Virtus Duff & Phelps Global Infrastructure Fund

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

MARKET REVIEW

Global markets had a difficult fourth quarter, falling 13.42% (as measured by the MSCI World Index, net). Headwinds that had been building all year finally took center stage, including the U.S.-China trade war, Brexit, Italian politics, rising U.S. interest rates, and an overall global economic slowdown. All the negative sentiment flowing through the market pushed oil prices down to the low $40s and the 10-year U.S. Treasury yield back to levels not seen since early 2018.

The defensive nature of global listed infrastructure was evident, as the benchmark FTSE Developed Core Infrastructure 50/50 Index ended down 3.43% in the quarter, significantly outperforming the broader global market. Less cyclical communications and utilities sectors posted gains, while transportation and energy infrastructure returns were negative. All regions had losses in the period, with Asia/Pacific infrastructure stocks performing the best and Europe (including the U.K.) a notable laggard once again.

Utility stocks stood out as investors flocked to the sector looking for a place to hide. The key event in the industry was the devastating wildfires in California, leading to major losses for two California utilities, PG&E and Edison International, over concern about potential liability from the fires, combined with a limited response by the California legislature.

Communication stocks performed relatively well, posting positive returns. The attractive business model of wireless tower companies was viewed favorably in the unsettled environment. While transportation had negative results for the quarter, it outperformed the broader global equity market. Energy infrastructure stocks were big laggards. Oil prices, which were close to a four-year high on October 3, plunged 40% over the rest of the quarter. Despite a still improving story, energy infrastructure stocks followed oil prices down as tax-selling and tight trading liquidity in December steepened losses.

PERFORMANCE

During the quarter, the Fund (Class I) returned -4.18%, underperforming the benchmark's -3.43% return. Sector allocation had a negative impact on portfolio performance relative to the benchmark. Our overweight position in energy infrastructure was a detractor as the sector return lagged the benchmark return. Our underweight exposure in utilities also hurt due to the sector's outperformance. Positive returns in communications relative to the benchmark helped, given our overweight positioning in the sector.

Security selection was a modest negative, primarily driven by weak performances within energy infrastructure. Stock selection was positive in utilities and communications. Within communications, satellite companies gave back some gains from previous quarters, helping relative performance as we do not hold these stocks. The transportation sector had no impact on relative performance.

At the security level, PG&E—a stock not held—was the top contributor to relative performance. As discussed, the California wildfires have been extremely detrimental to PG&E. Transurban, the Australian toll road operator, is our largest holding and a relative overweight. In volatile markets, Transurban acts defensively, and posted a positive return in the quarter to help relative performance.

The largest detractors were Targa Resources and Antero Midstream, energy infrastructure companies not held in the benchmark. The rapid decline in oil prices led to a big fall in natural gas liquids prices, causing both stocks to trade off.

OUTLOOK

Looking ahead to 2019, we continue to see opportunities for infrastructure investment. The U.S. economy remains on firm footing, with low unemployment, low inflation, and solid GDP growth. The Federal Reserve's hold on increasing rates could provide additional support. However, the trade war with China and the federal government shutdown could be obstacles. If these issues get resolved, it is possible the U.S. economy may be strong enough to pull other economies along in its wake.

Our positioning remains similar going into 2019, with an overweight in energy infrastructure and communications offset by an underweight in transportation and utilities.

Fundamentals for energy infrastructure continue to look constructive, even though the stocks haven't traded that way. Given increasing U.S. production of oil, natural gas, and natural gas liquids, we expect midstream companies to put up strong earnings for the quarter and present upbeat outlooks for 2019.

Within communications, we remain comfortable with the overweight in tower companies based on our view that the runway for 4G and 5G network buildouts has more than five years to go. Within transportation, we maintain an underweight with a preference for railroads and toll roads over airports.

We are maintaining a considerable underweight in utilities. We continue to be positive regarding the growth strategies and regulatory positions of our U.S. utility holdings; however, an overweight position is not merited due to valuation.

Despite the challenges presented by the global markets, we believe the portfolio is appropriately positioned 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, management meetings, and research, incorporating changes to portfolio positioning as warranted.

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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.	6.94
NextEra Energy, Inc.	6.45
American Tower Corp.	6.07
Crown Castle International Corp.	4.50
Sempra Energy	3.68
American Electric Power Company, Inc.	3.57
Dominion Energy Inc.	3.41
Enbridge Inc.	2.99
Orsted	2.80
VINCI SA	2.77

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/6/2008
Fund Class I	-4.18	-6.29	-6.29	7.32	4.09	8.30	4.59
Index	-3.43	-4.63	-4.63	7.77	3.88	7.13	3.46

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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