

Virtus Newfleet Short Duration High Income Fund

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

MARKET REVIEW

The high yield market returned 7.05% and spreads tightened 72 basis points in the fourth quarter as improving inflation data enabled a surprise dovish Federal Reserve (Fed) pivot in December. Early in the quarter, U.S. Treasury yields rose as stronger economic data caused investors to worry that interest rates would remain higher for longer. However, benign inflation data allowed the Fed to pause for the third consecutive month, and rate cut expectations for 2024 increased with the first forecasted cut moved forward to March. Also contributing to the rally was the continued resilience of the U.S. economy and better-than-expected earnings. The sharp move lower in U.S. Treasury yields drove the outperformance of BB-rated bonds in the quarter due to their longer duration. Retail and media outperformed due to resilient consumer spending and a better outlook for economic growth. Wireless outperformed due to its significantly above-market duration. E&P and drillers underperformed due to weaker commodity prices, while airline bonds underperformed due to their low duration.

After peaking in the first quarter, credit quality has shown signs of stabilizing as stronger economic growth has translated into profit improvement. Gross leverage declined after rising in the prior four quarters, while the cash-to-debt ratio rebounded after three quarters of decline. Interest coverage continued to drop as companies felt more of the impact of higher rates, but the pace of deterioration moderated. While there were more downgrades than upgrades in the quarter, the recent improvement in fundamentals provides a more favorable outlook for 2024. The default rate increased slightly on an issuer basis but declined on a par basis as larger companies have been better able to manage the higher interest rate environment due to better access to capital and a greater ability to cut costs and sell assets.

Technicals were strong as the new issue calendar remained soft, large rising stars reduced the supply of bonds, and inflows turned meaningfully positive. After being a headwind for most of the year, fund flows benefited from the improved appetite for risk as funds received \$8.1 billion in the quarter. New deals remain primarily for refinancing as higher interest rates and minimal M&A activity continue to weigh on the primary market.

HOW THE FUND PERFORMED

The Fund (Class INST) returned 4.72% for the quarter, outperforming the ICE BofA 1-3Y BB US Cash Pay High Yield Index return of 4.01%.

Contributors

- > Strong issue selection within the chemicals, automotive, and technology sectors helped drive outperformance.
- > An underweight to airlines also had a positive impact on performance.
- > A slight overweight coupled with strong issue selection within the healthcare space had a positive effect on performance.

Detractors

- > Weak issue selection within the services/other, electric, media/other, and media/cable sectors detracted from performance, though this was partially offset by an overweight to media/cable, which was positive.
- > Cash holdings also detracted from performance.
- > Millennium Escrow, a digital marketing firm, was by far the largest detractor, with the bond down over 8% during the quarter as management provided a weaker-than-expected outlook.

OUTLOOK AND IMPLEMENTATION

Benign inflation data and resilient economic growth have increased the odds of a soft landing and contributed to expectations for earlier and more aggressive rate cuts. However, the path of inflation and interest rates and their impact on economic growth are still key risks that we are monitoring as drivers of credit spreads. During the quarter, we participated in several longer-dated new issues while secondary activity was focused on short-dated opportunities. We were active across high yield, loan, and corporate investment grade asset classes as loans offer high current yields, and certain BBB-rated bonds look attractive versus BB-rated bonds. Going into 2024, we expect a larger number of bonds to be called versus 2023 given the move lower in credit spreads and risk-free rates. Reinvesting these proceeds should allow us to increase the current income on the Fund. We will remain active in the investment grade and leveraged loan markets, with a preference for short-dated loans trading below par since they offer attractive yield and will likely be called before floating rates move materially lower.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management

PORTFOLIO MANAGERS



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 Industry start date: 1985
 Start date as Fund Portfolio Manager: 2022



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



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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (10/03/11)
Fund Class							
INST	4.72	12.56	12.56	3.98	5.05	4.14	4.76
Index	4.01	8.86	8.86	2.89	4.54	3.90	4.80

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 0.75%. 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.

TOP TEN HOLDINGS

% Fund

CVR Energy Inc., 5.2500% 02/15/2025	2.05
Shift4 Payments LLC / Shift4 Payments Finance Sub Inc., 4.6250% 11/01/2026	1.94
Uber Technologies Inc., 8.0000% 11/01/2026	1.74
Fly Leasing Ltd., 7.0000% 10/15/2024	1.73
DISH DBS Corp., 5.2500% 12/01/2026	1.73
Directv Financing LLC / Directv Financing Co-Obligor Inc., 5.8750% 08/15/2027	1.73
Sunnova Energy Corp., 5.8750% 09/01/2026	1.64
Apx Group Inc. Initial Term Loan, 07/10/2028	1.59
LSB Industries Inc., 6.2500% 10/15/2028	1.59
Millennium Escrow Corp., 6.6250% 08/01/2026	1.50

Holdings are subject to change.

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 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. **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.

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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