

## Virtus Seix Total Return Bond Fund

A: CBPSX (92837F805) | I: SAMFX (92837F870) | R: SCBLX (92837F888) | R6: SAMZX (92837F862)

### MARKET REVIEW

For the third quarter, interest rates rose slightly with the yield curve modestly flatter. Spread sectors continue to benefit from the insatiable search for yield, producing positive excess returns across both the investment grade and sub-investment grade markets once again. Perhaps one of the most profitable trades this year was to sell volatility. Record low volatility was seen in both equities and fixed income as reflected by VIX on the equity side and MOVE on the bond side during the quarter. At the end of September, VIX was still under 10 and MOVE was just over 50. Commodity prices also rallied over the quarter led by oil and copper.

Second quarter GDP came in at an annualized 3.1%. Adding that to first quarter's growth of 1.2% resulted in 2.15% for the first half of the year, just where growth has averaged since the recovery started in July of 2009. For the trailing four quarters, Gross Domestic Income (GDI) has come in at 2%, just slightly below the corresponding rate of 2.2% for GDP. For more on our Investment Grade Market Review, click here to read Seix's third quarter Market Review and Outlook.

### PERFORMANCE

The Virtus Seix Total Return Bond Fund (I shares) returned 0.36% during the quarter, underperforming the Bloomberg Barclays Aggregate Index return of 0.85%. The primary detractor from performance over the quarter was attributed to the Fund's short position in High Yield CDX. While the Global strategies contribution was mixed, overall it was a positive contributor to the Fund's performance. Other positive contributors during the quarter were security selection within the corporate bond sleeve and asset allocation to the asset-backed security (ABS) sector. A secondary detractor from performance was attributed to the Fund's asset allocation to the residential mortgage-backed security (RMBS) sector, as our underweight was a slight drag on performance.

### CURRENT STRATEGY

During the third quarter of 2017, the Fund's corporate allocation was trimmed to a weighting of 0.8x the index from last quarter's weighting of 1.1x on a duration contribution (DC) basis, while the RMBS allocation remained unchanged

at 0.7x the Index (DC). The commercial mortgage-backed security ("CMBS") weighting increased slightly to 1.7x versus 1.6x (DC). The Fund's allocation to the ABS sector was reduced to 5.5% on a market value basis, versus 6.2% at the end of last quarter.

We continue to believe valuation measures remain less than compelling (rich in short term (1- to 3-year)/fair over longer term (10-year)) in the fixed income markets. Given where we are in the credit cycle, in tandem with macro, monetary and political uncertainty, we see a less than favorable risk/reward profile in the primary spread sectors. As a result, our corporate sector weighting followed our RMBS sector allocation into a moderate underweight position during the quarter. Complacency remains the watchword as risk markets remain resilient to any unsettling development, be it a broad geopolitical risk flare or an idiosyncratic sector/company risk development. To the extent spreads continue to grind tighter, our weighting to the primary spread sectors will likely gravitate lower. Modest CMBS/ABS overweight represents a continuation of safe income at a reasonable price.

### OUTLOOK

Our view remains that the potential growth rate of the U.S. is between 1.5% and 2%. To achieve 3-4% growth on a sustainable basis would be a Herculean task and highly unlikely given that the long term drivers of economic growth are the growth of the labor force and the productivity of that labor force.

The amount of complacency in the investment environment, as demonstrated by historically low volatility continues to confound us. No matter what happens in the world, be it a missile-firing by North Korea or unrest in Catalonia, markets do not seem to react at all. Therefore, one of the risks that is being mispriced is a popping of the complacency bubble, along with those in passive strategies and ETFs across the asset class spectrum. Our investment strategy of safe income at a reasonable price positions the portfolios under our stewardship well when volatility returns to the financial markets.

**Virtus Seix Total Return Bond Fund**

**INVESTMENT ADVISER**

Virtus Fund Advisers LLC

**INVESTMENT SUBADVISER**

Seix Investment Advisors LLC

**INVESTMENT PROFESSIONALS**



**James F. Keegan**  
Industry start date: 1982  
Start date with the Fund: 2008



**Seth Antiles, Ph.D.**  
Industry start date: 1994  
Start date with the Fund: 2007



**Carlos Catoya**  
Industry start date: 1987  
Start date with the Fund: 2015



**Michael Rieger**  
Industry start date: 1986  
Start date with the Fund: 2007



**Perry Troisi**  
Industry start date: 1986  
Start date with the Fund: 2002



**Jonathan Yozzo**  
Industry start date: 1991  
Start date with the Fund: 2015

**SECTOR ALLOCATIONS**

**% Fund**

U.S Treasury	40.45
Mortgage Backed	25.98
Corporate	20.23
Emerging Markets	7.18
Asset Backed	5.52
Cash & Equivalents	0.64

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 12/30/1997
NAV	0.36	2.78	0.04	2.52	1.90	4.73	4.99
Index	0.85	3.14	0.07	2.71	2.07	4.27	5.04

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](http://Virtus.com) for performance data current to the most recent month-end.

The fund class gross expense ratio is 0.61%. The net expense ratio is 0.47%, 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 0.46%.

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 **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

**Notes on Risk: 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. **Mortgage-Backed Investments:** Involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, a fund's performance may be more volatile than if it did not hold these securities. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **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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