Virtus Duff & Phelps Global Real Estate Securities Fund

A: VGSAX (92828R412) | C: VGSCX (92828R396) | I: VGISX (92828R388) | R6: VRGEX (92828W239)

MARKET REVIEW

Following a solid 2017, global real estate equities started 2018 on a negative note, with a -4.5% return in the first quarter, as represented by the benchmark FTSE EPRA NAREIT Developed Index (Index), expressed in U.S. dollars. Global real estate also continued to trail global equities, as demonstrated by the 1.3% decline in the MSCI World Index for the quarter, also expressed in U.S. dollars. It should be noted, however, that following positive performance in January, global equities succumbed to rising volatility associated mainly with fears surrounding global trade policies. During this period, global real estate equities proved to be somewhat defensive as they outperformed global equities, reinforcing the benefit of the asset class to portfolio allocation.

Taking a closer look at the performance of individual countries represented within the Index, the top-performing countries during the quarter, on a total return basis and measured in U.S. dollars, were Spain, Japan, Austria, Switzerland, and Germany, with all five posting positive returns. Following a robust 2017, Spain continued to shine brightly, driven by a reduction in political noise and very solid economic and real estate fundamentals.

The five bottom-performing countries during the quarter were Israel, Italy, Finland, Norway, and Australia. Of these, all but Australia have limited company representation in the Index and their returns in any given quarter are more stock specific.

PERFORMANCE

For the quarter, while both the Fund and the Index produced negative returns, the Fund (Class I) outperformed with a return of -3.41% compared to -4.53% for the Index. Security selection was the sole driver of relative performance for the quarter as country allocation was a detractor.

Combining country allocation and security selection, the top positive contributors to performance were the U.S., the U.K., and Australia. Country allocation and security selection benefited the U.K. and Australia, and security selection drove performance for the U.S.

From a country allocation perspective, our overweight exposure to the U.K. was the largest positive driver of performance. Even though the U.K. was not a top-five performing country this quarter, a diverse mix of U.K. real estate companies performed well, benefiting our overweight position.

At the security level, our overweight exposure to Swire Properties was the largest positive contributor. The company's Hong Kong retail real estate business continued to show improvement and its decentralized Hong Kong office exposure and mixed-use China real estate projects performed well. Our overweight exposure to National Storage also made a meaningful positive contribution, as the company's shares benefited from a positive operating and acquisition environment for self-storage properties in Australia and New Zealand.

Combining country allocation and security selection, the top detractors were Japan, Canada, and France. Country allocation was the primary detractor for Japan, and security selection was the driver of Canada and France.

From a country allocation viewpoint, our underweight exposure to Japan was the largest detractor as returns benefited by strength in the yen relative to the U.S. dollar and positive performance by Japanese REITs, after lagging in both the fourth quarter and 2017.

At the security level, our overweight exposure to Hulic Co., a large-cap Japanese diversified real estate company, was the largest negative contributor. Shares of the company had a positive start to the year, but pulled back on medium-term growth questions, even with a solid 2017 delivery and outlook ahead of consensus. The second largest detractor to security selection was our lack of exposure to Public Storage, a large-cap U.S. self-storage REIT that slightly outperformed the Index, but was more than offset as a detractor by our two U.S. self-storage holdings which outperformed Public Storage.

OUTLOOK

From our perspective, the global real estate rental market cycle still has room for further growth, as we expect overall rental market demand to exceed supply across most property sectors and major cities. With the significant amount of private real estate equity capital that has been raised but unspent, we expect M&A activity to continue in 2018.

In aggregate, we view a backdrop of low, but positive, global economic growth and manageable new real estate supply as positive fundamental tailwinds for global real estate securities going forward. Combined with the supportive tailwind to real estate asset pricing, our base case remains for another positive total return year for global real estate securities in 2018.

Effective May 8, 2017, the Fund's name was changed from Virtus Global Real Estate Securities Fund.

Virtus Duff & Phelps Global Real Estate Securities Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

PORTFOLIO MANAGERS

Geoffrey P. Dybas, CFA
Industry start date: 1989
Start date with Fund: 2009

Frank J. Haggerty, Jr., CFA
Industry start date: 1996
Start date with Fund: 2009

TOP TEN HOLDINGS

	% Fund
Prologis, Inc.	3.96
Digital Realty Trust, Inc.	3.26
Vonovia SE	2.98
Wharf Real Estate Investment Co. Ltd.	2.94
Swire Properties Ltd.	2.90
UNITE Group PLC	2.81
Sun Communities, Inc.	2.79
Simon Property Group, Inc.	2.78
AvalonBay Communities, Inc.	2.75
Duke Realty Corp.	2.29

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 3/2/2009
Fund Class I	-3.41	-3.41	7.70	3.62	6.78	n/a	17.45
Index	-4.53	-4.53	3.23	1.52	4.10	n/a	15.54

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 1.24%. The net expense ratio is 1.15%, which reflects a contractual expense reimbursement in effect through 1/31/2019.

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.

The **FTSE EPRA/NAREIT Developed Index (net)** is a free-float market capitalization-weighted index measuring publicly traded equity REITs and listed property companies from developed markets, which meet minimum size and liquidity requirements. 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.

The **MSCI World Index (net)** is a free float-adjusted market capitalization-weighted index that measures developed global market equity performance. The index is calculated on a total return basis with net dividends reinvested.

The indexes are calculated on a total return basis with net dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are 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. **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. **Real Estate:** The fund may be negatively affected by factors specific to the real estate market, including interest rates, leverage, property, and management. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **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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