked sub-industries (those which are included in the portfolio) compared to the lower ranked sub-industries. Our expectation is that a bull market going forward will be led by these stronger, more highly ranked sub-industries, and the Fund's positioning will help performance. Similarly, we expect that any market weakness going forward will be more focused in the weaker, lower ranked sub-industries. As always, the Fund remains ready to remove any sub-industries that show weak momentum metrics, and will make allocations to cash if significant market weakness is seen.

Effective September 26, 2017 this fund changed its name from the Virtus Equity Trend Fund.

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 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/1/2010
Fund Class I	-0.07	-0.07	14.53	4.46	5.53	n/a	9.12
Index	-0.76	-0.76	13.99	10.78	13.31	n/a	15.36

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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