Virtus Global Equities Call with Vontobel Asset Management
Conducted on August 10, 2016
Transcript edited for clarity

Barry Mandinach: *Good afternoon. I'm Barry Mandinach, Executive Vice President and Head of Distribution at Virtus Investment Partners and it is my pleasure to welcome you to our call today. Joining me are Joe Terranova, Virtus' Chief Market Strategist, and Matthew Benkendorf and Peter Newell from Vontobel Asset Management. Joe, who many of you will recognize as an ensemble member of CNBC's Halftime Report program, will be moderating today's market review with Matt and Peter. Matt is the Chief Investment Officer at Vontobel and the co-architect of the firm's quality, growth, philosophy, and style which is employed in four Virtus funds - Virtus Emerging Markets Opportunities Fund, Virtus Foreign Opportunities Fund, Virtus Global Opportunities Fund, and Virtus Greater European Opportunities Fund. He has been with Vontobel since 1999. Peter, who many of you know and may recognize, is a Senior Portfolio Adviser at Vontobel. He's been sharing his deep knowledge of the firm's philosophy, portfolio performance and positioning, and risk management since 1990.*

At Virtus we are committed to driving better client outcomes, and we believe providing you - the financial advisors - with insightful market perspective is a key ingredient to helping you help your clients meet their objectives. It is my pleasure at this point to turn over the call to my friend Joe Terranova.

Joe Terranova: *Thank you very much. I'd like to begin this afternoon's conversation talking directly to Peter. My comments to you are really about the 27 years of experience that you've had at Vontobel. The message that is always consistent from you is [about Vontobel's] disciplined process to stock selection. I can't tell you how many times I've heard from you "benchmark agnostic" especially in times of slowing growth. Please set the tone for us on the benefits of the process and of being benchmark agnostic.*

Peter Newell: [Being benchmark agnostic] is the hallmark of what we do because in emerging markets the benchmark is the risk. In international equities, the benchmark is the risk. The benchmark was the risk in the S&P 500® in 1999 when tech became such a high percentage of the benchmark, though it's a little bit less now. So we've put the benchmark aside and what we've tried to focus on is to find companies whose fundamentals, whose operating results, are correlated to [investors] looking for a high single-digit, low double-digit compounding effect from their portfolio.

So you're going to have to find an individual company that can deliver those sorts of compounding results that correlate to the investors' needs. What we have found in the emerging markets and also in international equities is the dichotomy of two opportunity sets: Portfolio A has high CAPEX (capital expenditures), high credit requirements, no pricing power, low ROE, low return on investment capital. Portfolio B is exactly the opposite – low CAPEX, low credit requirements, real pricing power, high return on invested capital, and high margins. But the opportunity set is much more in Portfolio A than it is in portfolio B, therefore concentrated portfolios of high-quality stocks that are completely benchmark-agnostic. That has been the key to our success over time. It's the process that has driven the results.

It's the limited number of stocks in our investable universe. It's the fact that we believe that knowledge is cumulative and to understand a company takes a long period of time. We've set the bar very high. The hurdle rate is very high to be considered for the portfolio. Then the sustainability of the earnings stream and the price we pay will dictate if that stock enters into the portfolio. By being benchmark-agnostic, by focusing on high quality, we've been able to deliver reasonable alpha in each one [of our strategies] – our emerging markets, global, international, and European portfolios – with low beta and low standard deviation.

Joe Terranova: *So Matt, Peter talked about a low-growth environment. Clearly the world is challenged by the ability to grow. Whatever the reasoning behind it, the point of this call is not to figure out that complexity. In an environment of low growth, how is it exactly with your process that you look at* *emerging markets, you look at Europe, you look at Latin America, you look at the specific regions themselves and try and find an opportunity for growth?*

Matt Benkendorf: That's actually a question we ask ourselves. The way we approach it, in this environment or any environment quite frankly is we are always look [at all regions] the same way. [We look] for very, very strong businesses with good underlying economics that have elements of growth. What the environment only does is set the hurdle rate, just how much growth is acceptable. And in an easier growth environment, you need better growth to be even higher over the bar, and in a lower growth environment, perhaps the bar gets lowered. But the interesting thing, despite all the challenges that we have around the world, is to look at the prospective underlying growth rate of the companies that we've found through our process and the portfolios we've assembled. [Starting with] emerging markets, the weighted average growth rate of our collective businesses we own in this world right now should be somewhere in the mid-teens, which is pretty good and that's businesses that a number of them have headwinds that they're facing right now, yet collectively you're still getting a mid-teens weighted average growth rate and then a couple percent yield on top of that.

And then if you work through the different [portfolios], you're still getting what our minimum hurdles have always sat at; sort of a very high single-digit earnings growth rate plus a slightly higher yield than some of those other portfolios, and still getting you to a low double-digit total return overall. And the way you get that isn't highly complex either. If you look across the businesses, it's a mix still but a similar mix to what you have historically. Traditionally the [consumer] staples we own are still growing at fairly attractive rates and some of the very localized ones in emerging markets without developed markets exposure are growing their overall portfolio at a slightly faster rate so that's something attractive. Technology is also still giving faster structural growth, both in developed and emerging markets, so you get some of that in there. And in emerging markets, you get some areas in the banking space, particularly core holdings that everybody's heard a lot about over the years, like HDFC Bank and HDFC Finance in India. We're still growing at a mid-teens rate.

So, to your question, it is difficult [to find growth opportunities], but it isn't a change in our process that gets us there. You just look for the better businesses. You evaluate them apples for apples to find which are better fundamental businesses, and then look at the different growth rates you could get with those different businesses once you compare the quality. Then you put a portfolio together that has the most powerful underlying growth rate, because that at its core is what our investment return should be over time – that collective earnings growth rate of our businesses. Because if the market doesn't recognize that in any given year, we're comfortable that the earnings rate is sustainable so the companies will keep pushing forward and push that earnings rock up the hill further. So at worst, maybe you get some multiple compression during a period if the market doesn't recognize it immediately, but over time the company will force the valuation on the marketplace. That's it in a nutshell, what we're seeing here now.

Joe Terranova: When I look at the portfolios and think of the "BRIC" countries [Brazil, Russia, India, China], your portfolios have a significant underweight to the "C" [China]. Additionally, you have an underweight to Japan as well. I remember, five or six years ago, you had a 20% allocation to the "B" [Brazil]. Now that allocation has gone down significantly. I'm curious about that because Brazil has been a very strong equity performer year to date – one of the best when you look globally. Share with us why that allocation has shifted and what your thoughts are on the current environment in Brazil.

Matt Benkendorf: That's a great question. I think you can dissect the BRIC into all of its different parts and you're pointing at the biggest difference probably: the "C" and we're consistently a bit different there, given the lesser abundance of high-quality business we find in China generally speaking, but the "B" has been the biggest change for us.

We have a decent exposure to Brazil, 8-9%, so it's not immaterial, but what you've seen in our holdings is that we've certainly retrenched over the last couple of years – over the last 24 months really – to the much more durable businesses there because Brazil is and has been in a very deep recession. [Its] GDP is severely depressed. The country's under-earning, businesses are under-earning, and the way out isn't entirely clear in terms of timing. So with that reality, we still need businesses that can slog through it in a positive direction, so we're looking for businesses that are still growing despite a deep recession. There in Brazil, from where we were five years ago, our opportunity set has shrunk once again because we're looking for visible growth opportunities, and we're always comparing across what we can buy elsewhere. Going back to [what you said earlier] about benchmark agnosticism, we're never beholden to an index so we're going to look for the best opportunity. Brazil has a twofold battle to fight. It needs to look good in its own right for visible, attractive, sustainable growth, and it's got to be better than what we're finding outside of Brazil.

So that's driven the weighting down and now what we hold in Brazil we've retrenched around large holdings in companies like Ambev, the brewer. Things are still difficult, growth is certainly depressed, but because of good pricing power and cost discipline, you can still get positive movement in terms of profit growth and that's important to us. A company like Cielo, a payment processor, even despite the deep recession, is still getting high single-digit growth. That's the type of business we need.

So those are the types of core things we need to continue to look at in Brazil and the piece that we don't own broadly speaking is out on the range in either the financial space, great franchises like Bank Itaú, which we've owned before but don't own now, or out amongst the industrial space where you get some very high-quality companies but given the severity of the recession, right now you're just not getting visible growth. It's just too overwhelming and the businesses aren't durable enough to overcome that, and we have better opportunities elsewhere. And then compounding that, as you pointed out, is there is a lot of optimism in the market. The strong movement this year is moving ahead of the fundamentals at this point. The economy is still severely depressed. You're still resolving a political crisis. Things are arguably moving in the right direction, but euphoria runs a bit ahead of reality often. Now that will change, and with better visibility over time with some of the other businesses we used to own but don't currently but would own again. I would foresee down the line, given the rightness of high-quality business in Brazil, we'd have a higher weight at some point certainly.

We still maintain a large weighting to India within the BRIC space so that's been fairly consistent. The opportunity set is still rich for us. The valuations are attractive and the growth is attractive. Russia hasn't been a part for us, so that's out of our space, and ironically we're still significantly underweight China, but our exposure has increased there a little bit on the margin, but not because of some unusual comfort with the marketplace versus other people's generic concerns on the Chinese economy or because there have been a lot better new great businesses emerging there. It's just we've become a lot more comfortable around some of the core technology holdings we have there over time. They're still growing at very attractive rates and they're still attractively valued, so they've been good places to put incremental capital to work. That sums up [our exposure to] the BRIC space.

Joe Terranova: *As asset pricing has appreciated over the last couple of years, it seems investor attention and the collective investment community seems to center more on the economic hurdles in the marketplace – remember Cyprus, Greece, the "taper tantrum" and a lot of the potential exogenous events that were forecasted to arrest the decline or the rate of appreciation for asset pricing. This year there are two events, the FOMC potential to do 25 basis point rate hikes and Brexit. First, walk us through the potential impact, if any, should the Federal Reserve move another 25 basis points higher.*

Matt Benkendorf: I think that's a critical question on two fronts. On the first front, I'll give you an opinion because it's more top-down oriented and market facing and doesn't impact the portfolio. Then we'll move to the second point – [the potential impact on] the portfolio.

I think it's a big event. If you look at the market reaction over the past year or several years now, bad economic news has been good news [in terms of] market behavior. It's a pretty resounding theme. The market has thrived in terms of asset prices moving up when we get bad economic data, and vice versa, when you get good economic data, which is kind of perverse because it's tied into this question you're asking: What is going to happen with interest rates? And that's why the market tends to like the octane it's on right now and starts to have a tantrum as you said, going back to previous experience, it feels like that punchbowl might be taken away.

So I think it's a big event, in that the market pretty overwhelmingly doesn't think [rate hikes are] still going to happen. I think what you see in terms of estimates and what you saw earlier this year that set the markets back on fire when you got a delay in the increase, that changed perception big time. I think it's an issue just because volatility is running very low and predominately people don't think it's going to happen. So the magnitude isn't going to be an issue. I don't think it's about interest rates going up another 25 basis points. I don't think it's about that. I don't think it's about it having any tightening on financial conditions at all. I think that's pretty silly actually to think it'll do that. I think it's just the event itself and the injection of some volatility back into a market environment that's been rather complacent. You have to look at it that way, and, there could be some opportunity coming because of the volatility, number one, and just be careful and be very laser-focused.

Now that dives into the second point that's important. That's the brass tacks of how does it affect our portfolios? The good news is given our style and why what I said in the first part of my answer was all just opinion and conjecture. We don't have a large fundamental impact from macroeconomics or top-down or forecasting on our portfolios because we look for great businesses, [as I gave in the Brazilian example], that can grow through economic periods.

Now on the margin, will it make life a little bit easier for a few businesses like U.S. banks? Yes. We do have some exposure in the U.S. banking space and interest rate increases (although I'd argue 25 bps isn't enough, you'd probably need more than that to get the net interest margin expansion people really want), but is it on the margin good? Yes.

So if anything, an interest rate increase will be marginally good for some of our businesses that have been facing a headwind. It's not going to move the dial in a large magnitude for us because they aren't very large weights, but it'll help on the margin. Will it have a negative effect on our other businesses? I don't think so, if you start to dissect what we own and where they're exposed.

I think it'll inject volatility. Will volatility or the injection it adds into financial markets affect currency? Yes. So there you have to think about the currency effect, but once again you've got to go back to our style and what we look for in businesses. We look for businesses in a local economy (and emerging markets is mainly what we're talking about here) that can grow in real terms over time and compensate the base U.S. dollar investor for a depreciation in currency over a period of time. That's what we look for in the underlying business and it's a hallmark of what we call "high-quality" businesses that can grow in real terms. Not just nominal terms, real terms.

If we get that right, I think a business that can grow in an emerging market, in real terms, at attractive real rates, that'll overcome the risk that you get some effect on the foreign currency translation back to U.S. dollars. I think that's the reality of rate increases. [There may be] some injected volatility potentially but from a portfolio standpoint, we feel very secure and there's nothing we need to do in preparation and there's nothing that keeps us awake at night. I think maybe it'll just make life a little bit better for a few of our businesses if it does happen.

Joe Terranova: *Well I have to ask you about Brexit. I've compared it to Y2K; that's what it kind of felt like. Has it passed? Are your holdings affected by it? Do you believe that there is not going to be any contagion going forward as it relates to Brexit? Was it a Y2K event? If it's not, could you immunize the portfolio against it?*

Matt Benkendorf: [Y2K is] a great way to frame it. It was such a rare event in financial markets where you have such a time-definite, binary event. Usually these things sort of slow burn and expectations are well priced ahead of time and nothing happens in such a time-definitive way. Even with a regular political election, it's generally fairly well forecast ahead of time. So [Brexit] was very unusual because the binary outcome was very large and different.

I think Brexit has been, if anything, a disappointment in that it didn't create a lot of what could have been opportunity because of negative reaction. Obviously, the currency deprecation created one effect but with the great high-quality holdings we own in the UK, and in the sterling in particular where currency had an impact, it didn't because the stocks compensated for that with a translation of higher earnings back to the shareholder. Concern, panic, fear of a "leave" outcome didn't shake mainland continental Europe either where there's a greater effect than in the U.K. so that's disappointing. In the current period since June, that didn't open up for our investors some great opportunities.

I think to your point though, is it over? No, I think that's the reality. I think we had the binary event, and now we've got a slow burn. Now it is very much a slower reality. Now it's wait and see. Given the magnitude of the reaction of the Bank of England (assuming they see something that we don't all see yet), you have to think that some of the negative predictions of what happens in the economy there and some growth rates will come to the fore in terms of housing volumes, housing prices, etc.

So now we wait. We were greedy initially; we were disappointed we didn't get the opportunity. I'm not going to hang up our hat yet and say that's passed. We're going to watch things very closely. Just to put things in perspective, we own over 40 companies in Europe as a firm. Of the 180-odd names we own, we've got 40-plus European equity investments. So that's a real live opportunity set. In our international/global portfolios, we own half or less than that, depending on the portfolio. So we already have a number of other companies. We'd like to compete better, based on valuation into those portfolios. There are companies that we aren't already invested in in our European portfolio that we could own. I'm hoping for that opportunity. That's point one.

Your other point [about immunizing the portfolio], I think we weathered [the immediate effect of Brexit] quite well, largely because our holdings in the UK tended to be businesses with a lot of activities outside of the UK. So although the stock price in sterling-backed U.S. dollars was negatively impacted, the stock price itself in local terms went up because the earnings went up when it translated back, to keep things simple, their forward earnings back to sterling.

So that buffered us best. We had a few small, more domestically-exposed UK businesses, and we did cut some exposure there on the back of it, but it wasn't material to the overall portfolio, and we didn't take a view ahead of the vote either to be overly aggressive there because it's not our style to take a broad top–down, predictive view and react. We hold businesses that are durable. The event happened to be "leave." It affected negatively on the margin some of our other businesses and the decision to sell was driven by, "Hey, we've got better stuff we can reallocate capital to." That's what really drives most of our decisions – the reallocation of capital.

Joe Terranova: It's interesting that you mentioned the impact of the sterling. Sterling's down over 11% year to date. I believe for the quarter it's down over 2%. Additionally, the Japanese yen is really having a directional move that's kind of counter for those, including myself, who expected depreciation for the yen. Year to date, the yen is up nearly 18%. What type of impact on your holdings is the rise in the yen having for you?

Matt Benkendorf: I think [the yen's appreciation] is one of the more perplexing activities globally. It's perplexing that the yen is seen as a safe haven currency, so to speak, despite Japan's fiscal problems and challenges and budgetary problem. That general reaction isn't surprising, but it is really frustrating the Japanese more than anybody and what they're trying to do.

Is it going to sustain itself? I think it's hard to see that. I think Japan's central bank is doing everything it possibly can to depreciate and devalue its currency because that's the one lever they know they can control. They have an export-driven economy and it's good to do that. All the focus is on that and will continue to be. The movement has been perplexing but it's not perplexing that the yen is being seen as a safe haven currency. It's a battle of depreciating currencies everywhere, so that is a problem that unfortunately the Japanese are working against.

Back to our holdings, that's at the heart of your question. It has had some effect on a few holdings. Now let's put this in context. We don't have many Japanese holdings. We only have a couple of Japanese holdings, as a firm. We've always had a smaller opportunity set for higher economic return, visible growth businesses there. I think people know that from us. We're traditionally very underweight Japan to begin with.

So the yen's strength has hurt us there because we own [fewer] assets in yen and the yen's gone up. Those businesses might not have done anything, but translated back to U.S. dollars, which is what our investors are based in, that's hurt us from a relative standpoint certainly. Like I said, I'm not concerned. I think that'll fix itself over time.

Now to focus on the companies. Like I said, look at what we own in Japan. A few have been hurt because they have operations outside of Japan, which quite frankly is what makes them attractive. They have localized operations, companies like Unicharm [which sells diapers and sanitary products] have strong businesses outside of Japan. Now with the strong yen taking those foreign sales back to Japan, is hurting them. The stock's been weak because of that and we've taken some opportunity to add on the margin.

So net/net, it has a very small effect on our holdings. We don't have many holdings there to begin with. There's some effect on performance right now just because we own less assets denominated in yen but that'll wash out, and where the small opportunities that we do own have been affected, we're proactively taking advantage of that.

Joe Terranova: *While I have you talking currencies, emerging market currencies appear to have stabilized a lot of the volatility - the significant volatility they've experienced in the last 12 to 18 months. Is that a view that you share?*

Matt Benkendorf: No, I think that's going back to, as we talked about, the U.S. rate decision. I think that's what's going to kick-start that, number one. And as you know, all of these things are intertwined. Obviously commodity prices have a big influence on that, as well and I'd argue that's all tied back to rates too, to some degree, although economic growth clearly is going to impact oil.

I'm laying out a very complex answer because [conditions] are very intertwined and convoluted. We were happy to see stability in those countries, and certainly companies are happy. I go back to my comments about a U.S. interest rate change. If that does happen, I think that would inject volatility back, and emerging markets currencies tend to be more volatile, so I think that's a reality.

But what that all means [in terms of] our portfolios and investments, it's not an issue for us. As our investors have heard from us over the years, I don't mean to sound glib or obtuse to any of the risks. It's not a statement of "we don't mind, our head's in the sand." It is the reality. If you go business by business through the portfolio, it's at the heart of what we look for in terms of quality. It's not that we don't appreciate the risks and it's not that we're hyper-focused on the risks generally speaking that are out in the world. It's just that when you look at the companies at the company level – and we know our companies intimately – these aren't very big events.

In the short term, yes, there'll always be events for the U.S. dollar-based investor if foreign currency depreciates, but if we got the business right, like I said, going back to that question and the real growth is there, it will take care of itself over time. And if you are a true investor and you're investing over a long period of time to compound your capital at an attractive rate of return, you're going to be just fine. I think that's the reality.

Joe Terranova: *Many times we'll have investment managers on CNBC and they'll say that they have an overweight allocation or a specific liking for an equity name or an asset class and the reason they'll give is, well it's cheap. You could clearly say that the emerging market asset class is cheap. So, when I say the emerging market asset class is cheap, first of all do you agree, and how do you factor that into the portfolio construction or the stock selection itself?*

Matt Benkendorf: I'll start with the portfolio effect. Look at what we're paying for our higher quality businesses, compounding we think on a weighted average basis at a mid-teens rate, with some yield on top of that, paying 20-odd times earnings. I think that's good. If we get that sort of rate of compounding of investment returns, that's what we're looking for. That rate sustainably over time, not just in one year but on a multi-year basis. So yes, I think there is a lot of value in that, paying for that type of growth, with the glass being half full, with the understanding that not all of our businesses are firing on all cylinders right now, and that things on the margin could be better, not worse if economic conditions improve. So I do think there's good value there. Is there easy multiple expansion involved? No, but I think that's true anywhere. I think that's true in any equity market – whether the U.S., Europe, or emerging markets – that more multiple expansion is behind us than in front of us. That's the reality, Earnings growth matters.

And to parlay that to the bond markets, where's the leverage there, so to speak, with multiple expansion? Obviously, there are multiples but with that in context, I think there's great value if we can get the growth we think we're going to get and the businesses are as durable as we think they are. So that's the portfolio reality. We feel good about all of our portfolios, and we feel good about emerging markets too.

Now [as far as the] markets themselves, that is the variable where I have to say you don't know, because you have to tell me where commodities are number one, because the index is heavily weighed down by those earnings now. So, if oil stays around $40 [a barrel], are emerging markets as cheap as they look? Probably not, because you're not getting any growth. That's a problem. So that's the variable which we, as you know, have no top-down capacity to predict or have a view on. So that's the difficult part when people generically say emerging markets are cheap. You might not have growth or you might have even more downside.

Then there is the timing and recovery of some deep recessions like Brazil, which needs to recover at a rapid rate to justify the move already – and then you get further return that hasn't been baked in already when you talk about the index generically, so that's a big piece of the equation. Then you have to look at all the risky hot spots you're trying to avoid when you look at the index. We're not out of the woods yet in a number of places. What if you get more protectionism politically in some economies – the U.S., Europe, the UK, anywhere? When you look at generically speaking lower quality, export-oriented companies, are they cheap here or is there some risk that there is some more downside in them?

I go back to the first part of my answer and it's a comfort that we don't need to get that part right, as long as we focus on what we do. We keep hitting on the same nail of our process and philosophy and I think that'll take us through whatever unfolds.

Barry Mandinach: *Matt, I'd like to ask you about the Global Opportunities Fund. I know that's your best ideas fund and your allocation to the U.S., both on a regional and a revenue basis, is near a high. Is that a byproduct of your views on the U.S., or are you concerned at all about the duration and magnitude of the bull market in the U.S. stock market? Can you discuss that, please?*

Matt Benkendorf: That's a good question. We've been at the higher end of our U.S. equity exposure in the global portfolio, as you said, where we're most unconstrained in terms of the opportunities we find as a team. We've been that way for a while, and it has served us well over the last several years.

We didn't go [into the U.S.] because we foresaw ahead of time the bull market. We just looked at the opportunity set of companies globally where there's more balance of risk and still attractive rates of growth and high level of visibility, and that opportunity set in the U.S. led us to these businesses. It shouldn't be a shock. If you look apples for apples around the world, in the United States there is a group of great businesses here by nature of the history of this country and the opportunity set of how entrepreneurialism and business have been fostered here. It's a big, ripe pond to begin with. U.S. companies always stack up very well, broadly speaking, in terms of the economics, how they're run, management, a lot of these issues, innovation, growth.

That being said, the weighting over the last couple of years is obviously driven by that factor, plus opportunity elsewhere. Like I said, we have over 40-odd holdings in Europe for example, in our European equity fund that are right for us to own, and [in the global portfolio] as well – any one of a number of those names. And we have 50-odd plus holdings in the emerging markets portfolio. We talked about Japan earlier. There are lots of other opportunities there but given what we pay, the growth we get, and balancing risks, the U.S. has been a good place to be.

For people who aren't familiar, our U.S. equity exposure in the global portfolio is in the mid-60's right now in terms of weighting. Traditionally it's been closer to 40% I'd say because we are such a global team and we always find a lot of opportunities outside the U.S. by nature of how we're structured and where our expertise is in this high-quality space. So the pendulum has certainly swung a bit wider in the U.S. camp right now.

I would expect – not having any predictive ability, but just as the world unfolds and knowing what's held us back from some of those incremental non-U.S. names being in the global portfolio – that we're through the least competitive piece of time where those names haven't been stacking up. So on the margin, things should probably get better and you should probably expect non-U.S. names to start to compete a little bit better for some of the capital going forward but it's not because of valuation. It's not because of concerns of U.S. valuations of names. I think it's just the reality, now that you've moved through a cyclical and structural slowdown in a number of emerging markets, some visibility starts to improve in some of these companies. The companies we know as being good high-quality businesses now have got a chance to chisel away some of that capital that's moved into our U.S. names over the last couple of years. That's what you should expect there.

Barry Mandinach: *Thank you for joining us today. To learn more about the global equity funds managed by Vontobel, please visit virtus.com.*

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: VGECX, I: VGEIX)

Virtus Emerging Markets Opportunities Fund
Top 10 Holdings (as of 6/30/16)

British American Tobacco p.l.c.	6.81
Housing Development Finance Corporation Limited	5.22
HDFC Bank Limited	4.58
ITC Limited	4.27
Ambev SA Sponsored ADR	3.97
SABMiller plc	3.96
Tencent Holdings Ltd.	3.73
Alibaba Group Holding Ltd. Sponsored ADR	3.71
Naspers Limited Class N	3.53
Fomento Economico Mexicano SAB de CV Sponsored ADR Class B	3.32

Virtus Foreign Opportunities Fund
Top 10 Holdings (as of 6/30/16)

British American Tobacco p.l.c.	5.92
Philip Morris International Inc.	5.61
Reckitt Benckiser Group plc	4.99
HDFC Bank Limited	4.62
Roche Holding Ltd Genusssch.	4.51
Housing Development Finance Corporation Limited	4.12
Unilever NV Cert. of shs	4.01
Nestle S.A.	3.93
SABMiller plc	3.30
Alphabet Inc. Class C	2.82

Virtus Global Opportunities Fund
Top 10 Holdings (as of 6/30/16)

British American Tobacco p.l.c.	5.19
Philip Morris International Inc.	4.82
Altria Group, Inc.	4.58
Alphabet Inc. Class C	4.04
Reckitt Benckiser Group plc	3.77
Roche Holding Ltd Genusssch.	3.63
MasterCard Incorporated Class A	3.57
Wells Fargo & Company	3.51
Visa Inc. Class A	3.50
HDFC Bank Limited	3.41

Virtus Greater European Opportunities Fund
Top 10 Holdings (as of 6/30/16)

British American Tobacco p.l.c.	6.97
Roche Holding Ltd Genusssch.	5.52
Reckitt Benckiser Group plc	5.47
Philip Morris International Inc.	5.23
Nestle S.A.	4.81
Unilever NV Cert. of shs	4.65
Priceline Group Inc	3.98
SAP SE	3.74
Imperial Brands PLC	3.38
SABMiller plc	2.94

IMPORTANT RISK CONSIDERATIONS
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. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political, and other developments affecting the fiscal stability of that location. **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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