ACTIVATE YOUR FIXED INCOME

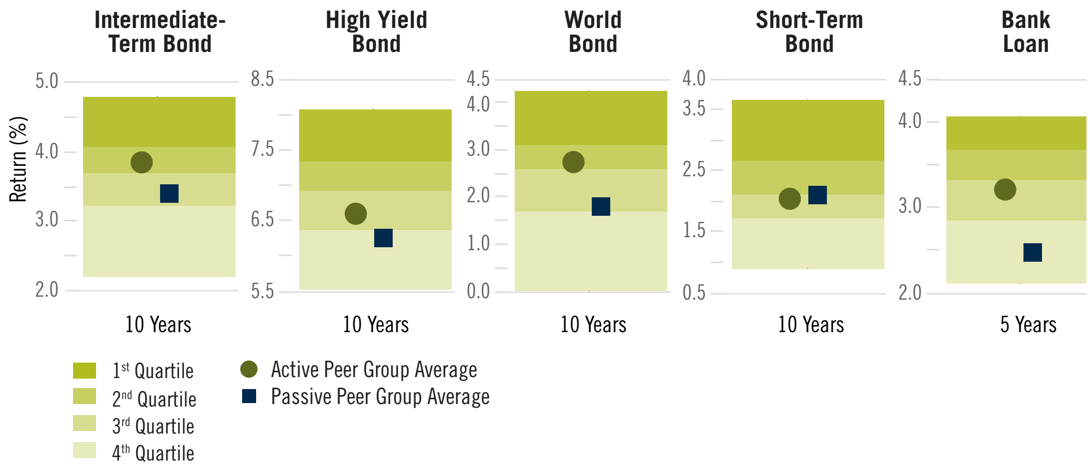
VIRTUS FUNDS

Amid growing uncertainty, investors have shown greater interest in bond funds[1] but must contend with a variety of risks as central banks around the world continue to implement unprecedented negative rate policies and the Federal Reserve remains accommodative.

HERE'S A GUIDE TO WHY ACTIVE MANAGEMENT MATTERS.

In building a versatile multi-affiliate model, Virtus Investment Partners has drawn on active fixed income managers with proven records in specialized strategies investing in all kinds of market conditions. Passive, index-tracking approaches have tended to fall short when it comes to adjusting to duration, credit, liquidity, and trading risks. After all, passive funds are forced to buy a fixed income index, which often just reflects who is issuing the most debt without giving regard to a) how much debt they should have, b) what the company does, or c) what interest rate they pay on it.

Most Active Fixed Income Managers Have Outperformed Passive Funds



Past performance is no guarantee of future results. Source: Morningstar as of 11/1/19.
Performance is annualized and calculated net of fees for all institutional share class funds in the Morningstar Category as of 9/30/2019, over a 10-year period or since inception of the oldest fund. Oldest fund inception for bank loan 4/1/2011.

❶ ACTIVE FLEXIBILITY

Active funds accounted for 75% of the fixed income assets under management as of December 31, 2018, according to Simfund—with good reason. Active fixed income managers generally have the flexibility, agility, and tools to pivot toward under-researched opportunities and relative values, especially as macro risks intensify and investment-grade corporate debt issuers are downgraded. Remember: bonds on the corporate side can migrate between different indexes—causing buying and selling by passive funds. Having an active manager who isn't forced to do anything and understands the dynamics of both markets underscores the potential to generate alpha from those migrations.

❷ RIGOROUS RESEARCH: BOTTOM-UP FOCUSED/TOP-DOWN AWARE

Fundamental research on corporate credits includes: an understanding of the dynamics of a given industry; the state of an issuer's balance sheet; the quality of the assets on that company's balance sheet; the quality and trustworthiness of management and their insightfulness in responding to change in their industry; and financing needs relative to the liquidity of the investment market.

[1] Source: EPFR Global, BofA Merrill Lynch Global Research.

❸ SECTOR AND SECURITY SELECTION: DISCIPLINE DURING VOLATILITY

Manager selection matters. In the multi-sector space, Newfleet Asset Management searches for relative value opportunities across the fixed income market, allocating tactically among sectors and maneuvering quickly as conditions change.

With U.S. government securities, Seix Investment Advisors typically seeks to lower duration risk while emphasizing income, quality, diversification, and liquidity via securities with the strongest risk/reward profiles.

Mortgage security selection at both Newfleet and Seix emphasizes income, quality, diversification, and liquidity in securities expected to perform well in both rising and falling markets.

Leveraged credit selection at Newfleet and Seix—be it high yield or bank loans—is driven by bottom-up analysis of individual bond or loan quality, credit risk, business viability, financial strength, and capital structure.

❹ RISK MANAGEMENT

Newfleet and Seix invest a great deal of effort in identifying and measuring risk. That includes careful attention to increased leverage, duration, credit, inflation, and interest rate risks. It also entails strict controls around portfolio construction, sell discipline, and trading strategy to mitigate downside exposure.

❺ LIMITATIONS OF PASSIVE

- Replicating the fixed income markets on a massive scale has the potential to cause severe market risk and capital misallocation.
- Cap-weighted fixed income indexes are biased toward the biggest debtors, and high levels of debt often signal an issuer's weaker credit quality.
- As volatility increases, passive strategies, particularly ones that concentrate on heavily leveraged, large-cap companies, may be vulnerable to liquidity crunches.
- Indiscriminate buying and selling due to investment inflows or outflows (regardless of fundamentals) has the potential to hurt performance of fixed income index funds and ETFs.
- Meanwhile, passive fixed income strategies that focus on investment grade securities may exclude a significant part of the investible market.

> As passive bond funds mechanically replicate the index weights in their portfolios, their growth will generate demand for the debt of the larger, and potentially more leveraged, issuers. From a financial stability perspective, there is a concern that this can act procyclically and encourage aggregate leverage.
>
> –Bank for International Settlements[2]

[2] Bank for International Settlements, "The implications of passive investing for securities markets," *BIS Quarterly*, March 2018. Established in 1930, the Bank for International Settlements is owned by 60 central banks representing countries from around the world that together account for about 95% of world GDP. Its mission is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas, and to act as a bank for central banks.

VIRTUS FIXED INCOME

We believe investment professionals operating in boutique environments that allow for the appropriate focus and culture generate sustainable, superior returns for their clients. Our boutique affiliates maintain autonomy over their investment process, structure, culture, brand identity, and day-to-day activities, with access to best-in-class shared resources.

As of September 30, 2019, Virtus fixed income managers had $32.9 billion in assets under management— $12.9 billion in investment grade (including liquidity strategies), $12.7 billion in leveraged finance; and $7.3 billion in multi-sector strategies.

Newfleet provides comprehensive fixed income portfolio management, including multi-sector, enhanced core, core plus strategies, and dedicated sector strategies such as bank loans and high yield. **Seix** employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines, and trading strategies, with prudent risk management as a cornerstone.

Newfleet and Seix were honored with 2019 Lipper Fund Awards for demonstrating consistent, strong returns relative to their peers based on performance through November 30, 2018. The Virtus Newfleet Multi-Sector Short Term Bond Fund was recognized for 10-year performance in the Short-Intermediate Investment-Grade Debt category. The Virtus Seix Short-Term Municipal Bond Fund was cited for its 10-year performance in the Short Municipal Debt category.

Virtus ETF Solutions provides greater income diversification opportunities through hard-to-manage and difficult-to-access sectors of the market, such as infrastructure, real estate, and master limited partnerships.

Duff & Phelps is widely known for its income strategies, including a closed-end utility and corporate bond fund and a tax-free income fund that invests primarily in a diversified portfolio of investment-grade tax-exempt obligations.

Newfleet ASSET MANAGEMENT A Virtus Investment Partner

SEIX INVESTMENT ADVISORS LLC® A VIRTUS INVESTMENT PARTNER

Virtus ETF Solutions

DUFF & PHELPS INVESTMENT MANAGEMENT CO. A VIRTUS INVESTMENT PARTNER

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. **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. **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 repayment of underlying collateral. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political, and other developments affecting the fiscal stability of that location. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Municipal Market:** Events negatively impacting a municipal security, or the municipal bond market in general, may cause the fund to decrease in value. **State Tax & AMT:** 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. **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 can carry significant credit and call risk, can be difficult to value and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Leverage:** When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Liquidity:** Certain securities may be difficult to sell at a time and price beneficial to the fund. **Prospectus:** For additional information on risks, please see the fund's prospectus.

Lipper Fund Award Winners for the 10-year period in the Short-Intermediate Investment-Grade Debt category and 10-year performance in the Short Municipal Debt category. The Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The highest 20% of funds in each category are named Lipper Leaders for Consistent Return and receive a score of 5, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2 and the lowest 20% are scored 1. For Lipper Best Individual Funds, the highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner for each time period. For a detailed explanation, please review the Lipper Leaders methodology document at www.lipperfundawards.com. Lipper, Inc. is a nationally recognized organization that ranks the performance of mutual funds. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. 32 Short-Intermediate Investment Grade Debt Funds were eligible for the 10-year period.

Investing involves risks and the possible loss of principal. This report is based on the assumptions and analysis made and believed to be reasonable by the Adviser. However, no assurance can be given that the Adviser's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities.

Please carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

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