Virtus Duff & Phelps Global Real Estate Securities Fund

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

MARKET REVIEW

The global investment landscape throughout 2023 was marked by the undulating trajectory of interest rates. The first three quarters saw interest rates navigating a terrain of heightened volatility as they moved to levels not seen since 2007. This created an environment of uncertainty for investors, primarily in bonds and capital-intensive sectors, such as real estate. However, a pivotal moment occurred in late October, as softer CPI data allowed global central banks some breathing room, which signaled a notable shift in this trend. For context, the yield on the U.S. 10-year Treasury started the year at 3.9% and peaked at 5.0% in late October, before finishing the year at 3.9% for a full round trip.

The notable decline in interest rates, over the last two months, played a big role in propelling global financial markets higher. Amidst the broader market rally, sectors sensitive to interest rate movements, such as technology and longer-maturity bonds, experienced notable gains. However, in the U.S., the S&P real estate sector demonstrated remarkable resilience, coming in as the top-performing S&P sector over the fourth quarter. Performance across real estate was led by sectors that had been primarily out of favor over the year, such as regional malls, cell-tower, and office. Conversely, the property sectors that led real estate for most of the year lagged the broad index, such as healthcare, single-family rentals in the residential category, and data centers. Despite interest rates moving higher over the past two years, global listed real estate has demonstrated operational efficiency through positive earnings and cash flow growth.

PORTFOLIO REVIEW

The strategy outperformed the benchmark during the quarter, with sector allocation as the main driver, which was partially offset by security selection.

Attribution by country was led by our underweights to Hong Kong and Singapore, and an overweight to Spain, along with contribution from selection within each country. Conversely, selection within France and the U.S., as well as an underweight to Germany, negatively impacted alpha.

From a country allocation perspective, the underweights to Japan and Hong Kong, and overweight to the U.K., were our top contributors to relative performance, while our underweights to Germany and Finland and overweight to India were the largest detractors.

When looking at attribution by property sector, telecommunication REITs was the largest positive contributor, driven by an overweight allocation, followed by selection within the healthcare and industrial sectors. An underweight to retail and selection within that sector was the largest detractor, followed by selection within the self-storage and lodging sectors.

At the security selection level, our largest positive attribution contributors came from our position in American Tower Corporation, an owner and operator of global cell towers, and not owning Equity Residential, a U.S. apartment REIT. American Tower outperformed on better-than-expected earnings and improved sentiment on future potential benefit of lower interest rates. Equity Residential underperformed after cutting its future earnings guidance due to weakness across its Seattle and San Francisco apartment properties.

Our largest detractors came from underweights to Extra Space Storage, a U.S. storage REIT, and Simon Properties Group, a U.S.-based regional mall REIT. Following a period of underperformance for Extra Space Storage due to concerns on its floating rate exposure and execution of its Life Storage merger, the company bounced back after its earnings results suggested that merger synergies were on track, and that the deceleration in pricing trends may have eased. While this is a step in the right direction, we currently prefer those with more primary market exposure and less merger execution risk. Simon, which we added to in October while remaining underweight, outperformed in the last two months on better fundamental optics.

INVESTMENT OUTLOOK

We expect global economic growth to slow in response to higher interest rates and quantitative tightening. Unlike last year, in 2024 we expect the Federal Reserve to lower rates to curtail hard landing risk surrounding the November presidential election.

Just as we expect global economies to slow, we expect global listed real estate cash flow to remain positive yet decelerate across many property sectors, as companies absorb higher financial and operating costs. Quality and resiliency in the form of well-positioned balance sheets and sustainable growth in cash flow and dividends will likely be preferred by investors as we continue to face an uncertain economic environment.

Fundamentally, secular growth drivers should continue to benefit data centers and logistics. Within the U.S. healthcare property sector, senior housing operating properties and skilled nursing facilities should continue to see an improvement in occupancy. And pricing power should increase further in senior housing. Self-storage has been impacted by the moderation in housing turnover caused by higher interest rates and, in certain markets, a higher level of new supply, which is negatively impacting pricing for new customers. The residential apartments subsector in the U.S. is also in the process of digesting a significant amount of new supply over the next 12 to 18 months. The office property sector will likely remain one of the more challenging and controversial sectors on a global basis.

Given the capital that has been raised by private equity sponsors on a global basis, the new year may see a pick-up in public-to-private M&A activity, particularly if debt availability and pricing improve and global listed real estate continues to trade at discounted valuations.

In our view, listed global real estate has shown an ability to outperform following the end of a rising interest rate cycle, and should clearly be a beneficiary of lower rates. With an abundance of private capital on the sidelines and discounted pricing available via listed real estate, arguably at wholesale prices, we see listed real estate as much more attractive than private real estate.

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 as Fund Portfolio Manager: 2009

Frank J. Haggerty, Jr., CFA
Industry start date: 1996
Start date as Fund Portfolio Manager: 2009

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (03/02/09)
Fund Class I	15.42	10.22	10.22	1.98	6.38	6.72	12.57
Index	15.29	9.67	9.67	1.18	2.81	3.57	10.18

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.15%.

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.

Index: 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.

TOP TEN HOLDINGS

	% Fund
Prologis Inc.	7.94
Equinix Inc.	4.90
Digital Realty Trust Inc.	4.06
Welltower Inc.	3.98
Public Storage	3.30
Sun Communities Inc.	3.20
Realty Income Corp.	3.01
Ventas Inc.	2.85
VICI Properties Inc.	2.76
CubeSmart	2.48

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Prologis Inc.	1.58
Simon Property Group Inc.	0.60
American Tower Corp.	0.59
Equinix Inc.	0.56
Public Storage	0.56

TOP FIVE DETRACTORS

	% Contribution
Extra Space Storage Inc.	-0.08
Swire Properties Ltd.	-0.04
Orix JREIT Inc.	-0.04
Japan Hotel REIT Investment Corp.	-0.02
Douglas Emmett, Inc.	-0.02

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

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, medium, or large-sized companies may enhance that risk. **Real Estate:** The portfolio may be negatively affected by factors specific to the real estate market, including interest rates, leverage, property, and management. **Industry/Sector Concentration:** A portfolio 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 portfolio. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **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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