

## Virtus Duff & Phelps International Real Estate Securities Fund

A: PXRAX (92828R750) | C: PXRXC (92828R743) | I: PXRIX (92828R735)

### MARKET REVIEW

International real estate securities returned -1.08% in the third quarter, as represented by the FTSE EPRA Nareit Developed ex-U.S. Index (benchmark), while international equities increased 1.35%, as represented by the MSCI EAFE® Index, expressed in U.S. dollars.

Movement in the U.S. dollar was less of a headwind to international returns during 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 index during the quarter were Sweden, Austria, Finland, Norway, and Canada, with all five 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 five bottom-performing countries were the Netherlands, Spain, the 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 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 -0.40% outperformed the -1.08% return of the benchmark. Security selection and country allocation both contributed positively to the Fund's performance.

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

- > At the allocation level, our out-of-benchmark exposure to both a China-focused data center real estate company and to Mexico, which as noted benefited from a rebound in the Mexican peso versus the U.S. dollar, were the strongest contributors to performance.
- > At the security level, the largest contributors were our overweight exposure to Unite Group, a mid-cap U.K. student housing REIT, which 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, and our overweight exposure to Swire Properties, a large-cap Hong Kong diversified real estate company.

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

- > From a country allocation viewpoint, our largest detractor was our overweight exposure to the U.K., despite our positive U.K. stock selection, as a number of larger-cap traditional commercial real estate companies performed poorly due to the ongoing noise related to Brexit. Underweight exposure to Singapore also was a detractor.
- > At the security level, our largest detractor 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 decelerating retail sales growth and the knock-on effect of the weaker yuan on mainland China shopper traffic. Also detracting was our overweight exposure to Hulic Co., a mid-cap Japanese real estate company, which underperformed due to uncertainty around whether the company can meet its acquisition and disposition goals.

### 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 International Real Estate Securities Fund

### INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

### INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

### PORTFOLIO MANAGERS



**Frank J. Haggerty, Jr., CFA**  
Industry start date: 1996  
Start date with Fund: 2007



**Geoffrey P. Dybas, CFA**  
Industry start date: 1989  
Start date with Fund: 2007

### TOP TEN HOLDINGS

	% Fund
Vonovia SE	5.21
Wharf Real Estate Investment Co. Ltd.	4.81
Link Real Estate Investment Trust	4.74
Unibail-Rodamco-Westfield Stapled Securities	4.14
Invincible Investment Corp.	3.47
Swire Properties Ltd.	3.37
Hulic Co., Ltd.	3.34
UNITE Group PLC	3.18
Mitsubishi Estate Company, Ltd.	3.08
Kenedix Office Investment Corp.	2.81

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 10/1/2007
Fund Class I	-0.40	0.82	9.03	7.46	6.48	6.83	2.62
Index	-1.08	-1.49	4.68	6.56	3.39	5.98	0.54

**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](http://virtus.com) for performance data current to the most recent month-end.**

The fund class gross expense ratio is 1.68%. The net expense ratio is 1.25%, 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](http://www.virtus.com).

Index: The **FTSE EPRA Nareit Developed ex-U.S. Index (net)** is a free-float market capitalization weighted index measuring publicly traded equity REITs and listed property companies from developed markets excluding the United States, which meet minimum size and liquidity requirements. The index is calculated on a total return basis with net dividends reinvested.

The **MSCI EAFE Index (Europe, Australasia, Far East) (net)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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 Investing:** Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk. **Prospectus:** For additional information on risks, please see the fund's prospectus.

**Please carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit [virtus.com](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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