VIRTUS MUTUAL FUNDS

Virtus Seix Floating Rate High Income Fund

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

MARKET REVIEW

Over the course of the fourth quarter, leveraged loan market investors faced the passage of tax reform legislation, the third Federal Reserve (Fed) rate hike of 2017, a spike in oil prices, and a seasonable slowdown in activity. Leveraged loans, as measured by the JP Morgan Leveraged Loan Index, generated a return of 1.24% for the quarter, bringing the year-to-date return to 4.25%. Industry leaders during the three-month period were Energy (+2.63%), Utility (+2.17%), and Retail (+1.39%) while Consumer Products lagged (-0.63%). At quarter end, the yield to three-year takeout was 6.31%.

The issuance profile has remained opportunistic. For the year, repricings and refinancings have accounted for about 45% and 30% of gross issuance, respectively. The balance reflected M&A corporate, general corporate purposes, and dividends. The majority of the issuance has been in the middle quality tier with BBs and Bs representing about 71% of the issuance. The upper tier accounted for 25%, and the lower tier (CCC) accounted for about 3.7%.

On the demand side, retail fund flows continued a negative trend since August with a fourth quarter reading of -$3.95 billion. Strong inflows for the first seven months of 2017 offset the negative trend to result in an inflow of $13.5 billion for the full year. By comparison, inflows in 2016 were $9.2 billion. Range-bound U.S.Treasury yields have had a dampening effect on retail investor demand.

While retail investors remained on the sidelines for the quarter, the collateralized loan obligation (CLO) component of demand showed continued strength. CLO formation had gross volume of $71.3 billion for the quarter, bringing the year-to-date total to a robust $282.2 billion. That represents 571 deals, which compares to about $111.8 billion across 251 deals in 2016. Excluding refinancings/repricings, net volume for 2017 was approximately $117 billion.

For more on our leveraged loan market commentary, click here to read Seix's 4Q17 Leveraged Finance Market Review and Outlook.

PERFORMANCE

For the fourth quarter 2017, the Virtus Seix Floating Rate High Income Fund returned 0.85% compared to the Credit Suisse Leveraged Loan Index return of 1.17%.

Positive security selection and an overweight in Financials, and an overweight in Energy contributed positively to fourth quarter performance. An underweight in Consumer Non-Durables, and positive security selection and an overweight in Gaming also aided fund performance during the quarter.

A relative underweight and negative security selection within the Broadcasting sector, most notably a distressed radio operator, detracted from quarterly performance. Additionally, within the Utility and Healthcare sectors, adverse security selection hurt performance during the quarter largely due to operating performance at an electrical generation company and a hospital operator, respectively.

For the full year 2017, positive security selection and an underweight in Retail contributed positively. We largely avoided the many retail bankruptcies that occurred in 2017. An overweight in gaming and positive security selection within the sector also aided fund performance during the year. Within the Diversified Media sector, an overweight and positive security selection contributed positively.

An overweight and security selection within the Transportation sector detracted from performance for the year. Additionally, within the Healthcare sector, an underweight and adverse security selection hurt performance, largely due to one biotech company that reported poor results (a position that we ultimately exited).

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. 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

As U.S. tax reform is finalized, we expect this to be a tailwind for credit assets. With recent interest rate hikes by the Fed, strategists predict more hikes in 2018, which bode well for leveraged loans as they act as an inflationary hedge. Leveraged loans continue to look attractive to other fixed income asset classes based on their seniority in capital structure; and their volatility, or lack thereof, supports this thesis on a risk-adjusted basis. The total return forecast will be benign given the lack of major appreciation within prices; however, on a relative value basis, we believe loans continue to be one of the most compelling fixed income investments. Given the upward sloping forward LIBOR curve, coupled with solid technicals and a relatively robust economic backdrop, we believe leveraged loans will have similar returns to 2017.

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
Healthcare	8.51
Cable	8.35
Information Technology	8.26
Gaming/Leisure	7.76
Financial	7.00
Cash & Equivalents	4.63

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/1/2006
NAV	0.85	3.87	3.87	4.49	3.88	4.36	4.36
Index	1.17	4.25	4.25	4.50	4.33	4.57	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.

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.

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.

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