

Virtus Duff & Phelps International Real Estate Securities Fund

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

MARKET REVIEW

Picking up where they left off in the first quarter, international real estate equities continued to outperform broader international equities as trade issues simmered and European political noise escalated. For the second quarter, the FTSE EPRA NAREIT Developed ex U.S. Index (benchmark) returned 0.25%, while the MSCI EAFE® Index declined 1.24%, expressed in U.S. dollars,

The U.S. dollar staged a healthy reversal during the quarter with a return of 5.00% (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 Israel, Australia, Italy, Germany, and Sweden, with all five posting positive returns, on a total return basis and measured in U.S. dollars. Australia's performance likely benefited from the Unibail-Rodamco/Westfield merger completion, as capital was likely recycled from Westfield to other Australian REITs. Italy was helped by property group Covivio's announced plans to acquire full control of Italian subsidiary Beni Stabili.

Singapore, Ireland, New Zealand, Spain, and France were the benchmark's bottom performers. All had negative total returns in U.S. dollars, largely driven by 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 prime minister election and France's underperformance by retail-focused REITs.

PERFORMANCE

The Fund's (Class I) 1.09% return in the quarter outperformed the benchmark's 0.25% return, due to security selection, as country allocation was a small detractor.

Based on country allocation and security selection combined, the top performance contributors were security selection in Hong Kong and the U.K. and the allocation to Singapore.

At the allocation level, our underweight exposure to Singapore was the largest performance driver. Our overweight exposure to Norway also contributed as our lone Norwegian holding, Entra, outperformed the benchmark for the quarter.

Our overweight exposure to Wharf Real Estate Investment, a large-cap Hong Kong diversified real estate company, was the largest stock contributor. Sales at its flagship retail real estate properties significantly improved and outperformed the broader Hong Kong retail market. Our overweight exposure to Swire Properties, a large-cap Hong Kong diversified real estate company, also made a meaningful contribution as its Hong Kong

retail business continued to show improvement and its decentralized Hong Kong office exposure and mixed-use China projects performed well.

Based on country allocation and security selection combined, the top detractors were security selection in Germany and Ireland and the allocation to France.

At the allocation level, our overweight exposure to Ireland was the largest detractor as its positive local return, although lagging on a relative basis, was hit by the strength of the U.S. dollar. Our overweight U.K. exposure told a similar story. We expect currency movements to be less of a headwind for the balance of the year and company fundamentals to be a greater driver of returns.

Our overweight position in Mitsui Fudosan Logistics, a small-cap Japanese industrial real estate company, was the largest stock detractor. Its shares pulled back in January after announcing it would issue shares to help finance acquisitions and has remained weak relative to other industrial Japanese-REITs. Also detracting was our overweight to Mercialis, a small-cap French retail REIT, and lack of exposure to Goodman Group, a large-cap Australian industrial developer.

OUTLOOK

In our view, the global real estate 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 securities 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 U.S. growth. 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' ongoing 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.

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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	5.25
Unibail-Rodamco-Westfield Stapled Shares	4.51
Link Real Estate Investment Trust	4.45
Swire Properties Ltd.	4.25
Wharf Real Estate Investment Co. Ltd.	4.10
Hulic Co., Ltd.	3.04
UNITE Group plc	2.98
National Storage REIT	2.97
Scentre Group	2.82
Kenedix Office Investment Corp.	2.77

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 10/1/2007
Fund Class I	1.09	1.23	13.56	7.33	7.69	5.49	2.72
Index	0.25	-0.41	9.01	4.98	5.11	3.79	0.65

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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