

Virtus Seix High Yield Fund

A: HYPX (92837F698) | I: SAMHX (92837F672) | R: HYSX (92837F680) | R6: HYIZX (92837F664)

MARKET REVIEW

The high yield sector produced solid results in the third quarter as investors continued to reach for yield in a still-low interest rate environment and against a favorable fundamental backdrop for the asset class. Though some reversal occurred intra-quarter, lower quality continued to outperform higher quality. By rating tier, CCC-rated issues posted a return of 2.74% versus the BB return of 2.05%. In terms of industries, energy, utilities, and metals & mining were the best performing industries with returns of 4.6%, 3.6%, and 3.4%, respectively. Telecommunications, food, and retail were the bottom performing sectors with returns of 0.1%, 0.3%, and 0.6%, respectively. The energy sector has generally underperformed year to date, but rising oil prices in September have turned the sector around. For more on our High Yield Market Review, [click here](#) to read Seix's third quarter Market Review and Outlook.

PERFORMANCE

The Fund's 1.98% return was 4 basis points ahead of the 1.94% third quarter return for the BofA Merrill Lynch High Yield BB/B Index. Among the positive contributors to the Fund's outperformance were an overweighting and favorable security selection in energy as oil prices firmed, especially in September. Also adding to the excess relative return was an

underweighting in telecommunications, especially wireline providers, and favorable security selection in the food and restaurant sectors. Partially offsetting these positive factors were the Fund's underweighting in metals & mining as well as the slight drag from holding a modest cash position in a rising market.

CURRENT STRATEGY

During the quarter, we took the opportunity to reduce select positions as prices rose and bonds hit our price targets, especially in the healthcare and satellite industries. We upgraded the Fund's energy exposure by selling down some issuers with higher leverage and reinvesting in better quality, more defensive companies. Issuers are tendering for bonds and, provided it is properly priced, we have been reinvesting the proceeds in the new issue from the same company.

OUTLOOK

If the fundamentals remain positive, we foresee a return environment going forward of "coupon clipping plus." Potential for tightening is limited at current valuation levels. One of the biggest wildcards is what happens to oil. If oil prices continue to rise, as they have in September, the energy sector may trade higher and provide some spread tightening. But opportunities are otherwise limited and selective.

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INVESTMENT ADVISER

Virtus Fund Advisers LLC

INVESTMENT SUBADVISER

Seix Investment Advisors LLC

INVESTMENT PROFESSIONALS



James FitzPatrick, CFA
Industry start date: 1996
Start date with the Fund: 2013



Michael Kirkpatrick
Industry start date: 1991
Start date with the Fund: 2007

SECTOR ALLOCATIONS

% Fund

Other Industries	49.26
Energy	15.92
Bank/Finance/Insurance	13.17
Healthcare	7.33
Telecom	6.70
Cable & Satellite TV	6.20
Cash & Equivalents	1.41

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 12/29/2000
NAV	1.98	6.07	7.39	4.00	5.19	6.20	6.89
Index	1.94	6.57	7.91	5.79	6.15	7.25	7.56

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.

The fund class gross expense ratio is 0.81%. The net expense ratio is 0.65%, 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 0.64%.

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 **BofA Merrill Lynch US High Yield BB-B Constrained Index** measures performance of BB/B U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and is restricted to a maximum of 2% per issuer. 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. **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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