Virtus Newfleet Core Plus Bond Fund

A: SAVAX (92828R107) | C: SAVCX (92828R305) | I: SAVYX (92828R404) | R6: VBFRX (92828W270)

MARKET OVERVIEW

The first quarter brought bursts of optimism as the world continued its uneven recovery from the COVID-19 pandemic and the economic lockdowns that dominated 2020. Tremendous progress in the development of a vaccine and a thus far effective delivery system of administering doses to a meaningful proportion of the population have put the U.S. on a path to normalcy. During the quarter, some of the uncertainties in domestic politics were resolved as the new administration accomplished the much anticipated next round of fiscal stimulus to keep the economic recovery on track. The $1.9T American Rescue Plan Act was signed into law on March 11 and delivered another round of direct payments to individuals, enhanced unemployment benefits, and aid to states. Further stimulus measures may take shape in the months ahead as political dialogue turns toward infrastructure.

Markets have shifted their focus to the implications for the future, which included some rotation in U.S. equity markets and a renewed debate on the global outlook for inflation. We believe that base effects related to last year's disruptions will lead to elevated inflation readings in the near term, but we expect those data points will be transitory and likely to fade into the second half of the year. Secular developments in technology and the effects of globalization continue to help keep prices contained, and cyclical components such as unemployment and broad resource slack will help cap inflationary pressures as well. This view is reinforced by a U.S. Federal Reserve that remains dovish and committed to keeping policy accommodation in place until it achieves its mandates on both inflation and employment. We believe that policymakers globally will remain supportive of continued economic recovery.

In our view, economic activity and corporate earnings will continue to rebound over the course of the year. Financial markets were mixed during the quarter. We believe sector and issuer selection in this environment is critical and favors active over passive management. Elevated cash levels and a high degree of personal savings will be a tailwind to growth.

Most spread sectors outperformed U.S. Treasuries during the quarter led by those with less interest rate sensitivity such as corporate high yield, bank loans, and securitized product. While there was no clear performance trend between rating tiers, there were notable exceptions within high yield, bank loans, and most securitized sectors, where lower quality generally outperformed. Shorter duration also outperformed.

We continue to see value in spread sectors. While the pandemic has proven disruptive to economies, we have seen a robust response from policymakers and signs of a return to normalcy. Our multi-sector approach to fixed income investing enables us to scan the bond market for the most attractive investment opportunities wherever they may be and is ideally suited for the current environment.

For more detail on the macroeconomic backdrop and specific sectors, see Newfleet's 1Q21 Market Review & Outlook on Virtus.com.

HOW THE FUND PERFORMED

The Fund (Class I) returned -2.39% in the first quarter versus the Bloomberg Barclays U.S. Aggregate Bond Index return of -3.37%.

Positive Contributors

> Underweight U.S. Treasury and agency mortgage-backed securities (MBS) and overweight spread sectors.

> Allocation to, and issue selection within, the asset-backed security (ABS) sector. Demand for short duration assets persisted throughout the quarter as interest rates increased during the period. The U.S. consumer continues to perform extremely well. Technicals across securitized product remain extremely favorable with new issue deal flow being met with insatiable demand.

> Allocation to the high yield bank loan sector. The sector benefited from the steepening interest rate curve and additional stimulus. The technical picture remains supportive as a combination of collateralized loan obligation (CLO) issuance and positive retail fund flows provided sufficient demand for new issuance, net of repayments.

> Allocation to the corporate high yield sector. While all of the factors remain in place for a continued rally in high yield—vaccine availability, a supportive Fed, economic recovery, and stimulus—rising U.S. interest rates remain a hurdle. Fourth quarter earnings releases remain strong.

Detractors

> Issue selection and the higher quality positioning within both high yield bank loans and corporate high yield securities. While allocation to each sector was beneficial, issue selection in both was a detractor relative to performance versus the index as lower quality within each sector outperformed.

> While the allocation to residential mortgage-backed securities (RMBS) in favor of agency MBS was beneficial, the underweight to the RMBS sector when compared to the benchmark's exposure to MBS slightly detracted from performance.

CURRENT FUND STRATEGY

Sector Changes: We reduced exposure to corporate high quality, agency MBS, U.S. Treasuries, and taxable municipal bonds. We increased exposure to high yield bank loans, corporate high yield, RMBS, commercial mortgage-backed securities (CMBS), and ABS.

Non-U.S. Exposure: The overall non-U.S. exposure within the Fund remained relatively unchanged and remains well below historical averages. During the quarter, Emerging Markets(EM) debt returns were primarily U.S. Treasury rate driven. EM high yield, having a higher spread/carry and lower duration, outperformed the investment grade component of the sector, which has more sensitivity to interest rates. We continue to favor sovereigns in larger capital structures and prefer hard currency over local market exposure.

Corporate High Quality: An 83 basis points (bps) move higher in the 10-year Treasury rate, combined with a duration of 8.5 years, meant a difficult start to the year for the asset class. There simply was not enough initial spread to offset the rate move. Spreads were essentially flat quarter-over-quarter at +97 bps, thus remaining 30 bps through longer-term averages. Rate volatility caused a reduction in mutual fund inflows (though still surprisingly positive) and likely spooked foreign buyers as well. Supply, meanwhile, was equivalent to last year's record pace as issuers continued to opportunistically tap the new issue markets. Fundamentals are the bright spot with strong fourth quarter earnings and a robust outlook (consensus earnings growth for 2021 is 25%). Valuations remain constrained and the asset class is highly sensitive to rates. We have steadily reduced exposure, though we still see attractive opportunities within the BBB segment of the market, often in the more COVID-19-sensitive industries.

Corporate High Yield: The corporate high yield market continued its post-vaccine rally into 2021. However, index returns peaked in mid-February and gave up half the gains in the second half of the quarter as rising risk-free rates cut into returns and offset carry income. Lower quality bonds continued to outperform, led by CCCs—a result of high spreads that ground tighter and limited interest rate risk. With the sustained rally in crude prices, energy was the largest outperformer during the quarter while other COVID-19-impacted sectors such as airlines, aerospace & defense, and leisure also outperformed. Fundamentals remain at very poor levels in terms of leverage but liquidity positions are strong given high levels of cash on balance sheets. The outlook is favorable given expected earnings growth. We continue to view high yield constructively given the yield, lower interest rate risk, and economic expansion, despite spreads appearing rich relative to history and yields near all-time lows. We have maintained a meaningful allocation to the sector and have added to wider-trading industries such as energy, airlines, and cruise lines.

Securitized Product: We have positioned our securitized book of business to reflect the two areas of the economy where the fundamentals are strong: the U.S. consumer and housing. We have a significant overweight to ABS and non-agency RMBS. The U.S. consumer has several tailwinds

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at their back: low borrowing rates, record savings rates, unemployment trending lower, and the benefit of a third stimulus payment. The U.S. consumer debt service is near the lowest point in history. With respect to housing, we continue to see the tailwinds of low mortgage rates and limited supply. Housing also benefits from positive secular changes as the pandemic has increased demand. Both ABS and RMBS started out the year strong with spreads tightening during the first five weeks. Both sectors are invested in shorter-duration assets and have outperformed year to date versus longer-duration assets. For the remainder of 2021, we envision more of a coupon-clipping environment.

OUTLOOK

As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments. COVID-19, like other events that trigger volatility in the market, can affect valuations and create opportunities that we can take advantage of in the course of implementing our multi-sector relative value approach. We highlight the importance of credit selection and positioning in the current environment. Given the widening in spreads late in the first quarter of 2020, valuations had cheapened substantially and we continue to identify opportunities in spread sectors, including those within non-investment grade sectors that we have added to and may continue to add to in the Fund. Even with the recovery since the end of March 2020, we remained focused on credits that would benefit the most from a continued economic recovery. We believe some of the best total return and yield opportunities in fixed income can be found in spread sectors. Some of the specific sectors where we are finding the best relative value opportunities are out-of-index/off-the-run ABS, non-agency RMBS, high yield bank loans, corporate high yield, and BBB rated corporate investment grade.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management, LLC

PORTFOLIO MANAGERS

David L. Albrycht, CFA
Industry start date: 1985
Start date as Fund Portfolio Manager: 2012

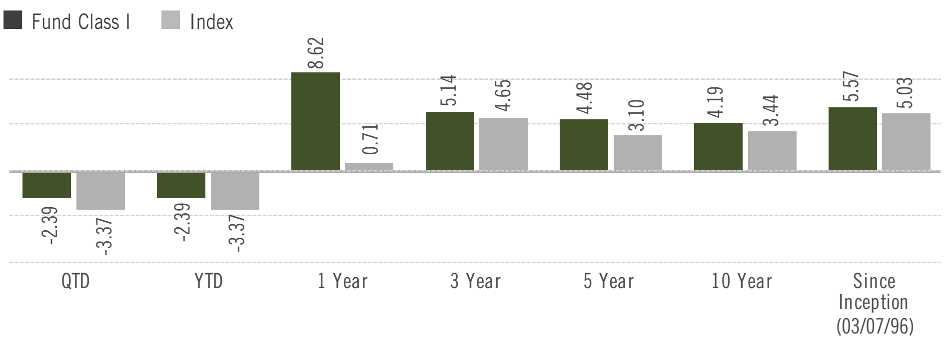
Stephen H. Hooker, CFA
Industry start date: 1993
Start date as Fund Portfolio Manager: 2017

SECTOR ALLOCATIONS

SECTOR ALLOCATIONS	% Fund
Corporate - High Quality	22.70
Non-Agency Residential MBS	20.29
Treasury	13.70
Corporate - High Yield	12.94
Asset Backed Securities	10.18
Bank Loans	9.45
Non-Agency Commercial MBS	4.40
Emerging Market - High Yield	1.72
Taxable Municipals	1.40
Yankee - High Quality	1.39
Mortgage Backed Securities	1.04
Cash	0.78

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/21



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 0.80%. The net expense ratio is 0.55%, which reflects a contractual expense reimbursement in effect through 2/1/2022.

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 Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. 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: 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. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the non-repayment of underlying collateral, including losses to the portfolio. **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. **Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans are subject to credit and call risk, may be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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