VIRTUS FUNDS

Virtus AllianzGI Convertible Fund

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

MARKET ENVIRONMENT

The U.S. convertible bond market advanced with the ICE BofA U.S. Convertible Index returning 3.9% for the quarter. By way of comparison, the 10-year U.S. Treasury returned 3.2% and the S&P 500® Index gained 8.6%.

Investors weighed stronger-than-expected first-quarter earnings results, positive second-quarter guidance, and a robust economic recovery against rising inflation and the timing of future monetary policy adjustments.

First-quarter financial results for S&P 500 companies exceeded estimates due to stronger-than-expected earnings and revenues. Earnings surpassed estimates by more than 22%, with 86% of the companies beating their projections, according to FactSet. Additionally, second-quarter 2021 earnings growth estimates strengthened over the period with a record-high number of S&P 500 companies issuing positive EPS and sales guidance.

The economy continued to rapidly recover during the period. The unemployment rate declined, jobless claims hit a pandemic-era low, housing industry statistics were constructive, and surveys of manufacturing and service sector activity remained robust. Conversely, inflation gauges increased.

The Federal Reserve (Fed) left its benchmark rate and monthly asset purchases unchanged. Fed Chair Jerome Powell acknowledged that taper discussions had begun but reinforced the message that the rise in inflation is transitory. The Fed's new dot plot forecast incorporated 50 basis points basis points of tightening in 2023, reflecting a faster recovery in economic activity and higher inflation expectations.

The reversal of the cyclical rotation in the equity market during the quarter was also evident in the convertible market. As a result, energy, telecom, media, and technology were the top-performing sectors, while transportation, industrials, utilities, and consumer discretionary were the bottom-performing sectors.

Below-investment grade issuers outperformed investment grade issuers. Equity-sensitive structures outperformed total return (balanced) and yield alternative (busted).

Primary market activity steadied in the quarter with 32 new deals priced for $15.3 billion in proceeds. The year's total stood at $55.9 billion—on pace to exceed 2020's near-record volume of $105.8 billion.

PORTFOLIO SPECIFICS

For the quarter, the Virtus AllianzGI Convertible Fund returned 3.67% (Class I shares). The benchmark ICE BofA U.S. Convertible Index returned 3.92%.

Sector exposures that contributed the most to relative performance in the quarter were utilities, healthcare, and financials. In utilities, a relative underweight was beneficial followed by positive security selection. Not owning an underperforming electricity producer aided relative performance. In healthcare, positive security selection was driven by strength in an oncology company that received approval to accelerate a phase 3 clinical trial. Security selection was also positive in financials. A digital infrastructure REIT, benefiting from asset sales and strategic acquisitions, continued to outperform.

Sector exposures that detracted from relative performance in the quarter were technology, consumer discretionary, and industrials. A sector underweight and exposure to a semiconductor company that underperformed despite exceeding estimates and raising guidance weighed on relative performance in technology. A sector overweight and an underperforming position in an online consignment marketplace issuer pressured consumer discretionary. Waste management and rideshare holdings traded lower in industrials.

New holdings included new issues and secondary opportunities. The buys were predominantly in the technology, consumer discretionary, and communication services sectors and were focused on issuers reflecting the greatest fundamental improvement.

Sells in the portfolio included the standard calls, tenders, and trims due to price. Issuers sold for fundamental reasons were also predominantly in technology and consumer discretionary.

The conversion premium at quarter-end was approximately 19%, and the portfolio is well positioned to participate in the upside and protect on the downside.

MARKET OUTLOOK

The U.S. economy and corporate earnings are projected to grow significantly in 2021.

Expansion in the United States is expected to continue as the post-COVID reopening accelerates. Additional supporting factors include an increase in business spending and investment, pent-up consumer demand, excess household savings, ongoing and potentially new U.S. fiscal stimulus, and a further recovery in the labor market.

Against this backdrop, revenue growth and corporate profitability should be strong. U.S. companies are well positioned to benefit from operating leverage as strengthening top-line growth is met with productivity gains, driving margin expansion, and bottom-line growth.

Potential risks include higher interest rates due to faster-than-expected economic growth or a sustained rise in inflation as well as a potentially less accommodative Fed.

In the second quarter, much of the growth in inflation appeared transitory, driven by reopening-sensitive categories and supply chain bottlenecks that should ease into year-end. Wage and rental inflation require closer monitoring as the year progresses.

A less accommodative Fed is possible given the central bank's most recent commentary and dot plot forecast. While a policy adjustment could be interpreted as hawkish, the Fed remains very flexible, with the anticipated timing of the first hike approximately a year and half away. An upper bound federal funds target rate of 75 basis points (bps) still resides well below the last cycle's peak (250 bps). Furthermore, the 10-year Treasury yield at 1.44% (as of June) remains very low in absolute and relative terms. Lastly, the labor market—one of the Fed's mandates—has yet to fully recover.

U.S. convertible securities should benefit from continued equity market strength in 2021. The asset class has the potential to produce a return in line with broad equity markets. Given a robust first-half volume market, strategist projections for annual new issuance have been revised higher to ~$85 billion from ~$55 billion at the start of the year. Primary market activity should help to broaden and balance the overall convertible market, which remains well positioned to participate in the upside and provide downside protection.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

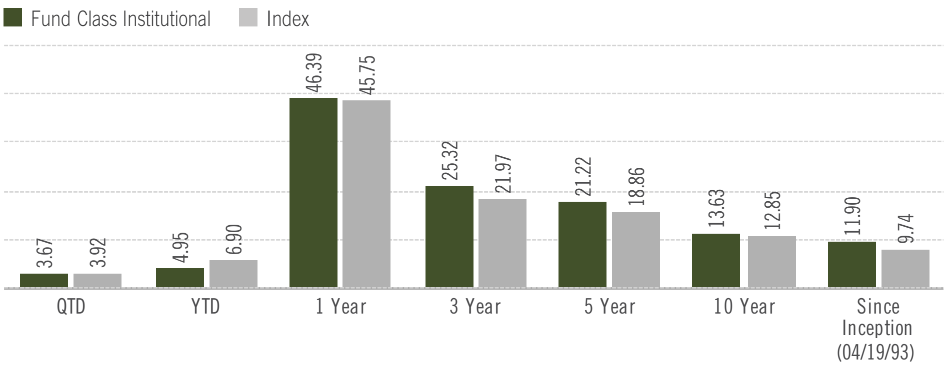
Allianz Global Investors

PORTFOLIO MANAGERS

Douglas G. Forsyth, CFA
Industry start date: 1991
Start date as Fund Portfolio Manager: 2013

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/21



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 0.79%. The net expense ratio is 0.71%, which reflects a contractual expense reimbursement in effect through 2/1/2023.

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.

TOP TEN HOLDINGS

TOP TEN HOLDINGS	% Fund
Danaher Corporation Cum Conv Red Pfd Registered Shs Series A	1.80
Broadcom Inc. 8.00 % Cum Conv Pfd Registered Shs 2019-30.09.22 Series A	1.72
Match Group Financeco 2, Inc. 0.875% 15-Jun-2026	1.57
Microchip Technology Incorporated 0.125% 15-Nov-2024	1.41
Ford Motor Company 0.0% 15-Mar-2026	1.40
Palo Alto Networks, Inc. 0.375% 01-Jun-2025	1.31
Eqt Corporation 1.75% 01-May-2026	1.29
2020 Cash Mandatory Exchangeable Trust	1.24
Pioneer Natural Resources Company 0.25% 15-May-2025	1.17
Tesla, Inc. 2.0% 15-May-2024	1.14

Holdings are subject to change.

Notes on 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. **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. **Counterparties:** 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 or medium-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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