VIRTUS MUTUAL FUNDS

Virtus Duff & Phelps Real Estate Securities Fund

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

MARKET REVIEW

Both the broader equity markets and REITs posted positive returns in the fourth quarter of 2017. As the string of consecutive positive quarters in the S&P 500® Index lengthened to nine, we reiterate the benefits of real estate as an asset class and its inclusion in portfolios.

The broader U.S. market and corporate earnings growth remained beneficiaries of a weaker U.S. dollar, which declined further in the quarter and was down roughly 10% for 2017, based on the U.S. Dollar Index ("DXY").

REIT third quarter earnings came in solid and reinforced our constructive view of the asset class. Regional malls was the top performing property sector within the FTSE NAREIT Equity REITs Index ("the benchmark") during the quarter on a total return basis, driven by a value bounce and mergers and acquisition ("M&A") activity during a year of accelerated store closings and a continued secular shift to e-commerce. Retail REIT GGP received an offer from Brookfield Property Partners in the form of half units and half cash, and on the global front Australia-based Westfield Corp. received a 65% stock and 35% cash offer from France-based Unibail-Rodamco. Manufactured homes was the second best performing property sector and benefited from continued standout organic growth, lack of new supply, solid balance sheets, and strategic execution.

Healthcare was the bottom performing property sector due to factors related to senior housing and skilled nursing operator concerns, and an elevated supply of assisted living facilities. Specialty properties was the second worst performing sector in the quarter as a number of non-core entities including prison REITs lagged.

PERFORMANCE

The Fund outperformed during the quarter and year, with a return of 2.62% (Class I) versus the benchmark's return of 1.51% in the quarter, and 6.11% (Class I) versus the benchmark's return of 5.23% in the year.

Healthcare, self storage, and shopping centers were the strongest relative contributors to performance in the quarter.

> The Fund benefited from our underweight position in healthcare REITs and our security selection favoring medical office buildings over healthcare properties facing operator and supply concerns, such as senior housing. Our security selection in self storage and shopping centers also benefited performance.

> At the security level, our overweight position in CubeSmart, a mid-cap owner/operator of high quality and well maintained self-storage facilities, provided the greatest benefit as the company executed well operationally and was closely followed in selection benefit by an underweight in Public Storage, which has lagged operationally. Healthcare Trust of America, an owner/operator of medical office buildings, was also a top contributor.

Regional malls, lodging, and apartments were the largest detractors from performance.

> The Fund's underweight to regional malls during the sector's value bounce and security selection within the sector drove its detraction. Lodging was negatively impacted by our underweight position to this outperforming sector and also by security selection. Conversely, our overweight exposure to the underperforming apartment sector, and our security selection within it, were behind the adverse impact.

> At the security level, our overweight position in office companies Highwoods Properties and Paramount Group detracted from performance but was more than offset by other office REIT holdings, resulting in a positive overall benefit. It will be interesting to monitor which city Amazon selects for its second headquarters. Our overweight position to select service and compact full-service hotel REIT RLJ Lodging was also a top 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 retain a positive outlook for U.S. real estate securities.

From the global real estate perspective, total return drivers for 2018 include global cash flow growth of approximately 5-6%, dividend yield of approximately 4%, with above average growth expected in the U.S. given lower payout ratios, and 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.

INVESTMENT PROFESSIONALS

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

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

TOP TEN HOLDINGS

	% Fund
Prologis, Inc.	6.86
Simon Property Group, Inc.	6.53
Digital Realty Trust, Inc.	4.94
Equinix, Inc.	4.69
AvalonBay Communities, Inc.	4.56
DCT Industrial Trust Inc.	3.82
Duke Realty Corp.	3.81
American Homes 4 Rent	3.67
Apartment Investment and Management Co.	3.64
Equity Residential	3.57

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 12/29/2006
NAV	2.62	6.11	6.11	5.12	8.97	7.37	5.00
Index	1.51	5.23	5.23	5.62	9.46	7.44	5.09

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 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.

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 **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 equity indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

The **U.S. Dollar Index** measures the value of the U.S. dollar relative to a basket of foreign currencies.

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.

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