VIRTUS FUNDS

Virtus Convertible Fund

A: ANZAX (92838V791) | ADMIN: ANNAX (92838V841) | C: ANZCX (92838V817) | INST: ANNPX (92838V833) | P: ANCMX (92838V106)
R6: VAADX (92838V353)

Virtus Investment Partners is the manager for the Virtus Convertible Fund and Voya IM is the subadvisor.

GENERAL MARKET ENVIRONMENT

Markets advanced in the fourth quarter aided by better-than-expected earnings, positive economic datapoints, and a dovish U.S. Federal Reserve (Fed) pivot heading into year-end. Third-quarter earnings exceeded expectations with most companies surpassing top- and bottom-line estimates, though management outlooks were mixed. Unemployment remained low and economic growth surpassed forecasts. In addition, inflation continued to slow, allowing for a dovish pivot by the Fed at December's Federal Open Market Committee meeting. Chair Powell stated that policy easing discussions had commenced and Fed projections were revised higher to show 75 basis points (bps) of rate cuts in 2024. The European Central Bank and Bank of England also left interest rates unchanged in December. Against this backdrop, global yields fell, and the U.S. dollar weakened. All these factors lifted investor sentiment, driving demand for both risk assets and safe havens, and more than offset concerns around rising geopolitical tensions over the quarter.

CONVERTIBLE SECURITIES MARKET ENVIRONMENT

> The ICE BofA U.S. Convertible Index returned 6.79% for the period. For the full year, the Index returned 12.99%.

> Convertible securities were positively impacted by rising stock prices, falling interest rates, and credit spread tightening.

> All sectors except for energy finished higher in the fourth quarter. Materials, technology, and financials were the best performers, while transportation and media sectors underperformed.

> Investment grade (IG) issues outperformed below-IG issues. Equity-sensitive issues outperformed both total return (balanced) and yield alternative issues.

> New issuance declined with 16 new deals pricing $12.3 billion in proceeds. Total new issuance for the year was $53.4 billion.

PORTFOLIO COMMENTARY

Sector exposures that contributed to relative performance in the period were healthcare, industrials, and energy. In healthcare, positive security selection was aided by gains in biopharmaceutical and medical device holdings that exceeded expectations. In industrials, an energy device company with an expanding addressable market posted a beat-and-raise quarter and outperformed. Rideshare services and aircraft manufacturing positions also benefited relative performance. An underweight in energy—the only sector to decline in the quarter—was also a source of strength.

Sector exposures that detracted from relative performance in the period included consumer discretionary, financials, and media. In consumer discretionary, the Fund was underweight in an outperforming cruise line operator. Exposure to an entertainment company that traded lower on box offices sales concerns was also a hurdle. Positioning among multiple fintech companies negatively impacted relative performance in the financials sector. Weakness in media was partly due to a broadband holding that declined on angst around subscriber trends and expenditure guidance as well as underweighting an outperforming social media company.

Exposure increased the most in healthcare, utilities, and financials sectors, and decreased the most in technology, energy, and communication services sectors.

The conversion premium at quarter-end was approximately 32%, and the Fund is well positioned to participate in the upside and mitigate on the downside.

MARKET OUTLOOK

Heading into 2023, many strategists anticipated a U.S. economic recession. Instead, economic growth exceeded expectations. 2023's momentum should carry over into 2024, but conflicting factors make it difficult to predict a path with certainty. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, an end to the rate hike cycle, and inflecting earnings. Economic challenges include restrictive monetary policy, quantitative tightening, less savings, manufacturing sector weakness, as well as U.S. and international political risks, among others.

Changes in any of these conditions will likely influence investor sentiment, causing equity market volatility over the course of the year. The path of the markets is also difficult to predict, especially after a strong fourth quarter rally. Convertible securities should be better positioned to weather market volatility given current market dynamics, which in some respects are more favorable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for convertible securities.

U.S. convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer higher current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher straight debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance, estimated to reach $60–80 billion in 2024 (per strategists), is expected to increase year over year.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Voya Investment Management

PORTFOLIO MANAGERS

Justin M. Kass, CFA
Industry start date: 1998
Start date as Fund Portfolio Manager: 2003

Michael E. Yee
Industry start date: 1994
Start date as Fund Portfolio Manager: 2022

David J. Oberto
Industry start date: 2003
Start date as Fund Portfolio Manager: 2022

Ethan Turner, CFA
Industry start date: 2005
Start date as Fund Portfolio Manager: 2023

TOP TEN HOLDINGS

	% Fund
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	3.16
Palo Alto Networks, Inc. 0.375% 01-Jun-2025	2.70
Welltower Inc. 2.75% 15-May-2028	2.33
Southern Company 3.875% 15-Dec-2025	2.21
Block, Inc. 0.125% 01-Mar-2025	2.10
Affirm Holdings, Inc. 0.0% 15-Nov-2026	1.96
Akamai Technologies, Inc. 0.125% 01-May-2025	1.94
Seagate HDD Cayman	1.89
Royal Caribbean Cruises Ltd.	1.87
Fluor Corp. 1.125% 15-Aug-2029	1.66

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (04/19/93)
Fund Class INST	6.42	8.38	8.38	-2.45	12.83	9.21	10.44
Index	6.67	12.87	12.87	-0.82	11.93	8.90	8.59

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 0.84%. The net expense ratio is 0.72%, which reflects a contractual expense reimbursement in effect through 2/1/2024. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.71%.

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 **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. 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: Market Volatility: The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Issuer Risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Convertible Securities:** A convertible security may be called for redemption at a time and price unfavorable to the portfolio. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Counterparty:** There is risk that a party upon whom the portfolio relies to complete a transaction will default. **Credit Risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **Prepayments/Calls:** If issuers prepay or call fixed rate obligations when interest rates fall, it may force the portfolio to reinvest at lower interest rates. **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, medium, or large-sized companies may enhance that risk. **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. **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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