Virtus Seix High Yield Fund

A: HYPSX (92837F698) | I: SAMHX (92837F672) | R: HYLSX (92837F680) | R6: HYIZX (92837F664)

MARKET REVIEW

The high yield sector posted a positive return in the fourth quarter but it was the weakest quarter of 2017. The quarterly return of 0.38% brought the year-to-date return to 7.48%, as measured by the ICE BofAML US Cash Pay High Yield Index. By credit quality, lower quality outperformed with BBs up +0.38%, Bs +0.60% and CCCs +0.72%. Energy (+2.00%), boosted by rising oil prices, was a leader on a sector industry basis, while telecommunications (-2.00%) and retail (-0.97%) lagged.

Gross issuance for the quarter was $72.5 billion, the lowest of the year. For 2017, issuance was $320 billion compared to $286 billion in 2016. Net issuance, however, was only $120 billion, the lowest level since 2011 ($110 billion). In terms of flows, 2017 saw outflows of $20.3 billion compared to inflows of $9.6 billion in 2016. ETFs, however, had inflows of $1.5 billion for 2017. Trading volumes have generally been good at $12 billion for the year, and dealer inventories at year end were about $5 billion. Overall, technical conditions for high yield are favorable with flexible supply able to adjust to modest demand.

Fundamentals for the high yield issuer universe continue to improve as evidenced by favorable year-over-year metrics for revenue and EBITDA growth, interest coverage, and leverage. The default rate has been creeping up slightly but reflects a number of large capitalization structures that were anticipated to default and were already priced into the market. The fundamental backdrop provides a good tailwind for high yield in spite of valuations that are close to post-Financial Crisis tights.

For more on our high yield market commentary, click here to read Seix's 4Q17 Leveraged Finance Market Review and Outlook.

PERFORMANCE

The Fund's 0.86% return was 47 basis points ahead of the 0.39% return of the ICE BofAML BB/B Cash Pay Constrained Index. The outperformance was due to the Fund's underweighting in telecommunications, especially wireline, and an overweighting in energy, as well as favorable security selection in healthcare and finance. As wireline issuers sold off mid-quarter, we took advantage of mispricing, added to positions, and profited when prices recovered. Partially offsetting these positive factors was unfavorable security selection in retail.

CURRENT STRATEGY

During the quarter, we again took the opportunity to reduce higher yielding, higher beta positions as prices rose and bonds hit our price targets. The allocation to specific energy companies with substantial links to oil price volatility was reduced and a significant position in a long held finance issuer was eliminated at a profit after the company announced it was for sale. Proceeds were reinvested in higher quality cable, healthcare, and less volatile energy issuers.

OUTLOOK

The potential for tightening is limited at current valuation levels. In this environment, we believe that playing defense is the most prudent course of action and we have positioned our portfolios accordingly, which includes an upgrade in quality. At the same time, we will take advantage of opportunities as they arise, such as price volatility or situations where an individual credit brings down an entire sector. The economy nonetheless continues to improve and issuer fundamentals are positive. As investors keep up their search for yield in a still-low interest rate environment, we think that a mid-single-digit return is a reasonable expectation for 2018.

The Fund is the successor of RidgeWorth Seix High Yield Fund, as a result of that fund's reorganization with and into the Fund on July 14, 2017.

Virtus Seix High Yield Fund

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Seix Investment Advisors LLC

INVESTMENT PROFESSIONALS

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

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

SECTOR ALLOCATIONS

SECTOR ALLOCATIONS	% Fund
Other Industries	47.99
Energy	16.02
Bank/Finance/Insurance	11.34
Telecom	8.18
Healthcare	6.97
Cable & Satellite TV	6.68
Cash & Equivalents	2.82

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 12/29/2000
NAV	0.86	6.99	6.99	4.85	4.55	6.32	6.84
Index	0.39	6.98	6.98	6.06	5.59	7.33	7.47

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 **ICE BofAML 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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