VIRTUS MUTUAL FUNDS

Virtus Seix Floating Rate High Income Fund

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

MARKET REVIEW

Leveraged loans delivered a positive return in the first quarter, outperforming all other fixed income asset classes that mostly had negative returns. In the current market environment, bank loans are performing as expected, attempting to insulate investors from rising interest rates with low volatility.

Gross issuance was $242 billion, the third highest quarterly volume on record. On a net basis (excluding repricings and refinancings), issuance was a still-strong $76.2 billion and up 17% over the same period in 2017. On the demand side, retail fund flows have been on a positive trend since the beginning of the year, curtailing a five-month outflow heading into the end of 2017. YTD, loan funds saw a $3.7 billion inflow, compared to a $13.9 billion inflow for the first quarter of 2017.[1] Additionally, the issuance profile remains more opportunistic. Collateralized loan obligation (CLO) formation remains robust at $61.8 billion issued compared to $67.0 billion last year. For the quarter, repricings and refinancings accounted for 47% and 22% of overall loan issuance, respectively. The majority of leveraged loan issuance was in the middle quality tier with BBs and Bs representing 71%, indicating a bias towards higher quality.

Broad-based fundamentals are positive for the bank loan universe. Default activity jumped in the quarter with $10.9 billion of volume, but this was concentrated in a few names. The loan par-weighted default rate ended the quarter at 2.52%. Notable defaults were iHeartMedia ($6.6 billion) and Fieldwood Energy ($2.5 billion). Lastly, three-month LIBOR ended the quarter at 2.3%, quite a notable increase of ~60 basis points (bps) in these last few months.

For more on our leveraged loan market commentary, read our first quarter Leveraged Finance Market Review and Outlook.

PERFORMANCE

For the first quarter of 2018, the Virtus Seix Floating Rate High Income Fund – Class I shares returned 1.36% (net of fees), compared to the Credit Suisse Leveraged Loan Index return of 1.58%.

An underweight within Information technology contributed positively to the Fund's performance during the first quarter. Positive security selection and an overweight within financials also contributed to relative performance. An overweight and positive security selection in diversified media further aided the Fund's performance during the quarter.

The Fund's exposure to cash detracted slightly from first quarter performance. Additionally, negative security selection in Retail detracted from performance, as Toys 'R' Us is facing ongoing liquidation. The Fund's exposure to Telecom also detracted from relative performance, primarily due to Lightsquared LLC awaiting FCC approval for their wireless spectrum.

CURRENT STRATEGY

During the first 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

Overall, we are constructive on leveraged loans and their ability to deliver attractive risk-adjusted relative returns while providing an interest rate hedge. We are nonetheless cautious given where we are in the current credit cycle and have continued to move portfolios up in quality. In our opinion, given how spreads have tightened over the past few years, the spread differential between BBs and Bs does not compensate investors for lower quality opportunities. Therefore, we are finding better value in the BB segment of the market where the spread on the loan might be lower, but ultimately the overall yield on these loans is higher due to the increase in LIBOR.

[1] JPMorgan Securities.

The Fund is the successor of the 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

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

SECTOR ALLOCATIONS	% Fund
Other Industries	57.91
Healthcare	8.50
Cable	8.11
Information Technology	7.66
Gaming/Leisure	7.59
Services/Environmental/Other	7.26
Cash & Equivalents	2.97

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 3/1/2006
Fund Class I	1.36	1.36	4.10	4.13	3.74	4.97	4.38
Index	1.58	1.58	4.64	4.33	4.17	5.36	4.56

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.