VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps Real Estate Securities Fund

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

MARKET REVIEW

Broader equity markets, bonds, and REITs posted negative returns in the first quarter. U.S. Treasury rates moved higher and the Fed hiked under its new chairman, Jerome Powell, as expected. Broader equity markets outperformed REITs in the quarter once again, on the back of strong returns in January, only to retreat thereafter and lag REITs into the quarter's end.

Some property sectors have continued to demonstrate better tenant demand and fundamentals, such as industrial, data centers, and manufactured homes, while others are experiencing ongoing fundamental deceleration, such as regional malls, shopping centers, and healthcare (particularly in senior housing).

Manufactured homes was the top-performing property sector for the quarter within the benchmark FTSE NAREIT Equity REITs Index (Index) on a total return basis, with performance driven by continued standout organic growth, lack of new supply, solid balance sheets, and strategic execution. Self-storage and industrial were the next best performing property sectors, followed by lodging and apartments. Against the backdrop of the rising rate environment, four of the top five performing property sectors of the quarter have lease durations of one year or less.

Diversified was the bottom-performing sector due to poor performance by a number of companies in the space, followed by shopping centers, specialty, healthcare, and regional malls. Brookfield Property Partner's bid for regional mall REIT GGP was updated and agreed to by the company at the end of the quarter, disappointing the market.

PERFORMANCE

The Fund outperformed the benchmark for both the quarter and year, driven by positive security selection and property sector allocation, with a return of -7.04% (Class I) versus the benchmark's return of -8.20% in the quarter, and -1.86% (Class I) versus the benchmark's return of -4.51% for the twelve months ended March 31, 2018.

At the sector level, industrial, diversified, manufactured homes, regional malls, and specialty REITs were the strongest contributors to performance. Industrial, one of the top three performing sectors in the quarter, was a strong contributor due to both the Fund's overweight allocation, and even more so from our security selection. Diversified, a notable laggard in the quarter, contributed to the Fund's performance resulting from our underweight allocation and security selection. Regional malls, another area where we remain underweight, also made a positive contribution. Manufactured homes, the top-performing sector in the quarter, contributed from both an overweight allocation as well as security selection. The specialty sector was a top relative contributor due to the Fund's zero weight to this underperforming sector.

At the security level, the largest contributions came from the Fund's lack of exposure to four poorly performing stocks found in the Index: Colony Northstar (diversified), QTS Realty (data centers), Gramercy Property Trust (industrial), and Kimco Realty (shopping centers).

Our underweight position in lodging was a detractor due to the sector's outperformance in the quarter. To a much lesser extent, freestanding retail and single-family homes, were also relative detractors from performance.

At the security level, some of the largest individual detractors were within the office property sector. Among the detractors were our underweight positions in Boston Properties and SL Green, both of which outperformed, as well as an overweight position in Highwoods Properties, which lagged its peers. That said, our positioning in other office REITs resulted in neutral overall impact. Our overweight position in underperformer RLJ Lodging Trust was also a detractor.

OUTLOOK

In our view, the U.S. real estate market cycle has room for further growth. We expect demand to continue to exceed supply across most property sectors and major cities. The global weight of capital looking for a home in high-quality, core real estate is meaningful and continues to support asset pricing. Additional price appreciation will likely be driven by cash flow growth. We expect M&A activity to continue in 2018.

Moderate, potentially accelerating U.S. economic growth, combined with new real estate supply, represent positive fundamental tailwinds for REITs. Stronger growth would facilitate further increases in real estate operating cash flows and dividends through higher property occupancies and higher rents. Higher rents represent pricing power. With supportive real estate asset pricing, we remain positive on U.S. real estate securities.

From the global real estate perspective, we expect total return drivers for 2018 to include global cash flow growth of approximately 5-6% and a dividend yield of approximately 4%. Above-average growth is expected in the U.S., given lower payout ratios, healthy demand, and moderate new supply driving cash flow and dividend growth. On a global basis, real estate fundamentals remain more attractive for the industrial and data center property sectors, which have secular tailwinds.

Effective May 8, 2017, the Fund's name was changed from Virtus Real Estate Securities Fund.

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.	7.38
Digital Realty Trust, Inc.	5.48
Simon Property Group, Inc.	5.15
Equinix, Inc.	4.76
AvalonBay Communities, Inc.	4.74
DCT Industrial Trust Inc.	4.22
Sun Communities, Inc.	3.87
Duke Realty Corp.	3.75
Alexandria Real Estate Equities, Inc.	3.69
American Homes 4 Rent Class A	3.59

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 12/29/2006
Fund Class I	-7.04	-7.04	-1.86	1.20	6.29	6.45	4.21
Index	-8.20	-8.20	-4.51	1.08	5.92	6.37	4.18

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.

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.

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.