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' strong returns in January (+8.33% (USD), MSCI Emerging Markets Index) were supported by commodity prices and Asian information technology names. Brazil and Russia, large commodity exporters, were among the top five markets in the EM benchmark in January and the quarter. In early February, the benchmark fell with developed markets due to concerns around inflation and interest rates rising faster than expected. By mid-March, the markets recovered somewhat before selling off again on U.S.-China trade tensions.

Perhaps the greatest structural change in the quarter was China's decision to remove the two-term limit for its presidency. South Korean stocks were hit on the initial U.S. steel and aluminum tariff announcement as South Korea is a major trading partner of the U.S. and China, and a large steel exporter to the U.S. But the market improved after South Korea secured a partial exemption from the planned steel tariffs and the U.S. and South Korea extended the U.S.-Korea Free Trade Agreement (KORUS). As threats of a trade war receded, South Korean equities partially recovered, returning -0.50% (USD) over the quarter. Chinese equities returned 1.82% (USD) for the quarter.

After surging just over 38% (USD) in 2017, Indian equities pulled back -6.95% (USD) in the quarter. News of $1.8 billion in fraudulent transactions at state-owned Punjab National Bank shook confidence in India's financial system which is still dominated by state-controlled businesses. Still, data released over the quarter indicated that India's economic growth continues to re-accelerate at a rapid pace.

In Latin America, Brazil was a top performer, returning 12.36% (USD). Brazilian cyclicals benefited from the start of an economic recovery and higher commodity prices.

In South Africa, the change of country leadership was well received by the market. In March, Moody's maintained the country's investment grade, at the lowest rung, but upgraded its outlook to stable from negative.

PERFORMANCE

For the quarter, the Fund (Class I) returned 0.17%, while the MSCI Emerging Markets Index returned 1.42%. Consistent with our high-quality style, the stable and predictable attributes of the stocks in the portfolio helped generate solid performance, but lagged a strong market. For additional performance discussion, please see the Fund's special commentary released in March.

PORTFOLIO POSITIONING

We initiated two new positions: Techtronic Industries (consumer discretionary), a global power tool company based in Hong Kong, and Malayan Banking (financials), the leading bank in Malaysia.

We sold out of Taiwanese company President Chain Store (consumer staples).

OUTLOOK

Major emerging markets look healthy, but we anticipate a less-uniform earnings outlook as negative pressures build. We are starting to see cracks around the edges. Rising U.S. interest rates are likely to spread to Europe and Japan, and add pressure across some emerging markets. The U.S.-China trade conflict adds considerable uncertainty for Chinese manufacturers and the supply chain. Oil's sharp price rise has lifted oil export markets but the impact on consumers has not registered. We see China's move to one-man rule as a near-term economic positive, but a long-term risk.

Negotiations to rebalance trade between China and the U.S. have introduced uncertainty for export operations in China. We have little direct exposure to this risk. In strong markets, fundamental risks do not show. In 20+ years managing this strategy, we have found cyclical downswings unpredictable and difficult to time.

While stocks worldwide have moved up in valuation, we continually seek to hold or rotate into good quality growth companies if we believe the market offers a fair price for a company's future profits. We are bottom-up stock pickers so the state of the macro environment is less important. However, regulatory and political stability matters for companies to operate consistently.

In China, for example, we remain holders of e-commerce companies including Alibaba, Tencent, and NetEase. If the Chinese financial market were to experience turmoil, the government may need to step in to stabilize it, but we expect Chinese consumers will still use Alibaba's Tmall to shop online.

In India, while we see stable growth opportunities, we see a fork in the road: stable 7% growth with further reforms or slower growth until some regulation and distribution bottlenecks are widened.

Across Latin America, we see optimism helped by rising commodity prices. We remain confident in Brazil's medium-term outlook. The economy appears to have moved into recovery, as reflected in falling non-performing loans, which should allow growth to return towards more average levels.

We believe a number of high-quality franchises operate in South Africa, but the new government has much work to do before we feel sufficiently comfortable to deploy further capital.

We think a dose of skepticism returning to the markets is a good thing. We remain invested in quality growth companies despite the temptations of the siren song of cyclical stocks. We see significant opportunities and believe that investors in stable growth companies held through unpredictable cycles stand to benefit from compounding over the long term.

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

PORTFOLIO MANAGERS

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

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

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

TOP TEN HOLDINGS

	% Fund
Alibaba Group Holding Ltd. Sponsored ADR	5.80
HDFC Bank Ltd.	5.12
Ambev SA Sponsored ADR	4.88
Housing Development Finance Corp. Ltd.	4.10
Taiwan Semiconductor Manufacturing Co., Ltd.	3.24
Unilever NV Cert. of shs	3.21
Heineken NV	3.13
Fomento Economico Mexicano SAB de CV Sponsored ADR Class B	2.96
PT Telekomunikasi Indonesia, Tbk Class B	2.70
Tencent Holdings Ltd.	2.43

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 10/20/1997
Fund Class I	0.17	0.17	19.15	7.07	4.00	5.37	7.31
Index	1.42	1.42	24.93	8.81	4.99	3.02	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 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 **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.

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.

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