

Virtus Newfleet Short Duration High Income Fund

A: ASHAX (92838V544) | C: ASHCX (92838V536) | INSTITUTIONAL: ASHIX (92838V510) | P: ASHPX (92838V528) | R6: ASHSX (92838V643)

MARKET REVIEW

High yield opened the quarter at a torrid pace, with the compression trade the dominant theme in January as CCCs led the rally. Given this, shorter duration high yield assets underperformed the broader high yield index. However, February saw some weakness as a strong jobs number prompted rates to go higher, pushing overall high yield returns into negative territory. BB-rated bonds, the ratings tier most sensitive to interest rate hikes, underperformed the most, while CCCs finished with a slightly positive return. Shorter duration high yield outperformed the broader high yield universe during February due to the selloff.

The real volatility started in March when the regional banking crisis, Credit Suisse collapse, and real estate investment trust (REIT) selloff weighed on the market and drove credit spreads to year-to-date highs before they retraced. Despite tremendous volatility, the high yield market managed to finish March with a positive total return. BB-rated bonds performed the best in March due to the U.S. Treasuries rally, while CCCs underperformed as the decompression trade intensified during the banking turmoil. As duration drove performance for the month, shorter duration high yield underperformed the overall high yield index.

The technical picture remains weak as outflows have increased, reaching over \$17 billion by quarter-end. Unsurprisingly, new issuance has been below average, with multiple weeks of zero issuance. Fourth quarter earnings results were generally positive, though there are pockets of weakness and dispersion is increasing. In particular, highly levered names in the wireline and media space are underperforming as rising interest costs make some capital structures look untenable. Financials, especially REITs, are also under pressure as investors remain concerned about commercial real estate valuations and the health of the U.S. consumer.

HOW THE FUND PERFORMED

The Fund (Class I) returned 2.74% for the quarter, compared with 2.25% for the ICE BofA 1-3Y BB US Cash Pay High Yield Index.

CONTRIBUTORS

- Heavy exposure to air lessors contributed to outperformance as Fly Leasing, Global Aircraft Leasing, and FTAI Aviation all posted strong results during the quarter.
- Issue selection within the financial/lease, industrial/other, and retail non-food/drug sectors helped drive positive performance.
- Strong security selection within CCC-rated bonds helped performance.
- Issue selection within B-rated bonds also helped Fund performance, though this was partially offset by an overweight to the ratings tier that detracted.

DETRACTORS

- Dish Network bonds lagged due to continued liquidity concerns, Consensus Cloud Solutions revealed a weaker-than-expected guidance for 2023, and solar finance firm Sunnova traded lower due to weakness in the asset-backed securities market.
- Issue selection within the chemicals, electric, and technology sectors detracted from performance. An overweight to retail non-food/drug also had a negative impact.
- An underweight to BB-rated bonds and issue selection within the category negatively impacted performance as duration drove performance toward the end of the quarter.
- Weak issue selection within the media/other sector negatively impacted performance, though this was partially offset by an overweight to the sector.

OUTLOOK & IMPLEMENTATION

We continued to increase diversification in the portfolio by reducing larger positions. We reinvested the proceeds in generally higher-quality bonds, but also increased our allocation to bank loans. We added bank loans with short maturities trading below par where we see the potential for a near-term refinancing. Given the inverted Treasury curve, these bank loans offer attractive coupons relative to bond alternatives.

Given the potential impacts from the Silicon Valley Bank collapse, the Credit Suisse bailout, and softening economic data, our outlook on high yield has become more negative, and we've reduced the level of credit risk in the Fund versus its benchmark relative to year-end.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management

PORTFOLIO MANAGERS



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 Start date as Fund Portfolio Manager: 2022



William Eastwood, CFA
 Industry start date: 1995
 Start date as Fund Portfolio Manager: 2022



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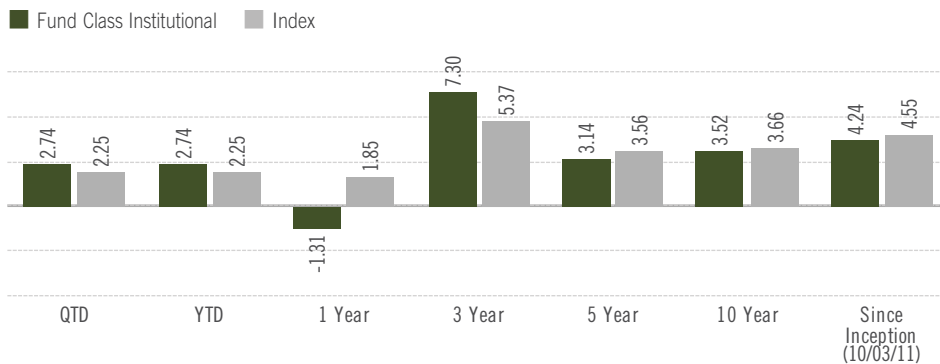


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 Industry start date: 1992
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 Start date as Fund Portfolio Manager: 2022

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/23



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The fund class gross expense ratio is 0.75%. The net expense ratio is 0.60%, which reflects a contractual expense reimbursement in effect through 2/1/2024.

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 1-3 Year BB US Cash Pay High Yield Index** is a subset of the ICE BofA US Cash Pay High Yield Index including all securities with a remaining term to final maturity less than 3 years and rated BB1 through BB3, inclusive. The ICE BofA US Cash Pay High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic 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.

ICE BofA U.S. High Yield Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating and an investment grade rated country of risk.

Notes on Risk: Debt Instruments: 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. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the fund and its investments, including hampering the ability of the fund's portfolio manager(s) to invest the portfolio's assets as intended. **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. **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. **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. **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.

Prospectus: For additional information on risks, please see the fund's prospectus.

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TOP TEN HOLDINGS

	% Fund
CVR Energy Inc, 5.2500% 02/15/2025	2.53
PBF Holding Co LLC / PBF Finance Corp, 7.2500% 06/15/2025	2.51
LSB Industries Inc, 6.2500% 10/15/2028	2.37
Millennium Escrow Corp., 6.6250% 08/01/2026	2.29
Bread Financial Holdings Inc., 4.7500% 12/15/2024	2.26
Shift4 Payments LLC / Shift4 Payments Finance Sub Inc, 4.6250% 11/01/2026	2.25
Connect Finco SARL / Connect US Finco LLC, 6.7500% 10/01/2026	1.98
Uber Technologies Inc, 8.0000% 11/01/2026	1.94
Directv Financing LLC / Directv Financing Co-Obligor Inc, 5.8750% 08/15/2027	1.84
Sunnova Energy Corp, 5.8750% 09/01/2026	1.81

Holdings are subject to change.