

Virtus Seix High Income Fund

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

MARKET REVIEW

Market moves in high yield during 3Q2023 mirrored much of 2023, albeit in a somewhat milder fashion. Overall spreads (+403) in high yield as measured by the ICE BofA US High Yield Index (HOAO) decreased by 2 basis points (bps) over the quarter. CCCs led the way, with spreads having compressed by 20 bps to +923 bps, while single-Bs tightened 9 bps to +419 bps and BBs widened by 11 bps over the quarter to +275 bps. Year-to-date, total return for CCCs is 12.71% versus 6.57% for single Bs and 4.37% for BBs. Though the economy has continued to support strong earnings and revenues, higher rates and the continued move of financially stronger rising stars out of high yield and into the investment grade sector have begun to drag down interest coverage ratios from their historical highs (in the 5.85x range for 3Q2022, per analysis provided by J.P. Morgan). While these numbers are softer (in the 5.25x range as of June 30, 2023), they are still comfortably above the historical average of the 4.48x range. Corporate management teams continue to prioritize balance sheet flexibility after having experienced issues during the 2008 Global Financial Crisis and the 2020 pandemic. Leverage overall remains low, at around 4.17x at the end of 2Q2023—off the lows of 3.92x in 1Q2023, but still at a healthy level.

We continue to position the portfolio with a defensive bias. Inflation, while off its highs, continues to negatively impact the average consumer as even staples are becoming more difficult to afford. Consumer debt has increased along with interest rates to create a negative spiraling effect on disposable income. Additionally, student loan payments will now be an issue as the nearly three-year deferment comes to an end. On a positive note, high yield defaults, as of August 31, 2023, sit at 2.4%, down 0.3% from the 2.7% at the end of 2Q2023. This comes off 0.8% from 2022 and 0.3% from 2021, according to J.P. Morgan, so given any unexpected financial crisis, we could end the year below our expected 3% rate for the space.

PERFORMANCE

The Virtus Seix High Income Fund (Class I), which we sub-advise, increased 0.95% for 3Q23—49 bps more than the Fund's benchmark, the Bloomberg U.S. Corporate High Yield Bond Index, which increased 0.46%.

Top contributors to relative performance included energy, building construction, and paper & packaging. The largest detractors to relative performance included retailers, gaming & leisure, and services/environmental.

For the year-to-date period, The Virtus Seix High Income Fund increased 6.68%—82 bps better than the Fund's benchmark, the Bloomberg U.S. Corporate High Yield Bond Index, which increased 5.86%.

The largest contributors to relative performance included building construction, telecommunications, and financials. The largest detractors to relative performance included retailers, industrials, and gaming & leisure.

Our longer-term objective is to provide a smoother ride with outperformance through the full credit cycle and the strongest relative performance generated during periods of dislocation when the market is offering a plethora of attractively priced securities.

CURRENT STRATEGY

We continue to find value in the higher-quality part of the high yield market. Furthermore, we continue to look for and find value in the following segments: fallen angels, orphan credits, small cap issuers, sectors that do not fit a traditional high yield analysis such as financials, and out-of-favor sectors and/or segments of the market.

We continue to maintain exposure to the higher-quality segments of the high yield market despite the underperformance. We continue to believe that this part of the market offers the best risk/reward profile as we progress through this period of uncertainty that includes the Federal Reserve continuing to maintain its hawkish bias in the face of increasing geopolitical tensions. We are favoring current income with fundamental downside protection given our view that while yields are attractive, spreads are not likely to materially tighten over the near term. We have also added to our bank loan exposure provided the higher income generation relative to pari-passu bonds.

OUTLOOK

Valuations are approaching attractive levels, with the high yield market now yielding in excess of 9% and BB yields approaching 8%. Consistent with our 2Q commentary, fundamentals have softened, but remain at healthy levels. Many corporate management teams have prioritized balance sheet flexibility consistent with the consensus view that a recession is on the horizon. Technicals remain solid largely due to relatively low issuance combined with a meaningful percentage of the high yield market having been upgraded to investment grade. We believe that we are finding attractively priced securities in the high yield market.

INVESTMENT ADVISER

Virtus Fund Advisers LLC

INVESTMENT SUBADVISER

Seix Investment Advisors

PORTFOLIO MANAGERS



Michael Kirkpatrick
 Industry start date: 1991
 Start date as Fund Portfolio Manager: 2011



James FitzPatrick, CFA
 Industry start date: 1996
 Start date as Fund Portfolio Manager: 2013

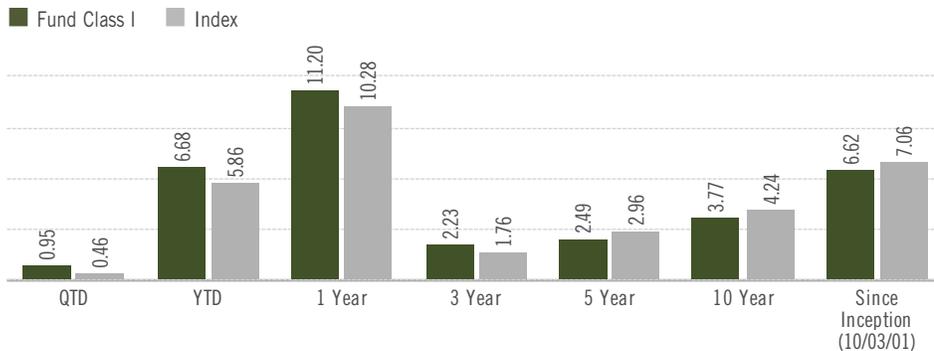
SECTOR ALLOCATION

% Fund

Energy	18.43
Financial	12.75
Gaming & Leisure	9.37
Cable Satellite	8.73
Transportation/Automotive/Aerospace	6.90
Building Construction	6.77
Retailers	3.87
Healthcare/Pharmaceuticals	3.73
Technology	3.66
Telecommunication	3.48
Hotels & REITS	3.37
Services/Environmental	2.96
Metals & Mining	2.34
Diversified Manufacturing/Other Industrial	2.31
Media Non Cable	2.21
Consumer Products/Textile/Tobacco	2.18
Paper & Packaging	1.96
Cash & Equivalents	1.86
Restaurants/Food/Beverage/Supermarkets	1.18
Chemicals	1.12
Utility	0.80

Sector weightings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 0.92%. The net expense ratio is 0.68%, which reflects a contractual expense reimbursement in effect through 4/30/2024.

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.

Index: The **Bloomberg 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.

The **ICE BofA U.S. High Yield Index (HOA0)** tracks the performance of U.S. dollar-denominated below investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating and an investment grade rated country of risk. The **ICE BofA BB U.S. High Yield Index (HOA1)** is a subset of HOA0 that includes all securities with a given investment grade rating BB. The **ICE BofA Single-B U.S. High Yield Index** is a subset of HOA0 that includes all securities with a given investment grade rating B. The **ICE BofA U.S. Distressed Index** is a subset of the ICE BofA High Yield Index, which includes any performing issues trading at an option-adjusted spread over 1000 basis points.

Seix Investment Advisors is a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser.

Notes on Risk: Credit & Interest: Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **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.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.

2195 10-23 © 2023 Virtus Mutual Funds