Virtus Convertible Fund

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

As of July 25, 2022, the investment team transferred from AllianzGI to Voya IM and Voya IM became the delegated manager for the Virtus Convertible Fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement. None of the composition of the team's investment professionals, the investment philosophy, nor the investment process have changed as a result of these events.

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

GENERAL MARKET ENVIRONMENT

Markets finished higher for the quarter on better-than-expected corporate earnings and economic data, waning inflation, and a pause in interest rate hikes. First-quarter earnings results topped forecasts helped by cost-cutting initiatives and improved operating efficiency. In addition, management outlooks included fewer references to sales and profitability challenges. The unemployment rate remained low, consumer confidence improved substantially, GDP growth was revised higher, various housing statistics stabilized, and headline inflation trended lower. After hiking the benchmark rate by 25 basis points in May and softening the policy statement's rate guidance language, the U.S. Federal Reserve (Fed) left interest rates unchanged in June—the first time in 11 meetings—at a range of 5% to 5.25%. Chair Powell later remarked that further increases are likely necessary to bring inflation back to the Fed's 2% target. In response, odds of a quarter-point rate hike at July's Federal Open Market Committee meeting rose and U.S. Treasuries were pressured further.

CONVERTIBLE MARKET ENVIRONMENT

The ICE BofA US Convertible Index returned 4.63% for the period. On a year-to-date basis, the Index returned 8.55%. Convertible securities were positively impacted by rising stock prices and credit spread tightening. Nearly all sectors advanced in the period. Consumer discretionary, energy, and technology outperformed while utilities, consumer staples, and industrials underperformed.

Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed both yield alternative and total return (balanced) issues. New issuance increased quarter over quarter with 25 new deals pricing $14.3 billion in proceeds. The year's total stood at $27.3 billion.

PORTFOLIO SPECIFICS

The portfolio (net of fees) underperformed the ICE BofA US Convertibles Index for the quarter.

Utilities was the only sector that contributed to relative performance in the quarter. Security selection was positive, helped by a residential solar holding and underweight positioning in multiple underperforming power producers.

Sector exposures that detracted from relative performance in the quarter included financials, technology, and industrials sectors. In financials, a payments processor underperformed despite reporting strong first-quarter results. Weakness in technology was led by positions in electronics and software that provided mixed results and reduced guidance. A security company that exceeded sales expectations and raised revenue targets was the primary source of pressure within industrials.

Exposure increased the most in utilities, real estate, and materials sectors and decreased the most in consumer staples, financials, and technology sectors.

The conversion premium at quarter-end was approximately 31%, and the portfolio is well positioned to participate in the upside and protect on the downside.

MARKET OUTLOOK

The likelihood of a U.S. recession in 2023 continues to fade and headline inflation should trend lower. The pace of monetary policy tightening has already slowed, and corporate earnings estimates seem to have stabilized.

Steady employment and consumer spending, wage growth, excess savings, accumulated asset wealth, housing market improvement, and onshoring activity are potential economic tailwinds. The lagged effects of monetary policy and quantitative tightening and the durability of household balance sheets to withstand higher interest rates are key risks to growth.

Inflation indicators, including consumer and business expectations, point to further cooling. Waning inflation and a currently restrictive monetary policy stance will likely influence the Fed to consider slowing the pace of interest rate hikes further or even ending its current campaign.

Corporate earnings estimates for 2023 and 2024 seem to have stabilized following better-than-expected first-quarter results and upward revisions to earnings and sales projections.

U.S. convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and lower interest rate sensitivity relative to core fixed income. After a challenging 2022, the universe's composition has shifted compared to the past decade. Today, many securities offer higher yields and most exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises in 2023. If the prices of underlying stocks advance, convertible securities are positioned to participate in the upside. Higher financing costs will serve to benefit new issuance, which could reach an upwardly revised $50–55 billion, according to market strategists.

Effective July 25, 2022, this Fund's subadviser has changed.

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

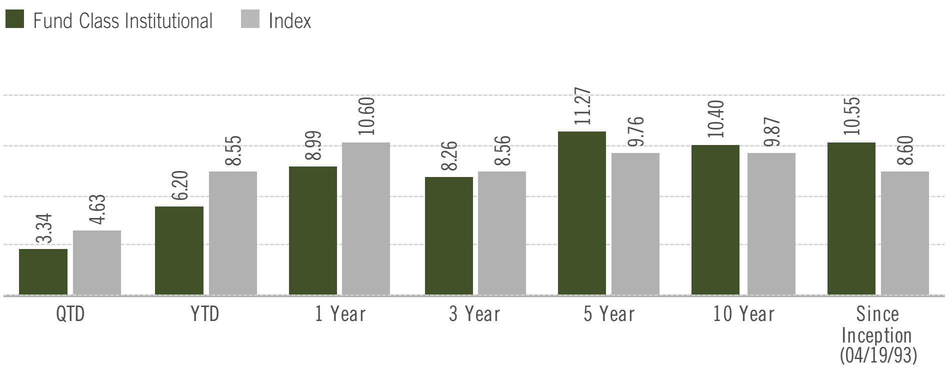
Ethan Turner, CFA
Industry start date: 2005
Start date as Fund Portfolio Manager: 2023

TOP TEN HOLDINGS

	% Fund
Dexcom, Inc. 0.25% 15-Nov-2025	2.74
Palo Alto Networks, Inc. 0.375% 01-Jun-2025	2.66
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	2.32
Exact Sciences Corporation 0.375% 15-Mar-2027	2.28
Zillow Group, Inc. 2.75% 15-May-2025	2.11
Southern Company 3.875% 15-Dec-2025	1.94
Liberty Broadband Corp. 3.125% 31-Mar-2053	1.83
NCL Corp. Ltd.	1.54
On Semiconductor Corp. 0.5% 01-Mar-2029	1.51
Sunnova Energy International Inc. 2.625% 15-Feb-2028	1.49

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/23



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.

As of July 2022, Voya Investment Management (Voya IM) acquired the investment personnel and assets related to this strategy from Allianz Global Investors (AllianzGI). The historical performance presented here thus became that of Voya IM from that point forward, after meeting the portability requirements of the Global Investment Performance Standards. All historical performance data, data analysis and other information provided for periods prior to July 25, 2022, were prepared by AllianzGI.

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, 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. **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, 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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