VIRTUS MUTUAL FUNDS

Virtus Vontobel Emerging Markets Opportunities Fund

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

MARKET REVIEW

Emerging market (EM) equities consistently performed well throughout 2017, outperforming the broader MSCI All Country World Index (ACWI) in all four quarters. Returns were driven by ongoing growth and stable outlooks for major EM economies, such as China and India. Asian information technology companies in particular were major contributors to EM performance over the year. In the fourth quarter, South African equities rose, despite the collapse of Steinhoff International, and the rand strengthened amid investor optimism that pro-reform candidate Cyril Ramaphosa will be elected president in 2019. Brazil and Mexico posted negative returns in USD terms. Brazilian stocks declined as investors were concerned about the continued delay in the passing of a social security reform bill, viewed as critical for improving Brazil's fiscal situation. Mexican equities declined and the peso weakened on investor concerns that the new U.S. tax law would reduce investment in Mexico, and uncertainty about a potential U.S. withdrawal from the North American Free Trade Agreement.

PERFORMANCE

For the fourth quarter and full-year 2017, the Fund returned 5.55% and 34.47% (Class I), respectively, underperforming the MSCI Emerging Markets Index returns of 7.44% and 37.28%. Consistent with our high-quality style, the stable and predictable attributes of the stocks we hold helped generate strong performance over the past year, but lagged the extremely strong market.

Consistency of quality growth underperforming in strong markets is akin to the stability of a cargo ship — it will not travel as quickly as a speed boat when the sea is calm but when it becomes choppy, plows through to its destination. In our opinion, quality growth is an approach for long-term investors who are likely to encounter both conditions. We believe the outperformance we typically experience in difficult markets leaves the portfolio at a higher starting point when markets recover, and that a consistent investment approach, repeated cycle after cycle, reduces market timing risk and permanent loss of capital. With a track record more than two decades long to reflect on, this approach has delivered attractive long-term returns in both absolute and risk-adjusted terms.

- The information technology holdings were the leading sector contributor. After slowing growth concerns caused the stock price to weaken, Chinese internet holding Netease surprised with a new game that quickly reached 100 million downloads, driving portfolio returns. Tencent remained a top 10 holding, and while we benefited from its strong performance over the quarter, our underweight to the benchmark resulted in negative relative returns.
- Our consumer discretionary holdings performed well, on an absolute and relative basis. Relative performance was supported by what we did not hold as much as what we did. We had no exposure, nor ever had, to South African-based furniture retailer Steinhoff International whose stock plunged some 90% over the quarter.
- Consumer staples, our largest sector weighting, delivered a healthy 5.06% return on the quarter but trailed the robust performance of the overall Index and, as a result, was also our second largest detractor to relative performance.
- Financials was the weakest relative sector performer.

PORTFOLIO POSITIONING

We initiated three new investments: Bharti Infratel, the second largest telecom tower company in India; Indian global IT company HCL Technologies Limited, which offers solutions across various industries, including financial services, manufacturing, and consumer services; and Bank Rakyat, one of the largest banks in Indonesia. We sold South African healthcare company Mediclinic International, PT Matahari Department Store, and Indian consumer staples company Hindustan Unilever due to valuations.

OUTLOOK

With central banks pulling back from their ultra-loose monetary stance, global capital markets will continue to go through significant changes. From the bond to currency markets, financial conditions are expected to tighten. Many markets could get a jolt as macro conditions transition, and heavy usage of ETFs by investors could cause a broader equity market shakeout over the tightening period. We are comfortable with the large emerging markets we are invested in because they have solid fundamentals and should remain destinations of capital inflows over the long term. For instance, India has seen significant improvement in its current account since the 2013 "taper tantrum." Brazil has undergone a change of government and endured difficult reforms, particularly the cap on government spending, and while more reforms are needed, we believe it is headed in the right direction. China still has many imbalances in its economy, including high corporate leverage, but we think it has the wherewithal to deal with the challenges. Importantly, we don't see any emerging market becoming a domino that sets off implosions and contagions akin to past decades. Nonetheless, we stay selectively away from countries where weak fundamentals could lead to debt issues down the road or that could weigh on currency performance over time.

Related Reading: Q4 Market Review & Outlook, "Can We Really Have Our Cake and Eat It Too?" authored by Vontobel's Quality Growth investment team, provides more details on market performance and expectations for the year ahead.

Effective May 8, 2017, the Fund's name was changed from Virtus Emerging Markets Opportunities Fund.

Virtus Vontobel Emerging Markets Opportunities Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Vontobel Asset Management

INVESTMENT PROFESSIONALS

Matthew Benkendorf
Industry start date: 1998
Start date with the Fund: 2016

Brian Bandsma
Industry start date: 1998
Start date with the Fund: 2016

Jin Zhang, CFA
Industry start date: 1995
Start date with the Fund: 2016

TOP TEN HOLDINGS

	% Fund
Alibaba Group Holding Ltd.	5.43
HDFC Bank Limited	5.16
Ambev SA	4.37
Housing Development Finance Corp. Ltd.	4.27
Fomento Economico Mexicano SAB de CV	3.08
PT Telekomunikasi Indonesia, Tbk	3.05
Heineken NV	3.04
Taiwan Semiconductor Manufacturing Co., Ltd.	3.00
Unilever NV Cert. of shs	2.92
Tencent Holdings Ltd.	2.77

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 10/20/1997
NAV	5.55	34.47	34.47	7.65	4.29	3.98	7.40
Index	7.44	37.28	37.28	9.10	4.35	1.68	n/a

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 1.29% and reflects the direct and indirect expenses paid by the Fund.

The gross expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.28%.

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.

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.

The **MSCI All Country World Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and 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 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 or medium-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political, and other developments affecting the fiscal stability of that location. **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. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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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