

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

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

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 U.S. Government Securities Ultra-Short Bond Fund I Shares return of 0.25% slightly underperformed the Bloomberg Barclays 3-6 month T-Bill Index return of 0.29% during the quarter. Year-to-date, the Fund has outperformed the Index with a return of 0.93% versus 0.60% for the Index. At quarter-end, the Fund held slightly more than 82% of its assets in floating rate securities. Additionally, the Fund's overall duration remained near the low end of its band at 0.32 years. The Fund should continue to benefit from the ongoing rate tightening cycle as short-term rates move higher. Year-to-date, 1-month LIBOR has moved up 0.46% while 3-month LIBOR is higher by 0.33%.

CURRENT STRATEGY

The Fund's exposure to post-reset adjustable-rate mortgages (ARMs) remained near the lower end of historical ranges as the market continues to underappreciate the prepayment risk associated with this sector. The Fund's overall allocation to this underperforming product has been reduced by over 8% during the year. Other sectors that offered more attractive spread income opportunities during the quarter were fixed-rate agency commercial mortgage-backed securities (CMBS) (added 1.6%) and agency Hybrid ARMs (added 1.1%). At quarter-end, the three largest sector exposures were agency CMBS floaters (31.8%), Agency collateralized mortgage obligation (CMO) floaters (31.2%), and post-reset ARMs (15.1%).

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 U.S. Government Securities Ultra-Short 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: 2014



Michael Rieger

Industry start date: 1986
Start date with the Fund: 2014



Perry Troisi

Industry start date: 1986
Start date with the Fund: 2014

SECTOR ALLOCATIONS

% Fund

Mortgage Backed	93.52
Cash & Equivalents	2.49
Asset Backed	2.18
Government Related	1.74
U.S Treasury	0.07

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 4/11/2002
NAV	0.25	0.93	1.07	0.55	0.48	1.74	2.20
Index	0.29	0.60	0.69	0.40	0.29	0.64	1.43

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 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 **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: 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. **U.S. Government Guarantees:** Apply only to the underlying securities of a fund's portfolio and not a fund's shares. **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. **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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