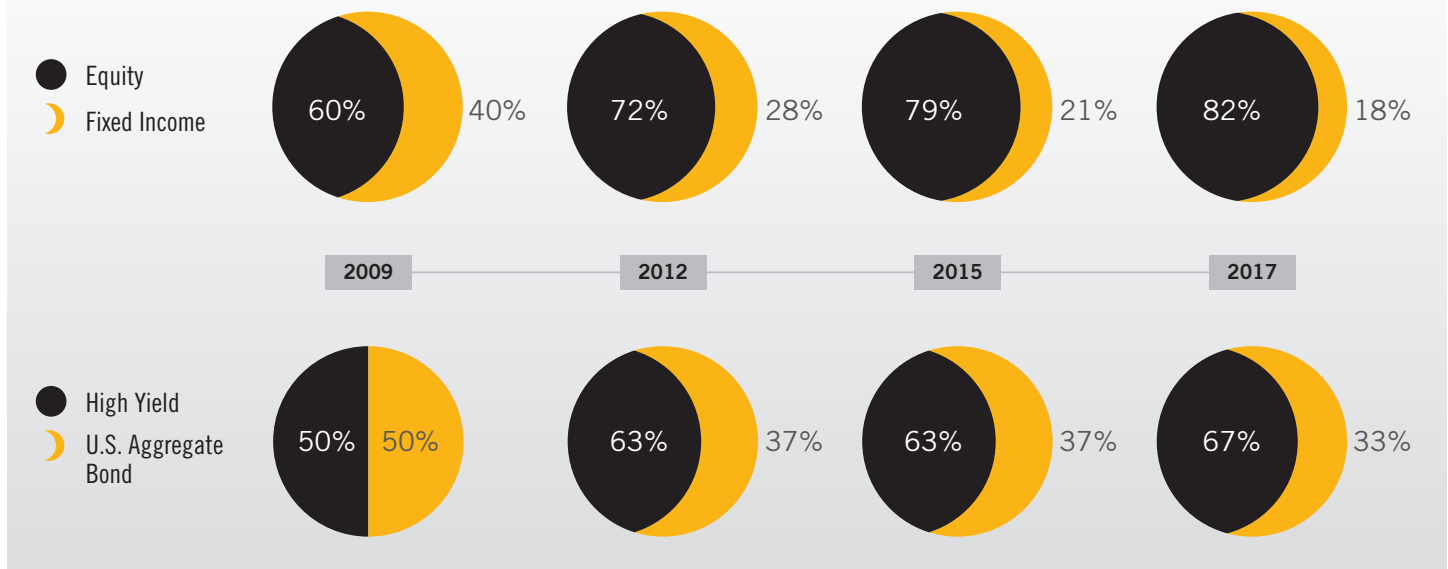


## Q3 2017: Letting it Ride?

Being complacent is easy nowadays. With barely a ripple of market volatility lately, many investors have let their portfolios grow organically, perhaps to ride the momentum or avoid the tax hit of selling appreciated winners. As equities and other riskier assets have sharply outperformed, many portfolios have seen these investments eclipse safer harbors. Is it time to take a fresh look to see if your portfolio is balanced appropriately?

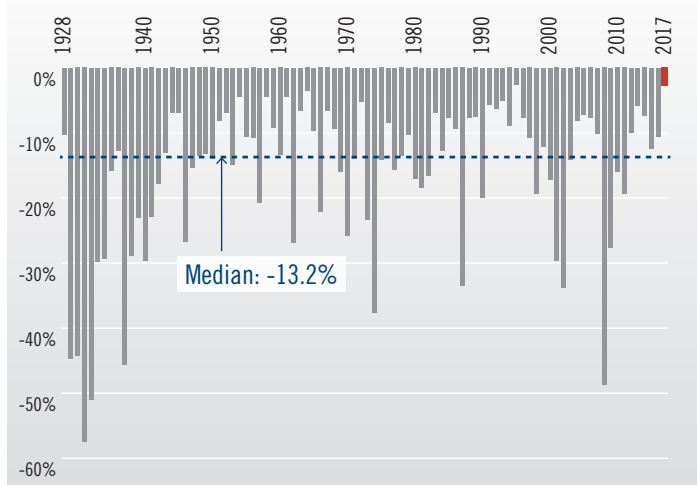
### Riskier Assets Have Eclipsed Balanced Portfolios<sup>1</sup>

Changes in Portfolio Composition



### Easy Going<sup>2</sup>

Max Drawdowns in the S&P 500<sup>®</sup> by Year, 1928–2017 YTD



- This year's largest peak-to-trough decline has been just -2.8%. That's the second smallest intra-year decline (1995) in the last 90 years.

### Performance of a Diversified Portfolio<sup>3</sup>

Third Quarter 2017

3.5%

- Markets have been very strong lately. In the third quarter, small caps outpaced big stocks both domestically and abroad. But all major asset classes, even long-suffering commodities, had a solid positive quarter. Q3 2017 was one of the quietest in market history. Such serenity has been a source of complacency.
- For the year so far, the Diversified Portfolio has gained 10.4%. Those who rotated into overseas markets have been handsomely rewarded. The non-U.S. developed and emerging market indices are up 20.0% and 27.8%, respectively.
- The bond market overall has delivered this year as well, as high yield has outpaced U.S. government and investment grade corporate bonds.

Past performance is not indicative of future results.

<sup>1</sup>Source: Ned Davis Research. Portfolios shown as of 3/2/09, 12/31/12, 12/32/15, and 9/29/17. © Copyright 2017 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/). Hypothetical calculation for illustrative purposes only; does not represent any Virtus portfolio. Fixed Income and U.S. Aggregate is represented by the **Bloomberg Barclays U.S. Aggregate Index**. Equity is represented by the **S&P 500<sup>®</sup> Index**. High yield is represented by the **Bloomberg Barclays US Corporate High Yield Bond Index**.

<sup>2</sup>Source: Ned Davis Research. YTD as of 9/6/2017.

<sup>3</sup>Source: Virtus Performance Analytics. Returns compounded monthly. See following page for composition and definitions.

# Performance in Perspective



## ANNUALIZED RETURNS IN %, as of 9/30/2017

	Q3 2017	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
Diversified Portfolio	3.53	11.24	10.67	6.08	7.48	7.64	5.08
S&P 500® Index	4.48	18.61	17.01	10.81	14.22	14.38	7.44
Russell 2000® Index	5.67	20.74	18.08	12.18	13.79	13.51	7.85
MSCI EAFE® Index (net)	5.40	19.10	12.63	5.04	8.38	6.38	1.34
MSCI Emerging Markets Index (net)	7.89	22.46	19.59	4.90	3.99	2.54	1.32
Bloomberg Barclays U.S. Aggregate Bond Index	0.85	0.07	2.60	2.71	2.07	2.95	4.27
Bloomberg Barclays Global High Yield Bond Index	2.84	9.28	11.37	5.87	6.44	7.35	7.95
Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index	0.25	0.63	0.42	0.28	0.19	0.16	0.41
Bloomberg Commodity Index	2.52	-0.29	-1.44	-10.41	-10.47	-6.82	-6.83
FTSE NAREIT Equity REITs Index	0.94	0.67	9.85	9.86	9.69	11.38	5.83

### Past performance is no guarantee of future results.

The Diversified Portfolio assumes the following weights: 25% in the S&P 500®, 10% in the Russell 2000®, 15% in the MSCI EAFE®, 5% in the MSCI EM, 25% in the Bloomberg Barclays U.S. Aggregate, 5% in the Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index, 5% in the Bloomberg Barclays Global High Yield Bond Index, 5% in the Bloomberg Commodity Index, and 5% in the NAREIT Equity REITs Index. Assumes annual rebalancing. Data represents total return for stated period. The Diversified Portfolio is not representative of any Virtus portfolio. Investors should consult their financial professional to identify suitable portfolio allocations. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk.

**Index Definitions**—The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg Barclays US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. The index is calculated on a total return basis. The **Russell 2000® Index**, a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. 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 **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. The index is calculated on a total return basis with net dividends reinvested. The **Bloomberg Barclays Global High Yield Bond Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities. The index is calculated on a total return basis. The **Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible. The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc. The **FTSE NAREIT Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ National Market System. The index is calculated on a total return basis with dividends reinvested.

The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

Investing involves risks and the possible loss of principal. This report is based on the assumptions and analysis made and believed to be reasonable by the Adviser. However, no assurance can be given that the Adviser's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities.

Not all products or marketing materials are available at all firms.

**Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.**

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.