

## Virtus Vontobel Global Opportunities Fund

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

### MARKET REVIEW

Across the board, global equity markets registered positive returns for the third quarter of 2017. Emerging markets continued their bull run, outpacing their developed market counterparts. While growth remains slower than politicians, central bankers, and citizens would always like, the broader global macroeconomic backdrop is reasonably steady. Generally speaking, wage growth, inflation, household leverage, and housing markets are at reasonable levels in most major economies around the world and the various interest rate environments are still relatively conducive to growth.

### PERFORMANCE

The Fund generated a solid return of 2.92% (Class I) for the quarter, but underperformed the 5.18% return of the MSCI All Country World Index — consistent with our quality growth investment style in market conditions like these.

- > Absolute returns were driven primarily by our holdings in the information technology sector and Indian financials. Information technology stocks continued to rally and our stock selection in the sector, as well as our relative overweight, benefited the portfolio. Our electronic payments companies — MasterCard, Visa, and PayPal — performed particularly well. Our Chinese e-commerce companies, Alibaba and Tencent, both reported results that exceeded expectations. Our long-standing Indian financials holdings, Housing Development Finance Corporation and HDFC Bank, also performed well.
- > However, performance relative to the market was held back by our consumer staples and consumer discretionary holdings. Consumer staples stocks were weak this quarter, underperforming the benchmark, and our significant overweight to the sector detracted from absolute and relative returns. Our tobacco holdings, British American Tobacco and Altria, were impacted by the unexpected release of the U.S. Food and Drug Administration's paper in July that suggested a new approach to tobacco regulation, focusing on nicotine levels in traditional combustible cigarettes and safer forms of consumption. Other companies that detracted from relative returns were Paddy Power and Nike, both in the consumer discretionary sector.

### PORTFOLIO CHANGES

After maintaining an underweight to European financials for quite some time, this quarter we purchased Allied Irish Bank, the largest bank in Ireland. In the consumer discretionary sector, we purchased Walt Disney Company. We also

purchased Inditex, a Spanish global retail chain operator featuring the store brands Zara, Massimo Dutti, Pull & Bear, Stradivarius, Bershka, Oysho, Zara Home, and Uterque. We did not exit any positions in the portfolio this quarter.

### OUTLOOK

The U.S. remains our largest country exposure. We feel valuations have pushed towards the high end of historic ranges in part due to earnings growth coming through but also low interest rates diverting funds away from bonds. We anticipate the Federal Reserve will gradually raise rates to allow markets to adjust. We continue to find quality businesses we feel are undervalued, even assuming some pullback in valuation multiples. For example, opportunities can be found within Amazon's disruptive wake, particularly in the consumer discretionary area. We anticipate that, since Amazon will continue to make noise, more opportunities where the "Amazon effect" is overestimated could produce new investments of great businesses at attractive prices.

In Europe, the macroeconomic backdrop continues to improve. Political risk has fallen following the French and German elections. Unfortunately economic recovery has emboldened the Catalan independence movement in Spain, which illustrates once again how important the European Central Bank's (ECB) quantitative easing remains. Assuming the ECB continues its money printing, this should support growth. Within Europe, we are primarily invested in global multinationals where we find powerful and well-run businesses catering to demand globally. As always, we will look to add opportunistically if chances present themselves.

Across emerging markets, after a sharp rally which benefited our performance, some valuations have also reached elevated levels, and we remain selective. The most attractive opportunities we see currently include the dominant Chinese e-commerce and Indian bank franchises where we see valuations are reasonable relative to their business quality and growth.

Consumer staples remains our largest sector exposure, even after trimming over the past 12 months. We continue to remain comfortable with the predictability and stability of growth we find in the leading franchises, which, complemented with strong cash flow, continue to provide a deep keel to our portfolio.

## Virtus Vontobel Global Opportunities Fund

### INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

### INVESTMENT SUBADVISER

Vontobel Asset Management

### INVESTMENT PROFESSIONALS



**Matthew Benkendorf**

Industry start date: 1998  
Start date with the Fund: 2009



**Ramiz Chelat**

Industry start date: 1997  
Start date with the Fund: 2016

### TOP TEN HOLDINGS

% Fund

Mastercard Inc.	4.86
Alphabet Inc.	4.66
Visa Inc.	4.48
HDFC Bank Ltd.	4.04
British American Tobacco plc	3.75
Philip Morris International Inc.	2.94
Alimentation Couche-Tard Inc.	2.80
Berkshire Hathaway Inc.	2.79
UnitedHealth Group Inc.	2.67
Alibaba Group Holding Ltd.	2.63

Holdings are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 8/8/2012
NAV	2.92	21.94	19.83	11.05	11.20	n/a	12.04
Index	5.18	17.25	18.65	7.43	10.20	n/a	10.58

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](http://Virtus.com) for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.22%.

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](http://www.virtus.com).

Index: The **MSCI AC 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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