VIRTUS MUTUAL FUNDS

Virtus Aviva Multi-Strategy Target Return Fund

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

PERFORMANCE OVERVIEW

During the first quarter, the Fund (Class I) returned 0.72%. Since inception (July 20, 2015), the Fund exhibited annualized volatility of 4.06% compared to 11.03% for the MSCI All Country World (local currency), consistent with its strategy.

Following a strong advance in 2017, returns from credit were relatively subdued over the first quarter. By contrast, equity markets rose sharply in January, until the steep decline in February and subsequent volatility which left indices languishing in negative territory at quarter-end.

Against this backdrop, the Fund's equity strategies detracted marginally from performance on the whole. Our long global equities and long financial equities positions contributed negatively, as markets fell. In contrast, our long emerging market equities positions contributed positively to performance, on both an absolute and relative basis to developed market equities.

We exited our long European versus short European cyclical equities strategy, as the outperformance of cyclical stocks (automobiles) during the sell-off no longer offered risk-reducing properties. We also materially reduced our exposure to U.S. high yield credit, as the positive returns of 2017 resulted in spreads reaching levels where we no longer felt investors were being rewarded for the amount of risk taken.

VOLATILITY RETURNS

For some time, we have been suggesting a normalization of volatility was imminent. The stock market correction in early February brought volatility back to markets that had been characterized by relative calm for much of the prior 18 months. With the Federal Reserve shrinking its balance sheet, the European Central Bank tapering asset purchases, and less certainty around the Bank of Japan's yield curve control policy, we have argued that technical factors would be a less significant driver of market performance, fundamentals would matter more, and volatility would return to more normal levels.

What was interesting about the recent test of investor confidence was the extent to which it was led by the U.S. The technical nature of S&P 500® selling by structured product providers caused, the Index to fall more than other more cyclical indices. Within the portfolio, we hold a number of risk-reducing, volatility-oriented strategies. These include a combination of short S&P 500 volatility positions and long volatility positions of more cyclical indices such as European, Japanese, and Chinese equities. While these strategies did not provide the protection that is typical during market sell-offs, the elevated volatility in the S&P 500 did provide us with a rare opportunity to add to some of these positions. We believe that the technical drivers of the volatility experienced in the first quarter in the U.S. have diminished, and we are comfortable that going forward these strategies will behave in line with expectations.

EMERGING MARKET DEBT AND CURRENCIES

We believe that the synchronized growth dynamic is beneficial for many emerging markets. This broad thematic underpins the rationale for many of our emerging market debt and currency positions. We implemented a long Brazilian government debt position in January, which delivered strong returns attributed to rapidly falling inflation expectations. Equally, our long Mexico currency strategy rebounded as investors discarded some of the fears over the future of the North American Free Trade Agreement (NAFTA) that had persisted in 2017.

Not all emerging market countries are facing a positive outlook. In the case of Taiwan, we believe that its currency has strengthened too much in recent months and the country could be exposed to U.S. protectionist policies. As a result we are short the Taiwan dollar.

POISED FOR HIGHER RATES?

Given our outlook for the global economy, the Fund has been positioned for higher interest rates and an increase in both inflation expectations and term premia. This has been expressed in the portfolio through our short interest rates, long inflation, and yield curve steepening positions.

The sell-off in U.S. rates that started in the second half of 2017 accelerated in January as markets digested the tax bill, which passed before Christmas. This extended to the U.K., with long-end rates unwinding some of the tightening that had been seen into year-end. Concurrently, inflation expectations began to reprice upwards. This delivered strong returns in January, and with rates markets not materially responding to equity volatility until the closing days of March, the portfolio retained some of these gains. Of particular note were our U.S. yield curve steepener, U.S. versus U.K. interest rates, and long U.S. inflation strategies.

Given the extent to which the market has moved, we have reduced our long U.S. inflation strategy, while, at the same time, we initiated exposure to a Korean interest rates curve steepener strategy and a long European inflation strategy.

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 Fund: 2015

PORTFOLIO MANAGERS

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

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

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

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

TOP TEN STRATEGIES BY RISK

	% Contribution to Risk
Equities - Long European Equities	1.72
Duration - Short UK Long-End Rates	1.52
Duration - US Yield Curve Steepener	1.52
Duration - Long Brazilian Rates	1.16
Equities - Long Global Equities	1.09
Inflation - Short UK Inflation	1.00
Equities - Long Emerging Equities	0.83
Inflation - Long US Inflation	0.79
Duration - Short European Long-End Rates	0.70
Equities - Long Global Financials	0.65

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 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/20/2015
Fund Class I	0.72	0.72	0.20	n/a	n/a	n/a	-0.45
Index	0.24	0.24	0.82	n/a	n/a	n/a	0.47

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.

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