VIRTUS FUNDS

Virtus Income & Growth Fund

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

Virtus Investment Partners is the manager for the Virtus Income & Growth Fund and Voya IM is the subadvisor.

GENERAL MARKET ENVIRONMENT

Markets advanced in the fourth quarter aided by better-than-expected earnings, positive economic datapoints, and a dovish U.S. Federal Reserve (Fed) pivot heading into year-end. Third-quarter earnings exceeded expectations with most companies surpassing top- and bottom-line estimates, though management outlooks were mixed. Unemployment remained low and economic growth surpassed forecasts. In addition, inflation continued to slow, allowing for a dovish pivot by the Fed at December's Federal Open Market Committee meeting. Chair Powell stated that policy easing discussions had commenced and Fed projections were revised higher to show 75 basis points (bps) of rate cuts in 2024. The European Central Bank and Bank of England also left interest rates unchanged in December. Against this backdrop, global yields fell, and the U.S. dollar weakened. All these factors lifted investor sentiment, driving demand for both risk assets and safe havens, and more than offset concerns around rising geopolitical tensions over the quarter.

Equities: The S&P 500® Index returned 11.69% for the period. For the full year, the Index returned 26.29%.

Real estate, technology, and financials sectors were the best performing sectors during the quarter. Energy was the only sector that closed lower, while consumer staples and health care sectors also underperformed.

Equity volatility (as measured by the CBOE Volatility Index) notably decreased, finishing at a level of 12.45, down from 17.52 to start the quarter.

Convertibles: The ICE BofA U.S. Convertible Index returned 6.79% for the period. For the full year, the Index returned 12.99%.

Convertible securities were positively impacted by rising stock prices, falling interest rates, and credit spread tightening.

All sectors except for energy finished higher in the fourth quarter. Materials, technology, and financials were the best performers, while transportation and media sectors underperformed.

Investment grade (IG) issues outperformed below-IG issues. Equity-sensitive issues outperformed both total return (balanced) and yield alternative issues.

New issuance declined with 16 new deals pricing $12.3 billion in proceeds. Total new issuance for the year was $53.4 billion.

High Yield: The ICE BofA U.S. High Yield Index returned 7.06% for the period. On a year-to-date basis, the Index returned 13.46%.

BB rated bonds returned 7.34%, outperforming B and CCC rated bonds, which returned 6.78% and 6.60%, respectively.

Spreads tightened to 339 bps from 403 bps, the average bond price rose to 92.86, and the market's yield decreased to 7.83%.

Industry performance was broadly higher for the period. Media, retail, and real estate outperformed whereas transportation, energy, and packaging & paper underperformed.

New issuance increased quarter-over-quarter with 65 issues priced, raising $42.1 billion in proceeds. Total issuance for the year was $175.9 billion.

Trailing 12-month default rates increased but remained below historical averages, rising to 2.84% on a dollar-weighted basis and 2.44% on an issuer-weighted basis.

PORTFOLIO COMMENTARY

The portfolio was positively impacted by strength across risk assets.

Top contributors were led by companies capitalizing on the buildout and adoption of artificial intelligence and secular trends around cloud migration, such as Microsoft and Amazon, and multiple semiconductor companies including Nvidia. Several software positions that reported beat-and-raise quarters also aided performance. Other top contributors included Apple (on holiday sales expectations), a railway company that could benefit from accelerating import volumes, and a credit card services provider on signs of stabilizing business trends.

The top detractors did not have a significant impact on the portfolio. Laggards consisted of a supermajor oil company that announced an acquisition and an orthodontics company that reduced revenue guidance. Automotive supply chain exposure was also a source of weakness as demand concerns impacted a number of issues. Other top detractors included a network infrastructure provider, a shipping and logistics company, a consulting firm, and an electric utility operator.

Most option positions expired below strike and the portfolio was able to retain the set premiums.

Exposure increased in the utilities and real estate sectors, and decreased the most in technology, energy, and communication services sectors. With the move lower in volatility, the percent of equities with a covered call structure decreased quarter-over-quarter.

OUTLOOK

Heading into 2023, many strategists anticipated a U.S. economic recession. Instead, economic growth exceeded expectations. 2023's momentum should carry over into 2024, but conflicting factors make it difficult to predict a path with certainty. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, an end to the rate hike cycle, and inflecting earnings. Economic challenges include restrictive monetary policy, quantitative tightening, less savings, manufacturing sector weakness, as well as U.S. and international political risks, among others.

Changes in any of these conditions will likely influence investor sentiment, causing equity market volatility over the course of the year. The path of the markets is also difficult to predict, especially after a strong fourth quarter rally. HY credit and convertible securities should be better positioned to weather market volatility given current market dynamics, which in some respects are more favorable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for HY credit, convertible securities, and equities.

The U.S. HY market, currently yielding nearly 8%, offers the potential for equity-like returns but with much lower volatility. Credit fundamental factors are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its deep discount to face value and increased coupon, which also serves to cushion downside volatility. Notably, after recording an annual decline, the HY market has historically delivered two consecutive years of positive returns in six of the seven cases,[1] and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits.[2]

U.S. convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer higher current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher straight debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance, estimated to reach $60–80 billion in 2024 (per strategists), is expected to increase year over year.

U.S. equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, U.S. dollar and Treasury market stabilization, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

A covered call options strategy could also benefit from elevated or rising equity volatility by collecting premiums that translate into attractive annualized yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and protect" return profile.

[1]Source: ICE Data Services; data as of December 2022

[2]Source: JP Morgan; data as of October 2022

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: 2007

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

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

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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (2/28/07)
Fund Class INST	9.22	19.03	19.03	2.31	9.69	7.01	7.38
Index 1	11.69	26.29	26.29	10.00	15.69	12.03	9.69
Index 2	6.82	5.53	5.53	-3.31	1.10	1.81	3.01

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 0.90%.

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 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.

The **ICE BofA U.S. High Yield Index** tracks the performance of U.S. dollar denominated below investment grade rated corporate debt publicly issued in the U.S. 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. The **ICE BofA US Convertibles Index** tracks the performance of publicly issued U.S. dollar denominated convertible securities of U.S. companies. The index is calculated on a total return basis. The **CBOE Volatility Inde**x, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

TOP TEN HOLDINGS

	% Fund
Microsoft Corp.	1.96
Amazon.com Inc.	1.59
Alphabet, Inc.- Cl A	1.55
Tesla Inc.	1.42
Apple Inc.	1.24
Mastercard Inc.	1.11
NVIDIA Corp.	1.04
UnitedHealth Group Inc.	1.00
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	0.99
GS Finance Corp.	0.90

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Microsoft Corp.	0.35
Amazon.com Inc.	0.30
Crowdstrike Holdings Inc.	0.29
Apple Inc.	0.19
Union Pacific Corp.	0.16

TOP FIVE DETRACTORS

	% Contribution
Chevron Corp.	-0.06
Exelon Corp.	-0.04
Aon PLC	-0.03
FedEx Corp.	-0.03
Lucid Group Inc.	-0.03

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

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. **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, medium, or large-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:** Derivatives may include, among other things, futures, options, forwards and swap agreements and may be used in order to hedge portfolio risks, create leverage, or attempt to increase returns. Investments in derivatives may result in increased volatility and the fund may incur a loss greater than its 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.

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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