

Virtus Duff & Phelps International Real Estate Securities Fund

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



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UNITED STATES

Virtus Duff & Phelps International Real Estate Securities Fund (I: PXRIX)

Best International Real Estate Fund over 3 years,
as of 11/30/16

MARKET REVIEW

International real estate equities finished 2017 on a positive note, generating a return of 6.26% during the fourth quarter and 20.03% for the full year, as represented by the FTSE EPRA NAREIT Developed ex U.S. Index (“the benchmark”), expressed in U.S. dollars. While international real estate outperformed international equities in the quarter, they trailed for the year, as demonstrated by the 4.23% increase in the MSCI EAFE® Index for the quarter and 25.03% for the year, also expressed in U.S. dollars. Nonetheless, we reiterate the benefits of real estate as an asset class and its inclusion in portfolios.

Taking a closer look at the performance of the individual countries represented within the benchmark index, the top five performing countries during the quarter on a total return basis, measured in U.S. dollars, were Austria, France, Germany, Norway, and Singapore. Austria’s return benefited from the announced acquisition of BUWOG AG, an owner and developer of Austrian and German apartments, by Vonovia, the largest public owner/operator of German apartments. The announcement of this deal capped a very active December for mergers and acquisitions (“M&A”) activity as several deals were announced in the final weeks of the year.

The five bottom-performing countries in the benchmark during the quarter were Israel, Switzerland, Belgium, Spain, and Japan, though all posted positive total returns. Although Spain was a top performing country in the year, returns during the fourth quarter were negatively impacted by ongoing political turmoil associated with Catalonia. Further political uncertainty in 2018 may result in heightened market volatility over the course of the year.

PERFORMANCE

The Fund outperformed the benchmark index in the quarter, with a return of 8.14% (I share) versus 6.26% for the benchmark.

Q4 Performance Contributors

> From a country allocation perspective, the Fund’s overweight exposure to Germany had the most positive influence on performance in the quarter. German real estate companies continued to benefit from the healthy economic environment, ongoing improvements in rents and occupancies, and rising

asset values. Even though the U.K. was not a top-five performing country in the quarter, the portfolio’s diverse mix of U.K. real estate companies performed strongly, benefiting our overweight position.

> At the security level, the Fund’s overweight exposure to Link REIT, a large-cap Hong Kong retail REIT, was the largest positive contributor for the quarter. Shares of the company performed strongly during the quarter and for the year as its retail properties continued to deliver solid operating results and it selectively sold properties at very attractive prices. In addition, our overweight exposure to Hulic Co., a mid-cap Japanese diversified real estate company, also made a meaningful contribution to performance. Its shares performed well following better-than-expected operating results.

Q4 Performance Detractors

> From a country allocation viewpoint, the Fund’s overweight exposure to Spain was the largest detractor in the quarter, as political turmoil in the Catalonia region resulted in more muted market returns. It should be noted that this detraction was more than offset by our security selection in Spain, as one of our key positions, Axiare Patrimonio, received an all-cash offer for 18.50 euros per share from Inmobiliaria Colonial, adding to its strong performance on the year. The Fund’s underweight exposure to Singapore also detracted from performance as the country was among the top five country performers for real estate.

> At the security level, our overweight exposure to Swire Properties, a large-cap Hong Kong diversified real estate company, was the largest negative contributor to security selection. Despite the company’s underperformance relative to peers during the quarter, we remain positive on its decentralized office exposure in Hong Kong and its mixed-use developments in China. Also detracting from performance was our lack of exposure to British Land, a large-cap U.K.-based diversified REIT, which delivered a healthy total return.

OUTLOOK

From our perspective, the global real estate space market cycle still has room for further growth as we expect overall space market demand to exceed supply across most property sectors and major cities. Given the significant amount of private real estate equity capital that has been raised but is 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.

Virtus Duff & Phelps International Real Estate Securities Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

INVESTMENT PROFESSIONALS



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



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

TOP TEN HOLDINGS

	% Fund
Vonovia SE	5.33
Link Real Estate Investment Trust	4.90
Westfield Corp.	4.14
Klepierre SA	3.90
Unibail-Rodamco SE	3.79
Scentre Group	3.58
Wharf Real Estate Investment Co. Ltd.	3.51
Swire Properties Limited	3.19
Safestore Holdings plc	3.06
RioCan Real Estate Investment Trust	3.04

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/1/2007
NAV	8.14	21.84	21.84	7.11	6.69	3.99	2.73
Index*	6.26	20.03	20.03	5.38	4.95	1.67	0.72
Former Index**	6.91	18.37	18.37	6.16	6.27	2.83	1.52

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 1.68%. The net expense ratio is 1.25%, which reflects a contractual expense reimbursement in effect through 1/31/2019. Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, would reduce the performance quoted. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required and may not be available to all investors. For Fund Performance on other share classes, please visit www.virtus.com.

*Effective September 1, 2017, the fund's primary benchmark is the **FTSE EPRA/NAREIT Developed ex-U.S. Index (net)**, 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 Fund will no longer use the FTSE EPRA/NAREIT Developed Rental Index (net) as a benchmark for performance comparisons.

For informational purposes, performance shown is for the fund's former benchmark, the **FTSE EPRA NAREIT Developed Rental Index (net), a free-float market capitalization-weighted index measuring global real estate securities, which meet minimum size, liquidity and investment focus criteria. The index is a sub-set of the FTSE EPRA NAREIT Investment Focus Index Series, which separates the existing constituents into both Rental and Non-Rental Indices. A company is classified as Rental if the rental revenue from properties is greater than or equal to 70% of total revenue. The classification is based on revenue sources as disclosed in the latest published financial statement.

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 **S&P 500 Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. stocks and is generally representative of the performance of larger companies in the U.S. The **U.S. Dollar Spot Index** is a broad-based, diversified index representing an investment in the U.S. dollar.

The equity indexes are calculated on a total return basis with net dividends reinvested. The equity 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.

Annual Lipper Fund Awards: Virtus Duff & Phelps International Real Estate Fund had the highest "Lipper Leader for Consistent Return (Effective Return)" value in its Lipper classification, International Real Estate Funds, for the 3-year period, out of 45 funds. Lipper ranks the funds based on total return as of 11/30/16. Each fund is ranked within a universe of funds similar in portfolio characteristics and capitalization. Rankings do not include the effect of a fund's sales load, if applicable. Lipper ranking is for Class I shares only, other classes may have different performance characteristics.

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