VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps International Real Estate Securities Fund

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

MARKET REVIEW

Global markets came under pressure as economic and political worries compounded, culminating in one of the worst December drawdowns in decades. International equities fell 12.54% (MSCI EAFE® Index), while international real estate securities declined 5.00% (FTSE EPRA Nareit Developed ex U.S. Index—the benchmark), expressed in U.S. dollars.

Movement in the U.S. dollar continued to be a headwind, increasing 1.1% in the quarter, as measured by the U.S. Dollar Spot Index, and hit intra-year highs as global growth concerns, a precipitous decline in oil, and increased Brexit concerns weighed on other currencies.

Amid global growth concerns, the Federal Reserve increased rates in December for the fourth time in 2018, and articulated two probable rate increases for 2019 and further balance sheet unwinding. However, Fed Chair Powell articulated a more reassuring message on January 4, noting the central bank would be receptive to using all of its tools, depending on the economic data and market environment.

The fourth quarter equity sell-off led to significant discounts for REITs globally versus private market valuations. At the same time, capital continued to be raised for private real estate funds, boosting the potential of M&A.

The top-performing countries in the benchmark index during the quarter were New Zealand, Japan, Belgium, Hong Kong, and Sweden, on a total return basis measured in U.S. dollars. Of these, New Zealand and Japan posted positive returns and all but Hong Kong outperformed the index on the year. Beyond healthy underlying real estate fundamentals, New Zealand and Japan's quarterly performance was aided by positive movements in the New Zealand dollar and Japanese yen, both of which appreciated relative to the U.S. dollar.

The bottom-performing countries were the Netherlands, France, Italy, Ireland, and Finland. European-focused retail real estate companies in the Netherlands and France continued to be under pressure given their mixed fundamental outlook and the expected negative impact to French retail sales from late-year populist protests. French office stocks also underperformed. Irish office and residential real estate shares performed poorly as contentiousness surrounding what to do with the Irish border after the U.K. leaves the EU continues to override a healthy Irish economy and real estate market.

PERFORMANCE

For the quarter, the Fund (Class I) returned -6.22%, underperforming the -5.00% return of the benchmark. Security selection contributed positively to performance, while country allocation detracted.

Combining country allocation and security selection, the top performance contributors were Germany, Australia, and India. Security selection drove Germany and Australia performance, and country allocation drove India performance.

> At the country allocation level, the biggest contributors were our out-of-benchmark allocation to India via our holding in Ascendas India Trust, an office park-focused real estate firm, and our underweight exposure to Canada.

> At the security level, positive contributors were our overweight exposure to TLG Immobilien AG, a German mid-cap German diversified real estate company, which benefited from positive earnings results and its healthy exposure to the Berlin office market, one of the best in Europe, as well as our lack of exposure to Mitsui Fudosan, a Japanese large-cap diversified real estate firm, which underperformed.

Combining country allocation and security selection, the top detractors were China, Hong Kong, and Japan. Security selection was the primary detractor in Hong Kong and Japan, while country allocation detracted in China.

> At the country allocation level, our out-of-benchmark exposure to China-focused data center real estate firm GDS Holdings, and our overweight exposure to Ireland—one of the worst-performing countries in the quarter—were the biggest detractors.

> At the security level, the biggest detractors were our overweight exposure to Wharf Real Estate Investment, a Hong Kong large-cap retail real estate firm, which was negatively impacted by slowing growth concerns in Mainland China, and our overweight exposure to Boardwalk REIT, a Canadian mid-cap apartment REIT.

OUTLOOK

We expect continued variance in global growth and regional real estate fundamentals. Regionally, we are looking to Ireland, Australia, and the U.S. for growth leadership. We expect opportunities for active managers such as ourselves, who are focused on owner-operators of high quality real estate with solid balance sheets and proven management teams, to deliver outperformance versus the broader REIT market. Overall, we expect cash flow and dividend growth for global real estate securities to be solid once again in 2019.

Key themes include:

> *Rents, not rates:* While there is likely to be upward pressure on interest rates in many markets, rental rate growth—particularly for high quality real estate—will continue to support further cash flow and dividend growth.

> *New supply*: While new supply levels are generally catching up to years of undersupply, selective geographic markets and property sectors will remain impacted by new development.

> *Balance sheet health:* Cash flow and dividend growth rates are converging across many global markets, but U.S. balance sheets are benefiting from more active pruning and remain better positioned with less leverage than most international markets.

> *M&A tailwind:* M&A activity picked up in 2018, driven by healthy discounts to NAV in public real estate security markets, as well as large pools of private equity real estate capital looking to be put to work. We expect this to continue.

Related Reading: Global Listed Real Estate: 2018 Review & 2019 Outlook, available on virtus.com.

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

TOP TEN HOLDINGS	% Fund
Link Real Estate Investment Trust	5.22
Vonovia SE	5.18
Mitsubishi Estate Company, Ltd.	5.17
Wharf Real Estate Investment Co. Ltd.	4.77
Invincible Investment Corp.	3.66
Unibail-Rodamco-Westfield Stapled Secs Cons of 1 Sh Unibail Rodamco + 1 Sh WFD Unib Rod	3.42
Swire Properties Ltd.	3.34
Kenedix Office Investment Corp.	3.01
UNITE Group PLC	3.00
Safestore Holdings PLC	2.73

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/1/2007
Fund Class I	-6.22	-5.45	-5.45	5.01	5.18	10.12	1.98
Index	-5.00	-6.41	-6.41	4.40	2.41	8.73	0.07

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 1.53%. The net expense ratio is 1.25%, which reflects a contractual expense reimbursement in effect through 1/31/2020.

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 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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