Virtus AllianzGI Income & Growth Fund

A: AZNAX (92837N584) | C: AZNCX (92837N576) | INST: AZNIX (92837N535) | P: AIGPX (92837N543)

MARKET COMMENTARY

The three asset classes—U.S. equities, convertible securities, and high yield bonds—utilized in the Income and Growth strategy advanced in the second quarter. The Russell 1000® Growth Index returned 11.9%. The ICE BofA U.S. Convertibles Index and ICE BofA U.S. High Yield Index returned 3.9% and 2.8%, respectively. By way of comparison, the 10-year U.S. Treasury returned 3.2% and the S&P 500® Index gained 8.6%.

For additional market commentary, read: AllianzGI's Income & Growth 2Q21 Market Review & Outlook

FUND PERFORMANCE

The Fund provided consistent income and a positive total return over the period. For the quarter, the Virtus AllianzGI Income & Growth Fund returned 5.81% (Class Institutional shares). For the year, the Fund returned 7.20%.

EQUITY & OPTION-SPECIFIC COMMENTS

Equity and Option Market Environment

U.S. equities rallied, with the S&P 500® Index and the Nasdaq Composite closing the quarter at record highs.

Equity market leadership shifted compared to the prior quarter. Longer duration stocks led, and GDP-sensitive stocks lagged alongside a declining 10-year U.S. Treasury yield. In this environment, large-cap growth companies outperformed their value counterparts by nearly 7% in the quarter with most of the return differential occurring in June as the cyclical rotation reversed.

Within the Russell 1000® Growth Index, all sectors produced a positive return. Energy, communication services, and real estate led, followed by information technology. Conversely, the materials, consumer staples, consumer discretionary, and utilities sectors lagged.

Equity volatility spiked higher in May and again in June, but its overall trend was lower, concurrent with stock market strength. The VIX Index started the period at 19.4 and finished at 15.8.

Equity Holdings and Option Specifics

Information technology, communication services, and healthcare were the top-contributing sectors during the period as high growth stocks rebounded, concurrent with the cyclical rotation reversing in the second quarter. In technology, strength was broad-based across semiconductors, software, mobile handset manufacturing, and fintech. A chip manufacturer that exceeded estimates, guided higher and outperformed, and is positioned to benefit from gaming, datacenter, and M&A opportunities. In communication services, social media and internet search/video exposures, profiting from strong online advertising demand, continued to advance. Healthcare primarily benefited from positioning in pharmaceuticals, life science tools & services, and healthcare equipment & supplies. A drug manufacturer that announced plans to increase availability of a COVID-19 therapy for restricted emergency use in India gained.

Only one sector—industrials—detracted from performance in the period. After strong prior period gains, heavy machinery holdings settled lower.

Many option positions expired below strike, and the portfolio was able to retain the set premiums. The number of equities with a covered call structure tactically decreased over the quarter given lower implied volatilities and less attractive yield opportunities.

Investments included positions in information technology, energy, consumer discretionary, and communications services. Sales were exposed to holdings in consumer discretionary and information technology.

CONVERTIBLE SPECIFIC COMMENTS

Market Environment

Convertible securities primarily benefited from positive underlying equity performance.

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 laggards.

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.

Convertible Holdings Specific

Sector exposure that contributed the most to performance included technology, healthcare, and media. Consistent with the equity allocation's performance drivers, many high growth convertible bond issuers outperformed as the cyclical rotation reversed. In technology, software positions were leaders as investors shifted focus back to their positive long-term fundamental outlooks. In healthcare, biopharmaceutical and medical technology positions were sources of strength. Select holdings surpassed expectations on stronger COVID-related revenues and raised 2021 guidance. A social media holding that exceeded global daily active user estimates traded higher in media.

Only transportation and industrials were detractors in the quarter, but their combined impact did not materially impact performance. Airline operators underperformed, following strong first-quarter gains.

Purchases consisted of asymmetric return opportunities within the primary and secondary markets. Investments included exposure to information technology, industrials, and energy. Sells primarily included exposure to information technology.

The conversion premium at quarter-end was approximately 25%. Convertible exposure is well positioned to participate on the upside and protect on the downside.

HIGH YIELD SPECIFIC COMMENTS

Market Environment

High yield bond prices increased, and spreads compressed for the quarter.

Performance dispersion among credit quality categories tightened compared to the previous quarter. BB rated issues recovered sharply, concurrent with a decline in interest rates, but CCC

Continued on page 2

rated issues continued to outperform higher-quality high yield.

The top-performing industries were theaters & entertainment, energy, and consumer goods. The bottom-performing industries were healthcare, utilities, and packaging.

Primary market activity remained robust in the quarter with new high-yield issuance totaling $140.5 billion across 212 issues. Year-to-date new issuance of $299.1 billion is on track to surpass 2020's record of $449.9 billion. Refinancing remained the greatest use of proceeds at 60% of the quarter's total. Fund flows were negative at -$4.1 billion.

The credit ratings upgrade cycle accelerated, and default rates declined sharply quarter over quarter. The trailing 12-month default rates on an issuer-weighted basis and a dollar-weighted basis fell to 3.02% and 1.63%, respectively.

High Yield Holdings Specific

Industry exposure that contributed the most to performance included energy, automotive, and financial services. Within energy, exploration & production, drilling, and midstream issues performed best with WTI crude oil settling $14 higher at $73.47/barrel amid tightening oil markets. An automobile and truck manufacturer that plans to increase electric vehicle spending to $30 billion by 2025 was the top contributor in automotive followed by a tire producer that received a credit rating upgrade. The issuer reported higher sales on better volumes and pricing and could profit from acquisition synergies going forward. In financial services, consumer finance and student lending exposures were sources of strength.

Telecommunications was the only industry to detract from performance, and its impact was negligible.

Purchases consisted of attractive total return opportunities within the primary and secondary markets. Investments included issues with exposure to pharmaceuticals, energy, software, and hospital operations, among others. Rental car, managed care, and airline exposures were reduced.

Transactions also consisted of issue swaps in auto parts manufacturing, satellite radio, and specialized REITs.

OVERALL MARKET OUTLOOK

The U.S. economy and corporate earnings are projected to grow significantly in 2021. These conditions should benefit risk assets. 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.

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.

The takeaway: U.S. equities have the potential to move higher during the second half of the year, supported by better-than-expected quarterly earnings reports and faster-than-anticipated economic expansion. Notably, over the past four rate hike cycles ('94, '99, '04, '15) the S&P 500® Index gained 9.5% in the 12 months prior to the first hike, and 26.0% over the subsequent three years, according to Credit Suisse.

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.

A coupon-like return is possible for the U.S. high yield bond market in 2021. Although there is limited opportunity for significant spread tightening, spread widening is not anticipated given a positive fundamental outlook for the asset class. Credit metrics, default rates, and ratings trends should continue to improve into year-end. Along those lines, many market strategists have reduced their default rate expectations for 2021.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Allianz Global Investors

PORTFOLIO MANAGERS

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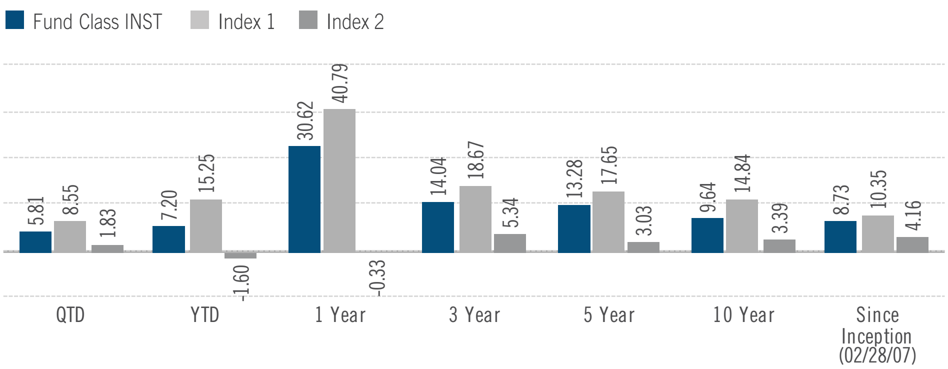
Industry start date: 1991
Start date as Fund Portfolio Manager: 2007

Michael E. Yee
Industry start date: 1994
Start date as Fund Portfolio Manager: 2007

Justin M. Kass, CFA
Industry start date: 1998
Start date as Fund Portfolio Manager: 2007

David J. Oberto
Industry start date: 2003
Start date as Fund Portfolio Manager: 2020

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 0.88%.

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 1: The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Index 2: The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond 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
Alphabet Inc.	1.80
Facebook, Inc.	1.76
Microsoft Corporation	1.72
Apple Inc.	1.48
Amazon.com, Inc.	1.47
Tesla Inc.	0.90
Visa Inc.	0.82
Home Depot, Inc.	0.80
NVIDIA Corporation	0.79
Mastercard Inc.	0.74

Holdings are subject to change.

TOP FIVE CONTRIBUTORS	% Contribution
Alphabet Inc.	0.33
NVIDIA Corporation	0.31
Facebook, Inc.	0.27
Microsoft Corporation	0.24
Apple Inc.	0.17

TOP FIVE DETRACTORS	% Contribution
Southwest Airlines Co. 1.25% 01-May-2025	-0.05
On Semiconductor Corp. 1.625% 15-Oct-2023	-0.05
Airbnb, Inc. 0.0% 15-Mar-2026	-0.03
Guardant Health, Inc. 0.0% 15-Nov-2027	-0.03
Booking Holdings Inc.	-0.03

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation

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. **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. **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. **Unrated Fixed Income Securities:** If the quality of an unrated fixed income security is not accurately assessed, the portfolio may invest in a security with greater risk than intended. **Debt Instruments:** Debt instruments are subject to greater levels of credit and liquidity risk, may be speculative and may decline in value due to changes in interest rates or an issuer's or counterparty's deterioration or default. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Convertible Securities:** A convertible security may be called for redemption at a time and price unfavorable to the portfolio. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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