

## Virtus Seix Floating Rate High Income Fund

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

### MARKET REVIEW

It was a difficult market for the end of 2018 as the capital markets sell-off made its way to leveraged loans. Leveraged loans got tangled within the broad risk-off market sentiment, declining 2.8% in December. This monthly return was the worst since August 2011, reversing most of the year's performance. The Credit Suisse Leveraged Loan Index returned 1.14%, the lowest calendar year return since 2015. As a result, leveraged loan prices fell several points and now the average price (in early January) is approximately \$95-\$96.

Leveraged loans also contended with their largest fund outflows amid revised interest rate expectations and negative headlines. The two largest weekly outflows ever recorded were the last two weeks in December 2018 (-\$3.3 billion in outflows for the week of 12/19; -\$3.5 billion in outflows for the week of 12/26).<sup>1</sup> Positive fund flow sentiment experienced in the first three quarters was reversed in 4Q2018. Approximately \$11+ billion came in through October 2018 and \$14+ billion came out in the fourth quarter. In 2018, the leveraged loan market had a total net outflow of roughly \$3 billion.

This recent selloff has been driven by market technicals, while corporate fundamentals remain consistent. As global GDP remains positive, companies are able to post earnings with solid EBITDA growth and cash flows. Interest rates, albeit gradually rising, are still at historical lows, which pose an attractive backdrop for continued new issue and/or refinancing activity. Primary issuance within leveraged loans was approximately \$430 billion in 2018, and the 2019 calendar is expected to be \$400 billion. Collateralized loan obligation (CLO) formation for 2018 hit a record net volume of \$130 billion, and strategists project 2019 net issuance to range between \$100-\$125 billion.<sup>2</sup> Default activity has been benign in this asset class; looking forward, the default rate is expected to be between 1.5 and 2.0% into 2020.<sup>2</sup>

For more on our market commentary, read Seix's fourth quarter [Leveraged Finance Market Review and Outlook](#).

### PERFORMANCE

The Fund's underweight, combined with positive asset selection within the retail sector, contributed to fourth quarter performance. An underweight and positive asset selection in broadcasting also aided the Fund. Although a detractor in previous quarters, exposure to cash benefited the portfolio amid market volatility.

The Fund's exposure to energy detracted from relative performance as oil prices dropped through the quarter. Although the Fund is underweight technology, this sector detracted from performance, primarily due to volatility in one issuer's reorg equity. Negative asset selection in telecommunications detracted as well, primarily due to wireline industry concerns.

### CURRENT STRATEGY

During the fourth quarter, our overall investment strategy remained largely unchanged and we made minor changes to the Fund where we identified potential opportunities.

### OUTLOOK

Looking ahead, we remain constructive on the asset class given average yields and the average price of leveraged loans. Our rigorous individual credit research analysis aims to take advantage of attractive potential risk/reward valuation opportunities created by the recent market volatility. Additionally, we continue to be overweight higher quality leveraged loans, consistent with our fundamentally oriented investment philosophy.

<sup>1</sup>Source: Lipper FMI.

<sup>2</sup>Source: Credit Suisse.

## Virtus Seix Floating Rate High Income Fund

### INVESTMENT ADVISER

Virtus Fund Advisers, LLC

### INVESTMENT SUBADVISER

Seix Investment Advisors LLC

### PORTFOLIO MANAGERS



**George Goudelias**  
Industry start date: 1987  
Start date with Fund: 2006



**Vincent Flanagan**  
Industry start date: 1997  
Start date with Fund: 2011

### SECTOR ALLOCATIONS

% Fund

Cable	8.83
Healthcare	7.98
Information Technology	7.22
Chemicals	7.14
Financial	6.75
Services/Environmental/Other	6.50
Diversified Media	6.41
Telecommunications	6.23
Gaming/Leisure	5.93
Energy	4.96
Housing/Building Materials	4.26
Cash	4.24
Utilities	4.17
Food/Drug/Restaurants	3.47
Aerospace/Defense/Airlines	3.34
Metals/Minerals	2.65
Transportation	2.64
Retail	2.19
Broadcasting	1.70
Manufacturing/Capital Goods	1.53
Consumer Non-Durables	0.66
Forest Products/Containers	0.66
Wireless	0.53

Sector weights are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/1/2006
Fund Class I	-3.42	0.22	0.22	4.98	2.88	6.98	4.03
Index	-3.08	1.14	1.14	5.03	3.33	8.30	4.25

**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](http://virtus.com) for performance data current to the most recent month-end.**

Benchmark since inception performance is reported from 2/28/2006.

The fund class gross expense ratio is 0.74%. The net expense ratio is 0.64%, which reflects a contractual expense reimbursement in effect through 7/31/2019. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.62%.

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. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit [www.virtus.com](http://www.virtus.com).

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.

**Notes on Risk: Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans can carry significant credit and call risk, can be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Credit & Interest:** Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **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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