# VIRTUS VIEWPOINTS

**MARCH 24, 2020 COMMENTARY**

VIRTUS FUNDS

## Virtus Newfleet Low Duration Core Plus Bond Fund

A: HIMZX (92828W346) | C: PCMZX (92828W338) | I: HIBIX (92828W320) | R6: VLDRX (92828W197)

## Virtus Newfleet Multi-Sector Short Term Bond Fund

A: NARAX (92828R644) | C: PSTCX (92828R628) | C1: PMSTX (92828R594) | I: PIMSX (92828R610) | R6: VMSSX (92828W247)

## Virtus Newfleet Multi-Sector Intermediate Bond Fund

A: NAMFX (92828R677) | C: NCMFX (92828R651) | I: VMFIX (92828R289) | R6: VMFRX (92828W544)

### PERFORMANCE REVIEW from 2/20/2020 to 3/18/2020

The performance drivers were very similar for the Virtus Newfleet Low Duration Core Plus Bond Fund, Virtus Newfleet Multi-Sector Short Term Bond Fund, and Virtus Newfleet Multi-Sector Intermediate Bond Fund. The biggest difference between the Funds with regard to performance attribution is the Virtus Newfleet Low Duration Core Plus Bond Fund has the lowest allocation to riskier credit sectors such as corporate high yield, bank loans, and emerging markets high yield. In terms of positioning, the Fund typically tends to invest in BB or higher rated securities. The Virtus Newfleet Multi-Sector Short Term Bond Fund will have less in the riskier credit sectors and positioning will be more conservative than the Virtus Newfleet Multi-Sector Intermediate Bond Fund.

The performance for the three Funds, but especially the Virtus Newfleet Low Duration Core Plus Bond Fund and Virtus Multi-Sector Short Term Bond Fund, had held up better when compared with peers and their performance attribution benchmarks (benchmark) up until the last week. What changed in the last week was that some of the higher-quality sectors such as corporate investment grade, asset-backed securities (ABS), and non-agency mortgage-backed securities (MBS) experienced a more significant spread widening. Compared with their benchmarks, all three Funds have more cumulative exposure to these sectors.

**Virtus Newfleet Low Duration Core Plus Bond Fund:** From a high level, the overweight spread sectors and underweight U.S. Treasuries (USTs) relative to the Fund's benchmark and relative to peers was a primary driver of the relative underperformance. From an individual sector perspective, the overweight in corporate high yield and bank loans, relative to the benchmark and the majority of the peers, most negatively impacted performance. The higher-quality focus within corporate high yield and bank loans and minimal exposure to emerging markets lessened the negative impact on the Fund. The underweight relative to the benchmark (and likely most peers) to agency MBS detracted from performance. The Fund's overweight relative the benchmark to ABS and non-agency residential mortgage-backed securities (RMBS) also negatively impacted performance, as these sectors underperformed USTs (as did all spread sectors). Although the Fund has a higher quality focus within both sectors (AA3 average quality for ABS and AA2 average quality for RMBS), the ABS holdings underperformed the ABS component of Bloomberg Barclays Intermediate Aggregate Index, which is primarily AAA prime credit cards and prime autos. The RMBS holdings in the Fund underperformed AAA agency RMBS component of the Index.

Within corporate high yield and bank loans, the Fund's exposure to the energy sector remains low at 0.04%. This is comprised of one credit in oil field services within the high yield asset class. In addition, within high yield and bank loans, the Fund has no exposure to unsecured airline bonds, restaurants, retail, and leisure related industries and very minimal exposure to the lodging industry.

**Virtus Newfleet Multi-Sector Short Term Bond Fund:** From a high level, the overweight spread sectors and underweight USTs relative to the Fund's benchmark and relative to peers was a primary driver of the relative underperformance. From an individual sector perspective, the overweight in corporate high yield, emerging market debt, and bank loans relative to the benchmark and the majority of the peers most negatively impacted performance. The higher-quality focus within corporate high yield, bank loans, and especially in emerging market debt, lessened the negative impact on the Fund. Also, the underweight relative to the benchmark (and likely most peers) to agency mortgage-backed securities detracted from performance. The Fund's overweight relative the benchmark to ABS and non-agency RMBS, also negatively impacted performance as these sectors underperformed USTs (as did all spread sectors). Although the Fund has a higher quality focus within both sectors (A1 average quality for ABS and AA3 average quality for RMBS) the ABS holdings underperformed the ABS component of Bloomberg Barclays Intermediate Aggregate Index, which is primarily AAA prime credit cards and prime autos, and the RMBS holdings in the Fund underperformed AAA agency residential MBS component of the index.

Combined within corporate high yield and bank loans, the Fund's exposure to the energy sector is relatively low at 0.65%. The mix of credit is also considerably more conservative than the high yield index and is more heavily weighted to midstream. In addition, within high yield and bank loans, the Fund has no exposure to unsecured airline bonds and minimal exposure to restaurants, retail, and leisure-related industries.

**Virtus Newfleet Multi-Sector Intermediate Bond Fund:** From a high level, the overweight spread sectors and underweight USTs relative to the Fund's benchmark and relative to peers was a primary driver of the relative underperformance. From an individual sector perspective, the overweight in corporate high yield, emerging market debt, and bank loans relative to the benchmark and the majority of the peers most negatively impacted performance. The more aggressive positioning in corporate high yield and emerging market debt detracted from performance. Also, the underweight relative to the benchmark (and likely most peers) to agency MBS detracted from performance. The Fund's overweight relative the benchmark to ABS and non-agency RMBS also negatively impacted performance as these sectors underperformed USTs (as did all spread sectors). Although the Fund has a higher quality focus within both sectors (A3 average quality for ABS and AA3 average quality for RMBS), the holdings are more credit sensitive than those in the Virtus Newfleet Multi-Sector Short Term Bond Fund. The ABS holdings underperformed the ABS component of Bloomberg Barclays Aggregate Index, which is primarily AAA prime credit cards and prime autos, and the RMBS holdings in the Fund underperformed AAA agency RMBS component of the Index.

Combined within corporate high yield and bank loans, the Fund's exposure to the energy sector is relatively low at 1.99% and is slightly underweight the high yield and bank loan index weighting. In addition, within high yield and bank loans, the Fund has no exposure to unsecured airline bonds and minimal exposure to restaurants, retail, and leisure-related industries.

### SUMMARY

The three Funds invest more in spread sectors than their respective benchmarks and generally have more invested in spread sectors than the majority of their peers. However, the Funds had shifted to a higher-quality focus (Virtus Newfleet Low Duration Core Plus Bond Fund to a lesser extent due to its higher-quality nature) over the last 18+ months based on tighter valuations within most sectors and are near the low end of their historic range in total below investment grade exposure and total emerging market debt.

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## Virtus Newfleet Low Duration Core Plus Bond Fund
## Virtus Newfleet Multi-Sector Short Term Bond Fund
## Virtus Newfleet Multi-Sector Intermediate Bond Fund

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### INVESTMENT ADVISER
Virtus Investment Advisers, Inc.

### INVESTMENT SUBADVISER
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### PORTFOLIO MANAGERS
**Virtus Newfleet Low Duration Core Plus Bond Fund**

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

**Benjamin Caron, CFA**
Industry start date: 1997
Start date as Fund Portfolio Manager: 2012

**Lisa M. Baribault**
Industry start date: 2003
Start date as Fund Portfolio Manager: 2017

### PORTFOLIO MANAGER
**Virtus Newfleet Multi-Sector Short Term Bond Fund**
**Virtus Newfleet Multi-Sector Intermediate Bond Fund**

**David L. Albrycht, CFA**
Industry start date: 1985
Start date as Fund Portfolio Manager:
2013 and 2014, respectively

As relative value, multi-sector investors, historically our strategies tend to underperform during prolonged periods of flight to quality, both relative to our broad-based benchmarks and respective peer groups. While past performance is not indicative of future results, our investment approach of buying attractively valued assets cheaply through active sector rotation has been in place for nearly three decades. And, over this time, the strategy has proven to significantly outperform after these short-term periods of underperformance. We continue to advise clients to stay the course and consider dollar cost averaging into the Funds over the coming months rather than trying to time the markets for the appropriate reentry point.

### MARKET SUMMARY

The spread of the coronavirus, the negative effect it has had on global economic growth, and the fear it created in the market has caused fixed income spreads to widen significantly year to date. Valuations have cheapened significantly and are now at levels not seen since the financial crisis during 2008/2009. For example, investment grade corporates have widened from +95 over USTs to +329; corporate high yield widened from +331 to +979; investment grade emerging market debt widened from +162 to +408; and high yield emerging market debt widened from +506 to +1136. In addition, the average price on bank loans has gone from $96.76 on 12/31/2019 to $78.40 currently. We are now seeing some of the most attractive opportunities in investment grade corporate bonds, corporate high yield, bank loans, and both investment grade and high yield emerging market debt. We are also starting to see multiple opportunities in other fixed income spread sectors such as ABS and non-agency RMBS as spreads have widened. With the heightened uncertainty and volatility in the fixed income markets, individual credit and country selection will be as critical as determining which sectors to overweight for the remainder of 2020.

As of 3/19/20, we had not added to spread sectors such as corporate high yield, bank loans, and emerging market debt. Given the widening in spreads over the last month, valuations have cheapened substantially and we are identifying opportunities in spread sectors, including opportunities within non-investment grade sectors that we may add to the portfolios. However, we are taking a conservative approach with regard to adding to these sectors given the uncertainty of the effects of the coronavirus on global growth and the overall financial markets.

**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.**

Virtus Newfleet Low Duration Core Plus Bond Fund Index: The **Virtus Newfleet Low Duration Core Plus Linked Benchmark** consists of the ICE BofA 1-5 Year US Corporate & Government Bond Index which tracks the performance of U.S. dollar denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 5 years, calculated on a total return basis. Performance of the Virtus Newfleet Low Duration Core Plus Linked Benchmark prior to 2/1/2017 is that of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index.

Virtus Newfleet Multi-Sector Short Term Bond Fund Index: The **ICE BofA 1-3 Year A-BBB U.S. Corporate Index** measures performance of U.S. corporate bond issues rated A1 through BBB3, inclusive (based on an average of Moody's, S&P, and Fitch), with a remaining term to final maturity less than three years.

Virtus Newfleet Multi-Sector Intermediate Bond Fund Index: The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market.

The **Bloomberg Barclays U.S. Intermediate Aggregate Bond Index** measures securities in the intermediate maturity range of the U.S. investment grade fixed rate bond market.

Performance of all cited indexes is calculated on a total-return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are 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. **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. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **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. **Market Volatility Risk:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the fund and its investments, including hampering the ability of the fund's portfolio manager(s) to invest the fund's 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.

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