

Virtus Vontobel Foreign Opportunities Fund

A: JVIAX (92828R859) | C: JVICX (92828R842) | I: JVXIX (92828R834) | R6: VFOPX (92828W569)

MARKET REVIEW

Macroeconomic conditions and earnings growth across the world's major economies were surprisingly strong and consistent throughout 2017. In the fourth quarter, Europe's economic momentum continued to build steam despite noise around Brexit, immigration, Polish nationalism, and Catalonia's quest for statehood. The ultra-low rates of the European Central Bank (ECB) provided substantial support across all eurozone countries, whether they needed it or not. Real GDP in the euro area continued to grow, increasing by 2.5% in the third quarter of 2017 year over year. In October, the ECB left interest rates unchanged and extended its quantitative easing program to September 2018, although monthly purchases will be reduced from €60 billion to €30 billion. While political risks in Europe generally abated, there were some political concerns over the quarter, particularly in Germany, Spain, and Italy. The U.K. was among the top performers in the region for the quarter as the economy continued to hum along better than expected following the Brexit vote. Emerging market equities consistently performed well throughout 2017, outperforming the broader MSCI All Country World Index (ACWI) in all four quarters. Returns were driven by ongoing growth and stable outlooks for major emerging market economies, such as China and India. Asian information technology companies in particular were major contributors to emerging markets performance over the year.

PERFORMANCE

For the fourth quarter and full-year 2017, the Fund returned 4.82% and 32.70% (Class I), respectively, outperforming the MSCI EAFE® Index's returns of 4.23% and 25.03%.

- > From a sector perspective, the Fund's consumer discretionary holdings performed well on both an absolute and relative basis, with South African media company Naspers a strong contributor. Our stock selection in the healthcare sector also contributed to relative returns — niche holdings such as French-based Essilor International, the global market leader in ophthalmic lenses and equipment, outperformed within a sector that had relatively weaker performance in the quarter. Our information technology holdings performed in line with the Index, and our overweight to the sector added to relative returns.
- > The Fund's consumer staples holdings underperformed the Index. Larger holdings Unilever and Anheuser-Busch InBev underperformed during the quarter, however, Unilever performed well over the full year and was among the top contributors to portfolio returns. Our significant underweight to the materials sector also detracted from returns.

PORTFOLIO POSITIONING

Over the quarter, we added four new stocks to the portfolio. We purchased U.K.-based Rentokil Initial, the global leader in pest control with the #1 share in the U.K. and Europe and expanding elsewhere. We initiated a position in Germany's Heidelberg Cement, a global cement company with main exposure to the U.S., European, and Indonesian markets. We added Aptiv, an auto technology firm that designs and builds electric architecture and safety systems in vehicles across the globe. We also purchased Unibail-Rodamco, headquartered in France and the largest real estate investment trust in Europe, offering exposure to retail real estate in over 10 countries, with assets in cities with high population density. We exited our position in Australian Ramsay Health Care Limited, based on valuations, and reallocated capital to better opportunities.

OUTLOOK

In Europe, we note that elections in 2017 resulted in a move towards more centrist governments. That should provide for a more stable eurozone and more predictable economic and business policy. The political risk is lower than it was at the start of last year and the extreme eurozone break-up scenario has dissipated for now. We are mindful of the still-heavy monetary accommodation that is being provided to the markets by the ECB and will watch carefully how markets react once that accommodation is finally withdrawn. Brexit negotiations are underway, however, there is still considerable uncertainty around the final outcome. It could take years to resolve.

With central banks pulling back from their ultra-loose monetary stance, global capital markets will continue to go through significant changes. Many markets could get a jolt as macro conditions transition, and the heavy usage of ETFs by investors could cause a broader impact over the tightening period.

We believe that the large emerging markets in which we invest have solid fundamentals and should remain destinations of capital inflows over the long term. Importantly, we do not see any emerging market becoming a domino that sets off contagion as we have seen in past decades. Nonetheless, we stay away from countries where weak fundamentals could lead to debt issues down the road or weigh heavily on their currency performance.

Related Reading: Q4 Market Review & Outlook, "Can We Really Have Our Cake and Eat It Too?" authored by Vontobel's Quality Growth investment team, provides more details on market performance and expectations for the year ahead.

Virtus Vontobel Foreign Opportunities Fund

INVESTMENT ADVISER

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Vontobel Asset Management

INVESTMENT PROFESSIONALS



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



Daniel Kranson, CFA
Industry start date: 1999
Start date with the Fund: 2016



David Souccar
Industry start date: 1996
Start date with the Fund: 2016

TOP TEN HOLDINGS

% Fund

British American Tobacco plc	4.38
HDFC Bank Ltd.	4.04
Priceline Group Inc.	3.41
Housing Development Finance Corp. Ltd.	3.39
Unilever NV Cert. of shs	3.39
Mastercard Inc.	3.20
Alibaba Group Holding Ltd.	3.19
Reckitt Benckiser Group plc	3.16
Alimentation Couche-Tard Inc.	3.16
Philip Morris International Inc.	3.03

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 5/15/2006
NAV	4.82	32.70	32.70	9.53	7.35	3.34	5.68
Index	4.23	25.03	25.03	7.80	7.90	1.94	3.43

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 1.17% 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 1.16%.

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 EAFE® Index (net)** is a free float-adjusted market capitalization-weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. 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.

The **MSCI All Country World Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and 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 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. **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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