

Virtus Seix High Yield Income Fund

A: AYBAX (92838V858) | ADMIN: AYBVX (92838V809) | C: AYBCX (92838V866) | INST: AYBIX (92838V700) | P: AYBPX (92838V882)

MARKET REVIEW

The high yield market as measured by the ICE BofA U.S. High Yield Index (HOAO) returned -0.68% in the third quarter of 2022, capping off the worst start for the year since inception of the Index. The third quarter decline took the return for the year to -14.62%.

The weak third quarter followed the worst first half of a year since inception of the Index with the HOAO declining -14.04%. The third quarter began with a strong July that had the Index increasing 6.02%, which was the best month for the asset class since the Global Financial Crisis. The performance in July was driven by positive technicals, declining Treasury rates (the 10-year ended 2Q with a yield just above 3% and bottomed at less than 2.6% in early August), and a changing perception that a potential economic slowdown might not be as bad as feared. The month of July was led by the higher quality part of the market that is more rate sensitive as BBs outperformed single-Bs that outperformed CCCs. This reversed around the time that rates bottomed in early August and began to move higher, driving underperformance of the more rate sensitive BBs. By August 11, the OAS spread for the Index had come in about 150 basis points (bps) for the quarter as the market appeared to buy into the thought of a relatively more dovish Federal Reserve (Fed).

The September CPI report seemed to reverse that thinking, resulting in an underperformance of CCCs as market participants began to price in a greater risk of the Fed continuing to tighten into an economic slowdown. By the end of September, Index spreads widened out to 543 bps. While spreads on BBs and single-Bs tightened during the quarter, CCCs actually widened. However, due to CCCs having wider spreads (in excess of 1,250 bps) and higher coupons as well as a change in constituents due to downgrades, their total return (including interest) for the quarter beat out BBs and single-Bs. Returns for each segment are BBs (HOA1), -0.881%; single-Bs (HOA2), -0.588%; and CCs (HOA3), -0.167%.

PERFORMANCE

The Virtus Seix High Yield Income Fund, that we sub-advise, declined 5.56% for the period from July 25 (when Seix took over from Allianz Global Investors) to September 30—61 bps more than the Fund's benchmark, HOAO, which declined 4.95%.

The largest contributor to relative performance for the reference period was an underweight and positive security selection in healthcare/pharma, positive security selection in diversified manufacturing/other industry, and positive security selection in media and cable & satellite.

Top detractors to relative performance for the reference period included a decline in the value of two private restructured equity positions in the Fund that were inherited from prior management—Lifestyle, Inc. and CCF—negative security selection in media non-cable, and negative security selection from chemicals.

CURRENT STRATEGY

We continue to look for and find value in fallen angels, orphan credits, small cap issuers, sectors that do not fit a traditional high yield analysis such as financials, and out-of-favor sectors and/or segments of the market.

OUTLOOK

We believe that the month of July provided a script for how the high yield market will likely trade once rates have stabilized and the economic outlook becomes less murky. Having said that, we do believe it is possible that we could continue to exhibit volatility until those two conditions are met. We also believe that long-term investors are owning the asset class at an attractive time with yields and spreads at current levels.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Seix Investment Advisors

PORTFOLIO MANAGERS



Michael Kirkpatrick
 Industry start date: 1991
 Start date as Fund Portfolio Manager: 2022



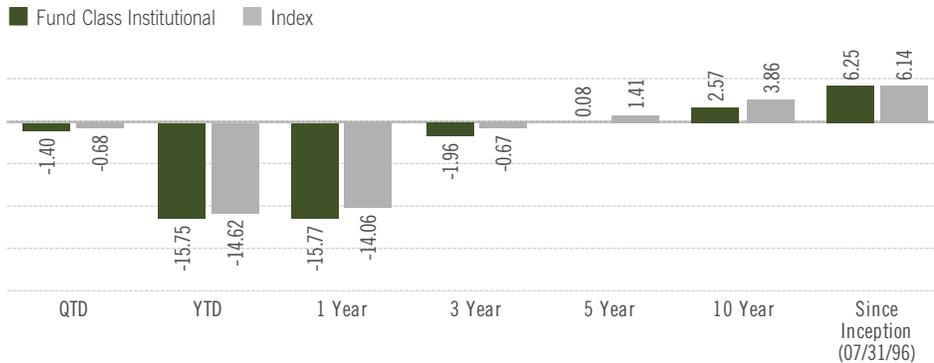
James FitzPatrick, CFA
 Industry start date: 1996
 Start date as Fund Portfolio Manager: 2022

TOP TEN HOLDINGS

	% Fund
LiveStyle Inc. Series B Preferred	4.53
Caesars Entertainment Inc., 8.1250% 07/01/2027	1.67
Ford Motor Co., 9.6250% 04/22/2030	1.61
Tenet Healthcare Corp., 6.1250% 10/01/2028	1.37
Uber Technologies Inc., 7.5000% 09/15/2027	1.33
Amkor Technology Inc., 6.6250% 09/15/2027	1.32
Live Nation Entertainment Inc., 4.7500% 10/15/2027	1.28
Callon Petroleum Co., 8.0000% 08/01/2028	1.24
Occidental Petroleum Corp., 6.6250% 09/01/2030	1.18
Triumph Group Inc., 8.8750% 06/01/2024	1.18

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/22



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%. The net expense ratio is 0.83%, which reflects a contractual expense reimbursement in effect through 9/20/2023. 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 US High Yield Index** tracks the performance of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market and includes issues with a credit rating of BBB or below. 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 (HOA0)** tracks the performance of U.S. 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. The **ICE BofA BB U.S. High Yield Index (HOA1)** is a subset of HOA0 that includes all securities with a given investment grade rating BB. The **ICE BofA Single-B U.S. High Yield Index (HOA2)** is a subset of HOA0 that includes all securities with a given investment grade rating B. The **ICE BofA CCC & Lower U.S. High Yield Index (HOA3)** is a subset of is a subset of HOA0 that includes all securities with a given investment grade rating CCC or below.

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. Price changes may be short- or long-term. Local, regional, or global events such as war (e.g., Russia’s invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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’s 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. **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. **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. **Counterparties:** 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. **Prospectus:** For additional information on risks, please see the fund’s prospectus.

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