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 in 1Q24, returning 2.65% for the J.P. Morgan Leveraged Loan Index, moderately ahead of the 1.62% for the J.P. Morgan U.S. High Yield Index and the 1.40% of the J.P. Morgan Investment Grade Index. Importantly, loans are primarily composed of secured credit versus the primarily unsecured high yield market. Loans should continue to benefit from high short-term rates as well as a stable-to-improving economy.

According to J.P. Morgan, 1Q24 loan funds flows were negative $1.3 billion for actively managed funds and positive $3.7 billion for loan ETFs. Collateralized loan obligation (CLO) activity, an important loan market demand component, improved, with 181 U.S. CLOs pricing $80.7 billion, up from $47.1 billion in 4Q23. In 1Q24, CLO issuance, excluding refinancing, was $32.2 billion, up from $29.6 billion in 4Q23. According to J.P. Morgan, new issue loan activity in 1Q24 totaled a robust $317.7 billion, up from $110.8 billion in 4Q23. We anticipate that the recent refinancing wave we experienced in 1Q24 will continue this year but at a slower pace.

The loan market default rate reached a cycle low at 0.65% in 2021, rose to 1.63% in 2022, worsened to 3.15% in 4Q23, and reached 3.52% in 1Q24. We believe 1Q24 is the peak default rate for this cycle. According to J.P. Morgan, the long-term average default rate for leveraged loans is 3.1%, and 3.2% for high yield bonds. In 2024, J.P. Morgan projects loan default rates at 3.25% near the current 3.52% level. Credit markets improved meaningfully from November 2023 through March 2024. Continued refinancing activity likely relieves refinancing risk for mid-to-higher quality credits.

PERFORMANCE

The Fund that we sub-advise returned 1.93%, which was moderately below our benchmark, the Credit Suisse Leveraged Loan Index, which returned 2.52% in 1Q24. As of March 31, 2024, J.P. Morgan's Leveraged Loan Index yields 8.81% to maturity, 12 basis points (bps) tighter over the past three months, and 98 bps wider than the 7.83% offered by J.P. Morgan's U.S. High Yield Index. In 4Q23, the J.P. Morgan loan index was 111 bps wider than its high yield index. According to J.P. Morgan, on March 31, 2024, the average loan price was $97.02 overall, $99.87 for BB loans, $98.70 for B loans, and $81.10 for Split B/CCC loans. Over the last three months, the average loan price improved by $0.61, driven primarily by increases within Split B/CCC and B-rated loans, and modestly by BB-rated loans.

We are disappointed with our 59-bps underperformance in 1Q, another volatile quarter. Though our overall portfolio performed well, it was overwhelmed by a few credits with differing challenges. There were three detractors that drove much of the underperformance. Numericable dropped after the company's plans to apply asset sales for debt reduction became surprisingly confrontational. Longview Power's reorganizational equity price was marked lower despite supportive ongoing fundamentals and material equity distributions. ConvergeOne elected to file for Chapter 11 only four months after regaining liquidity to repay its vendors and with improving fundamentals. Credit events regularly occur in leveraged finance. We believe the number of credit events we experienced was due to unfortunate timing. Our portfolio reviews focus on potential credit stresses, including tightening consumer discretionary spending, ongoing global conflicts, sustained higher interest rates, demand slowdowns, and fluctuating energy and commodity prices.

In 1Q24, the portfolio benefited from sector performance in food & tobacco, land transportation, and gaming & leisure, which was offset by underperformance in telecommunications, information technology, and equity. On a ratings basis, the portfolio benefited from issue selection in BB-rated loans and allocation to CC/C/Default and Split BBB-rated loans, which was offset by issue selection in B, Split B, and Not Rated-loans. The top-performing credits were Liberty Interactive (consumer), Team Health (healthcare), and Summit Midstream (energy). The top detractors were Numericable (telecommunications), Longview Power (utilities), and ConvergeOne (information technology).

OUTLOOK

We remain a flexible, nimble, value-oriented leveraged loan manager who focuses on downside protection, which you should expect from a credit manager. In 1Q, we expect another volatile earnings season, with sectors including telecom, chemicals, retail, consumer discretionary, TV, and radio likely to remain under pressure. Healthcare, home building, industrials, and automotive could benefit from the stable-to-improving economy. We remain constructive on the U.S. economy and expect moderating inflation trends will precede Federal Reserve interest rate cuts that will likely begin this summer.

We believe our portfolio is positioned to limit the downside in periods of market dislocation and provide attractive upside when credit markets improve. Current loan pricing remains moderately cheap. The new issue calendar remains solid, providing opportunities to take new positions in attractive businesses or exit credits that are no longer cheap. Ongoing market uncertainty, including the continuing Ukraine war, the Israel/Palestine war, China's atypical economic sluggishness, persistent inflation, and the interest rate impact on housing and automotive sectors, 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
Financial	9.57
Information Technology	9.53
Telecom Ex Wireless	8.38
Aerospace/Defense/Airlines	7.91
Services/Environmental/Other	7.43
Healthcare	6.87
Chemicals	5.77
Energy	5.58
Gaming/Leisure	5.23
Cable	4.15
Housing/Building Materials	3.96
Diversified Media	3.90
Utilities	3.54
Manufacturing/Capital Goods	2.45
Forest Products/Containers	2.34
Retail	2.16
Cash & Equivalents	2.11
Metals/Minerals	1.72
Broadcasting	1.68
Food/Drug/Restaurants	1.66
Wireless	1.66
Transportation	1.58
Consumer Products/Textiles	0.84

Holdings and sector weightings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (03/01/06)
Fund Class I	1.93	1.93	11.04	5.28	4.19	3.84	4.24
Index	2.52	2.52	12.40	5.82	5.30	4.56	4.69

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 4/30/2025.

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.

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. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the non-repayment of underlying collateral, including losses to the portfolio. **U.S. Government Securities:** U.S. government securities may be subject to price fluctuations. An agency may default on an obligation not backed by the United States. Any guarantee on U.S. government securities does not apply to the value of the portfolio's shares. **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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