VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps Global Infrastructure Fund

A: PGUAX (92828R826) | C: PGUCX (92828R818) | I: PGIUX (92828R792) | R6: VGIRX (92828W221)

MARKET REVIEW

Global markets showed strength in the third quarter, ignoring numerous headwinds to post gains of 5.10% (MSCI World Index, net). The robust U.S. economy, which is driving stellar corporate earnings growth, easily overcame concerns around trade wars, stalled EU growth, Brexit, and Italian politics. With U.S. GDP growing rapidly and inflation appearing contained, the Federal Reserve has raised rates three times so far this year with another increase expected before year-end.

For the quarter, infrastructure stocks (FTSE Developed Core Infrastructure 50/50 Index, net) ended down slightly at -0.28%, significantly underperforming the broader global market. Communications and utilities posted gains, while transportation and energy infrastructure had negative returns. The U.S. was the only developed region to record positive performance for infrastructure stocks, supported by strong economic conditions. Asia/Pacific infrastructure stocks declined modestly while Europe (including the U.K.) was a notable laggard again.

Transportation had another tough quarter. Weak performance by airports and toll roads was partially offset by U.S. rails, which continued to benefit from healthy economic growth and operational improvements. However, the key event was Italy's devastating Morandi bridge collapse, which is operated by Atlantia. Utility stocks held their own versus other infrastructure sectors despite rising interest rates. While the yield on the U.S. 10-year Treasury rose to 3.05% from 2.87% at the beginning of the quarter, U.S. utilities (Philadelphia Utility Index) gained 2.4%. Energy infrastructure stocks underperformed, although there was a real dichotomy between international and U.S. Rising rates, the strong dollar, and trade wars pushed international stocks lower, especially large Canadian infrastructure companies. U.S. stocks, however, performed much better as fundamentals around U.S. energy infrastructure remained very strong. Communication stocks performed relatively well as the group posted positive returns for the quarter. Investors reacted favorably as the wireless tower companies reported solid fundamental results and a positive outlook.

PERFORMANCE

During the quarter, the Fund (Class I) returned -0.51%, slightly trailing the -0.28% return of the benchmark. Sector allocation had a negative impact on relative performance. The Fund's overweight in energy infrastructure and transportation during the quarter was a contributing factor as returns in both sectors lagged the benchmark return. The underweight in utilities also hurt allocation due to the sector's outperformance relative to the benchmark. The positive returns in communications relative to the benchmark was a modest positive to sector allocation.

Security selection was positive primarily due to strong performances within energy infrastructure by Cheniere Energy and Targa Resources. A large underweight in Enbridge, which posted a negative return, was also beneficial. Selection was a modest positive in communications and utilities. Transportation selection was a detractor resulting from the overweight in Atlantia, which was down almost 30% in the quarter following the bridge collapse in Italy. Other stock detractors within transportation included Canadian National Railway and Macquarie Infrastructure Corporation, both not held in the portfolio.

At the security level, Cheniere Energy was the top contributor and remains our largest overweight within energy infrastructure. Cheniere continues to benefit from strong global demand for LNG. CSX Corp., a U.S. railroad, also helped relative performance due to the supportive macroeconomic background in the U.S. and improving operating margins.

Atlantia was the largest detractor. At the time of the Italian bridge collapse, Atlantia was one of our top 10 holdings. However, due to numerous uncertainties associated with this incident, we reduced the holding to a relative underweight. Canadian National Railway, which we do not hold, also hurt performance given the stock's positive return in the quarter.

OUTLOOK

As we head into the fourth quarter, we see conflicting signals. Brisk U.S. growth combined with tax reform have resulted in corporate profits exceeding expectations, which has been the primary tailwind driving U.S. equity markets higher. The headwinds are also well known—geopolitical risks (China trade war, Brexit, Italy), a slowdown of economic growth in Europe, U.S. mid-term elections, higher interest rates—but, so far, have not unduly worried investors. We are somewhat more cautious as we look to 2019. This is reflected in the portfolio positioning of an overweight in energy infrastructure and communications offset by an underweight in transportation and utilities.

Fundamentals for energy infrastructure continue to look constructive. With the supply/demand picture for oil and gas remaining bullish, the U.S. should continue to play a central role in the global market. We remain comfortable with the overweight in the tower companies within the communications sector. Within transportation, our preference is for U.S. rails. While still overweight toll roads, our enthusiasm has declined. During the quarter, we moved airports to a significant underweight due to concerns around soft retail sales, slowing traffic trends, and potential risk to fees. We are maintaining a significant underweight in utilities. An environment of rising rates can put near-term pressure on utilities, making it difficult to outperform the other infrastructure sectors.

Certainly, there are a lot of moving parts right now with respect to global markets. We like the portfolio's current positioning based on our views of macroeconomic trends, industry drivers, and geopolitical risks. As always, we will continue to closely monitor global developments through our travels and management meetings, incorporating changes to portfolio positioning as warranted.

Virtus Duff & Phelps Global Infrastructure Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

PORTFOLIO MANAGER

Connie Luecke, CFA
Industry start date: 1983
Start date with the Fund: 2004

Steven Wittwer, CFA
Industry start date: 1997
Start date with Fund: 2018

TOP TEN HOLDINGS

	% FUND
Transurban Group Ltd.	6.34
NextEra Energy, Inc.	5.82
American Tower Corp.	5.22
Crown Castle International Corp.	4.31
Sempra Energy	3.62
TransCanada Corp.	3.17
American Electric Power Co., Inc.	3.16
Dominion Energy Inc.	3.14
CSX Corp.	3.12
VINCI SA	2.96

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/6/2008
Fund Class I	-0.51	-2.20	-0.52	8.29	6.18	7.36	5.14
Index	-0.28	-1.24	0.74	8.43	5.82	6.23	3.90

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 1.01%.

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 **Global Infrastructure Linked Benchmark** consists of the FTSE Developed Core Infrastructure 50/50 Index (net), a free float-adjusted market capitalization weighted index that gives participants an industry-defined interpretation of developed market infrastructure companies and adjusts the exposure to certain infrastructure subsectors. The constituent weights are 50% Utilities, 30% Transportation (including capping 7.5% for railroads/railways), and a 20% mix of other sectors including pipelines, satellites, and telecommunication towers. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do no reflect any fees, expenses, or sales charges, and is not available for direct investment. Performance of the Global Infrastructure Linked Benchmark between 9/1/2008 and 9/30/2016 represents a 100% allocation to the MSCI World Infrastructure Sector Capped Index. Prior to 9/1/2008 the allocation consisted of 65% MSCI USA/Utilities Index, 20% MSCI World Telecom Services Index, and 15% MSCI World ex USA/Utilities Index.

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. **Foreign Investing:** Investing internationally involves additional risks such as currency, political, accounting, economic, and market 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. **Income:** Income received from the fund may vary widely over the short- and long-term. **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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