Virtus Vontobel Global Opportunities Fund

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

MARKET REVIEW

Global equity markets faced significant pressure in the fourth quarter, as volatility escalated. The MSCI All Country World Index (ACWI) declined so much as to bring its year-to-date return from moderately positive at the start of the quarter into decisively negative territory by quarter-end. Japan and the United States were the hardest hit markets in the quarter, followed by Europe. On a relative basis, emerging market equities were the best performers, though they, too, registered a significant downturn. Overall, the outlook for the global economy has softened amid weakening growth, trade tensions, geopolitical concerns, and some large developing and emerging economies experiencing financial pressures.

PERFORMANCE

Despite negative returns, the Fund (Class I) outperformed the benchmark MSCI ACWI for both the fourth quarter and full year. For the quarter, the Fund (Class I) returned -9.02%, outpacing the MSCI ACWI's -12.75% return. For the year, the Fund (Class I) returned -4.82%, while the MSCI ACWI returned -9.42%.

The financials sector was the most significant driver of fourth-quarter relative returns, helped by our core Indian financial holdings, HDFC Bank and Housing Development Finance Corp., both of which reported favorable second quarter FY2019 results. Our lack of exposure to energy stocks also aided the strategy amid a sharp decline in oil prices, as did our consumer discretionary holdings.

Utilities was the only sector in the benchmark index to post positive returns, and our lack of exposure detracted from positive performance.

PORTFOLIO POSITIONING

We initiated three new positions in the quarter: Dublin-based DCC (industrials), an international sales, marketing, and support services group; U.S.-based Microsoft Corp. (information technology), and Japan-based Keyence (information technology), which manufactures industrial automation and inspection equipment.

To reallocate capital to better opportunities, we exited our position in British American Tobacco. We sold our position in Korea-based beauty and skincare company Amorepacific as the competitive dynamics in its China business continued to deteriorate, particularly in the mass-market cosmetics segment. In the communication services sector, we sold our position in Facebook because of increased regulatory complexity, limited prospects for earnings growth over the near term, and our declining confidence in management over its actions in recent months.

OUTLOOK

Previously swept by momentum, the markets are now recognizing heightened risks coming from various corners: weakening economic momentum in China and Europe; the prospect of further U.S. interest rate hikes; the ongoing U.S.-China trade battle; uncertainty surrounding Brexit; the European Central Bank's plan to halt its stimulative bond-buying program at year-end; and anti-establishment parties gaining ground in Europe. Many of the worries that came into existence throughout 2018 seemed to culminate in the fourth quarter, and concerns of a slowdown are becoming harder to avoid.

In addition, as the Federal Reserve continues on its rate-hiking path and Europe tightens monetary policy, we are seeing the return of a vast flow of savings from emerging markets back into developed markets (such as the United States and Europe) that have had very low interest rates over the past decade. This flow of liquidity from emerging markets will not only raise the price of risk, but also make funding difficult to achieve in some riskier areas, such as frontier markets.

It is difficult to predict exactly when the effect of these factors will trickle down to the fundamentals of businesses, or when the economic cycle will turn decisively in a negative direction. At any rate, in our view, the outlook for highly indebted companies and cyclical industries has deteriorated over the past quarter—a development we expected but could not time.

As managers pursuing quality growth companies—stable franchises with solid fundamentals, durable earnings power, and long-term growth potential—we are mindful of risks throughout the economic cycle, no matter how robust the environment. With this approach, we expect to capture some of the upside when markets rise—but also accept lower relative returns as a form of "insurance," so to speak, that could benefit a portfolio with steadier value accumulation through difficult times, which will invariably arrive.

With unrelenting discipline, we pledge to continue our focus on bottom-up research in pursuit of stable, quality growth companies at reasonable prices. Importantly, the long-term earnings outlook for our portfolio companies, which ultimately determines the trajectory of stock prices, is intact. Despite a prevailing sense of doom and gloom among investors, we begin 2019 on an optimistic note.

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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

TOP TEN HOLDINGS	% Fund
HDFC Bank Ltd.	4.47
UnitedHealth Group Inc.	3.78
Unilever NV Cert. of shs	3.62
Mastercard Inc. Class A	3.52
Alphabet Inc. Class C	3.51
Visa Inc. Class A	3.50
CME Group Inc. Class A	3.48
Housing Development Finance Corp. Ltd.	3.21
Amazon.com, Inc.	3.19
Berkshire Hathaway Inc. Class B	3.12

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 8/8/2012
Fund Class I	-9.02	-4.82	-4.82	8.83	7.57	n/a	9.75
Index	-12.75	-9.42	-9.42	6.60	4.26	n/a	7.69

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 1.16%. The net expense ratio is 1.09%, which reflects a contractual expense reimbursement in effect through 3/31/2021.

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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