

Virtus Vontobel Emerging Markets Opportunities Fund

A: HEMZX (92828W387) | C: PICEX (92828W379) | I: HIEMX (92828W361) | R6: VREMXX (92828W353)

MARKET REVIEW

Emerging markets (EM) stocks weakened in the third quarter as China's patchy economic recovery and ongoing tensions with the U.S. held back the MSCI Emerging Markets Index.

FUND PERFORMANCE

The Virtus Vontobel Emerging Markets Opportunities Fund returned -6.11% (Class I) in the quarter, underperforming the MSCI Emerging Markets Index, which returned -2.93%.

Accton Technology and Cipla were the largest contributors to returns during the quarter.

- > Taiwan's Accton Technology, which designs and manufactures network switches for data center and telecom customers, benefited from its hyperscale clients upgrading their servers in response to AI demand.
- > India's Cipla, which makes and distributes branded and generic medicines, reported first quarter fiscal year 2024 results that beat consensus expectations for both top-line growth and earnings. Domestic sales grew in the low double digits, while U.S. sales grew by over 40%, with the higher contribution from North America combining with lower input costs to aid margins.

Taiwan Semiconductor Manufacturing Company (TSMC) and HDFC Bank were the largest detractors from returns in the quarter.

- > Shares of TSMC, the world's largest semiconductor foundry, weakened in the quarter. While the company's earnings results were in line with expectations, management reduced fiscal year 2023 revenue guidance to -10% year on year, citing a weaker macro backdrop and inventory correction that is expected to last through the end of the year.
- > The merger of HDFC Bank and Housing Development Finance Corporation was completed at the start of July. HDFC Bank, India's largest private sector bank, reported solid results for first quarter fiscal year 2024. However, there have been concerns in the market about whether the merged company's loan growth might be limited going forward due to funding constraints. We believe this issue is temporary and we see more opportunities stemming from the merger.

PORTFOLIO CHANGES

During the quarter, we bought Dino Polska, a national Polish supermarket chain with stores in villages, towns, and cities across the country. We also entered a position in Polycab India, one of India's top cable and wire manufacturers. Also in India, we bought Max Healthcare Institute, one of the country's top private hospital operators, and APL Apollo Tubes, the country's largest manufacturer of electric resistance welded structural steel tubes used in various construction applications.

We exited our position in Chinese consumer staples company Foshan Haitian Flavouring & Food as poor second quarter results confirmed that the current turnaround will require more time, during which near-term visibility is expected to remain low.

OUTLOOK

Inflation in major emerging markets is contained. While a hawkish Federal Reserve (Fed) puts pressure on EM central banks, most of those institutions should be in a position to ease interest rates once the Fed clearly indicates it has reached the limit for rate increases.

India's valuation premium to China appears justified given strong growth prospects in India versus lingering uncertainty in China. In our view, Indian large-cap stocks are trading at the lower end of historic ranges. We do see some excessive valuation levels in the mid-cap space, but also some potential opportunities.

Increased Indian government spending on infrastructure, combined with private sector investment and the "Made in India" strategy, is driving strong capital expenditure growth. Among a number of attractive themes, the infrastructure growth story looks promising and should generate investment opportunities.

Targeted government stimulus has stabilized real estate sales in China's tier-one cities, although buyers remain wary. While many investors see the series of policy measures as piecemeal, we do not expect a return to expansive stimulus. Investors should remain cautious around China's banking and real estate sectors. However, there is steady recovery in consumer companies focused on lower-ticket consumption.

While there is optimism around Asian companies geared towards artificial intelligence (AI), the future of AI is still relatively uncertain. There is a risk that some companies will derate as AI expectations are tempered. Further, most companies depend on the smartphone and PC segments, where demand is currently weak, and may miss recovery expectations.

Brazil was among the most aggressive EM countries in raising rates to tackle inflation, which in turn significantly slowed economic activity. The government has also been more fiscally prudent than expected, allowing it to target putting an end to its primary deficit by 2024, which would also help reduce inflation. As a result, its central bank should be able to continue to cut interest rates, supporting Brazil's economic recovery and valuations for longer duration businesses.

Mexico is benefiting from U.S. near-shoring and foreign direct investment, which is driving exports and supporting the peso currency. We are favorable on retailer Walmex in the consumer space, and airports group GAPB, which we believe should benefit from increased tourism and business travel.

Related Reading: [Q3 Vontobel Market Review & Outlook](#)

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Vontobel Asset Management, Inc.

PORTFOLIO MANAGERS



Matthew Benkendorf
 Industry start date: 1998
 Start date as Fund Portfolio Manager: 2016



Jin Zhang, CFA
 Industry start date: 1995
 Start date as Fund Portfolio Manager: 2016



Ramiz Chelat, CFA
 Industry start date: 1997
 Start date as Fund Portfolio Manager: 2021

TOP TEN HOLDINGS

% Fund

Taiwan Semiconductor Manufacturing Co. Ltd.	5.55
Tencent Holdings Ltd.	5.46
HDFC Bank Ltd.	5.14
Samsung Electronics Co. Ltd.	4.85
Wal-Mart de Mexico SAB de CV	3.65
Raia Drogasil SA	3.44
Bank Rakyat Indonesia Persero Tbk PT	3.00
Alibaba Group Holding Ltd.	2.59
President Chain Store Corp.	2.59
Reliance Industries Ltd.	2.48

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Accton Technology Corp.	0.33
Cipla Ltd./India	0.21
Polycab India Ltd.	0.20
Jio Financial Services Ltd.	0.19
Alibaba Group Holding Ltd.	0.10

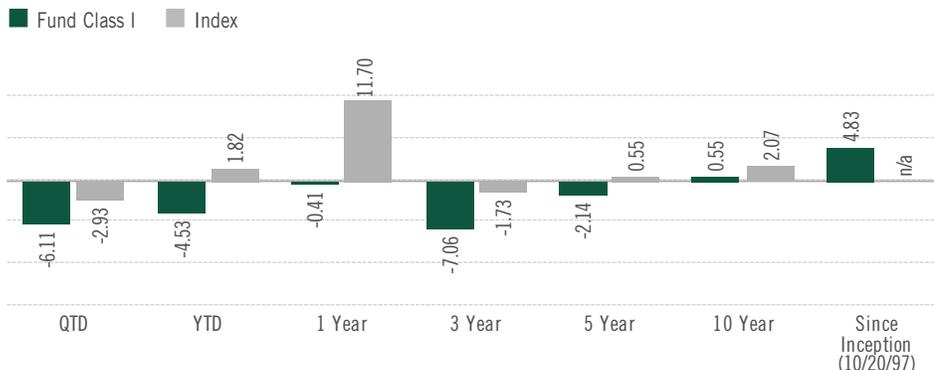
TOP FIVE DETRACTORS % Contribution

Taiwan Semiconductor Manufacturing Co. Ltd.	-0.71
HDFC Bank Ltd.	-0.45
Tencent Holdings Ltd.	-0.44
Samsung Electronics Co. Ltd.	-0.38
ENN Energy Holdings Ltd.	-0.37

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.23%.

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.

Index: The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is 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, medium, or large-sized companies may enhance that risk. **Geographic Concentration:** A portfolio that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting that location. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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