VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps Global Real Estate Securities Fund

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

MARKET REVIEW

Picking up where they left off in the first quarter, global real estate equities continued to outperform broader equities into the second quarter. It was the first full quarter of relative outperformance in seven quarters, as trade issues simmered and European political noise escalated. For the second quarter, the FTSE EPRA NAREIT Developed Rental Index (benchmark) (net) returned 5.12%, while the MSCI World Index returned 1.73%, expressed in U.S. dollars.

The U.S. dollar staged a healthy reversal in the quarter with a 5.00% return (U.S. Dollar Spot Index) that served as a headwind for international-over-U.S. real estate equity returns. The dollar demonstrated particular strength against a host of emerging market currencies, including the Brazilian real, South African rand, and Mexican peso.

The top-performing countries in the benchmark during the quarter were the U.S., Israel, Australia, Italy, and Germany, with all five countries posting positive returns on a total return basis and measured in U.S. dollars. Following a very weak start to the year, U.S. REITs came roaring back as long-term interest rates retreated from earlier highs and five M&A transactions were announced across four property sectors, highlighting the attractive public real estate values on offer.

Singapore, Ireland, New Zealand, Spain, and France were the benchmark's bottom-performers. All had negative total returns in U.S. dollars, largely a result of the dollar's relative strength as all but Singapore had positive total returns on a local currency basis. Singapore's weakness was driven by concerns over interest rates, commercial property market health, and limited earnings accretion from recent large scale acquisitions. Spain's weakness was influenced by its recent prime minister election and France's by retail-focused REITs.

PERFORMANCE

The Fund (Class I) returned 5.38% in the quarter, outperforming the benchmark's 5.12% return. Security selection was the sole driver of the outperformance as country allocation was a slight detractor due to currency movements.

Combining country allocation and security selection, the top contributors were security selection in Hong Kong and the allocations to Singapore and Japan.

At the allocation level, our underweight to Singapore was the largest positive performance driver. Our underweight exposure to Japan also benefited performance given the yen's weakness and the relative underperformance of Japanese real estate securities.

Our overweight exposures to Wharf Real Estate Investment and Swire Properties, both large-cap Hong Kong diversified real estate companies, were the largest stock contributors, followed by our overweight positions in Unite Group, a mid-cap U.K. student housing REIT, and DCT Industrial, a mid-cap U.S. industrial REIT, which received a merger offer from Prologis in April.

Combining country allocation and security selection, the primary detractors were security selection in the U.S. and Germany and the allocation to Ireland.

Our overweight exposure to the U.K. was the largest allocation detractor as positive local market returns, although lagging on a relative basis, were hit by the U.S. dollar's strength relative to the British pound. Our overweight to Ireland also detracted for a similar reason. We expect currency movements will be less of a headwind for the balance of the year and company fundamentals to be a greater driver of returns.

Our overweight to Equinix, Inc., a large-cap U.S. data center real estate company, was the largest stock detractor as its shares began underperforming in February on concerns related to acquisitions and capital investments. However, in May, its shares began to reverse as clarity around these issues has improved. Also detracting was our lack of exposure to Welltower, a large-cap U.S. healthcare REIT, and overweights to Healthcare Trust of America, a mid-cap U.S. healthcare REIT, and Alexandria Real Estate, a large-cap U.S. office REIT.

OUTLOOK

In our view, the global real estate rental market cycle offers room for further growth as we expect overall market demand to exceed supply across most property sectors and major cities. A backdrop of low, but positive, global economic growth and manageable new real estate supply are positive fundamental tailwinds for global real estate going forward.

Combined with supportive real estate asset pricing, we maintain our view for another positive total return year for global real estate in 2018.Total return drivers for the asset class include approximately 5-6% global cash flow growth and 4% dividend yield with above-average growth in the U.S. Globally, fundamentals remain more attractive for the industrial and data center property sectors with secular tailwinds.

From a balanced perspective, we note both upside drivers and downside risks. Upside drivers include greater-than-expected global growth driving higher occupancies and rents, asset inflows from a rotation out of bonds and rebalancing from broader equities, and increased potential for M&A and privatization given institutional investors' appetite for high quality, core real estate. Downside risks include the cessation of real estate cap rate compression and potential expansion, accelerated new commercial real estate supply; and interest rates rising faster and higher than a lift in net operating income growth and replacement costs can absorb. Global macro risks include diverging monetary and fiscal policies and ongoing political risks.

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
Vonovia SE	3.21
Digital Realty Trust, Inc.	3.14
Wharf Real Estate Investment Co. Ltd.	2.98
Simon Property Group, Inc.	2.88
Swire Properties Ltd.	2.81
Sun Communities, Inc.	2.72
UNITE Group plc	2.69
Prologis, Inc.	2.51
Duke Realty Corp.	2.47
AvalonBay Communities, Inc.	2.34

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/2/2009
Fund Class I	5.38	1.79	10.12	7.97	8.45	n/a	17.60
Index	5.12	0.36	5.64	5.71	5.97	n/a	15.71

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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