

Virtus Aviva Multi-Strategy Target Return Fund

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

PERFORMANCE & PORTFOLIO POSITIONING

The Fund (Class I) returned -0.41% in the third quarter. Consistent with its strategy to deliver less than half the volatility of global equities, the Fund has exhibited 4.02% annualized volatility (standard deviation) since inception (July 20, 2015), compared to 10.57% for the MSCI All Country World Index (in local currency). In terms of the three types of strategies employed by the Fund, the risk-reducing return strategies detracted from performance during the quarter, more than offsetting the marginally positive performance of the market return and opportunistic return strategies.

Market Return Strategies

Our market return strategies were marginally positive. Our long Japanese REITs strategy was the top contributor, benefiting from gradually rising inflationary pressures, abundant liquidity from the Bank of Japan, and a quarter-end rally in Japanese equities. Despite coming under considerable pressure in August, our long Brazilian rates position also finished the quarter in positive territory following an emerging markets (EM) recovery in September as fears around a rising U.S. dollar and increasing trade tensions partially receded. On the other hand, our long global financials position (in particular exposure to European banks) detracted as the European financial sector struggled due to rising tensions in Italy. Our long Indonesian bond position and the newly introduced long U.S. data infrastructure position also detracted.

Opportunistic Return Strategies

Opportunistic return strategies also finished in marginally positive territory. Short duration strategies at the long end of the U.K. yield curve and short end of the U.S. curve performed particularly well. This was especially the case in September when global bond yields jumped and broke out of their recent summer trading range, supported by stronger U.S. economic data, a crude oil rally, and another Federal Reserve rate hike. Our long U.S. inflation position also performed positively. These strategies continue to be the largest performance contributors this year. Nevertheless, most of these positive returns were negated by losses in some of the currency strategies, namely long Indian rupee and long Swedish krona.

Risk-Reducing Return Strategies

Risk-reducing strategies detracted as a whole. Our short U.K. inflation strategy was the single biggest detractor as September inflation numbers surprised to the upside. Our short credit position, a strategy that we introduced at the start of the quarter to protect the portfolio from downside risks and to take advantage of stretched valuations in the sector, also detracted, particularly in September as trade

tensions partially receded. Long volatility strategies, on the other hand, helped to offset some of these losses as volatility in more cyclical equity markets such as China and Japan rose proportionally more than the volatility of the S&P 500® Index, which we consider to be less cyclical in nature.

OUTLOOK

The Fund remains positioned to benefit from ongoing strong global growth fundamentals, rising inflation, and tighter monetary policy. We express those views through various equity markets, including European mid-caps, EM small caps, and global financials, as well as through long inflation and short duration strategies. In addition, we have some more idiosyncratic positions where market pricing presents an opportunity—such is the case with Brazilian rates. While we are positioned for positive fundamental developments to continue, risks are more elevated than earlier this year, the main one being the further escalation of trade tensions. As such, alongside the reduction in equity risk, we have buttressed our risk-reducing strategies, including short credit and short Asian currencies, to protect the portfolio in times of market stress.

The downside risk over the coming months from increased trade tensions has made us somewhat more cautious on the near-term outlook for risk assets. We are close to neutral in our view on equities, moderately favoring U.S., European, and Japanese markets over the U.K. and EM. Should trade tensions subside, we would be looking to move to a more overweight position on equities. While we are more cautious on equities, we continue to prefer a material underweight in government bonds, with a similar view across the U.S., Japan, and Europe. We expect inflation dynamics will continue to favor higher rates, both at the short- and long-end of the curve, with the latter also likely to move higher on increases in global term premia. Amongst developed markets, Australia and Canada are preferred overweight positions. In credit, we see global investment grade valuations as unattractive at current levels, and we are also underweight high yield bonds. While we certainly do not expect a recession over the next couple of years, spreads are historically tight and duration risk is material. In EM, both hard and local currency valuations have improved in recent months, but in most cases for justifiable reasons. As such, we are overall neutral in our outlook for EM debt, with a need for selective exposure to the more robust economies. Finally, we are modestly underweight G10 and EM currencies against the U.S. dollar, which we expect to continue benefiting in the near term from U.S. economic outperformance, rising interest rates, and trade war rhetoric.

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



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



Mark Robertson
Industry start date: 2000
Start date with Fund: 2018

TOP TEN STRATEGIES BY RISK

% ANN. POSITION VOL.

Duration - Long Brazilian rates	1.47
Equities - Long global financials	1.29
Duration - Short US rates	1.24
Duration - Short UK long-end rates	1.14
Equities - Long global equities	0.91
Inflation - Short UK inflation	0.90
Property - Long Japanese REITs	0.89
Currency - Short Asian currencies	0.84
Inflation - Long US inflation	0.60
Duration - US long-end yield curve steepener	0.59

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 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 7/20/2015
Fund Class I	-0.41	0.41	-0.11	-0.21	n/a	n/a	-0.48
Index	0.34	0.89	1.10	0.63	n/a	n/a	0.60

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.

Standard Deviation: Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

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 11-18 © 2018 Virtus Mutual Funds