

## Virtus Seix Floating Rate High Income Fund

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

### MARKET REVIEW

This past quarter has been an erratic one for the leveraged loan market as prices receded toward the end of July into August, and then drifted upward in September. Several macroeconomic indicators such as increased M&A activity, potential tax reform within the US, and record levels in equities helped boost returns in September. Although refinancing/repricing activity remains a large component of the primary market, net new supply infused the leveraged loan market, bringing supply and demand into equilibrium. Year to date leveraged loan issuance is one of the highest years on record. Gross loan issuance is over \$720 billion, of which approximately \$410 billion is net of re-pricings, and M&A related issuance is approximately \$200 billion.<sup>1</sup>

CLO formation has maintained its tailwind with solid primary new issuance; strategists have increased original projections of net new issuance for 2017 and now believe the range will fall between \$85-100 billion, excluding refinancings.<sup>2</sup>

Leveraged fund inflows are approximately \$17 billion year to date; this is mostly attributed to strong quarterly inflows in 1Q2017 (+\$13.9 billion), and 2Q2017 (+\$3.6 billion). This past quarter was somewhat muted as August reported its first negative month following thirteen consecutive months of positive flows. Ultimately, having a moderate, consistent stream of flows is what investment managers would prefer.

### PERFORMANCE

For the third quarter 2017, the Virtus Seix Floating Rate High Income Fund returned 1.20% compared to the Credit Suisse Leveraged Loan Index return of 1.06%.

Positive security selection and an underweight in Retail contributed positively to performance. Our exposure and positive security selection within the Energy sector aided the Fund during the quarter as the credits we held outperformed their respective peers. An overweight and positive security selection in Diversified Media also contributed positively.

The Fund's exposure to cash detracted slightly from third quarter performance. Our exposure to Telecom was a slight drag on performance, due to one issuer awaiting FCC approval for their wireless spectrum.

### CURRENT STRATEGY

During the third quarter, our overall investment strategy remained largely unchanged and we made minor changes to the Fund where we identified potential opportunities. Looking ahead, our rigorous individual credit research analysis aims to take advantage of attractive risk/reward valuation potential opportunities created by recent market volatility.

### OUTLOOK

Despite a notable bankruptcy in September within Retail (Toys R Us), this is still a time period of light default activity. The loan par-weighted default remains benign and strategists predict a 2.0% default rate for 2018, indicative of a positive fundamental backdrop.<sup>3</sup> We expect third-quarter earnings to remain solid across most industries as the tailwind of strong employment, reduced regulations, and a weaker dollar supports most companies. In conclusion, leveraged loans continue to look attractive to other fixed income asset classes, and their volatility or lack thereof, supports this thesis on a risk-adjusted basis.

<sup>1</sup>S&P LCD. <sup>2</sup>JPMorgan Securities. <sup>3</sup>JPMorgan Securities.

The Fund is the successor of RidgeWorth Seix Floating Rate High Income Fund, as a result of that fund's reorganization with and into the Fund on July 14, 2017.

## Virtus Seix Floating Rate High Income Fund

### INVESTMENT ADVISER

Virtus Fund Advisers LLC

### INVESTMENT SUBADVISER

Seix Investment Advisors LLC

### INVESTMENT PROFESSIONALS



**George Goudelias**

Industry start date: 1987  
Start date with the Fund: 2006



**Vincent Flanagan**

Industry start date: 1997  
Start date with the Fund: 2011

### SECTOR ALLOCATIONS

% Fund

|                        |       |
|------------------------|-------|
| Other Industries       | 55.49 |
| Gaming/Leisure         | 9.37  |
| Information Technology | 9.14  |
| Healthcare             | 7.83  |
| Cable                  | 7.75  |
| Financial              | 6.55  |
| Cash & Equivalents     | 3.85  |

Sector weights are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

| I Share | QTD  | YTD  | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception<br>3/1/2006 |
|---------|------|------|--------|--------|--------|---------|-----------------------------|
| NAV     | 1.20 | 2.99 | 5.26   | 3.93   | 4.07   | 4.30    | 4.38                        |
| Index   | 1.06 | 3.04 | 5.36   | 3.96   | 4.40   | 4.43    | 4.51                        |

**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.**

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

The fund class gross expense ratio is 0.75%. The net expense ratio is 0.63%, 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 returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, **would reduce the performance quoted**. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required 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: Floating Rate Loans:** Typically are senior and secured, in contrast to other below-investment grade securities. However, there is no guarantee that the value of the collateral will not decline, causing a loan to be substantially unsecured. Loans generally are subject to restrictions on resale. The value of the collateral securing a floating rate loan can decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate. Participation in certain types of loans may limit the ability of a fund to enforce its rights and may involve assuming additional credit risks. **Bonds:** Offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. **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.

**Please carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit Virtus.com for a prospectus or summary prospectus. Read it carefully before investing.**

**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.

2179 10-17 © 2017 Virtus Mutual Funds