

Virtus Vontobel Foreign Opportunities Fund

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

MARKET REVIEW

Across the MSCI EAFE® Index, almost all equity markets registered positive returns for the third quarter of 2017. Emerging markets continued their bull run, outpacing their developed market counterparts. While growth remains slower than politicians, central bankers, and citizens would always like, the broader global macroeconomic backdrop is reasonably steady. Generally speaking, wage growth, inflation, household leverage, and housing markets are at reasonable levels in most major economies around the world and the various interest rate environments are still relatively conducive to growth.

PERFORMANCE

The Fund generated a solid return of 3.72% (Class I) for the quarter, but underperformed the 5.40% return of the MSCI EAFE® Index, consistent with our quality growth investment style in market conditions like these.

- > Absolute returns were driven primarily by our holdings in information technology, our Indian financials holdings, as well as a lift for dollar investors from the weaker U.S. dollar. Information technology stocks continued to rally and our stock selection in the sector and relative overweight benefited the portfolio. Our electronic payments companies, MasterCard and PayPal, performed particularly well. And our Chinese e-commerce companies, Alibaba and Tencent, both reported results that exceeded expectations. Our long-standing Indian financials holdings, Housing Development Finance Corporation and HDFC Bank, also performed well.
- > However, relative performance was pulled back by our consumer staples and consumer discretionary holdings, as well as lack of exposure to energy and materials, which enjoyed a strong quarter. Our holding Reckitt Benckiser had a difficult quarter due to temporary disruptions including weaker-than-expected margins for recently acquired Mead Johnson, and a cyberattack that delayed shipping and invoicing. Our tobacco holdings, British American Tobacco and Philip Morris International, were impacted by the unexpected release of the U.S. Food and Drug Administration's consultation paper in July that suggested a new approach to tobacco regulation. Other names that detracted from relative returns were Shimano and Paddy Power, both in the consumer discretionary sector.

PORTFOLIO CHANGES

In information technology, we purchased Constellation Software, a Canada-based software company specializing in vertical market solutions. We also purchased Israel-based Check Point Software Technologies, a leading cybersecurity company and a pioneer in network firewalls. In consumer

discretionary, we purchased Inditex, a Spanish global retail chain operator which features store brands Zara, Massimo Dutti, Pull & Bear, Stradivarius, Bershka, Oysho, Zara Home and Uterque. We sold French industrials company Bureau Veritas, Hong Kong real estate company Link Real Estate Investment Trust, British financials company Lloyds Banking Group, French consumer discretionary company Hermes International, and Danish healthcare company Coloplast to reallocate capital to better opportunities.

OUTLOOK

We are concerned that close to all-time low volatility in the markets is being driven by a combination of low interest rates pushing money out of bonds alongside a stable outlook. In Asia in particular, we feel the risk-on markets are pricing out some of the margin of safety from the next "surprise" of which there are always a number on the back burner. We believe it is important to remain invested in businesses with deep roots and that are well positioned to weather an economic shock should one occur but benefit from secular growth through stable periods.

In Europe, the macroeconomic backdrop continues to improve. Political risk has fallen following the French and German elections. Unfortunately economic recovery has emboldened the Catalan independence movement in Spain to the edge of unilaterally declaring independence from one of the eurozone stalwart countries. That the markets have hardly moved illustrates how important the European Central Bank's (ECB) quantitative easing remains for eurozone stability and that rates are likely to remain low in 2018, which would support the economic momentum. In Europe, we continue to invest primarily in global multinationals where we find powerful and well-run businesses catering to demand globally. As always, we look to add to the portfolio opportunistically if the chance to buy quality franchises at bargain prices presents itself.

Across emerging markets, after a sharp rally, which we have benefited from, some valuations have also reached elevated levels and we remain selective. The most attractive opportunities we see currently include the dominant Chinese e-commerce and Indian bank franchises, where we believe valuations are still reasonable relative to their business quality and growth. In China, the upcoming 19th National Congress will lay out important policy goals for the next five years that we anticipate will be to maintain its goal of shifting from investment to consumer-led economic growth.

Consumer staples remains our largest sector exposure even after trimming this past 12 months. We continue to remain comfortable with the predictability and stability of growth we find in the leading franchises, which, complemented with strong cash flow, continue to provide a deep keel to our portfolio.

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INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

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
HDFC Bank Ltd.	5.07
Unilever NV	4.66
Mastercard Inc.	4.51
British American Tobacco plc	4.25
Housing Development Finance Corp. Ltd.	3.55
Reckitt Benckiser Group plc	3.50
SAP SE	3.37
Alibaba Group Holding Ltd.	3.36
Philip Morris International Inc.	3.24
Nestlé S.A.	2.88

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 5/15/2006
NAV	3.72	26.60	15.69	7.60	7.08	3.24	5.38
Index	5.40	19.96	19.10	5.04	8.38	1.34	3.13

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 1.18%.

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.

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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