VIRTUS FUNDS

The Merger Fund®

A SHARES MERFX (589509108) | I SHARES MERIX (589509207)

MARKET REVIEW

Global merger and acquisitions activity hit a record high in the quarter, reaching $1.52 trillion in target market value. This marks the fifth consecutive quarter in which the global value of deals has exceeded $1 trillion, a run not seen since the financial crisis of 2008. Amid concerns that central banks will raise interest rates to keep inflation in check, this does not appear to be deterring dealmakers.

PERFORMANCE

For the quarter, The Merger Fund® (I Shares) was down -1.70%. The Fund's underperformance stems from significant spread widening due to the termination of Willis Towers Watson's acquisition by Aon Corp., increasing concerns about U.S. and Chinese antitrust approvals, and the general de-risking of portfolios (both forced and voluntary), as investors retreated from stocks in the quarter.

The Fund invested in 88 transactions during the quarter and added 26 new positions. Reflecting a roughly 1.5:1 ratio of winners to losers, 53 positions posted gains, more than offsetting the 35 that had negative marks-to-market. At quarter end, the Fund held 73 positions and was approximately 89% invested.

Salesforce.com/Slack Technologies, Analog Devices/Maxim Integrated Products, and AstraZeneca/Alexion Pharmaceuticals were the largest contributors to absolute returns.

> Cloud computing giant Salesforce completed its acquisition of Slack, a $27.7 billion deal, on July 21, 2021, contributing 0.15% to the Fund.

> On August 26, 2021, Massachusetts-based semiconductor manufacturer Analog Devices completed its acquisition of Maxim Integrated in a $20.8 billion mega-deal, adding 0.14% to performance.

> On July 21, 2021, AstraZeneca finalized its $39 billion acquisition of Alexion Pharmaceuticals, Inc., contributing 0.11% to the portfolio.

Willis Towers Watson PLC/Aon PLC (-1.23%) was the largest detractor from absolute returns.

> As previously discussed in our Q2 2021 investor letter, insurance brokers Willis Towers Watson and Aon agreed to terminate their $30 billion merger agreement and end litigation with the U.S. Department of Justice on July 26, 2021. Prior to deal termination, WLTW/AON had been one of the more widely held and larger positions in the event-driven community, given high levels of conviction in the deal and presumed limited downside. Upon deal break, AON stock, which we were short, traded up while Willis Towers traded down, thus exacerbating the mark-to-market losses in the portfolio.
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> We have seen stock prices overreact in the past due to unexpected terminations such as this and have found that it is suboptimal to immediately liquidate positions post-announcement. We have begun an orderly exit of the position as market conditions allow and remain directionally hedged in the interim.
>
> Merger arbitrage investors have become wary about paths to completion after stepped-up regulatory scrutiny both here and abroad. Other large detractors resulted from spread widening rather than deal terminations, causing negative NAV movements. Xilinx Inc./Advanced Micro Devices Inc. (-0.28%), and Aerojet Rocketdyne Holdings/Lockheed Martin Corp. (-0.14%) are two such examples.

> Xilinx/Advanced Micro Devices—Merger arbitrage spreads of certain U.S. and Chinese deals have widened, particularly in the technology sector, due to concerns that China oversight agency SAMR (State Administration for Market Regulation) may have become more politicized as U.S.-China tensions have increased. As mentioned last quarter, we believe that it is likely that the deals in which we are invested will proceed toward completion and the marks-to-market suffered in the portfolio will be recouped upon deal completion.

> Aerojet Rocketdyne Holdings/Lockheed Martin—Roughly two-thirds of deal failures are caused by regulatory blockage historically, so it comes as no surprise that in August, when the new Chair of the FTC expressed her desire to take steps to tighten enforcement and simultaneously warned companies proposing mergers that the Federal Trade Commission (FTC) may investigate and challenge deals even after the initial review period expired, that deal spreads widened in fear. The comments came after the FTC initiated its investigation of Lockheed's $4.4 billion deal to purchase Aerojet Rocketdyne Holdings. Many see this transaction as an early litmus test of whether President Joe Biden will clamp down on merger activity in general.
>
> This new government posture has affected other large pending mergers, which may be scrutinized by the FTC and is reflected in abnormally wide spreads in several additional situations: spreadsfor deals over $10bn were, on average, 200 basis points wider than deals in the $2-10bn in size (~5% vs. ~3% average). In addition, there appeared to be a bit of a "hangover" from the recent unsuccessful transaction with Willis Towers that inhibited investor risk tolerance and hurt performance during the quarter.

Nevertheless, we continue to have high conviction in the portfolio and believe that as long as these existing transactions are completed, we can recover the mark-to-market losses and earn a positive rate of return on the initial investment. In addition, and where appropriate, we have taken the opportunity to increase or add new positions as situations with strong risk/reward relationships present themselves.

OUTLOOK

We remain optimistic regarding both strategic corporate as well as privatization activity. Sharon Yeshaya, Morgan Stanley's chief financial officer, said in a New York Times article dated October 15, 2021 "What we're seeing is really strong pipelines...The strength is broadening. The frenetic pace has persisted despite the economic upheaval caused by the pandemic, trade disputes, and geopolitical tension."

As mentioned for years, balance sheet cash is plentiful, and investors are pressuring boards to seek acquisitions in areas where they need to grow or add additional products, services, or capabilities instead of spending cash to buy back stock or increase dividends. Debt remains cheap, stock prices are high by historic standards, and private equity buyouts are surging.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Westchester Capital Management, LLC

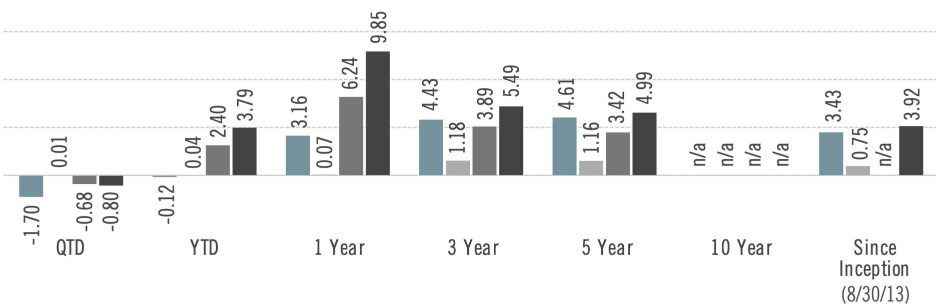
PORTFOLIO MANAGER

Roy D. Behren
Industry start date: 1987
Start date as Fund Portfolio Manager: 2007

Michael T. Shannon, CFA
Industry start date: 1988
Start date as Fund Portfolio Manager: 2007

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/21

Fund Class I | Index 1 | Index 2 | Index 3



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 1.33%. The net expense ratio is 1.24%, which reflects a contractual expense reimbursement in effect through 9/30/2023, and a contractual expense waiver in effect through 9/30/2023. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus dividend and interest expense on short sales and indirect expenses incurred by the underlying funds in which the Fund invests is 1.17%.

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 **ICE BofA US Treasury Bill 3 Month Index** measures performance of the three-month Treasury bill, based on monthly average auction rates. 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.

Index 2: The **Wilshire Liquid Alternative Event Driven Index** measures the performance of the event-driven strategy component of the Wilshire Liquid Alternative Index. Event-driven strategies predominantly invest in companies involved in corporate transactions such as mergers, restructuring, distressed, buy backs, or other capital structure changes. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Index 3: The **Morningstar US Fund Event Driven Category Average** contains strategies that attempt to profit when security prices change in response to certain corporate actions, such as bankruptcies, mergers and acquisitions, emergence from bankruptcy, shifts in corporate strategy, and other atypical events. Activist shareholder and distressed investment strategies also fall into this category. These portfolios typically focus on equity securities but can invest across the capital structure. The category average is calculated on a total return basis with dividends reinvested. The category average is unmanaged and is not available for direct investment.

TOP TEN HOLDINGS

TOP TEN HOLDINGS	% Fund
IHS Markit Ltd.	5.56
Willis Towers Watson Public Ltd., Co.	5.43
Nuance Communications, Inc.	4.82
Coherent, Inc.	4.45
Xilinx, Inc.	4.35
Kansas City Southern	4.13
PPD, Inc.	3.59
Athene Holding Ltd.	2.41
Deutsche Wohnen SE	2.34
Altaba Inc.	2.25

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

TOP FIVE CONTRIBUTORS	% Contribution
Slack Technologies Inc./ Salesforce.com Inc.	0.15
Maxim Integrated Products Inc./ Analog Devices Inc.	0.14
Alexion Pharmaceuticals Inc./ Astrazeneca PLC	0.11
Dialog Semiconductor PLC/ Renesas Electronics Corp.	0.10
Deutsche Wohnen SE/ Vonovia SE	0.08

TOP FIVE DETRACTORS

TOP FIVE DETRACTORS	% Contribution
Willis Towers Watson PLC/ Aon PLC	-1.23
Xilinx Inc./ Advanced Micro Devices Inc.	-0.28
Aerojet Rocketdyne Holdings/ Lockheed Martin Corp.	-0.14
SOHO China Ltd./ Blackstone Group	-0.14
Change Healthcare Inc./ UnitedHealth Group Inc.	-0.13

% Contribution: Absolute weighted contribution.

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

Notes on Risk: Fundamental Risk of Investing: There can be no assurance that the portfolio will achieve its investment objectives. An investment in the portfolio is subject to the risk of loss of principal; shares may decrease in value. **Merger-arbitrage & Event-driven investing:** Merger-arbitrage and event-driven investing involve the risk that the adviser's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue, or other event, will prove incorrect and that the Fund's return on the investment may be negative. **Short Sales:** The portfolio may engage in short sales, and may incur a loss if the price of a borrowed security increases before the date on which the portfolio replaces the security. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Portfolio Turnover:** The portfolio's principal investment strategies may result in a consistently high portfolio turnover rate. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when the portfolio is held in a taxable account. **Credit & Interest:** Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Hedging:** The portfolio's hedging strategy will be subject to the portfolio's investment adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. **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. **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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