

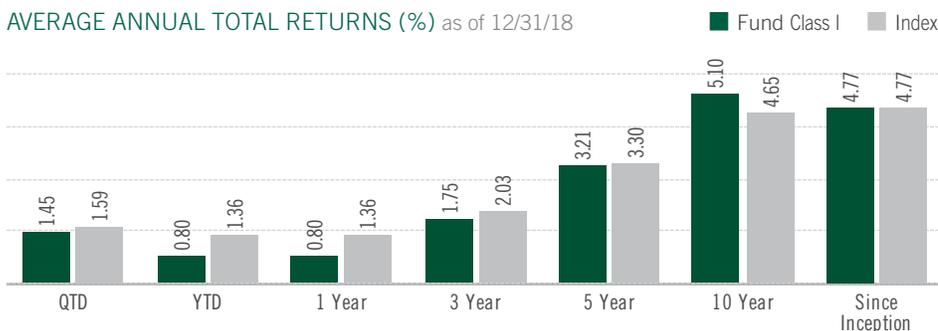
INVESTMENT OVERVIEW

The Fund seeks to provide a high level of current interest income exempt from federal income taxes consistent with the preservation of capital by primarily investing in a diversified portfolio of municipal bonds with varying maturities. Issuers are selected based on sector and geographic opportunity presented by regions experiencing economic stability.

KEY FEATURES

- Tax-Exempt Income** — Strives to generate income free from federal income taxes
- High-Quality Focus** — Emphasis on higher-rated tax-exempt municipal bonds, gauging each security by issue type, credit quality, and bond structure, with a focus on essential service issuers
- Extensive Research** — Macroeconomic and market trends provide context for fundamental credit research to identify the most attractive bond potential, with sector exposures set by relative valuations

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18



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.

Benchmark life performance is reported from 02/29/96.

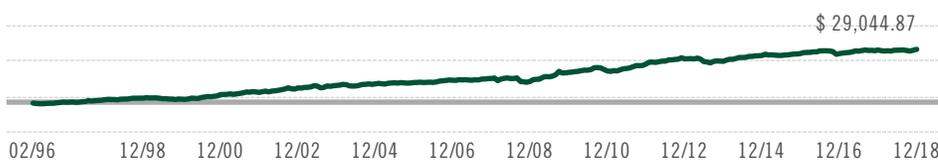
The fund class gross expense ratio is 0.77%. The net expense ratio is 0.60%, which reflects a contractual expense reimbursement in effect through 1/31/2019.

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.

ANNUAL PERFORMANCE (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fund	0.80	4.68	-0.16	2.64	8.30	-3.33	7.72	11.36	2.39	18.26
Index	1.36	4.53	0.24	3.07	7.46	-1.54	6.25	10.70	2.38	12.91

GROWTH OF \$10,000



This chart assumes an initial investment of \$10,000 made on 2/23/1996. As of 12/31/2018 the fund value would have been \$29,044.87. Fund performance assumes reinvestment of dividends and capital gain distributions. This growth reflects no front end sales charges.

FUND INFORMATION

	Ticker	CUSIP
A Shares	HXBZX	92828W312
C Shares	PXCZX	92828W296
I Shares	HXBIX	92828W288
Inception Date	02/23/96	
AUM (\$ millions)	137.0	
Number of Holdings	145	
Dividends	Daily	
Morningstar Category	Muni National Intern	
Lipper Category	General & Insured Municipal Debt Funds	
Index	Virtus Tax-Exempt Bond Fund Linked Benchmark	

MORNINGSTAR RATINGS

Time Period	# of Stars	# of Funds
Overall	★★★★	259
3 Year	★★★★	259
5 Year	★★★★	228
10 Year	★★★★	151

Strong ratings are not indicative of positive fund performance.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER



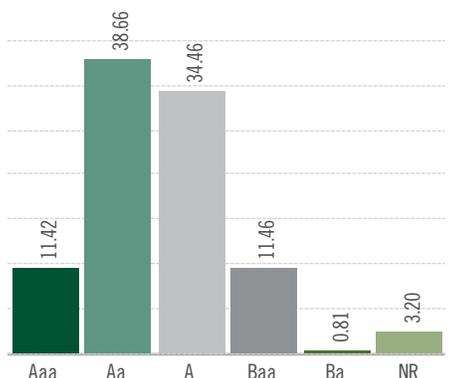
Newfleet Asset Management leverages the knowledge and skill of a team of investment professionals with expertise in every sector of the bond market, including evolving, specialized, and out-of-favor sectors. The team employs active sector rotation and disciplined risk management to portfolio construction.

PORTFOLIO MANAGERS

**Tim Heaney, CFA**  
Industry start date: 1990  
Start date with Fund: 2012

**Lisa Leonard**  
Industry start date: 1986  
Start date with Fund: 2012

**RATINGS DISTRIBUTION**



**CHARACTERISTICS**

Characteristic	Fund
Effective Duration	5.70
Weighted Average Maturity	6.03
SEC Yield <sup>1</sup>	2.16

<sup>1</sup> SEC Yield (Class I share only) represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. Performance figures represent a partial waiver/reimbursement of fees where applicable. Without the partial waiver/reimbursement of fees, performance figures would be lower and the SEC Yield would have been: 1.97%.

**TOP TEN HOLDINGS**

Holder	% Fund
Corpus Christi Independent School District, 4.0000% 08/15/2043	3.73
Metropolitan Washington Airports Authority Dulles Toll Road Revenue, 6.5000% 10/01/2041	3.64
State of Florida, 5.0000% 07/01/2031	3.51
New Jersey Economic Development Authority, 5.0000% 06/15/2022	2.37
Public Authority for Colorado Energy, 6.2500% 11/15/2028	2.02
Texas Municipal Gas Acquisition & Supply Corp II, 2.5300% 09/15/2027	2.01
Pennsylvania Turnpike Commission, 6.3750% 12/01/2038	1.80
Public Authority for Colorado Energy, 6.1250% 11/15/2023	1.74
Seminole County School Board, 5.0000% 07/01/2029	1.64
Maryland Health & Higher Educational Facilities Authority, 6.7500% 07/01/2029	1.51

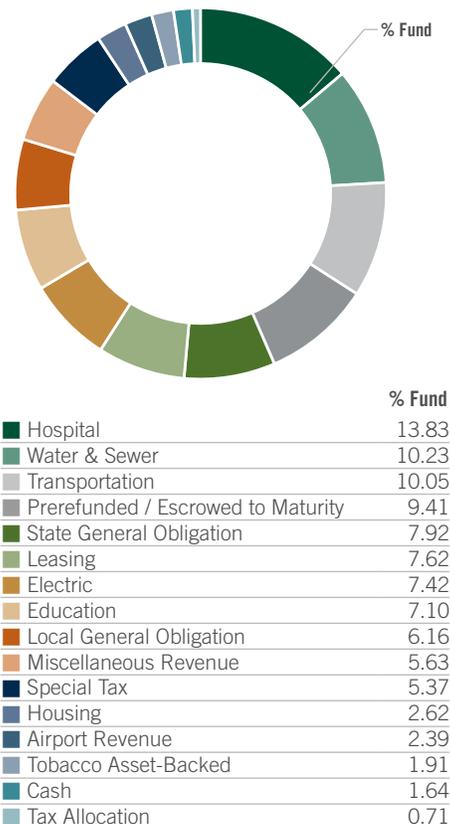
**DISTRIBUTIONS**

Month	NAV at Month-End
October 2018	\$0.027490 10.78
November 2018	\$0.027858 10.87
December 2018	\$0.023784 10.89

**RISK STATISTICS (3 YEAR)**

	Fund	Index
Alpha	-0.28	n/a
Beta	1.01	1.00
R <sup>2</sup>	0.99	1.00
Sharpe Ratio	0.26	0.36
Standard Deviation	2.93	2.89

**SECTOR ALLOCATIONS**



Holdings and sector weightings are subject to change.

**IMPORTANT RISK CONSIDERATIONS**

**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. **Municipal Market:** Events negatively impacting a municipal security, or the municipal bond market in general, may cause the fund to decrease in value. **State & AMT Tax:** A portion of income may be subject to some state and/or local taxes and, for certain investors, a portion may be subject to the federal alternative minimum tax. **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.

**GLOSSARY**

**Effective Duration:** The change in the value of a fixed income security that will result from a 1% change in interest rates while taking into account the way changes in rates will affect the expected cash flows of any bond with an embedded option such as call or prepayment option. This measure assigns a probability to the exercise of a call option, where applicable, based on specified shifts in the yield curve. Duration is expressed as a number of years, and generally, the larger the duration, the greater the interest rate risk or reward for a portfolio's underlying bond prices. **Weighted Average Maturity:** The length of time until the average security in a fund will mature, be redeemed by its issuer, or paid down over time, which is the case with most securitized assets. **Alpha:** A risk-adjusted measure of an investment's excess return relative to a benchmark. **Beta:** A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **R<sup>2</sup>:** A measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

**INDEX DEFINITION**

Index: The Virtus Tax-Exempt Bond Fund Linked Benchmark consists of the ICE BofAML 1-22 Year US Municipal Securities Index, a subset of the ICE BofAML US Municipal Securities Index including all securities with a remaining term to final maturity less than 22 years, 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. Performance of the Virtus Tax-Exempt Bond Linked Benchmark prior to 6/30/2012 is that of the Bloomberg Barclays Municipal Bond Index.

**RATINGS DISTRIBUTION METHODOLOGY**

The ratings issued by Nationally Recognized Statistical Rating Organizations assess the credit worthiness of a corporation's or government's debt issues. The ratings apply to the fund's holdings and not the fund itself. The higher of the ratings between Moody's, Standard & Poor's, and Fitch is used. If one of the three agencies does not have a rating, the higher of the other two ratings is used. If only one agency has rated the bond, the rating from that agency is used. If none of the three agencies have rated the bond, the bond is placed in the Not Rated category. Credit ratings are subject to change. Aaa, Aa, A, and Baa are investment grade ratings; Ba, B, Caa, Ca, C, and D are below-investment grade ratings.

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Morningstar Rating™ for funds, or 'star rating,' is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effect of sales charges and loads.

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