Virtus Duff & Phelps Real Estate Securities Fund

A: PHRAX (92828R586) | C: PHRCX (92828R560) | I: PHRIX (92828R552) | R6: VRREX (92828W528)

MARKET REVIEW

Following up on a solid second quarter with REITs outperforming broader U.S. equities, the baton was passed in the third quarter, as the S&P 500® Index returned 7.71% while the FTSE Nareit Equity REITs Index (benchmark) returned 1.23%.

Since the opportunistic pullback at the year's onset, REITs have still outperformed the S&P 500 from January 31 through September 30, with a 6.72% return versus 4.58% for the broader index. The early selloff led to greater discounts to private market valuations and attracted idle capital to private real estate funds, boosting M&A activity. Deals continued in the third quarter, supported by the large pool of idle capital in private real estate funds, as measured by Preqin. If levered just 1:1, the pool of idle capital in private real estate funds equates to approximately one-third of the free float of global real estate equities—a material amount of capital to be put to work, to say the least.

REIT Q2 earnings came in solid, with most companies beating and/or raising their 2018 earnings guidance. The REIT sector, as measured by Evercore ISI, overall posted 3.1% same-store net operating income growth in Q2, up from the 3.0% reported in Q1. We expect continued positive guidance revisions in a number of sectors.

Once again, we call attention to the M&A benefit and improved earnings optics in the space, as well as the continued opportunity for companies to trim their portfolios given the overflowing private real estate funds. It is interesting how investors seem to be willing to pay retail prices by investing in private real estate funds when they could pay wholesale prices by investing in REITs given their discounts to net asset value.

The top-performing property sector within the benchmark during the quarter, on a total return basis, was manufactured home communities, on strong organic growth and very limited new supply. It was followed by freestanding retail and apartments, which delivered solid earnings. The bottom-performing property sectors included self-storage, following its strong second quarter performance, office, and regional malls.

PERFORMANCE

The Fund (Class I) underperformed the benchmark in the quarter, returning 0.67% versus 1.23%, respectively.

The strongest sector contributors in the quarter were regional malls, shopping centers, data centers, and apartments. In terms of securities, among the largest contributors were Regency Centers, due to our overweight position and its outperformance among shopping centers; Alexandria Real Estate Equities, due to our overweight position and its outperformance in the office sector; and American Campus Communities, due to our zero weight and its underperformance in apartments.

The largest detractors were the office, healthcare, freestanding, and specialty sectors. In terms of securities, some of the largest detractors included Cousins Properties, due to our overweight position and its underperformance within the office sector; Duke Realty, due to our overweight position and its underperformance within industrial; and Healthcare Trust of America, due to our overweight position and its underperformance within healthcare.

OUTLOOK

Our outlook on U.S. listed real estate has not changed from last quarter. In our view, the U.S. real estate rental market cycle offers room for further growth as we expect overall market demand to exceed supply across most property sectors and major cities. A backdrop of low, but positive, global economic growth and manageable new real estate supply are positive fundamental tailwinds for global real estate going forward.

Combined with supportive real estate asset pricing, we maintain our view for another positive total return year for global real estate in 2018.Total return drivers for the asset class include approximately 5-6% global cash flow growth and 4% dividend yield with above-average growth in the U.S. A key message for U.S. REIT investors is to focus on rents, not rates.

From a balanced perspective, we note both upside drivers and downside risks. Upside drivers include greater-than-expected global growth driving higher occupancies and rents, asset inflows from a rotation out of bonds and rebalancing from broader equities, and increased potential for M&A and privatization given institutional investors' appetite for high quality, core real estate. Downside risks include the cessation of real estate cap rate compression and potential expansion, accelerated new commercial real estate supply, and interest rates rising faster and higher than a lift in net operating income growth and replacement costs can absorb. Global macro risks include diverging monetary and fiscal policies and ongoing political risks.

Virtus Duff & Phelps Real Estate Securities Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

PORTFOLIO MANAGERS

Geoffrey P. Dybas, CFA
Industry start date: 1989
Start date with Fund: 1998

Frank J. Haggerty, Jr., CFA
Industry start date: 1996
Start date with Fund: 2007

TOP TEN HOLDINGS	% Fund
Prologis, Inc.	8.21
AvalonBay Communities, Inc.	5.39
Simon Property Group, Inc.	5.36
Digital Realty Trust, Inc.	5.23
Alexandria Real Estate Equities, Inc.	4.79
Host Hotels & Resorts, Inc.	4.33
Duke Realty Corp.	3.95
Regency Centers Corp.	3.73
Mid-America Apartment Communities, Inc.	3.70
Sun Communities, Inc.	3.64

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 12/29/2006
Fund Class I	0.67	1.65	4.31	6.83	9.00	7.27	4.82
Index	1.23	2.26	3.80	7.79	9.26	7.49	4.96

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 1.11%.

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 Nareit Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market System. The index is calculated on a total return basis with 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 **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with 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. **Real Estate:** The fund may be negatively affected by factors specific to the real estate market, including interest rates, leverage, property, and management. **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.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.