VIRTUS
MUTUAL FUNDS

Virtus Vontobel Foreign Opportunities Fund

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

MARKET REVIEW

Both developed and emerging markets started 2018 with strong returns in January, however a sell-off in early February led to volatility that continued through March, resulting in a tumultuous quarter. While the developed markets (MSCI EAFE®) ended in negative territory, emerging markets (MSCI Emerging Markets) delivered a small positive return.

Trade tensions dominated headlines in March, beginning with the Trump administration's announcement that the U.S. would impose tariffs on steel and aluminum imports. This was followed by a subsequent announcement that the U.S. would impose tariffs on $60 billion worth of annual imports from China, along with tighter restrictions on Chinese acquisitions of U.S. companies and on technology transfers to China. This resulted in steep declines in global stock markets, with Asian markets suffering the most. China responded by raising tariffs on $3 billion of U.S. imports, targeting the Republican heartland through agricultural products.

The eurozone recovery, supported by low interest rates and quantitative easing, continued in January, with the MSCI Europe Index returning 5.40% (USD), but expectations of rising inflation and interest rates, primarily in the U.S., sparked a sell-off in European equities in February. Although the U.S. temporarily exempted the European Union (EU) from its planned steel and aluminum tariffs, the threat of a U.S./China trade war weighed on EU markets through March.

Emerging markets' strong returns in January (+8.33% MSCI EM 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, however, the EM benchmark fell with developed markets due to concerns around inflation and interest rates rising faster than expected. By mid-March, the markets had recovered somewhat before selling off again on escalating U.S.-China trade tensions.

PERFORMANCE

For the quarter, the Fund returned -2.14% (Class I), underperforming the MSCI EAFE® Index return of -1.53%.

Consumer staples companies sold off in a rotation away from "bond proxy" stocks, and the Fund's overweight to staples accounted for the underperformance. Information technology stocks continued to outperform, and our significant overweight to this sector helped balance the overall result.

PORTFOLIO POSITIONING

We initiated two new positions: French aerospace manufacturer Safran (industrials), the leading player in engine manufacturing for narrow-body aircrafts, and Techtronic Industries (consumer discretionary), a global power tool company based in Hong Kong.

To reallocate capital to better opportunities, we exited Swiss-based Roche Holding (healthcare), Fomento Economico Mexicano (FEMSA) (consumer staples), Japanese Unicharm (consumer staples), and French-based Sodexo (consumer discretionary). We also sold French Unibail-Rodamco (real estate).

OUTLOOK

While many economies look strong on the surface with synchronized growth, we also see clouds on the horizon. Monetary policy in many countries has started to normalize—or will soon. Trade wars are a distinct possibility, currencies are in flux, and many countries reflect a rise in nationalism and anti-globalization. At quarter-end, the markets started to recognize some of these issues and volatility increased. So while from a business perspective the current economic backdrop is good, we are wary of what may lie ahead.

U.S. reversals of decades of foreign policy has increased global uncertainty. Specific to trade, the Trump administration has targeted China, Canada, and Mexico, but we wouldn't be shocked if Germany, too, will end up in the crosshairs, based on the size of its trade surplus.

Energy is starting to cause ripples in the world economy. Over the past quarter, higher oil prices supported large exporting markets, such as Russia and Brazil. The offset effect on importers, such as China and India, has not yet been reflected. So far, higher oil prices have not translated into reduced consumption of other goods, but we are watching.

Quantitative easing is subsiding and interest rates are increasing after a decade of ultra-loose money. Deflation worries have disappeared, employment conditions are improving, and inflation signs are beginning to appear. When inflation returns, even active central banks cannot guarantee there won't be an overshoot. When that happens, it's important to be invested in companies that can handle inflationary times—and for that, you need pricing power.

While current business prospects worldwide seem positive, we see potential areas of concern. The timing of those risks manifesting in the economy is unclear, but those are the times when high-quality companies really shine. While low-quality cyclical companies' earnings could collapse, high-quality companies should exhibit much lower volatility. We believe this earnings protection should lead to performance downside protection. And because of the value of compounding returns, protecting on the downside is more than half the battle when it comes to long-term outperformance.

Effective May 8, 2017, the Fund's name was changed from Virtus Foreign Opportunities Fund.

Virtus Vontobel Foreign 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

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

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

TOP TEN HOLDINGS

	% Fund
Booking Holdings Inc.	4.14
HDFC Bank Ltd.	4.14
Alibaba Group Holding Ltd. Sponsored ADR	4.08
British American Tobacco PLC	3.81
Mastercard Inc. Class A	3.76
Housing Development Finance Corp. Ltd.	3.63
Unilever NV Cert. of shs	3.46
Constellation Software Inc.	3.08
Alimentation Couche-Tard Inc. Class B	2.95
Philip Morris International Inc.	2.90

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 5/15/2006
Fund Class I	-2.14	-2.14	15.96	7.99	5.63	4.35	5.37
Index	-1.53	-1.53	14.80	5.55	6.49	2.74	3.22

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 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 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.

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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