VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps International Real Estate Securities Fund

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

MARKET REVIEW

Following a strong 2017, international real estate equities started 2018 with a tepid -0.7% return in the first quarter, as represented by the FTSE EPRA NAREIT Developed ex U.S. Index (Index), expressed in U.S. dollars. However, international real estate equities outperformed international equities, as demonstrated by the -1.5% decline in the MSCI EAFE® Index for the quarter, also expressed in U.S. dollars. Following positive performance in January, international equities and real estate both succumbed to rising volatility associated mainly with fears surrounding global trade policies. During this period, international real estate equities proved to be somewhat defensive as they outperformed international equities, reinforcing the benefit of the asset class to portfolio allocation.

Taking a closer look at the performance of individual countries represented within the Index, the top-performing countries during the quarter, on a total return basis and measured in U.S. dollars, were Spain, Japan, Austria, Switzerland, and Germany, with all five posting positive returns. Following a robust 2017, Spain continued to shine brightly, driven by a reduction in political noise and very solid economic and real estate fundamentals.

The five bottom-performing countries during the quarter were Israel, Italy, Finland, Norway, and Australia. Of these, all but Australia have limited company representation in the Index and their returns in any given quarter are more stock specific.

PERFORMANCE

The Fund (Class I) outperformed the Index in the quarter, with a return of 0.14% versus -0.66% for the Index. Security selection was the sole driver of relative performance for the quarter as country allocation was a detractor.

Based on country allocation and security selection combined, the top positive contributors to portfolio performance were the U.K., Hong Kong, and Germany. Country allocation and security selection benefited Hong Kong and Germany, while security selection drove the U.K. performance.

From a country allocation perspective, our overweight exposure to Spain was the largest positive performance driver. Spain was the top-performing country for the quarter, and our position in Hispania Activos, a small-cap Spanish diversified REIT, outperformed the overall country.

At the security level, our overweight exposure to Swire Properties, a large-cap Hong Kong diversified real estate company, was the largest positive contributor. Shares of the company rebounded strongly following a weak fourth quarter. The company's Hong Kong retail real estate business continued to show improvement and its decentralized Hong Kong office exposure and mixed-use China real estate projects performed well. Our overweight exposure to National Storage, a small-cap Australian self-storage REIT, also made a meaningful positive contribution as the company's shares benefited from a positive operating and acquisition environment for self-storage properties in Australia and New Zealand.

Combining country allocation and security selection, the top detractors in the portfolio were France, Japan, and Canada. Country allocation was the primary detractor in Japan while security selection was the driver in Canada and France.

From a country allocation viewpoint, our underweight exposure to Japan was the largest detractor. Japan's real estate returns benefited from the strength in the yen relative to the U.S. dollar and positive performance by Japanese REITs, after lagging in both the fourth quarter and 2017.

At the security level, our overweight exposure to Hulic Co., a large-cap Japanese diversified real estate company, was the largest detractor from performance. Shares of the company had a positive start to the year, but pulled back on medium-term growth questions, even with a solid 2017 delivery and outlook ahead of consensus. The second largest security detractor was our overweight exposure to Mercialys, a small-cap French retail REIT, which underperformed after providing a mixed outlook versus consensus with its 2017 earnings report.

OUTLOOK

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

Effective May 8, 2017, the Fund's name was changed from Virtus International Real Estate Securities Fund.

Virtus Duff & Phelps International 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: 2007

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

TOP TEN HOLDINGS

TOP TEN HOLDINGS	% Fund
Vonovia SE	5.33
Link Real Estate Investment Trust	4.54
Wharf Real Estate Investment Co. Ltd.	4.14
Swire Properties Ltd.	3.96
Westfield Corp.	3.67
Unibail-Rodamco SE	3.44
Nippon Building Fund, Inc.	3.09
National Storage REIT	3.03
UNITE Group PLC	3.00
Safestore Holdings PLC	2.89

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/1/2007
Fund Class I	0.14	0.14	18.17	5.70	6.24	4.12	2.68
Index	-0.66	-0.66	13.85	3.97	3.82	2.61	0.64

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 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 ex-U.S. Index (net)** is a free-float market capitalizationweighted 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 for a prospectus or summary prospectus. Read it carefully before investing.

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