VIRTUS MUTUAL FUNDS

Virtus Vontobel Emerging Markets Opportunities Fund

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

MARKET REVIEW

Emerging markets (EM) continued their bull run in the third quarter, outpacing their developed market counterparts. Important drivers for the MSCI EM Index's performance were Chinese e-commerce companies and Brazilian banks, as well as a lift for dollar investors from rising exchange rates against the U.S. dollar, which commonly accompanies market inflows. Rising corporate earnings and growth across the major EM economies helped sustain a healthy outlook.

PERFORMANCE

The Fund generated a solid return of 3.70% (Class I) for the third quarter, but underperformed the 7.89% return of the MSCI Emerging Markets Index — consistent with our quality growth investment style in market conditions like these.

- Absolute returns were driven primarily by our information technology holdings and Indian financials. Our Chinese e-commerce companies, Alibaba and Tencent, both reported results that exceeded expectations. Our long-standing Indian financials holdings, Housing Development Finance Corporation and HDFC Bank, also performed well.
- However, in terms of relative performance, consumer staples underperformed the strong market. Specifically, ITC, the Indian tobacco company, pulled back after a strong run earlier in the year as the anticipated tax benefit from the introduction of the new Goods and Services Tax resulted in higher taxes, a continuation of the BJP government's anti-cigarette momentum. Our tobacco holding British American Tobacco also detracted following the unexpected release of the U.S. Food and Drug Administration's consultation paper in July that suggested a new approach to tobacco regulation. Relative performance also pulled back due to our underweight to energy, which enjoyed a strong quarter, and information technology, given our underweight exposure of 23% compared with 27% in the benchmark.

PORTFOLIO CHANGES

This quarter we purchased Zee Entertainment Enterprises Limited, one of India's largest television broadcasting companies that operates more than 30 channels with millions of viewers globally. We sharply reduced our holding in British American Tobacco following the closing of the Reynolds acquisition that will dilute the proportion of the company's revenue derived from emerging markets.

We exited our position in Korea Aerospace Industries, Ltd. as it is under investigation for accounting fraud, which we believe could lower the firm's earnings visibility, create a risk of provisioning, and potentially cause production delays or temporary supply stoppages.

OUTLOOK

Economic growth continues to be delivered across the major emerging market economies of China and India from structural reform, while oil appears to be at an ideal level, supporting both commodity-backed economies such as Russia and Brazil, while remaining low enough not to hobble economies short of energy, such as India. Rarely do the emerging markets look this good.

However, we are concerned by a number of issues in the risk-on market: the MSCI Emerging Markets benchmark is close to all-time low volatility levels; risk-on markets are pricing out some of the margin of safety from the next "surprise"; and the increased links between markets from the rising share of ETFs where sellers for one reason can create a chain of sales across regions.

We remember clearly the 2013 taper tantrum, although the double deficits of the "fragile five" that spooked the markets then (Brazil, India, Indonesia, So. Africa, Turkey) are in better shape now. However, there are potential starting points for risk-off sentiment, such as Turkey or South Africa, both reliant on foreign inflows, without assuming a major issue such as a U.S./China trade war or an encounter involving North Korea, both of which we feel are low probability events, but possible, and must be considered.

As a result, we believe it is important to remain invested in businesses with deep roots and that are well positioned to weather an economic shock should one occur, but benefit from secular growth through stable periods. We also are strong believers that one of the most effective ways of mitigating risk is the diversification of earnings drivers across the portfolio – beyond the sometimes misleading country or sector classifications.

We remain comfortable with our exposures to our Chinese e-commerce and Indian bank holdings, where we believe valuations are still reasonable relative to their business quality and growth. We also continue to find attractive opportunities in Brazil, an unloved market that has provided some attractive investment opportunities for investors with patience as the country, and its growing population's needs, work through a tough economic transition.

Consumer staples remains our largest sector exposure even after trimming almost 10% over the past 12 months. We continue to remain comfortable with the predictability and stability of growth we find in the leading franchises, which, complemented with strong cash flow, continue to provide a deep keel to our portfolio.

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

TOP TEN HOLDINGS	% Fund
Alibaba Group Holding Ltd.	5.95
HDFC Bank Ltd.	5.18
Ambev SA	4.70
Housing Development Finance Corp. Ltd.	4.23
Tencent Holdings Ltd.	3.86
Fomento Economico Mexicano SAB de CV	3.58
Unilever NV	3.37
NetEase, Inc.	2.90
PT Telekomunikasi Indonesia, Tbk	2.76
Heineken NV	2.64

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/20/1997
NAV	3.70	27.40	13.10	4.72	4.16	4.07	7.20
Index	7.89	27.78	22.46	4.90	3.99	1.32	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 1.33%.

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.

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.

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