

Virtus Westchester Event-Driven Fund

A SHARES WCERX (95737C509) | I SHARES WCEIX (95737C608)

MARKET REVIEW

Global merger and acquisition (M&A) activity continued to chug along, helped by the U.S., the world's most significant investment banking market. The worldwide value of merger transactions declined slightly, to \$717.4B in the September quarter, compared to \$738.1B during the same period last year, according to data from Dealogic.

However, the U.S. market stood out for its increased global activity share, helping offset a decline in European and Asia Pacific volumes. U.S. dealmaking accounted for approximately half of the worldwide volume. Since the U.S. typically leads other geographies (on the way up and down), it provides some optimism for a sustained recovery in the near future.

An interesting statistic is that almost half of North America's M&A value year to date, which amounts to \$1.3T, has been generated by deals ranging from \$1B to \$10B. This is an increase from 40% in the prior decade.

Additionally, financial sponsors have announced approximately \$400B of M&A activity (e.g., leverage buyouts) in North America in the first nine months of this year, accounting for just over 30% of overall activity. These transactions by private equity firms, constituting 70% of the number (as opposed to the dollar value) of deals, are the largest share since the 2008 financial crisis.

On a global scale, cross-border M&A activity now accounts for one-third of M&A volume, an increase from an average of 24% in the same period over the last four years. Moreover, cross-border deals make up 35% of all transactions valued at \$10B or more this year, compared to an average of only 14% in the previous four years. This indicates increased CEO confidence and increased investor comfort with exposure to international operations.

Cisco System Inc.'s \$28B takeover of Splunk Inc., GTCR LLC's \$18.5B deal for the merchant services business of Fidelity National Information Services, and Smurfit Kappa Group's \$11B acquisition of U.S. rival WestRock Co. were the largest transactions announced during the third quarter.

PERFORMANCE

The Fund bounced back in the third quarter, posting a 2.60% gain, bringing the year-to-date gain to 2.80%. Our performance was driven by 24 deal completions, successful transaction selection, and a snap-back in overextended arbitrage spreads. Reflecting an over 4:1 ratio of winners to losers, 80 of the Fund's holdings posted meaningful gains in the quarter, while only 19 showed material mark-to-market losses. Arbitrage (+2.44%) and restructurings (+0.32%) were the Fund's most significant contributors to performance, followed by opportunistic credit (0.12%). In comparison, special situations (-0.28%) suffered mark-to-market losses.

We were rewarded for our high-conviction positions, which successfully navigated regulatory scrutiny, including VMware Inc./Broadcom Inc. (+0.68%), Horizon Therapeutics Plc/Amgen Inc. (+0.54%), and Activision Blizzard Inc./Microsoft Corp. (+0.40%), the latter two successfully completed in early October.

However, as happens occasionally, there were unexpected setbacks. In the arbitrage sub-strategy, Chipmaker MaxLinear astonishingly called off its acquisition of Taiwan's Silicon Motion (SIMO) immediately after receiving its final antitrust approval in China.

MaxLinear claimed that certain conditions were not met, leading to a material adverse effect and a breach of the merger agreement on SIMO's part. This development cost the Fund 78 basis points. Similarly, Intel Corp. scrapped its deal to acquire Israeli contract chipmaker Tower Semiconductor Ltd after China's State Administration for Market Regulation (SAMR) would not provide its approval in a timely fashion. SAMR did not "block" the deal but left it in limbo, neither approving nor blocking it. This termination cost the Fund -0.13%. This example highlights the effect foreign relations tensions can have on transactions requiring international approvals, particularly in the technology sector. In the special situations sub-strategy, mark-to-market losses came ahead of Kellogg Co.'s separation of its North American cereal business, resulting from valuation compression of consumer staples stocks related to rising interest rates (-0.16%). The spin-off was successfully completed in early October, and our structure, which includes a protective option collar, will expire shortly. Rounding out the detractors was WWE/Endeavor Holdings (-0.15%).

Continuing the positive momentum, the Fund has identified 23 attractive new investments. These include the all-cash acquisition of Capri Holdings Limited by Tapestry, Inc., a deal worth \$8.5B that will bring together several luxury brands—Coach, Kate Spade, Stuart Weitzman, Versace, Jimmy Choo, and Michael Kors—under one entity. Other notable deals include the \$11B acquisition of U.S. rival WestRock Co. by Ireland's Smurfit Kappa Group, combining Europe's biggest paper and packaging producer with the second largest player in the U.S., the \$5.7B all-cash acquisition of Abcam Plc, a leading global supplier of protein consumables, by Danaher Corp., and Cisco's \$28B cash acquisition of Splunk, a data-analysis software company. The deal is the largest ever announced by Cisco. It is particularly significant, suggesting corporate willingness to challenge the apparent reflexive governmental opposition to large-scale mergers and acquisitions.

As of the end of September, the Fund held 74 positions and was approximately 125% invested.

OUTLOOK

Concerning corporate activity, we are constructive regarding the prospect of continued corporate reorganizations. We believe multiple transactions have been delayed rather than abandoned, another indicator of a potential uptick in activity. It is encouraging to see that many would-be acquirers remain motivated to announce significant strategic transactions despite the uncertain economic environment. This sentiment is shared by many investment bankers and lawyers within our network.

In addition, we see several opportunities in opportunistic refinancing by companies that have received proceeds from various asset sales and other financing initiatives. These short-duration opportunities fit our focus on event and limited-duration investments very well.

Lastly, we are closely examining opportunities in our other sub-strategies, such as late-stage restructuring situations, corporate separations, and rate-of-return special purpose acquisition company (SPACs) securities. There is no general theme to these opportunities other than the existence of a hard catalyst, and we analyze each situation holistically as it arises.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Westchester Capital Management, LLC

PORTFOLIO MANAGERS



Roy D. Behren
 Industry start date: 1987
 Start date as Fund Portfolio Manager: 2014



Michael T. Shannon, CFA
 Industry start date: 1988
 Start date as Fund Portfolio Manager: 2014

TOP TEN POSITIONS

1	Activision Blizzard, Inc.
2	Horizon Therapeutics Public Limited Co.
3	Seagen Inc.
4	VMware Inc.
5	Capri Holdings Ltd.
6	thyssenkrupp AG
7	Kellogg Co.
8	Endeavor Group Holdings, Inc.
9	Ball Corp.
10	Amedisys, Inc.

Top 10 Positions as % of fund 39.41
 Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

VMware Inc./Broadcom Inc.	0.68
Horizon Therapeutics Plc/Amgen Inc.	0.54
Activision Blizzard Inc./Microsoft Corp.	0.40
Seagen Inc./Pfizer Inc.	0.39
SPACs	0.37

TOP FIVE DETRACTORS % Contribution

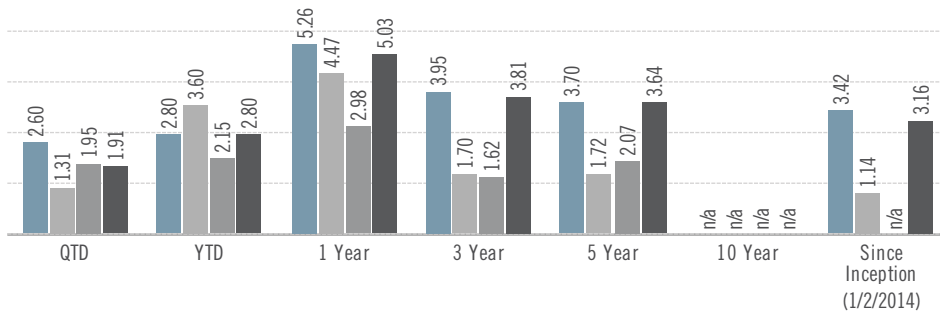
Silicon Motion Technology/MaxLinear Inc.	-0.78
Kellogg Co.	-0.16
World Wrestling Entertainment Inc./Endeavor Group Holdings Inc.	-0.15
Tower Semiconductor/Intel Corp.	-0.13
Siemens AG	-0.12

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23

■ Fund Class 1 ■ 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 1.70%. The net expense ratio is 1.57%, which reflects a contractual expense reimbursement in effect through 4/30/2025. 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 1.45%.

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. 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:** 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. **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:** 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. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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.

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. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **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. **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:** 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. **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:** 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. **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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