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

For the third quarter, global real estate securities returned -0.30%, as represented by the FTSE EPRA Nareit Developed Index (benchmark), while global equities returned 4.98%, as represented by the MSCI World Index, expressed in U.S. dollars.

Movement in the U.S. dollar was less of a headwind to international returns in the quarter, as the U.S. Dollar Spot Index increased 0.7%. A notable currency movement was the significant reversal in the Mexican peso, which increased 6.4% relative to the U.S. dollar on the back of improved sentiment towards the incoming Mexican administration and negotiations surrounding the updated NAFTA trade agreement.

The top-performing countries in the benchmark during the quarter were Sweden, Austria, Finland, Norway, and Canada, with all posting positive returns on a total return basis and measured in U.S. dollars. Sweden and Norway continued to benefit from healthy economic fundamentals and commercial real estate markets. Finland's returns were boosted by M&A activity.

The bottom-performing countries were the Netherlands, Spain, U.K., France, and Hong Kong, which produced negative returns. In the Netherlands, the potential elimination of the REIT-like structure utilized by listed real estate companies weighed on their performance. European-focused retail real estate companies in the Netherlands, U.K., and France continued to come under pressure given their mixed fundamental outlook. Several Hong Kong-based companies suffered due to the trade noise between the U.S. and China and concerns surrounding Hong Kong's residential real estate market.

PERFORMANCE

For the quarter, the Fund's (Class I) return of 0.60% outperformed the -0.30% return of the benchmark. Country allocation and security selection contributed about equally to performance.

Combining country allocation and security selection, top contributors were China, Hong Kong, and Ireland. Security selection drove performance for Hong Kong and Ireland, and country allocation drove China's performance.

> At the allocation level, exposure to a China-focused data center real estate company and underweight exposure to the Netherlands, the worst performing country in the quarter, made positive contributions.

> At the security level, the largest contributors were lack of exposure to Public Storage, a large-cap U.S. self-storage REIT whose shares along with those of its peers performed poorly following strong second quarter performance, and our overweight exposure to Unite Group, a mid-cap U.K. student housing REIT whose shares materially outperformed the U.K. as a whole during the quarter, on the back of a positive operating environment for its student housing portfolio and the future growth that will be generated via its development projects.

Combining country allocation and security selection, the top detractors were the U.S., Japan, and France, with security selection the primary detractor for all three.

> At the allocation level, despite our positive U.K. stock selection, the portfolio's overweight exposure to the U.K. was the largest detractor, as many larger-cap traditional commercial real estate companies performed poorly due to the ongoing noise related to Brexit. Also detracting was our underweight to Sweden, the best performing country in the quarter, as real estate companies there continued to benefit from a positive backdrop for commercial real estate fundamentals and low interest rates.

> At the security level, our overweight exposures to Extra Space Storage and CubeSmart, large- and mid-cap U.S. self-storage REITs, respectively, were detractors as concerns about decelerating operating performance resurfaced, primarily related to new supply. Also detracting was our overweight exposure to Wharf Real Estate Investment, a large-cap Hong Kong diversified real estate company whose shares performed poorly as market concerns grew regarding slowing retail sales growth and the knock-on effect of the weaker yuan on mainland China shopper traffic.

OUTLOOK

Our outlook has not changed from the prior quarter. To reiterate, we believe the global real estate rental market cycle offers room for further growth, and 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
Prologis, Inc.	4.31
Vonovia SE	3.19
Digital Realty Trust, Inc.	2.87
Wharf Real Estate Investment Co. Ltd.	2.85
Simon Property Group, Inc.	2.84
UNITE Group PLC	2.62
Sun Communities, Inc.	2.54
Alexandria Real Estate Equities, Inc.	2.44
AvalonBay Communities, Inc.	2.34
Link Real Estate Investment Trust	2.30

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/2/2009
Fund Class I	0.60	2.40	7.77	7.84	8.43	n/a	17.18
Index	-0.30	0.06	3.66	6.19	5.43	n/a	15.23

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.

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.

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.

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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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