VIRTUS FUNDS

Virtus Seix Floating Rate High Income Fund

A: SFRAX (92837F789) | C: SFRCX (92837F771) | I: SAMBX (92837F763) | R6: SFRZX (92837F755)

MARKET REVIEW

Leveraged loans again demonstrated "through-the-cycle" appeal with the J.P. Morgan Leveraged Loan Index year-to-date 2023 return of 10.09% besting the 6.42% return for the J.P. Morgan U.S. High Yield Index, the 0.48% return for the J.P. Morgan Investment Grade Index (JULI), and the 2.54% return for the Russell 2000® Index. During a difficult 2022, leveraged loans lost only 1.06%, according to the Credit Suisse Leveraged Loan Index, while rising interest rates negatively impacted other fixed income peers, including Treasuries, investment grade bonds, and high yield bonds. Importantly, loans are primarily composed of secured credit versus the primarily unsecured high yield market. We believe security provides a critical level of protection that makes the loan market especially attractive in this phase of the investment cycle.

According to J.P. Morgan, 3Q2023 loan funds flows were negative $0.9 billion for actively managed funds and positive $1.0 billion for loan ETFs. Collateralized loan obligation (CLO) activity, an important loan market demand component, improved, with 84 U.S. CLOs pricing $35.8 billion, up from $21.7 billion in 2Q2023. Historically, BB loan pricing near $99.25 and B pricing near $97.00 provide moderately attractive CLO equity returns, which in turn bolsters loan secondary market demand. In 3Q2023, CLO issuance excluding refinancing was $30.7 billion.

According to J.P. Morgan, new issue loan activity in 3Q2023 totaled a robust $122.5 billion, up from 2Q2023's $66.5 billion, and 1Q2023's $70.3 billion. Improving market sentiment for risk assets in 3Q2023 continues to encourage issuers and investors.

The loan market default rate reached a cycle low at 0.65% in 2021 and rose to 1.63% in 2022 and 2.66% in 3Q2023—down moderately from 2.93% in 2Q2023. According to J.P. Morgan, the long-term average default rate for leveraged loans is 3.1%, and 3.2% for high yield bonds. Tightening credit markets typically lead to higher default rates. Rising interest rates, high but easing inflationary pressures, and lingering recessionary concerns continue to weigh on credit markets. Improving new issue markets in 2023 continue to provide relief to leveraged credit. Surprisingly robust labor markets support consumer spending, although slowing corporate spending and discretionary capital expenditures weigh on certain sectors.

PERFORMANCE

The Fund that we subadvise returned 2.94%—moderately below its benchmark, the Credit Suisse Leveraged Loan Index, which returned 3.37% in 3Q2023. As of September 30, 2023, the J.P. Morgan Leveraged Loan Index yields 9.58% to maturity, six basis points (bps) wider over the past three months, and 61 bps wider than the 8.71% offered by the J.P. Morgan U.S. High Yield Index. In 2Q2023, the loan index was 81 bps wider than the high yield index. According to J.P. Morgan, on September 30, 2023, the average loan price was $95.89 overall, $99.14 for BB loans, $97.09 for B loans, and $79.96 for Split B/CCC loans. Over the last three months, the average loan price improved $0.92, driven by increases in each ratings category, with increasing gains in lower-quality credits.

We are moderately disappointed with our 43-bps underperformance in 3Q in another volatile quarter. According to Lipper, in 3Q2023, we finished in the second quartile at the 46th percentile relative to our peers. Over the last twelve months, our Lipper rank was 35th percentile. Our conservative positioning in lower quality resulted in underperformance in the quarter. We continue to position defensively in anticipation of a mild recession in 2024. Our portfolio reviews focus on potential credit stresses, including unionized strike activity, ongoing global conflicts, sustained higher-for-longer interest rates, demand slowdowns, and fluctuating energy and commodity prices.

In 3Q2023, the portfolio benefited from sector performance in food & tobacco, land transportation, and forest products & containers, which partially offset underperformance in information technology, retail, and cable & wireless.

On a ratings basis, the portfolio benefited from credit selection in B, allocation in CC/C/Default, and credit selection in Split BBB, offset by credit selection in CCC/Split CCC and Split BB, and sector allocation to BBB. The top performing credits were Numericable (telecommunications), Altice Financing (telecommunications), and Napa Management (healthcare). The top detractors were West Marine (retail), Jo-Ann Stores (retail), and Emergent Biosolutions (healthcare).

OUTLOOK

We remain a flexible, nimble value-oriented high yield manager who focuses on downside protection, which you should expect from a credit manager. In 3Q, we expect another volatile earnings season with sectors, including consumer discretionary, chemicals, and retailers likely to remain under pressure, while rising rates could offset supply chain improvements for machinery, industrials, and automotive. Strike activity continues to increase and will likely pressure margins and sales over the next few quarters. However, surprising consumer resilience has again pushed out recession concerns to perhaps late 2024 or even a soft landing. The U.S. Federal Reserve is near the end of its rate hiking cycle, which is typically constructive for risk assets, including leveraged loans. We expect rates to remain elevated, which benefits leveraged loans.

We believe the portfolio is positioned to limit the downside in periods of market dislocation and provide attractive upside when credit markets improve. Current loan pricing is moderately cheap. Ongoing market uncertainty, including the Ukraine war, Israel/Palestine conflict, autoworker strikes, and student loan payment resumption could create price volatility and allow us to add higher-quality positions at attractive prices.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Seix Investment Advisors

PORTFOLIO MANAGERS

George Goudelias
Industry start date: 1987
Start date as Fund Portfolio Manager: 2006

Vincent Flanagan
Industry start date: 1997
Start date as Fund Portfolio Manager: 2011

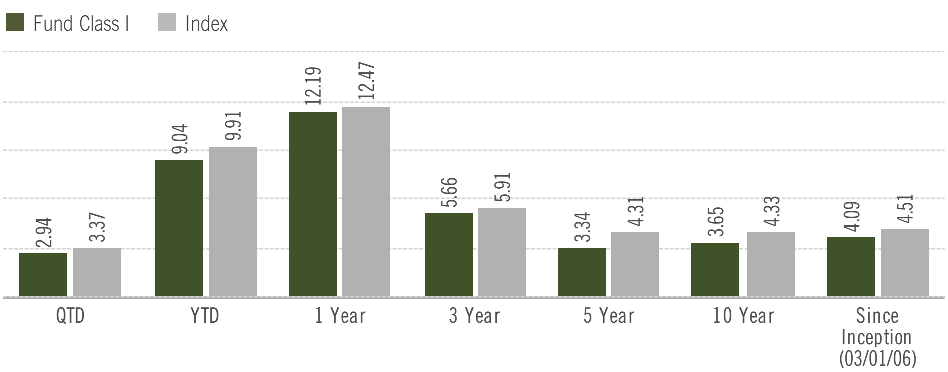
Eric Guevara
Industry start date: 2000
Start date as Fund Portfolio Manager: 2019

SECTOR ALLOCATION

SECTOR ALLOCATION	% Fund
Information Technology	10.57
Healthcare	9.91
Financial	8.54
Telecom Ex Wireless	7.44
Aerospace/Defense/Airlines	7.36
Services/Environmentsl/Other	7.18
Chemicals	6.84
Energy	5.68
Cable	4.30
Housing/Building Materials	4.27
Gaming/Leisure	3.99
Diversified Media	3.05
Retail	2.90
Utilities	2.77
Forest Products/Containers	2.67
Manufacturing/Capital Goods	2.13
Transportation	1.98
Food/Drug/Restaurants	1.70
Cash & Equivalents	1.65
Broadcasting	1.36
Consumer Products/Textiles	1.32
Metals/Minerals	1.22
Wireless	1.17

Holdings and sector weightings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

Index since inception performance since 2/28/2006.

The fund class gross expense ratio is 0.72%. The net expense ratio is 0.62%, which reflects a contractual expense reimbursement in effect through 4/30/2024.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

Index: The **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is calculated on a total return basis, is unmanaged and not available for direct investment. The unmanaged index returns do not reflect any fees, expenses, or sales charges.
The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. dollar institutional leveraged loans, including U.S. and international borrowers.

The **J.P. Morgan U.S. High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated, high yield corporate debt market, including U.S. and international borrowers.

The **J.P. Morgan Investment Grade Index (JULI)** provides performance comparisons and valuation metrics across a carefully defined universe of investment grade corporate bonds, tracking individual issuers, sectors and sub-sectors by their various ratings and maturities.
The **Russell 2000 Index®** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.
Seix Investment Advisors is a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser.

Notes on Risk: Credit & Interest: Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **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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