

A Conversation with Matthew Benkendorf Chief Investment Officer, Vontobel Asset Management

Matthew Benkendorf is the newly appointed chief investment officer of Vontobel Asset Management and lead portfolio manager of the Virtus Foreign Opportunities Fund, Virtus Emerging Markets Opportunities Fund, and Virtus Global Opportunities Fund. On March 9, 2016, Matthew spoke with Joe Terranova, Virtus' chief market strategist, about his expanded role. This is a transcript of their conversation, which has been edited for clarity.

Joe Terranova: *Matt, congratulations on your promotion to Chief Investment Officer at Vontobel. This is a very exciting time for you and your family, and an opportune time for you and I to have a conversation surrounding several different things as it relates to your approach, strategy, and the experience. You have spent the better part of 17 years at the firm running the European, U.S., and co-managing the global portfolio. Share with us how this experience translates and what your expectations will be for your new duties.*

Matthew Benkendorf: Thank you Joe, I appreciate the congratulations. Obviously, this has been a plan that's been well set in place for some time. Leading into your question, I firmly believe and the firm firmly commits that we're well prepared for this, and I am well experienced for this.

I think to the heart of your question, it has been a journey around the world already, leading up to this point, quite simply. My first promotion at portfolio management responsibilities was to the European equity fund back in 2006, and I was the sole manager for over seven years, deepening my roots and cutting my teeth. I spread out then onto global portfolio responsibility covering the entire world. I then came full circle back around to the U.S. more recently with my first promotion back in 2010, and then in 2012 as lead manager of our other U.S. equity product. So I have covered the full gamut globally in terms of investor responsibility and portfolio decision-making responsibilities.

Over my career here, from an investment team standpoint, I've been an analyst on all the products, as Rajiv has been an analyst on all the products, and as all our analysts are, working on all the products together simultaneously. It's at the heart of our investment philosophy. We clearly seek out the best businesses that we can find globally with the most durable, competitive advantages, the most visible and predictable earnings streams with attractive growth rates underlying them to preserve and compound capital. I have been a part of this analyst team working on all these products for a very long time doing that.

I now just add in the portfolio construction responsibilities, following in Rajiv's footsteps, of these other products. And that is about maintaining the integrity of our underlying process on those products. It is about doing exactly the same thing we've always done on those products. So it's not doing anything any differently. I have been doing what Rajiv has done on these products, on these other products—and with him on global—for a very long time. Now I just continue to do things exactly the way he did it on these products like emerging markets and international.

Joe: *So it sounds as though the approach will be similar to the approach in the past, which I know to be a very disciplined, benchmark agnostic approach. Would you suggest continuance in that?*

Matthew: Yes, it will be identical. So there is no difference. It is the same exact team. So [even though] Rajiv has left the firm, the entirety of the team is here. We will continue to work diligently on the same investment religion, really, as opposed to a philosophy, that we always have. There is no different bent or tilt to put on it. Our past success has been predicated on repetition. Repetition and discipline to doing things the way we do them from a fundamental investment standpoint. As you said, benchmark-agnostic, bottom-up, being highly selective, avoiding most businesses out there, this all stays the same. Rajiv's affinity and my affinity towards certain businesses is the same. What

we're attracted to, what our team is attracted to, that all stays the same. So there is absolute continuity in every aspect of the business despite the loss of one of our team members.

Joe: *Let us talk about continuity as it relates to your team. For 17 years, you were part of the team. You've elevated two co-portfolio managers to portfolio management responsibilities. Do you anticipate any other changes to your team, and do you expect to keep the team intact?*

Matthew: At first, to the most important part of the question, I don't expect any negative change to the team. I fully expect the team to stay intact entirely as it is. And there's been great continuity on that team over a long period of time. We have a number of members with very senior tenures here at the firm of roughly a decade a piece. So we have a great, deep, broad team as it is. We are highly capable to cover the ground as we stand today. We will fill and replace in more immediacy another analyst as we've lost an analyst on the team with Rajiv, in addition to his other responsibilities. So that will continue forward.

We will continue to broaden and deepen the team which had already been going on prior to Rajiv's departure. We have the full financial capacity and strategy to continue to broaden and deepen our knowledge-base where we can find the right fit, the right person who buys into what we're doing, which is first and foremost the most critical question we ask. And then we add in their intellectual capabilities and depth to further backstop the names that we own and the highly selective, incremental, small amount of names that we add over time.

So that does not change, we push forward with that. With respect to the deputy promotions, that was the first very natural move. That was two individuals who were very well-qualified and capable and had already been sitting in the cat-bird seat to move onto that next step from deputy to lead manager, so that was very quick and efficient in this process.

In the future, the final part of the question is, I fully intend as I unleash and unlock further potential within our team and capitalize upon the excitement and opportunity that this event has opened up within the existing senior membership, we will get further appointments and promotions to other deputies and redundancy and depth on the portfolio construction elements of all the products. We will make sure that we have an even stronger team coming through this.

Joe: *Matt, sometimes the change in terms of portfolio manager leads to some redemptions. How do you expect to manage the liquidity in the portfolio should that occur?*

Matthew: Yes, through all of this, honestly that's the number one, forefront issue that I'm managing. You know the succession plan was well in place; it is simple and clear to operate. The capabilities and personnel are there. We just make the moves that need to be made and continue on down the investment road. So that's the easier part of all this.

The tricky part is the one that you are mentioning, that is an interim issue, which will subside and settle down. But in the immediacy of the event, we understand there will be some clients who make decisions based upon what has happened. We understand and respect the client's decision-making process behind that. That is to be expected.

We've had great client reaction thus far across the board, so I think we're feeling good support thus far. But as I mentioned, there will be some client redemptions on the back of it, and we understand that. So we need to balance this carefully.

The good news is we've already been well protected for a long period of time, in terms of liquidity. For the last nine or 12 months, this portfolio—particularly in the emerging markets where this is really at all a question; none of the other portfolios this has any impact on—but if we look at

emerging markets where you would think about it, the portfolio, versus a year ago, is already much more liquid. Not in anticipation of this event, but just as it sits today when we run our analysis as we continue to do it—and even more deeply today, we are more liquid today.

We continue to proactively address any redemptions that could come in, in that we are making sure even the small tail of the portfolio that could be there that is less liquid relative to the core of the portfolio, even in small position sizing, potentially—that we make sure we're just more liquid than we need to be on the side of prudence.

What we are trying to balance here is adding a third element, for the time being, to the core of what we do: preserve and compound capital. That is the heart of the investment philosophy. First preserve, then compound. Now we obviously have an exogenous event which you are alluding to in terms of the liquidity of the portfolio and that can affect the preserving of capital, maybe, because of a non-investment-related issue or pressure because of redemptions.

So we are just adding that third element in here. As I mentioned, we are doing it and are well-positioned already in terms of liquidity. We aren't doing anything further in terms of liquidity. We might, and will probably carry, a slightly higher level of cash in the interim and replenish that cash as any redemptions come in in the interim. But we are doing nothing prohibitive there because we still have core, committed investors, and we're pushing this rock up the hill as we march on down this road with their investment capital.

So we are not going defensive here. We are not subjecting our existing investors who want to continue to be with us, to hold and stand by during this period either by prohibitively raising cash. We're just going to quickly deal with any events that do come in and adequately liquidate for them and push forward.

I think the best answer too, behind all of this, is we have Gary Thompson, our head of trading, who is a tremendous asset to the firm and has been here for number of years. He has been on top of this issue even before this issue arose just in the practice of the normal course of managing equities in emerging markets. We have the capability, technology, and platforms in place to manage this process, we think, very prudently.

Joe: Matt, with Rajiv leaving, speak to me about the organization of your team.

Matthew: Yeah, Joe, the rest of the organization stays entirely intact. So I step in and fulfill his roles as he is currently fulfilling them. I made my elevations, already below me, of the two deputies, Brian [Bandsma] and Donnie [Kranson], up to senior lead portfolio managers of their respective products. And then we continue to move forward exactly as we have been previously structured.

We will replace Rajiv's headcount on the team, obviously, with another analyst. So the team strength stays entirely intact and then we continue to move forward from here clearly, as we always have been, to add further depth and strength to our team where we see fit. But we feel we have the bases well covered as it is. It's unfortunate that Rajiv has left us, but we have the rest of us all here together, and we continue to push forward.

Joe: Matt, finally I just want to ask you about the 17 years directly with Rajiv. You must have learned a lot. How will you continue to interact with Rajiv, and just share with me some of the things that you've learned.

Matthew: Yes, this transition has been amicable. Rajiv has chosen to move on to his own desires and pursuits. Working 17 years with him, we've obviously spent a lot of time together in the trenches. We have been through tough times before together, too, which was the deepening and

the foundation of our relationship back in the early 2000s. So I have a tremendous amount of respect for Rajiv and he for me, I think, and I have learned a lot under his tutelage. He has been my mentor. As I said at the beginning with the continuity, I look to continue to do things exactly as he does things. There is not my own bent or style to this; it's the firm's style. It's the firm's discipline and investment philosophy which we carry out, and I plan on continuing to carry that mantle.

Rajiv is a wealth of knowledge and I've done my best to soak that up over all of these years. It's such an abundance of knowledge, it takes many years to absorb that all slowly. So to this point, the absorption has happened. There is nothing new that happens in this final leg. He will continue to stand by me in an advisory capacity in the interim as this transition goes on, and that will be his role. But the foundation has been set from him to me long ago. I've gone out and proven that on the other products that I've managed already to this point. And we continue now to move forward and hammer on the same nail over and over again on the investment side.

Joe: Matt, I wish you much success. I thank you for your time this morning. It has been wonderful for you and I to have our first dialogue together.

Matthew: Thank you very much, Joe, and thank you to all of our clients for their continued commitment and conviction behind us as we continue to stay focused on them and carry out our investment goals together.

Virtus Emerging Markets Opportunities Fund (A: HEMZX, C: PICEX, I: HIEMX, R6: VREMX)

Virtus Foreign Opportunities Fund (A: JVIAX, C: JVICX, I: JVXIX, R6: VFOPX)

Virtus Global Opportunities Fund (A: NWWOX, B: WWOBX, C: WWOCX, I: WWOIX)

Virtus Greater European Opportunities Fund (A: VGEAX, C: VGEEX, I: VGEIX)

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