VIRTUS MUTUAL FUNDS

Virtus Vontobel Global Opportunities Fund

A: NWWOX (92828R446) | C: WWOCX (92828R420) | I: WWOIX (92828W775) | R6: VRGOX (92828W213)

MARKET REVIEW

Volatility continued in the global equity markets through the second quarter. Despite solid economic growth momentum in the U.S., Europe, Japan, and many emerging markets, activity around the globe set the markets toward a risk-off footing. Concerns that prompted a change in the outlook included the Federal Reserve (Fed) continuing to lift interest rates on the back of accelerating inflation, a strong U.S. dollar alongside a sell-off in emerging market currencies, a continued rise in oil prices, and U.S.-initiated trade negotiations appearing set to impose tariffs, with China threatening retaliation.

Information technology and energy were the top sector contributors to the benchmark MSCI All Country World Index (ACWI) in the second quarter, with Amazon, Apple, and Facebook leading the large U.S. tech-based names that took the top five contributor spots. The benchmark held onto positive territory, thanks to U.S. performance and weight—a result of the dollar's strength. Europe and emerging market equities declined in U.S. dollar terms.

PERFORMANCE

For the quarter, the Fund (Class I) returned 2.29%, outperforming the MSCI ACWI's 0.53% return.

> From a relative performance standpoint, the strongest sector returns in the quarter came from the consumer discretionary and financial holdings.

> At the other end of the spectrum, consumer staples was the weakest sector in the quarter, with performance negatively impacted by the tobacco holdings.

PORTFOLIO POSITIONING

We initiated four new positions in the quarter: U.S.-based PepsiCo (consumer staples), Korean cosmetics company Amorepacific (consumer staples), and U.S.-based Royal Caribbean Cruises (consumer discretionary).

To reallocate capital to better opportunities, we exited our positions in U.S. consumer-staples companies Altria Group and Casey's General Stores and in South African internet/media company Naspers.

OUTLOOK

A key risk that will continue to resurface this year is the pickup in inflation and the resulting expectation of higher interest rates in the U.S. Tight labor markets, excessive fiscal stimulus from tax reform, and the recent spending bill all suggest that upward price pressures should be building.

Indeed, inflation (including all items) has continued to edge up, to 2.8% in May from 2.5% in April, and is at the highest rate since 2012. Core inflation (excluding food and energy) rose to 2.2% in May.

We think that the Fed will continue to raise interest rates and that these increases will impact the market. Inflationary pressure will also reaffirm the Fed's commitment to its ongoing balance sheet contraction.

Another key risk—about which the market still seems to be somewhat sanguine—is an escalation in trade tensions. It is hard not to acknowledge that the tail risks have increased. The U.S. and China are still far apart when it comes to such difficult issues as solving intellectual property protection and the ability of U.S. firms to gain access into China without entering into joint ventures.

There are also some concerns about the sustainability of U.S. economic growth. There is a case to be made that the next recession could be especially painful for Americans. The country's consumer base is still fragile; about 50% of Americans have no more than $400 saved for emergencies. Furthermore, the Fed may have less monetary firepower this time around, and the Trump administration has little political appetite for supporting social safety nets and benefits. We do not, however, time our portfolio for the inevitable recession; the durability of the companies we own remains our core focus.

Against this backdrop of rising risks, the need for downside protection becomes increasingly important. Hence, we maintain our significant exposure to quality growth names, such as consumer staples and staple-like companies, as these businesses have historically held up well during recessions and market drawdowns.

Our focus has always been on the resilience of the businesses we own. This discipline is not rewarded in every period. For a while, the market was fixated on companies' current growth, irrespective of its sustainability. This year, some risk appreciation is coming back, which we see as a healthy development. We believe our quality growth discipline is evergreen and should hold us in good stead in today's markets, as it has over the past two decades.

Virtus Vontobel Global Opportunities Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Vontobel Asset Management

PORTFOLIO MANAGERS

Matthew Benkendorf
Industry start date: 1998
Start date with Fund: 2009

Ramiz Chelat
Industry start date: 1997
Start date with Fund: 2016

TOP TEN HOLDINGS

	% Fund
HDFC Bank Ltd.	4.29
Unilever NV Cert. of shs	3.57
Amazon.com, Inc.	3.54
UnitedHealth Group Inc.	3.53
Visa Inc. Class A	3.47
Mastercard Inc. Class A	3.44
Alphabet Inc. Class C	3.14
Alimentation Couche-Tard Inc. Class B	3.07
Housing Development Finance Corp. Ltd.	3.07
SAP SE	2.80

Holdings 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 8/8/2012
Fund Class I	2.29	1.41	10.82	11.63	11.32	n/a	11.83
Index	0.53	-0.43	10.73	8.19	9.41	n/a	10.13

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 1.19% and reflects the direct and indirect expenses paid by the Fund.

The gross expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.18%.

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 **MSCI All Country World Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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. **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. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political, and other developments affecting the fiscal stability of that location. **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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