

## Virtus Seix High Income Fund

A: SAHIX (92837F748) | I: SHTX (92837F722) | R: STHIX (92837F730) | R6: STHZX (92837F714)

### MARKET REVIEW

The high yield sector posted a negative return (-0.86%) in the first quarter as measured by the Barclays U.S. Corporate High Yield Bond Index. Given only moderate spread widening, the move in U.S. Treasury rates during the quarter was the main driver of returns. On a credit quality basis, the higher-rated, more interest-rate sensitive segments of the market underperformed with BBs posting a return of -1.60% followed by Bs at -0.55%. While CCCs underperformed in March, they came out on top with a positive return of 0.30%. Among industries, Telecommunications (0.95%) and Healthcare (0.24%) led while laggards included Food (-1.72%) and Home Construction (-1.74%).

In terms of new issue activity, first quarter volume on a gross basis was about 25% lower than the year-ago period with a significant percentage being used for refinancing activity. The percentage of refinancing this year (74%) is higher than 2017 (64%), which means that the net amount to the high yield market is fairly low. In terms of demand, flows have been negative for the asset class.

Fundamentals for the high yield issuer universe continue to be favorable and are expected to remain so at least in the near term. Default activity, however, did pick up during the quarter, but was fairly concentrated and notably included Claire's stores and iHeart Communications.

For more on our high yield market commentary, read our [first quarter Leveraged Finance Market Review and Outlook](#).

### PERFORMANCE

The Virtus Seix High Income Fund's quarterly return of -0.90% was in line with the benchmark's -0.86% return. The positive effects of favorable security selection in finance, technology, and energy were offset by the negative effect of unfavorable security selection in telecommunications and retail.

### CURRENT STRATEGY

Though fundamentals are overall positive and technicals neutral, the potential for spread tightening is limited. As a strategic decision, we are focusing on upgrading the quality of portfolios. We are underweighted in CCC-rated bonds – in fact, one of our lowest weightings in this segment in the last several years. We do not see many industries where, we believe, investors in CCCs are being adequately compensated for the assumed risk. That said, market volatility presents potential opportunities to pick up incremental yield such as we did in March in the telecommunications and energy sectors. Aside from these one-off situations, however, our focus is on quality over yield.

### OUTLOOK

With fundamentals for most issuers continuing to be stable, we expect that defaults will remain below the historic average this year and in line with 2017. While high yield mutual fund flows have been negative, supply has been able to adjust while a segment of issuers tap the leveraged loan market where demand from CLOs stays robust. With the return of volatility in 2018, high yield behaved in line with expectations. As interest rates rose in the first quarter, high yield outperformed investment grade benchmarks (-0.86% vs. -1.46 for the Bloomberg Barclays Aggressive Bond Index) owing to the sector's lower duration and higher income. High Yield also offered returns not too different from equities (-0.76% for the S&P 500<sup>®</sup> Index) but at a much lower level of volatility (annualized standard deviation of 19.17 for the S&P 500 in March vs. 1.96 for high yield). We expect that uncertainty about interest rates and economic growth may continue to impact the path of high yield returns, but that the relatively stable fundamentals will anchor performance over the next twelve months.

## Virtus Seix High Income Fund

### INVESTMENT ADVISER

Virtus Fund Advisers LLC

### INVESTMENT SUBADVISER

Seix Investment Advisors LLC

### PORTFOLIO MANAGERS



**Michael Kirkpatrick**  
Industry start date: 1991  
Start date with Fund: 2011



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

### SECTOR ALLOCATIONS

% Fund

Other Industries	41.05
Energy	19.95
Financial Institutions	14.16
Healthcare/Pharmaceuticals	9.50
Telecommunications	7.26
Cable/Satellite	6.83
Cash & Equivalents	1.25

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 10/3/2001
Fund Class I	-0.90	-0.90	4.58	4.72	4.44	7.94	7.89
Index	-0.86	-0.86	3.78	5.17	4.99	8.27	8.34

**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 0.99%. The net expense ratio is 0.82%, 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 0.80%.

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](http://www.virtus.com).

Index: The **Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures fixed rate non-investment grade debt securities of U.S. corporations, 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. **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. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **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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