

Virtus Aviva Multi-Strategy Target Return Fund

A: VMSAX (92835M794) | C: VCMSX (92835M786) | I: VMSIX (92835M778) | R6: VMSRX (92835M687)

MARKET REVIEW

Global markets were somewhat calmer in June, following the resolution (at least for the time being) of the Italian political situation that gripped markets in May. However, there were areas of fragility, as trade tensions rose. Emerging market (EM) assets were under increasing strain, as Asian currencies fell particularly sharply in June following the news that the U.S. would proceed with 25% tariffs on \$34 billion of Chinese goods, with a further \$16 billion to follow. China indicated that it would respond with similar tariffs on U.S. goods, and the rhetoric from President Trump escalated further, resulting in threats of tariffs on an additional \$200-400 billion of Chinese goods should China retaliate. With little sign of a de-escalation in tensions during June, those markets in Asia most likely to be impacted (directly or indirectly) by a trade war were hardest hit. Our short positions in Asian currencies, in addition to the Australian dollar, benefited from that market reaction; however, our long position in Indonesian government bonds offset much of those gains.

PERFORMANCE & PORTFOLIO POSITIONING

The Fund (Class I) returned 0.10% in the second quarter. Since inception (July 20, 2015), the Fund has exhibited annualized volatility of 4.28% compared to 10.84% for the MSCI All Country World Index (local currency), consistent with its strategy to deliver less than half the volatility of global equities. The three types of strategies in which the Fund invests both contributed and detracted from returns.

Market Return Strategies

The Fund's market return strategies provide exposure to traditional asset classes. Our long EM duration strategies—namely long Brazilian rates and the now-closed long Indian rates strategies—suffered the most as EM continued to sell off on the back of a shrinking yield differential between the U.S. and EM, a stronger U.S. dollar, and trade war tensions embroiling China, the U.S., and other leading economies. Our long Indonesian rates position also weighed on returns as the Bank of Indonesia raised interest rates more aggressively than expected in an attempt to defend the volatile and weakening rupiah. To no surprise, our long EM equities exposure also detracted as the EM sell-off extended to other asset classes besides fixed income.

While we continue to favor EM assets, we also recognize the possibility for increased market risk going forward. As such, we have adjusted our EM exposure and progressively increased our net long U.S. dollar exposure by introducing new positions, such as long U.S. dollar vs. the Australian dollar and a basket of Asian currencies. These positions are expected to continue to perform well should EM assets continue to come under pressure.

One of the Fund's largest detractors has been our long global financials equities position. In particular, our exposure to European bank stocks was hit the hardest as political uncertainty around the general elections in Italy intensified. While originally implemented using total return swaps, our long European bank exposure was subsequently switched to an option structure, giving us greater upside should we see a rally/bounce-back with the same exposure on the downside.

On the positive, our long positions in global equities, European mid-cap equities, and Japanese REITs helped to offset some of the losses.

Opportunistic Return Strategies

The Fund's opportunistic return strategies seek to take advantage of market mispricing. In this section of the portfolio, the short duration strategies led gains. Given our positive view on global growth and inflation, we continue to believe that a shift to tighter monetary policy will be a key market theme in 2018, and thus, we continue to expect interest rates to grind higher. The Fund is still running a net short duration exposure predominantly in the U.S., Europe, and U.K. Should our central scenario of tighter monetary policy and higher yields continue to play out, we would expect these strategies to perform particularly well. Our long U.S. inflation position also delivered strong returns as the U.S. labor market continued to tighten, and rising oil prices continued to push inflationary expectations higher. Over the past year, our long U.S. inflation position has been one of the Fund's best-performing strategies.

Risk-Reducing Return Strategies

The Fund's risk-reducing return strategies, which provide exposure to traditional and non-traditional asset classes, were broadly flat. The recently introduced basket of short Asian currencies vs. the U.S. dollar provided the strongest returns while exhibiting good defensive characteristics in protecting the portfolio as the EM complex continued to sell off. However, our U.S. front-end yield curve steepener position negated most of these gains. The front end of the U.S. yield curve continued to flatten as the weakness in EM drove the demand for safe-haven assets. The 2-year to 5-year section of the curve is now at its flattest point since 2007.

OUTLOOK

Looking ahead, we believe trade tensions will continue to impact market sentiment as uncertainty increases. While the magnitude of tariffs imposed to date is not enough to be economically significant, there is a risk of further escalation to the point that it could materially impact business sentiment, financial conditions, and ultimately trade flows, economic growth, and inflation.

Virtus Aviva Multi-Strategy Target Return Fund

INVESTMENT ADVISER

Virtus Alternative Investment Advisers, Inc.

INVESTMENT SUBADVISER

Aviva Investors Americas LLC

CHAIR OF THE STRATEGIC INVESTMENT GROUP



Euan Munro, FIA
Industry start date: 1992
Start date with Fund: 2015

PORTFOLIO MANAGERS



Peter Fitzgerald, CFA
Industry start date: 1995
Start date with Fund: 2015



Ian Pizer, Ph.D., CFA
Industry start date: 2002
Start date with Fund: 2015



James McAlevey, CFA
Industry start date: 2000
Start date with Fund: 2018

TOP TEN STRATEGIES BY RISK % Contribution to Risk

Duration - Long Brazilian Rates	1.58
Duration - Short UK Long-End Rates	1.20
Inflation - Short UK Inflation	0.96
Property - Long Japanese REITs	0.92
Equities - Long Global Financials	0.92
Equities - Long Global Equities	0.90
Duration - Short European Long-End Rates	0.89
Equities - Long European Equities	0.86
Duration - US Front-End Yield Curve Steepener	0.80
Duration - Short US Rates	0.76

Source: Aviva Investors. Top Ten Strategies by Risk, as measured by Annualized Position Volatility, and Portfolio Risk Breakdown are subject to change.

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/20/2015
Fund Class I	0.10	0.83	-0.01	n/a	n/a	n/a	-0.38
Index	0.31	0.55	0.96	n/a	n/a	n/a	0.54

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.

Benchmark since inception performance is reported from 7/31/2015.

The fund class gross expense ratio is 1.93%. The net expense ratio is 1.51%, which reflects a contractual expense reimbursement in effect through 2/28/2019. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.44%.

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 **Federal Funds Rate** is the interest rate paid on overnight loans made between depository institutions. This index is the weighted average of rates on brokered trades and represents the arithmetic mean of all daily rates for a given month. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Aviva Investors Americas LLC (AIA) is the named subadviser to the Virtus Aviva Multi-Strategy Target Return Fund and utilizes the services of Aviva Investors Global Services Limited (AIGSL) and its other affiliates (collectively, Aviva Investors) to manage the Fund. These affiliates are Participating Affiliates as that term is used in relief granted by the SEC. The listed Portfolio managers are associated with AIGSL.

The portfolio managers utilize derivatives to implement the majority of the fund's investment strategies. Considering each investment strategy's contribution to overall risk may present a clearer picture of how the fund is positioned relative to each investment's market value. Risk is defined as volatility, as calculated by FinAnalytica, and is a one month annualized standard deviation, which measures dispersion of returns. It may not be indicative of future risk, and is not a predictor of returns.

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 & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Credit & Interest:** Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Leverage:** When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Counterparties:** There is risk that a party upon whom the fund relies to complete a transaction will default. **Portfolio Turnover:** The fund's principal investments strategies will result in a consistently high portfolio turnover rate. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account. **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.

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 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.

2094 08-18 © 2018 Virtus Mutual Funds