Virtus Vontobel Foreign Opportunities Fund

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

MARKET REVIEW

Market volatility continued throughout the third quarter, stemming from a host of geopolitical and macroeconomic risks associated with different corners of the world. European equities turned in lackluster performance, as that region faced risks emanating from Italy's budget deal and Brexit negotiations. More broadly, global trade frictions, a rising U.S. dollar, tighter Federal Reserve monetary policy, and higher oil prices drove assets away from riskier countries. Many emerging market (EM) currencies sold off, with Turkey, Argentina, and South Africa among the countries hardest hit. Developed market equities proved more resilient than EM equities, as the MSCI EAFE® Index returned 1.35% for the quarter while the MSCI EM Index returned -1.09%. From a sector perspective, healthcare and energy had a positive impact on broad market performance while real estate and consumer discretionary detracted.

PERFORMANCE

During the quarter, the Fund (Class I) returned -0.54%, while the MSCI EAFE Index returned 1.35%.

Relative performance was aided by information technology, which benefited from consistently strong results from holdings Visa and MasterCard, U.S.-listed companies with the majority of business exposure emanating from international markets. Taiwan Semiconductor Manufacturing Corporation (TSMC), the world's largest pure-play semiconductor chip foundry, also performed well.

Positive performance was offset by weakness in our financials holdings. Two of our long-standing Indian positions, HDFC Bank and Housing Development Finance Corporation, were impacted by general concerns about a potential slowdown in economic growth in India and pressure on the rupee. With India an importer of oil, the rising price of oil led to inflationary pressure and rate increases by the Reserve Bank of India.

PORTFOLIO POSITIONING

During the quarter, we purchased Fresenius, a diversified healthcare group offering products and services for dialysis, hospitals, and outpatient treatment. We also purchased Wal-Mart de Mexico in consumer staples, and United Overseas Bank (UOB) and Svenska Handelsbanken in financials.

We sold Australian healthcare company CSL Limited due to valuation sensitivity. We also sold South African consumer discretionary company Naspers Limited to reallocate capital to better opportunities.

OUTLOOK

Global GDP growth continues to show momentum, but it may be a backward-looking view of the world's economic health. The European Central Bank (ECB) has been buying bonds and keeping rates extremely low. As the ECB cuts back on buying and eventually raises rates, the tide of money will retreat. We would not be shocked to see a repricing of risk assets. It is this concern, among others, that has generally kept us from investing in the European periphery, as well as its financials and highly levered companies.

Emerging markets, meanwhile, have been negatively impacted by global trade wars, tariffs and sanctions, and a contentious election season. Rising U.S. interest rates have strengthened the dollar and triggered the usual currency devaluations across the board. The highest oil price in four years, as measured by Brent crude, complicates the picture even more. Our main goal is to hold quality growth companies; sometimes these will be in emerging markets. Although we are underweight EM, our largest EM positions are Indian financials Housing Development Finance Corporation and HDFC Bank, and Chinese internet giants Alibaba and Tencent.

Energy is a meaningful part of the benchmark that we have decided not to invest in. While this decision may have a negative impact on relative performance when oil prices are rising (as was the case this quarter), we still believe this is the right approach for investors with a long-term view. Due to the lack of stability and predictability in energy-related earnings, there is a high hurdle for us to invest in this area of the economy.

Consumer staples companies remain our largest sector exposure, and we continue to hold leading companies in attractive segments such as personal care (Unilever), convenience stores (Alimentation Couche-Tard), and health and nutrition (Reckitt Benckiser). Information technology is our second largest exposure. We hold technology companies that we believe not only have long-term growth opportunities, but also high entry barriers, given their network effects, such as those enjoyed by Visa and Mastercard or internet platforms Alibaba, Tencent, and Booking Holdings. In some cases, it is the stickiness of customers that make them particularly attractive, such as with SAP and Constellation Software.

Over the quarter, our long-term underweight position in Japan had a negative impact on relative performance. Japan is not making meaningful strides towards addressing its structural problems—mainly a declining labor force and management's lack of commitment to improve corporate productivity and create shareholder value. While we have looked closely at Japanese companies, few have made the grade.

While there are plenty of reasons for concern, timing recessions is nearly impossible, and we are firmly bottom-up in our approach to investing. However, it is hard not to notice that the market outlook has become increasingly unpredictable. Against this backdrop of rising risks, we believe that it is important to protect against economic turbulence. Quality growth companies, especially those less sensitive to GDP growth, should protect investors in a downturn, as has been the case historically. We have sought to invest patiently and consistently in quality growth companies for more than 20 years, and we do not plan to alter our approach.

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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

TOP TEN HOLDINGS	% Fund
HDFC Bank Ltd.	3.89
Unilever NV Cert. of shs	3.44
Alimentation Couche-Tard Inc. Class B	3.41
Booking Holdings Inc.	3.29
Reckitt Benckiser Group PLC	3.15
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	2.88
Nestle S.A.	2.79
SAP SE	2.71
Canadian National Railway Company	2.67
Mastercard Inc. Class A	2.52

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 5/15/2006
Fund Class I	-0.54	-2.23	2.48	9.27	6.03	6.70	5.14
Index	1.35	-1.43	2.74	9.23	4.42	5.38	3.10

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.

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