

Virtus Seix Floating Rate High Income Fund

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

MARKET REVIEW

The Credit Suisse Leveraged Loan Index returned 2.38% for the first half of 2018. The percentage of loans trading above par hit 20.1% at the end of June, according to JP Morgan, close to the low reached in July 2016. At quarter-end, the three-year takeout yield was 6.84%, the highest level since April 2016.

On the supply side, issuance was robust. Gross volume came to \$258.8 billion, up from first quarter and the second-highest volume on record. Most of the issuance (94%) came in the middle credit quality tiers, BBs and Bs. Much of the new supply is opportunistic, with repricings accounting for 41.6% of the second quarter total and refinancings making up 23.3%. Excluding repricings and refinancings, issuance amounted to \$90.7 billion, and on this basis, year-to-date net new supply is running 19% ahead of last year's post-crisis high.

Demand remained steady as flows to mutual funds have been positive since the beginning of the year. In the second quarter, flows amounted to \$8.3 billion, bringing the year-to-date total to \$11.9 billion. Collateralized Loan Obligation (CLO) formation was also robust, with gross volume hitting \$86.4 billion, a new quarterly record.

PERFORMANCE

For the second quarter of 2018, the Virtus Seix Floating Rate High Income Fund (Class I) returned 0.50% (net of fees), compared to the Credit Suisse Leveraged Loan Index return of 0.78%.

The Fund benefited from positive security selection within the retail sector, which rebounded due to stronger sales among companies within the sector. Positive security selection in utilities also aided second quarter results, as did security selection and an overweight within the financials sector.

Security selection within diversified media detracted from second quarter performance due to weaker-than-expected quarterly results among select holdings within the sector. The Fund's underweight combined with security selection in information technology detracted, as a result of one issuer's re-capitalization.

CURRENT STRATEGY

During the second 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

We are cautiously optimistic on the market and on the economy, but are approximately 800-1,000 basis points overweight on higher quality issues. Ultimately, we believe the current yield within the market compensates investors very well, considering where we sit within the credit cycle.

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

Healthcare	8.87
Cable	8.53
Information Technology	7.78
Services/Environmental/Other	7.46
Gaming/Leisure	7.41
Financial	7.27
Diversified Media	6.23
Energy	6.14
Chemicals	5.29
Telecommunications	5.20
Utilities	4.34
Food/Drug/Restaurants	3.93
Housing/Building Materials	3.55
Aerospace/Defense/Airlines	3.16
Transportation	3.16
Metals/Minerals	2.61
Retail	2.33
Manufacturing/Capital Goods	1.80
Forest Products/Containers	1.39
Broadcasting	1.36
Consumer Non-Durables	0.85
Cash	0.64
Wireless	0.51
Consumer Durables	0.20

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/1/2006
Fund Class I	0.50	1.87	3.97	4.02	3.84	4.53	4.33
Index	0.78	2.38	4.67	4.33	4.24	5.00	4.53

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 0.74%. 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.

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.

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 07-18 © 2018 Virtus Mutual Funds