Longevity vs. Liquidity

Why Retirement Planning Should Include an Income and Growth Fund

Between chronic low rates, wariness about owning equities, rising inflation, and longer life expectancy, investors planning for retirement may want to make an income and growth fund a core holding.

Despite rising life expectancy, many investors are investing too conservatively and may be hard pressed to retire comfortably.

While some Baby Boomers (born 1946-64) have de-risked (or drawn down) their portfolios during the pandemic recession, Generation X (born 1965-1980) and Millennials also face longevity risk. According to the Society of Actuaries (SOA), one out of three males and one out of two females in their mid-50s today will live to be 90. For Millennials (born 1981-1996), steady advances in medical technology and healthy living could result in even longer lifespans, the Stanford Center on Longevity reports.

How much of their income those cohorts will be able to replace once they stop working could be quite a challenge. With equities poised for a mean reversion, some investors are heading into retirement with a traditional core/core-plus fixed income portfolio. All too often, they focus more on striving to mitigate volatility than on managing the interest rate or duration risk inherent in an “AGG”-type portfolio; i.e., one indexed to the Bloomberg Barclays Aggregate Bond Index. Little do they realize that excessive reliance on fixed income investing in a rising cost retirement will likely deplete savings, reduce purchasing power, and exhaust capital. Target date funds that shift investors to a 60% AGG-like fixed income/40% equity allocation as they approach retirement may exacerbate such risk.

Against that backdrop, only 48 percent of the workers polled in the 2020 Employee Benefit Research Institute Retirement Confidence Survey report they and/or their spouse have ever tried to calculate how much money they will need to have saved so that they can live comfortably in retirement. Meantime, the Center for Retirement Research at Boston College says 50 percent of households are “at risk” of not having enough to maintain their living standards in retirement. Add in potential health care expenditures and the share of households at risk could be even higher.

Getting Real about Real Returns

Consider the contrast between income from $1 million in a 10-Year Treasury Note in January 2000 ($67,000) versus January 2021 (about $10,000). The real return from the 10-year in 2000 was 3.3%; two decades later, the real return on that same Treasury Note is just under -0.4% (with the U.S. Department of Labor pegging inflation at 1.4% for the 12 months ended December 2020).

Granted, inflation and rates have picked up lately, but the field of yields has shrunk: Over 60% of government bonds around the world yield less than 1%; over 30% below zero—all of which underscores investors' need to either seek more duration or lower quality to get more yield, which in turn increases risk.

How do you balance the need for income in light of this situation? Inflation complicates matters further. At trend line inflation, it has been estimated that living costs over a 30-year, two-person retirement will go up somewhere between 2.25 and 2.40 times, overwhelming a fixed income portfolio and exhausting capital.

The Income & Growth Opportunity

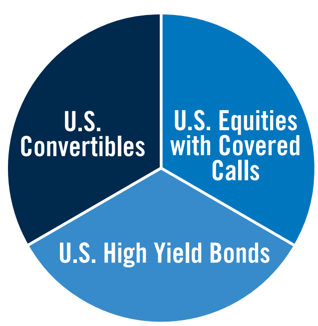
Consider outsourcing the complexity of building and managing a portfolio for different retirement scenarios (and all market environments), by using the Virtus AllianzGI Income & Growth Fund (AZNAX), a new five-star[1] member of the Virtus fund family which may complement both core fixed income and equity allocations.

The fund aims to provide a steady stream of income by accessing three distinct asset classes; U.S. equities, U.S. convertible securities, and U.S. high yield bonds. The Fund seeks to deliver consistent, high income, the potential for capital appreciation, dampened volatility compared to equities, and a lower sensitivity to interest rates relative to investment grade bonds.

The Fund's unique three-sleeve approach provides the investment team the discretion to select the most attractive potential opportunity for total return within the capital structure.

HOW VIRTUS ALLIANZGI INCOME & GROWTH FUND TARGETS MULTIPLE OPPORTUNITIES
Through three asset classes, the strategy stood to receive income from seven potential sources.

- **U.S. Equities with Covered Calls**
  Dividend income, principal growth, option premium
- **U.S. Convertible Bonds**
  Current income, downside protection, principal growth, investment grade exposure
- **U.S. High Yield Bonds**
  High coupon, low volatility



Seven sources of income

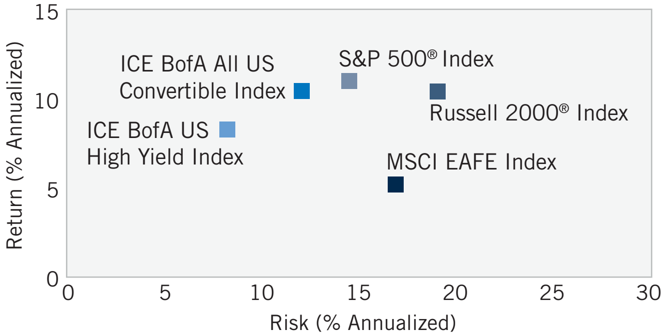
1 High yield bond coupons
2 Convertible bond coupons
3 Equity dividends
4 Gains from the equity sleeve
5 Gains from the convertible sleeve
6 Gains from the high yield sleeve
7 Covered call option premiums

Past performance is not indicative of future results.
Data as of 12/31/20. This is for guidance only and not indicative of future allocation. Source: Allianz Global Investors.

[1]Morningstar Overall Rating™ among 524 funds in the Allocation–30% to 50% Equity category as of 12/31/2020. Morningstar measures risk-adjusted returns. The overall rating is a weighted average based on the 3-, 5- and 10-year star rating.

COMPELLING RISK/RETURN PROFILE

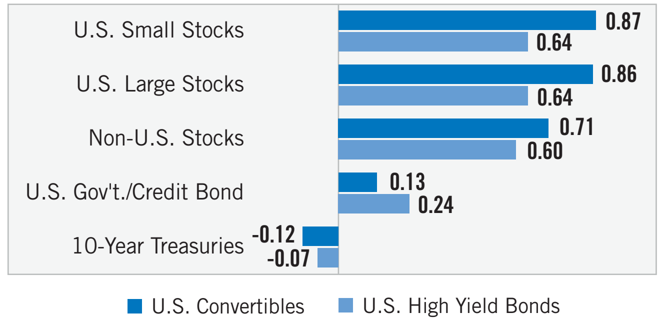
Since January 1988, convertibles and high yield bonds have offered equity-like returns with less volatility relative to other asset classes.



Past performance is not indicative of future results.

POTENTIAL DIVERSIFICATION BENEFITS

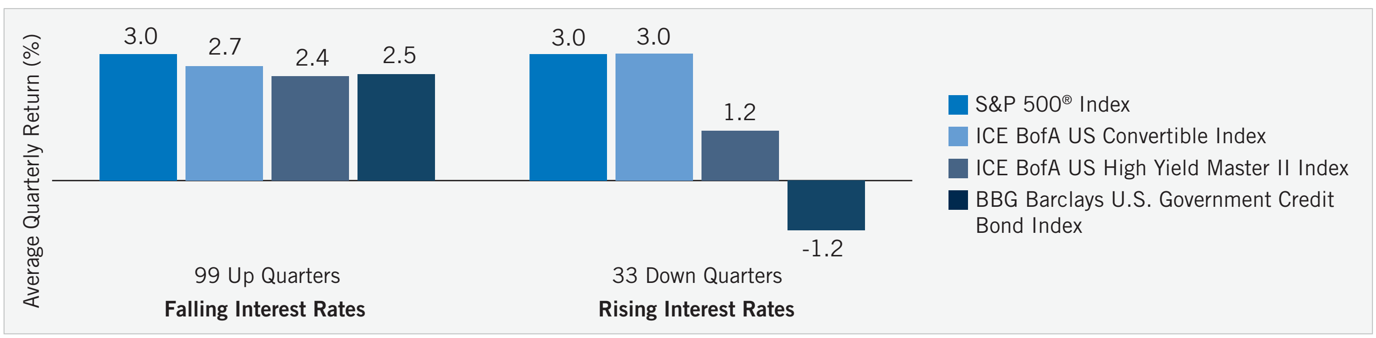
Convertible securities and high yield bonds have had lower correlations to core fixed income and slight negative correlations to 10-year Treasuries.



Past performance is not indicative of future results. Chart covers longest historical time period for which data for each relevant index is available. U.S. Large Stocks represent Russell 1000® Index; U.S. Small Stocks represent Russell 2000® Index; 10-Year Treasuries represent ICE BofA Current US Treasury 10 Year Index; Non-U.S. Stocks represents MSCI EAFE Index; U.S. Gov't./Credit Bond represents Bloomberg Barclays U.S. Government Credit Bond Index. Data as of January 1988 to December 2020. Source: Barclays; ICE Data Services; FactSet.

EQUITIES, CONVERTIBLES, AND HIGH YIELD HAVE DONE WELL REGARDLESS OF THE RATE ENVIRONMENT

Stocks, convertibles, and high yield bonds have historically outperformed investment grade bonds in rising interest rate environments and kept pace in falling interest rate environments.



Past performance is not indicative of future results.

How Much Should a Retiree's Income Grow During Retirement?

The Virtus AllianzGI Income & Growth Fund offers a distinctly flexible solution to meet a wide range of investor needs. Let's examine several investor scenarios:

Investors looking for growth

These investors may be farther from retirement but still need growth potential; they're aiming to accumulate and build assets. An investor may benefit from equity-like returns and lower volatility by reinvesting total distributions. This will boost the overall number of shares held and grow the principal investment while furthering the value of compounding.

Investors looking for income and growth

These investors may be near retirement and facing changes in income; they're aiming to implement a more conservative equity allocation policy. By doing two things—reinvesting some distributions while taking a 4% withdrawal—an investor may benefit from moderate income while continuing to grow the principal investment.

An investor looking for income

These investors may be in retirement and aiming for consistent, dependable monthly distributions. Taking full monthly distributions will provide investors with a consistent income stream, helping to meet their monthly income needs without having to decrease the number of shares held.

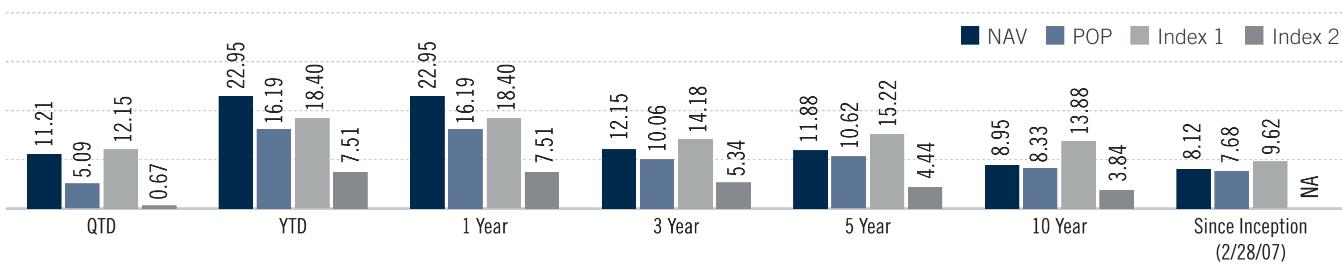
Suppose your friends Fran (looking for growth), Ann (seeking income & growth), and Dan (income minded) each invested a $100,000 investment in the Virtus AllianzGI Income & Growth Fund A-shares on 2/28/2007 (since inception).

Fran (looking for growth)	**Ann** (seeking income & growth)	**Dan** (income minded)
If Fran reinvested total income distribution in that hypothetical scenario every quarter through 12/31/2020, her portfolio would be worth $294,870.	If Ann decided instead to take 4% distributions totaling $63,550, her portfolio would still be worth $166,505 at 12/31/2020.	Now let's assume Dan in retirement took the full distribution at every opportunity over that time period; that would have given him $96,838, and his portfolio value would be worth $85,200 without decreasing the number of shares held.

Every investor is going to have different needs along their investment time horizons. But the maxim should be clear: Invest too conservatively and the risk of running out of money in retirement increases. The potential of a fund offering steady, attractive income (whether it's re-invested or not) and long-term growth should resonate strongly.

AVERAGE ANNUAL TOTAL RETURNS Class A (%) as of 12/31/20

Virtus AllianzGI Income & Growth Fund



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. Class A shares have a maximum sales charge of 5.50%. A contingent deferred sales charge of 1% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

The fund class gross expense ratio is 1.13%.

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 1: The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Index 2: 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.

Effective February 1, 2021, this fund's name and investment adviser have changed. The fund's distributor is now VP Distributors, LLC.

VIRTUS ALLIANZGI INCOME & GROWTH FUND

Class A:	AZNAX
Class C:	AZNCX
Class INST:	AZNIX
Class P:	AIGPX
Class R:	AIGRX

MORNINGSTAR RATINGS Class A
Allocation—30% to 50% Equity Category

Time Period	# of Stars	# of Funds
Overall	★★★★★	524
3 Year	★★★★★	524
5 Year	★★★★★	461
10 Year	★★★★★	280

Morningstar ratings are based on risk-adjusted returns. Strong ratings are not indicative of positive future performance.

VIRTUS FUNDS

To learn more about Virtus' range of income and growth solutions, please contact us at 800-243-4361 or visit virtus.com

Correlation is computed into what is known as the correlation coefficient, a measure that determines the degree to which two variables' movements are associated. The correlation coefficient will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation. **Standard Deviation** measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk

The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. 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 **ICE BofA US Convertibles Index** tracks the performance of publicly issued US dollar denominated convertible securities of U.S. companies. The index is calculated on a total return basis. **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 1000® Index** is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index. The **MSCI EAFE® Index (net)** is a free float-adjusted market capitalization-weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. **Bloomberg Barclays 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 **Bloomberg Barclays US Government/Credit Bond Index** is a broad-based flagship benchmark that measures the non-securitized component of the US Aggregate Index. The index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities. **ICE BofA Current 10-Year U.S. Treasury Index** is a one-security index comprised of the most recently issued 10-year U.S. Treasury note.

The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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.

IMPORTANT RISK CONSIDERATIONS

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. **Issuer Risk:** The fund will be affected by factors specific to the issuers of securities and other instruments in which the fund invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **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. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Unrated Fixed Income Securities:** If the quality of an unrated fixed income security is not accurately assessed, the fund may invest in a security with greater risk than intended. **Debt Instruments:** Debt instruments are subject to greater levels of credit and liquidity risk, may be speculative and may decline in value due to changes in interest rates or an issuer's or counterparty's deterioration or default. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Convertible Securities:** A convertible security may be called for redemption at a time and price unfavorable to the fund. **Prospectus:** For additional information on risks, please see the fund's prospectus.

Past performance is no guarantee of future results. All investments carry a certain degree of risk, including possible loss of principal.

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 representative, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

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