

## Virtus Rampart Equity Trend Fund

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

### MARKET REVIEW

The relative tranquility of the second quarter continued into the third quarter. If anything, markets were calmer, with daily price volatility down nearly 50% compared to the prior quarter, and the S&P 500® Index return was about 1% higher. The bull market marched along at full strength.

As in the second quarter, consumer discretionary and technology stocks were influential drivers of Index returns, due to both their performance and market weight. The stability of these two large sectors has been important to the health of the bull market.

In September, we saw the official introduction of communication services as a discrete sector to the S&P 500 Index. This action was part of a broader set of rearrangements in market classifications, which not only created the new sector, but moved a number of stocks into and out of the technology and consumer discretionary sectors.

In performance terms, the third quarter was reminiscent of the fourth quarter of 2017. Both periods were characterized by low volatility, strong returns, and a lack of any notable gap events. For example, in neither period did the Index experience a daily move in excess of 1%, and intraday moves were relatively muted.

One key difference was that implied volatility, as represented by the CBOE Volatility Index® (VIX), was about 20% higher than in the fourth quarter of 2017. There are two main takeaways from this observation. First, it is clear that option traders are still feeling the sting of the historically unstable first quarter. The market was reminded, in no uncertain terms, that stocks are risky investments, and gap moves and massive corrections can happen at any time and without notice. This may end up being part of a healthy process, as investors appeared to have become complacent after the extremely mellow market dynamics of 2017.

The second takeaway is that the market appears to be taking the possibility of near-term downside risk more seriously than before. Strictly speaking, higher VIX levels point to increased uncertainty regarding the magnitude of future stock market performance, without directly indicating a view on directionality. Practically speaking, a higher VIX level tends to indicate expectations of falling prices. Volatility traders, just like stock traders and bond traders, have no ability to predict the future. The VIX itself does not indicate what will happen in the future (although some may argue that it has some predictive power); it only indicates what traders think the more likely future path is. In the current environment, the market is saying that the odds of a market decline have increased.

### PORTFOLIO REVIEW

The Fund (Class I) returned 5.97% during the quarter, underperforming the 7.71% return of the S&P 500 Index, and giving up the advantage it had gained over the Index in prior quarters.

The market environment of late June, and to a lesser extent late September, proved troublesome for the Fund's portfolio, and performance suffered. Some choppiness entered the market, which made it more difficult for the Fund's relative strength analysis to accurately identify market leaders and laggards. There were several allocations made during this period to strong-performing stocks, which then experienced weakness almost immediately upon those allocation adjustments. This is a frustrating feature of certain market environments, and is related to the dynamics that negatively impacted the Fund in both 2015 and 2016.

The Fund's risk control measures were not tested during the quarter, as there was little in the way of risk events. The risk controls are intentionally calibrated to respond to market corrections that develop over time and have conviction, while seeking to ignore the type of short-term, "V"-shaped decline/recovery events like we saw in the first quarter of 2018. As ever, the Fund stands ready to take defensive action if the market makes a decisive downward move, including establishing a cash allocation of up to 100% if necessary.

### OUTLOOK

The beginning of October provided the markets with yet another test, as another unanticipated and hugely damaging downward gap occurred. Our research shows that instances of multi-standard deviation gap events have been higher than normal in 2018, which should come as a surprise to nobody. We remain uncertain what is driving this aberrant behavior. Some market observers point to the ever-increasing role of both programmatic trading strategies and passive investments. These two factors can converge when there are a significant number of automated traders who are responding to the same signals, and they increasingly are trading the Index (S&P 500 futures and ETFs). It stands to reason that this may lead to occasional gap moves that look quite irrational from the outside. While this may be a compelling story, it is difficult to find evidence of this in market data. It is inevitable that a significant correction will occur in the future, possibly even a bear market. When it does, the Fund will seek to protect investor capital by disinvesting from the weaker parts of the market, and moving to cash if necessary.

## 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 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/1/2010
Fund Class I	5.97	7.69	16.48	9.42	5.78	n/a	9.53
Index	7.71	10.56	17.91	17.31	13.95	n/a	15.87

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](http://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](http://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.

There is no relationship between Dorsey Wright and Virtus other than a license by Dorsey Wright to Virtus of certain Dorsey Wright trademarks and trade names, and the Dorsey Wright technical analysis ("Technical Analysis"). The Technical Analysis has been created and developed by Dorsey Wright without regard to and independently of Virtus, its business, its development of this product, and/or any prospective investor. The licensing of any Technical Analysis to Virtus is not an offer to purchase or sell, or a solicitation or an offer to buy any securities. A determination that any portion of an investor's portfolio should be devoted to any product developed by Virtus is a determination made solely by the investment advisor serving the investor or the investor himself, not Dorsey Wright or Virtus.

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.

**Please carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit [virtus.com](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

**Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.**

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.