Call with Matthew Benkendorf, CIO, Vontobel Asset Management, and
Peter Newell, Senior Portfolio Advisor
March 21, 2016
Transcript edited for clarity

Barry Mandinach: *Good afternoon everyone. I'm Barry Mandinach, Executive Vice President and Head of Distribution at Virtus Investment Partners. I'm pleased to welcome you on our call today. Joining me are Matthew Benkendorf and Peter Newell of Vontobel Asset Management. Matthew was recently appointed Chief Investment Officer of Vontobel and is the Lead Portfolio Manager of the Virtus Emerging Markets Opportunities, Foreign Opportunities, and Global Opportunities Funds. Peter, with whom many of you have spoken with over the years, is a Senior Portfolio Advisor at Vontobel. Matt has been described as the co-architect of Vontobel's well-recognized quality growth investment style and has been with the firm for almost 17 years. We have worked closely with Matt and the entire Vontobel team for the past 10 years and know him to be an experienced portfolio manager who has been a key contributor to Vontobel's investment process. Matt, thank you for joining us today.*

Matt Benkendorf: Thanks for having me.

Barry Mandinach: *So you've been at Vontobel for most of your investment career. Could you please describe your experience at the firm, first as a trader, then as an analyst, and then as a PM? And tell us how that experience will translate into your new duties.*

Matt Benkendorf: Yes, sure. I think you're going to get a sense how I'm a little bit unique in my career progression. I'm not your typical CIO or portfolio manager who sits here today that went to undergraduate school, worked in the industry, went back for graduate school, came back and parachuted into a senior analyst role.

I came out of undergraduate school with a very strong background in finance, setting out on the career path that I had set in motion much earlier as a young child; ending up where I ultimately wanted to be. And that career path was a little bit unique as I said in that when I joined Vontobel nearly 17 years ago I've worked my way from literally the bottom all the way up.

So, as you jumped in to the trading experience that I've had, I actually started even previous to that in the back office and trade processing and settlement. And that set the foundation really in understanding all the global markets we operate in, how they work from a functional standpoint, the settlement cycles, and all the associated difficulties with dealing in emerging markets, which serves me very well today.

Then I moved on quickly to become the trader at the firm, built our trading operation. At that point, we needed to institute an institutionalized trading desk with systems and processes in place to deal with our growing firm and liquidity needs.

And then in 2002, I ascended to the role as an analyst on the investment team with Rajiv [Jain], as Rajiv took over the role which I'm now taking over for him today. And at that point in time it was Rajiv and myself and another analyst, deep in the trenches together building and, as you said, architecting the basis of this investment philosophy, and religion really, that we follow today.

From 2002, I worked as an analyst alongside Rajiv on all of our investment products, so that's everything from Europe to the emerging markets, to the international developed markets, to the global product. We worked on them all together, globally as a generalist.

And then my next key promotion came in 2006 when I moved to become not just an analyst but also a portfolio manager. So putting that last building block in place of not only building and following our investment religion from an analyst's perspective, pushing idea generation from the bottom up, but also then taking over and duplicating at the portfolio construction level exactly, what we had architected and has led to our success.

Then I followed that in 2008, becoming the sole manager of our European equity product for roughly the next seven years by myself on that product; executing our investment philosophy following the road map exactly as we do on all the other products to success. And alongside that in 2008 till today, I followed up that as being co-manager with Rajiv on our global equity product, our widest reaching product that reaches all of our investment universe that we generate as a team and as a firm.

The final challenge before this latest promotion came in 2010 where I stepped onto our U.S. equity product, as well, and architected the turnaround of that product today and becoming lead manager in 2012 until today, bringing that product very tightly in line following the same road map, same portfolio construction dynamics to fit and mirror all of our products. So I think long story short as you set up the question, I've stepped around the world in many different shoes to, I think, give myself some great broad perspective, and dug my heels in and have become a real spokesman about the way we invest and a very strong advocate of it out there in the marketplace.

Barry Mandinach: *Thanks Matt. The philosophy of the process that you and Rajiv built at Vontobel has translated into great success over the years. What if any changes to this process and philosophy will you introduce as the new CIO?*

Matt Benkendorf: As I said, on the investment side, everything stays entirely the same. The key to our past success has been predicated on this very disciplined road map that we follow. That's what's distinctly different about us. There's a few other things that I'll touch upon but what makes us distinctly different is this very religious approach to investing, where we are in a very tight pursuit of truly great businesses, and we allow them to do the heavy lifting for us over longer periods of time. So we whittle the universe down, we fish in a much smaller pond, and then we take concentrated positions around these great businesses, and as I said, allow them to compound and grow their earnings to higher sustainable levels over longer periods of time, and translate that into investment returns. So that road map stays entirely the same: how we construct portfolios in a concentrated, benchmark-agnostic manner, percolating entirely out of the conviction behind the stock picking from the analyst. That stays the same.

The analyst team stays the same. The number of members of this team, who have been here for a decade plus on average, that all stays the same. On the investment side of the shop, I can give great comfort that the reason I'm in this role is because of my religious fervor to the style, my willingness to keep things exactly the same. That's been critical to assuming this role because we have a successful road map; we know how to do it the way we've done it. We know that we can repeat our success if we follow this road map consistently. So that's obviously the core focus.

Barry Mandinach: *Matt, from a perspective that you guys look at the world not based on where companies are headquartered but based on what they do, how does that affect the organizational structure that you have in place? And talk about the transition from that structure to what you're doing now.*

Matt Benkendorf: I've been pretty vocal about the road map being a great strength, and our track record of following it being the added strength. So it's one thing to talk the talk but we've also clearly walked the walk of staying disciplined to that. You're hitting on another key strength, as we have it – as our firm the way we've built ourselves – always globally oriented in our analyst space, never siloing analysts in certain products or in certain geographies.

We recognized long ago, and as I talked about my history back to 2002, that we were in a global world, and as we sit today, that was only going to get more global. Then and still now there's a number of shops that position themselves and try to silo themselves as experts in certain geographic regions. [That approach] just never made sense to us because from a fundamental research standpoint you're going to end up touching all these geographies even if you're working on a single product. And you need to have in-depth knowledge of the companies and their competitors which lie across borders. We think that's been a hallmark also of our approach, taking this global mindset in the search for great businesses.

And then as we find and locate those great businesses, we have the ability with our multiple products to assemble them in the appropriate regional product, and put together the best quality portfolio we can for our clients. So that global orientation is a tremendous strength as we've always been structured that way. I think other [firms] can move and try to replicate that clearly over time and have migrated towards the way we view things. But we think we have a considerable advantage there particularly in the emerging markets with our long, deep knowledge base there.

Barry Mandinach: *So you're saying effectively that everybody has been working on all the portfolios simultaneously over the last ten-plus years?*

Matt Benkendorf: Oh absolutely, yes. That's been a key. We've never prioritized a single product. We never have a view or bent towards the promotion of a single product. We're promoters and advocates of our style and process first and foremost. We have a regional product that fits [different client] needs according to that road map. So we're very agnostic to the different products, all of our analysts work equally hard, and are equally involved in all of our products at the same time. And as I said, that's just not a business issue; I think that's an investment issue, that you need to do things that way to be strong and to properly evaluate companies. So it's really borne out of the investment side.

Barry Mandinach: *According to Morningstar, the four Virtus funds that Vontobel subadvises [Virtus Emerging Markets Opportunities, Virtus Foreign Opportunities, Virtus Global Opportunities, Virtus Greater European Opportunities Funds] rank in the top based on ROE, return on assets, return on investment capital, and operating margins relative to their peers (as of 12/31/15).*[1]

Peter Newell: That's a great observation as a follow-up to what Matt has said. Because as we have these conversations, Matt is talking about the dedication to the process, the discipline that we have, the small investable universe, what we're looking for, and trying to find it and prove if it's sustainable.

And these are the drivers, this is what we are looking for. We think there's a strong correlation between return on equity and stock market returns. We're looking for these better businesses with high margins. So we've proven across the board and a lot of the portfolios that Matthew has run, that the statistics are consistent. And that is extremely important to us as a firm.

As Matt said, we don't believe in teams, we don't have a regional team, an EM team, a global team. We have a group of analysts that are looking for precisely the same thing in a business, whether the business be in India or whether the business be in Switzerland. So we've been able to – from a beta standpoint of view, a standard deviation standpoint of view, an alpha generation standpoint of view – consistently add value across the board with the Virtus portfolios by adhering to this very, very disciplined philosophy.

And one thing that we have going for us, our team now, as Matthew said, is a seasoned team. You know, we were able to promote people to new positions. And they've been doing this for a very long period of time. And our success – we've been at this a long period of time -- but really it was like 2005 that we started to attract some recognition.

But we have the same analysts here that we had then looking precisely at the same stocks, double teaming, triple teaming as Matt said, that the PMs are analysts too, each one of these to determine the sustainability of the earnings stream, and then we're quite concerned about what we have to pay. So I think that is something that's a hallmark of our firm and will continue over time.

[1]See last page for Morningstar percentile rankings data.

Barry Mandinach: *Okay, thanks Peter. One other aside, I've heard you say repeatedly that the benchmark is the risk. And being a benchmark-agnostic manager with so many flows going to passive, cap-weighted index funds today, can you just elaborate quickly on what you mean by that?*

Peter Newell: Yes I can. And also it leads to our core belief that we built this business around the ability for us to compound the assets of people that we would never meet – the end user. And if we can do that, then we could build a successful business. The business was never built on a race to AUM, a race to be the biggest emerging or international equity, just to compound our clients' wealth.

And I think we've been successful in that, in putting the index aside. It puts a little bit more pressure on the analyst. But the analysts are already starting with very, very high quality businesses. And if you look at the emerging markets with the amount of basic materials, industrials, energy, lack of corporate governance, the lack of transparency – we really have put the index aside and are just looking for the companies that we feel can deliver the results that we're after.

The same thing is true with the international index as well. The international index had a huge overweight financials in 2007. You know, we sold our whole position in 2007 by July in financials. Why? Because we could; because we're benchmark-agnostic.

Japan, which had a very good year in 2013, compounded at 1.8% for the previous 20 years. So we are not compelled to be anywhere unless we can find a business whose operating results correlate to the end-user's needs, which is a high, single-digit, compounding effect on their portfolio.

So, you know, take the S&P 500. That's a tough index to beat but when wasn't it? In 1999, when tech was 24% of the S&P, it was too much weighted in one area that was very high-priced. Now the S&P is a little bit more difficult. But from an emerging, international, and global standpoint of view, we think we have an advantage by being benchmark-agnostic and focusing on these higher quality businesses.

Barry Mandinach: *Okay, thank you. Matt before I open it up to questions from the field, let me just ask this. Can you give us your thoughts on the current market as well as your outlook for global equities going forward? We know we've seen substantial rallies from the February lows; and just wanted to get your sense of the path forward from here.*

Matt Benkendorf: Yes, sure, Barry. Our investment success won't be predicated on a top-down view. So it's just my sort of the lay of the landscape.

Our portfolios are built for durability through the cycle no matter what should unfold. But I think to your harder question, given the environment we're in right now, when you look at the rally we've had in the emerging markets, we've clearly gone from a period where everything has been extremely beaten down, particularly in the more cyclical areas of the market; from the energy, oil, industrial complex, to the basic materials complex, to the cyclicals, to the financials, which are now having some strength and coming back.

Then you have all the turmoil in the individual markets, the questions in China around devaluation; the protests and unrest in Brazil. It's hard to find a lot of good things going on in a lot of these markets. And it was only natural probably to see this bounceback we've had there, which is a little bit led by this sort of pause, not quite a reversal, in Fed policy of raising interest rates. It seems to be a little bit of the tinder that set this most recent rally off. That is a bit disconcerting as, you're not seeing the fundamentals turn in these markets at this point. What you have seen, and as I said, there's an extreme beating down, which typically comes with some snapback rallies at different points in time. There's one catalyst here which sort of set this rally off.

But the reality is we're still in a difficult world, I think. We would welcome me being wrong on that point. I would happily welcome some sort of very strong, broad-based global economic recovery going on or beginning here; because we'll compound wealth certainly in that environment as well. But I think the reality is, if you look what's caused this slowdown and where we sat, we are here with a cyclical slowdown on top of a structural slowdown. And while we will get some abating of cyclical headwinds at a certain point, you still have some structural hurdles to overcome.

That's largely now as I've been talking about the emerging markets. But it translates as well to the developed markets. You certainly have that story in Europe. The aggressive monetary policy being undertaken there is not a sign of strength. It's a sign of concern and weakness. So that's the reality. That being said, we can still do quite well there as we've demonstrated in our European product.

So going back to my original comments, we don't need to have a very strong view; I'm giving a lay of the landscape here. And we construct portfolios to make sure we participate if things are good certainly, and we compound our clients' wealth. But if things aren't good or get worse, we always want to be on a solid footing with the quality of our businesses so that we can preserve capital first and foremost.

So that's the reality. I think the good news is maybe bringing it fully circle back to home at least. When you look at the U.S., as uncertain as things look given the political cycle and the negativity that seems to be permeating out there, if you look at the fundamental economic data in the lay of the landscape at least generally speaking, I think at least we see some bright spots here. And that's the good news.

So for everybody on this call, let's finish their world tour back home where things are at least looking a little bit better.

Barry Mandinach: *Matt, I saw an article in Barron's over the weekend, "High Quality Stocks Poised to Soar," and the article noted that lowest quality stocks have been leading the market higher from the bottom. I wanted to get your reaction to that.*

Matt Benkendorf: Yes, I think that's not inaccurate in that the snapback, which has caused us some short-term relative underperformance, given what has snapped back here. As I mentioned, reality is not quite matching what the market's expectations are. I would think that we're absolutely ripe for what that article described.

I would even go more broadly speaking. When people ask what keeps me up at night at or what keeps us as a team up at night at this point in time looking forward, it's actually perversely not so much of a fear; which surprises people and they say this of a quality strategy, which we're very emboldened and religious about.

Underperforming because it's done well, for a while here generally speaking, that actually doesn't keep me up as much at night. I actually get a little bit more concerned that people have been a little bit worried about quality so to speak and quality valuations, which we clearly disagree with.

If you look at our portfolios, we think we've got a great set of undervalued, high-quality companies right now. But what I get a little bit more worried about is that you could get into a very strong bubble-like territory in quality yet. I think we're just as apt to move into an environment here where quality does even more substantially better on a relative basis versus other styles because of the structural issues in the world. The absence of growth, broadly speaking, the fact that average-to-mediocre business are going to experience increased or at least persistent difficulty, the fact that we could appreciate in the near term a lot more because of our style leading us to our sell discipline to move towards cash, which I'm alluding to as a scenario, it's nothing that's here right now. That's as much as likely even after a period where people point towards quality having already done well versus me losing sleep at night that quality had its time and now we're poised for some sort of reversion to a lower quality or value-oriented approach.

Barry Mandinach: *Okay, thank you. Matt. Peter thank you so much for your time and insights today. For those of you in the audience who would like to learn more about Vontobel, I invite you to visit Virtus.com where we have posted two interviews with Matt including a podcast of Joseph Terranova, Virtus' Chief Market Strategist. Thank you so much again for your time and have a great day.*

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)

MORNINGSTAR PERCENTILE RANKINGS DATA

Source: Morningstar Direct. **Past performance is not indicative of future results.**
Rankings are for 5 years, as of 12/31/15.
Virtus Emerging Markets Opportunities Fund (Class A share: HEMZX) ranked in the 1st, 1st, 1st, and 1st percentile for Net Margin, ROA, ROE, and ROIC of its Peer Group: Morningstar Diversified Emerging Markets Category. Number of Funds Ranked: 893 (866 for ROIC).
Virtus Foreign Opportunities Fund (Class A share: JVIAX) ranked in the 1st, 2nd, 1st, and 6th percentile for Net Margin, ROA, ROE, and ROIC of its Peer Group: Morningstar Foreign Large Growth, Foreign Large Blend, and Foreign Large Value Categories. Number of Funds Ranked: 1,617 (1,607 for ROIC).
Virtus Global Opportunities Fund (Class A share: NWWOX) ranked in the 1st, 1st, 1st, and 4th percentile for Net Margin, ROA, ROE, and ROIC of its Peer Group: Morningstar World Stock Category. Number of Funds Ranked: 1,302 (1,287 for ROIC).
Virtus Greater European Opportunities Fund (Class A share: VGEAX) ranked in the 1st, 3rd, 3rd, and 9th percentile for Net Margin, ROA, ROE, and ROIC of its Peer Group: Morningstar Europe Stock Category. Number of Funds Ranked: 118.

Net Margin: The ratio of net profits to revenues for a company or business segment that shows how much of each dollar earned by the company is translated into profits. **ROA (Return on Assets):** An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. **ROE (Return on Equity):** The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. **ROIC (Return on Invested Capital):** A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The return on invested capital measure gives a sense of how well a company is using its money to generate returns.

The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst. Rankings shown are for the A share. Rankings for other share classes may vary.

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. **Limited Number of Investments:** Because the fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Prospectus:** For additional information on risks, please see the fund's prospectus.

CLASS A PERFORMANCE as of 12/31/2015 (in %)

Virtus Emerging Markets Opportunities Fund (A: HEMZX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 8/11/1999
NAV	1.16	-8.77	-8.77	-3.56	0.78	6.53	8.74
POP	-4.66	-14.01	-14.01	-5.45	-0.41	5.90	8.35
Index[1]	0.66	-14.92	-14.92	-6.76	-4.81	3.61	6.88

Class A operating expenses are 1.56%. Excluding the indirect expenses incurred by the underlying funds in which the Fund invests, fund class operating expenses are 1.55%.

Virtus Foreign Opportunities Fund (A: JVIAX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 7/6/1990
NAV	4.90	3.11	3.11	3.62	5.98	5.11	6.93
POP	-1.13	-2.82	-2.82	1.60	4.73	4.49	6.68
Index[2]	4.71	-0.81	-0.81	5.01	3.60	3.03	4.67

Benchmark since inception performance is reported from 7/31/90. Class A operating expenses are 1.41%.

Virtus Global Opportunities Fund (A: NWWOX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 5/13/1960
NAV	4.79	4.54	4.54	8.83	10.15	5.14	7.88
POP	-1.23	-1.47	-1.47	6.70	8.85	4.52	7.77
Index[3]	5.03	-2.36	-2.36	7.69	6.09	4.75	NA

Class A operating expenses are 1.45%.

Virtus Greater European Opportunities Fund (A: VGEAX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 4/21/2009
NAV	4.33	6.79	6.79	4.62	7.75	NA	11.95
POP	-1.67	0.65	0.65	2.58	6.48	NA	10.97
Index[4]	2.49	-2.84	-2.84	4.51	3.88	NA	10.04

Class A operating expenses are 1.45% and gross operating expenses are 1.89%. Operating expenses reflect a contractual expense reimbursement in effect through 1/31/2017. Operating expenses do not include indirect expenses incurred by the underlying funds in which the Fund invests.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 5.75%. A contingent deferred sales charge of 1% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

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.

[1]The **MSCI Emerging Markets Index** (net) is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets.
[2]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.
[3]The **MSCI AC World Index** (net) is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets.
[4]The **MSCI Europe Index** (net) is a free float-adjusted market capitalization-weighted index that measures equity market performance of the developed markets in Europe. The indexes are calculated on a total return basis with net dividends reinvested.

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