VIRTUS MUTUAL FUNDS

Virtus Seix U.S. Government Securities Ultra-Short Bond Fund

I: SIGVX (92837F821) | R6: SIGZX (92837F813)

MARKET REVIEW

The consensus view of "more of the same" low volatility and easy monetary conditions that rewarded markets in 2017 was challenged in the first quarter. The dominant themes in the early months of 2018 included the return of market volatility, the reappearance of the reflation trade and rising interest rates, and the start of the post-peak era of global central bank liquidity.

Absent throughout 2017, volatility spiked in the first quarter. VIX®, a measure of equity market volatility, increased 80% from the beginning of the year through the end of the first quarter. Notably, the volatility spike did not carry over to the bond market, where there was minimal movement in the MOVE Index, the bond market equivalent of VIX.

U.S. Treasury yields rose over the quarter, led by the short end of the yield curve. The 2-year Treasury, fueled by Federal Reserve (Fed) policy, was up 38 basis points (bps) for the quarter, while the 30-year was up just 23 bps. The curve thus flattened over the quarter, ending at its tightest level since 2008 as measured by the 47 bps spread between the 2- and 10-year Treasury notes.

Global central bank liquidity peaked in 2017 as the G3 (U.S., Euro Area, and Japan) central banks moved to tighten monetary conditions or, more appropriately put, to become "less loose." The U.S. Fed is well into its "unloosening cycle" after executing another 25 bps hike in March (sixth hike of this cycle) with two more hikes anticipated in 2018.

For more on our market commentary, read our first quarter Investment Grade Market Review and Outlook.

PERFORMANCE

The Virtus Seix U.S. Government Securities Ultra-Short Bond Fund (Class I) returned 0.33% for the quarter, matching the Bloomberg Barclays U.S. Treasury Bill 3-6 Month Index. Given the coupon-clipping nature of the quarter, with a modest amount of capital depreciation, relative performance tracked the Index.

CURRENT STRATEGY

There were no significant shifts in sector allocations during the first quarter of 2018. The Fund's floating rate exposure remained at 84%, holding at a relatively high percentage given the ongoing tightening cycle and consequent higher short-term market rates (particularly LIBOR). The three largest sector exposures remain agency commercial mortgage-backed security (CMBS) floaters (34.9%), agency collateralized mortgage obligation (CMO) floaters (30.9%), and post reset adjustable-rate mortgages (ARMs) (13.6%). The overall duration remains near the lower end of the band as well at 0.26 years. The Fed increased rates again in March as expected and short-term market rates adjusted accordingly. The first quarter saw 1- and 3-month LIBOR rates increase by 32 bps and 62 bps, respectively. Current market expectations are for the Fed to hike rates at least twice more in 2018.

OUTLOOK

With over 80% of the Fund's assets in floating rate securities, we are well positioned for additional Fed rate hikes. However, we are also keenly aware that as 2018 unfolds, there are many risks that remain, foremost among them being the threat the complacency bubble pops as the flow of global central bank liquidity abates. So far, the volatility spike in the equity markets has not carried over to the bond market, where there was minimal movement in the MOVE Index (the bond market equivalent of VIX) the past quarter. In this environment, we continue to acquire assets that represent safe income at a reasonable price.

The Fund is the successor of the RidgeWorth Seix U.S. Government Securities Ultra-Short Bond Fund, as a result of that fund's reorganization with and into the Fund on July 14, 2017.

Virtus Seix U.S. Government Securities Ultra-Short Bond Fund

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

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PORTFOLIO MANAGERS

James F. Keegan
Industry start date: 1982
Start date with Fund: 2014

Perry Troisi
Industry start date: 1986
Start date with Fund: 2014

Michael Rieger
Industry start date: 1986
Start date with Fund: 2014

SECTOR ALLOCATIONS

	% Fund
Mortgage Backed	89.75
Cash & Equivalents	3.34
Asset Backed	2.80
U.S. Treasury	2.44
Government Related	1.68

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 4/11/2002
Fund Class I	0.33	0.33	1.26	0.71	0.60	1.53	2.17
Index	0.33	0.33	1.07	0.59	0.39	0.46	1.42

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.

The fund class gross expense ratio is 0.56%. The net expense ratio is 0.42%, 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 0.41%.

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 **Bloomberg Barclays U.S. Treasury Bill 3-6 Month Index** measures performance of U.S. Treasury bills with a remaining maturity from one up to (but not including) 12 months. The index excludes zero coupon strips. 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: 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. **U.S. Government Securities:** U.S. government securities may be subject to price fluctuations. An agency may default on an obligation not backed by the United States. Any guarantee on U.S. government securities does not apply to the value of the fund's shares. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the repayment of underlying collateral. **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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