

Virtus Vontobel Global Opportunities Fund

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

MARKET REVIEW

Both developed and emerging markets started 2018 with strong returns in January, however, a sell-off in early February led to volatility that continued through March, resulting in a tumultuous quarter. While the MSCI AC World Index (ACWI) ended in negative territory, emerging markets overall delivered a small positive return.

In the U.S., economic growth is finally heating up with Q4 2017 GDP growth revised upward to 2.9% annually and strong housing and labor market reports. Under Chairman Powell's new leadership, the Federal Reserve announced a 25-basis-point rise in the federal funds rate and signaled a more aggressive path for further hikes. Corporate earnings were robust and revised upward for 2018, as companies began to issue information about the expected effects of the new government tax cuts on their businesses.

The eurozone recovery, supported by low interest rates and quantitative easing, continued in January, with the MSCI Europe Index returning 5.40% (USD), but expectations of rising inflation and interest rates, primarily in the U.S., sparked a sell-off in European equities in February. Although the U.S. temporarily exempted the European Union (EU) from its planned steel and aluminum tariffs, the threat of a U.S.-China trade war weighed on EU markets through March.

Emerging markets' strong returns in January (+8.33% (USD), MSCI Emerging Markets Index) were supported by commodity prices and Asian information technology names. Brazil and Russia, large commodity exporters, were among the top five markets in the EM benchmark in January and the quarter. In early February however, the EM benchmark fell with developed markets due to concerns around inflation and interest rates rising faster than expected. By mid-March, the markets had recovered somewhat before selling off again on escalating U.S.-China trade tensions.

PERFORMANCE

For the quarter, the Fund (Class I) returned -0.86%, while the MSCI All Country World Index returned -0.96%.

- > Information technology and consumer discretionary were the only positive performing sectors in the quarter. Because the Fund is overweight these sectors, they were the largest contributors to absolute and relative returns.
- > Consumer staples underperformed as the market rotated away from stable and higher dividend areas. The Fund's overweight in staples weighed on absolute and relative returns.

PORTFOLIO POSITIONING

We initiated three new positions in the quarter: French aerospace manufacturer Safran (industrials), the leading player in engine manufacturing for narrow-body aircrafts, Canadian National Railway (industrials), which operates cargo transport railways. Effective May 8, 2017, the Fund's name was changed from Virtus Global Opportunities Fund.

throughout Canada and the U.S., and CME Group (financials), a global derivatives exchange group.

To reallocate capital to better opportunities, we exited Roche (healthcare), Fomento Economico Mexicano (FEMSA) (consumer staples), and Coca-Cola (consumer staples).

OUTLOOK

Economies around the world look strong on the surface with relatively synchronized growth over the past decade. However, as growth has compounded, certain imbalances appear set to unwind that we believe will lead to rising uncertainty and increased differentiation of market fundamentals.

- > Rising inflation, which is leading rates up in the U.S., is likely to spread to Europe, Japan, and some emerging markets.
- > Oil's sharp price rise over the past 12 months has lifted oil export markets, but the impact on consumers has not registered.
- > The U.S.-China trade conflict has added considerable uncertainty for Chinese manufacturers and the supply chain.
- > Nationalism and anti-globalization is reflected in the politics of many countries.

We see opportunities amid volatility and a new focus on risk. As investors in quality growth companies, we expect our portfolio turnover to remain low. Through our deep groundwork, we have established conviction in the long-term potential and stability of the companies we hold. We are bottom-up stock pickers so the state of the macro environment is less important; however, regulatory and economic stability matters for the predictability we look for in our businesses.

In China, for example, we remain holders of e-commerce companies Alibaba and Tencent, despite the U.S. trade discussions. If, hypothetically, Chinese markets were to experience turmoil, while the government may need to step in to stabilize, we would expect Chinese consumers will still use Alibaba's Tmall to shop online, as e-commerce is increasingly penetrating lower-tier cities and rural areas. We would also expect the company to continue to build out its cloud storage and services business, and its payments platform Alipay to continue to take market share.

We are also finding high-quality U.S. companies trading at attractive valuations, such as consumer discretionary space, where the "Amazon effect" has led to panicked selling of a broad range of businesses that we have followed for years and do not view as threatened.

In our view, the key to uncertain markets is a return to a cornerstone tenet: basic fundamentals. We have been in a market where fundamentals haven't mattered much for a while. In short, we think a dose of skepticism returning to the markets is a good thing.

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.	4.11
Visa Inc. Class A	4.01
Mastercard Inc. Class A	3.92
British American Tobacco PLC	3.78
Unilever NV Cert. of shs	3.30
Alibaba Group Holding Ltd. Sponsored ADR	3.28
NIKE, Inc. Class B	3.16
Alphabet Inc. Class C	3.15
Housing Development Finance Corp. Ltd.	3.14
Philip Morris International Inc.	3.13

Holdings 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 8/8/2012
Fund Class I	-0.86	-0.86	16.14	11.17	10.20	n/a	11.94
Index	-0.96	-0.96	14.85	8.12	9.20	n/a	10.50

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.

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.