VIRTUS MUTUAL FUNDS

Virtus Aviva Multi-Strategy Target Return Fund

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

MARKET REVIEW

As 2017 drew to a close, global risk appetite remained positive, with most equity markets ending the year on a positive note. We were surprised by the relative outperformance of the U.S. equity market over Europe, with the former gaining close to 20%, while the latter rose just 6.5%. While earnings growth in the U.S. outpaced Europe last year, it also re-rated higher, widening the relative value between the two markets. Emerging market and Japanese equities, the Fund's main equity exposures outside of Europe, performed strongly in 2017. While we have yet to get final figures, it looks as though 2017 witnessed the fastest pace of global growth since 2011. It was also the first year in which consensus views surprised on the upside since the immediate aftermath of the global financial crisis. We see the prospects for global growth in 2018 improving further, with the potential for GDP to reach 4% (annualized). While growth surprised positively in 2017, inflation remained below major central bank targets in most economies, either holding steady or rising only modestly in most cases. This kept government bond yields contained in 2017, with longer-dated U.S. Treasury yields little changed, while core European bond yields moved a little higher.

In December, the Federal Reserve raised rates for the third time in 2017 and stated its expectations for three more hikes in 2018, while revising upward its growth expectations for the year ahead. That comes off the back of a strong end to 2017, with annualized GDP growth in the fourth quarter expected to be above 3%. The passage of much-awaited tax cuts will give the U.S. economy another boost at the start of 2018. Also in December, the European Central Bank (ECB) left policy unchanged but raised growth projections materially, which should result in the unemployment rate falling further in 2018. We expect that will be sufficient for the ECB to end asset purchases in September. The Bank of England left rates unchanged, noting that activity looked to have slowed somewhat in the fourth quarter. Indeed, employment fell for the second month, at the fastest pace since mid-2015. The Bank of Japan's latest business survey showed corporate conditions at a 26-year high, with expectations at a similarly elevated level, reflected in very strong gains in Japanese equities. In emerging markets, Mexico's central bank also raised rates, but the currency and bond markets came under increasing pressure due to a lack of progress in NAFTA negotiations, allegations of political graft, and concerns about competitiveness following passage of the U.S. tax cuts. The central bank intervened in the currency late in the month, which provided some respite, but both the Mexican currency and government bonds fell sharply over the month. Turkey's central bank raised rates, while Indonesia's central bank left rates unchanged.

PERFORMANCE

The Fund returned -0.52% (Class I) in the fourth quarter. Since inception (July 20, 2015), the Fund exhibited annualized volatility of 3.42% compared with 10.80% for the MSCI All Country World (local currency), consistent with its strategy.

Over the quarter, the Fund experienced slightly negative performance, with positive returns generated by our equity, credit, and inflation strategies more than offset by the losses registered by some of our currency and duration strategies.

- Our long exposure to the Mexican currency detracted the most as the peso depreciated against the Australian dollar and rates sold off following a hike by the Mexican central bank trying to fend off inflationary pressures, as well as due to the approaching general elections and disagreements in NAFTA negotiations. Also, within currencies, our long U.S. dollar versus Japanese yen position detracted from performance. In addition, our short U.K. rates position was challenged as long-term rates fell sharply alongside our U.S. payer spread strategy, which was hurt by its option-based implementation as volatility continued to drift lower. Finally, our risk-reducing strategies, which are expected to protect the portfolio at times of market stress, also weighed on returns due to lower implied equity volatility levels.
- On the upside, our emerging market and global equity strategies delivered positive returns, helped by the broad-based pickup in global growth and encouraging corporate earnings results. In addition, our long U.S. inflation position boosted performance as market-based inflation expectations recovered on the back of rising energy prices, prospects of the tax bill in the U.S. being passed, and sturdier growth numbers in the U.S.

OUTLOOK

Looking forward, we believe the global economic outlook is strong with global growth likely to approach 4% in 2018. We expect this positive macroeconomic backdrop to be supportive of risk assets, translating into strong performance in certain equity markets while interest rates grind higher and inflation expectations normalize. Although we do not expect the volatility regime to abruptly spike higher, we continue to protect the portfolio against a sharp pickup in volatility and potential market corrections.

Effective May 8, 2017, the Fund's name was changed from Virtus Multi-Strategy Target Return Fund.

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 the Fund: 2015

PORTFOLIO MANAGERS

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

Dan James
Industry start date: 1995
Start date with the Fund: 2015

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

Brendan Walsh, Ph.D., PRM
Industry start date: 2006
Start date with the Fund: 2015

TOP TEN STRATEGIES BY RISK

TOP TEN STRATEGIES BY RISK	Contribution to Risk %
Equities - Europe	1.97
Duration - US Steepener	1.61
Inflation - USD 10Y Inf	1.46
Inflation - GBP 5Y5Y Inf	1.10
Equities - Global Equity	1.09
Duration - Short UK Rates	0.93
Currency - Mexico	0.84
Equities - EM Equity	0.83
Currency - Long USD v JPY	0.63
Equities - Emerging v Developed	0.57

Source: Aviva Investors. Top Ten Strategies by Risk, as measured by Annualized Position Volatility are subject to change. Risk statistics are calculated using daily returns.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/20/2015
NAV	-0.52	-2.13	-2.13	n/a	n/a	n/a	-0.79
Index	0.20	0.69	0.69	n/a	n/a	n/a	0.42

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 2.10%. The net expense ratio is 1.49%, which reflects a contractual expense reimbursement in effect through 4/30/2018. 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 returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, **would reduce the performance quoted**. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required 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 investment professionals 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.

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