

## Virtus Convertible Fund

A: ANZAX (92838V791) | C: ANZCX (92838V817) | INST: ANNPX (92838V833) | R6: VAADX (92838V353)

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

### GENERAL MARKET ENVIRONMENT

The convertible market declined in the second quarter of 2024. First-quarter earnings results were better than expected, with most companies beating top- and bottom-line forecasts, which helped to further boost full-year 2024 and 2025 estimates for earnings growth.

Macroeconomic data released over the quarter was mixed. Gross domestic product (GDP) growth surpassed forecasts, inflation measures progressively eased, consumer confidence improved, and monthly payrolls remained strong. However, the manufacturing sector continued to contract, housing data came in weak, and retail sales consistently underwhelmed.

Against this backdrop, the U.S. dollar strengthened, the Treasury market gained, and the U.S. Federal Reserve held interest rates steady at both Federal Open Market Committee meetings during the period. The market's expectation for the first interest rate cut was pushed out to September, with another expected by year-end.

### CONVERTIBLE SECURITIES MARKET ENVIRONMENT

- > The ICE BofA All U.S. Convertible Index returned -0.21% for the quarter.
- > Convertible securities were negatively impacted by underlying stock price weakness.
- > Sector performance for the period was mixed, with healthcare, utilities, and consumer staples outperforming, while materials, industrials, and energy underperformed.
- > Investment grade (IG) issues outperformed below-IG issues. Yield-oriented (busted) issues outperformed equity-sensitive and total return (balanced) issues. New issuance saw 32 issues priced, raising \$19.2 billion in proceeds.

### PORTFOLIO COMMENTARY

Sector exposures that contributed to relative performance in the period included technology, healthcare, and materials. Within technology, security selection was broadly beneficial, particularly for companies capitalizing on secular trends around artificial intelligence and cloud migration. Semiconductor and software holdings had the largest impact on relative performance. Favorable security selection was also a source of strength in health care, led by a pharmaceutical company that reported better-than-expected clinical trial data, and a medical technology holding that reported above-consensus earnings. Relative outperformance in materials was driven by underweight positioning in chemicals and metals & mining, as well as positive security selection in steel producers and products.

Sector exposures that detracted from relative performance in the quarter included consumer discretionary, media, and financials. In consumer discretionary, asset weighting and security selection effects were sources of weakness, with an underweight in an outperforming automaker hurting the most.

Security selection was the primary driver of underperformance in media, primarily due to an overweight positioning in an advertising company that lagged. Within financial services, holdings in payments and financial exchanges had the largest negative impact on relative performance, with additional weakness stemming from an issue in property and casualty insurance.

Exposure increased the most in health care, real estate, and communication services, and decreased the most in financials, information technology, and industrials.

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

### MARKET OUTLOOK

2023's economic momentum continued through the first half of 2024. Tailwinds included a healthy labor market, steady consumption, government spending, elevated household net worth, an end to the rate-hike cycle, and accelerating earnings. Headwinds included persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and U.S. and international political risks, among others.

U.S. convertible securities are likely to continue to provide benefits to investors, with an attractive asymmetric return profile and potentially lower volatility relative to the equity market. Many securities offer attractive current yields and exhibit defensive characteristics, given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside mitigation if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs may draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially 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	3.01
Welltower Inc. 2.75% 15-May-2028	2.10
Pg&e Corporation 4.25% 01-Dec-2027	1.99
Royal Caribbean Cruises Ltd.	1.96
Affirm Holdings, Inc. 0.0% 15-Nov-2026	1.90
Southern Company 3.875% 15-Dec-2025	1.87
Coinbase Global, Inc. 0.5% 01-Jun-2026	1.86
Uber Technologies, Inc. 0.0% 15-Dec-2025	1.81
Palo Alto Networks, Inc. 0.375% 01-Jun-2025	1.78
Western Digital Corp. 3.0% 15-Nov-2028	1.69

Holdings are subject to change.

## AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (04/19/93)
Fund Class INST	0.31	3.51	5.64	-2.90	9.99	8.76	10.39
Index	-0.21	2.13	6.19	-2.31	9.40	8.14	8.52

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](https://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](https://virtus.com) for details.

The fund class gross expense ratio is 0.86%. The net expense ratio is 0.71%, which reflects a contractual expense reimbursement in effect through 2/1/2025.

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 U.S. 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 (Junk Bonds):** 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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