VIRTUS FUNDS

Virtus Westchester Event-Driven Fund

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

MARKET REVIEW

Looking at the year as a whole, 2023 presented a mixed picture of the mergers & acquisitions (M&A) landscape, especially considering the challenges faced in the previous year. Given the difficult conditions in 2022, it was no surprise that M&A activity began in a subdued manner. Rising rates, increased financing costs (particularly relevant to private equity deals), ongoing geopolitical tensions, and a potential banking crisis in the first quarter contributed to a more cautious approach by company boards toward corporate reorganizations, particularly in the first half of the year.

However, as the year progressed, CEO confidence improved noticeably. This positive shift was aided by greater transparency and predictability in the regulatory environment. Several high-profile transactions, including Horizon Pharmaceuticals/Amgen, Activision/Microsoft, and VMware/Broadcom, were completed despite initial regulatory pushback, boosting confidence in the market. This positive development paved the way for a solid second half of the year, with M&A volume reaching over $1.7 trillion, out of the total global value of $3.1 trillion for the entirety of 2023.

Despite the earlier challenges, the market demonstrated resilience and adaptability. The improved regulatory environment (as enforced by the Courts in the Activision and Horizon deals) played a crucial role in instilling confidence among corporate boards, leading to this increase in mega-cap deals. The late-year transaction momentum contributed to the year-end strength, which has also carried forward into January.

In addition to mergers, the rate of corporate transactions, such as spin-offs and divestitures, has risen since 2020. A focus on operational optimization, efficiency, and balance sheet management fueled these restructuring activities. These types of corporate separations offer several advantages, the most notable being the increased M&A opportunities for investors that often follow. When a business unit is separated from the larger corporate entity, it becomes an independent entity capable of structuring its own deals. This newfound independence and specialization also make the separated entity a potentially attractive merger target. As a result, the increase in corporate sales and divestitures over the past three years has led to a surge in M&A transactions. In 2023, corporate separations accounted for approximately 33% of M&A activity in the U.S. alone. This represents the highest share in almost a decade and further reflects increased corporate confidence.

Additionally, activist investors have increased their profile significantly. In addition to agitating for corporate separations to unlock value, activism has played a substantial role in going private transactions, also known as management buyouts, or leveraged buyouts. These transactions occur when a company's management team, along with external investors or a consortium, often in combination with a private equity firm(s), acquire all the outstanding shares of the company's stock, transitioning the company from publicly traded to privately owned. By partnering with management teams and external investors, they facilitate the transition to private ownership, allowing companies to operate with greater flexibility and focus on long-term strategic goals. Activists' involvement in take-private transactions highlights their influence in shaping the M&A landscape.

International transactions accounted for 28% of overall volume, surpassing the average of 25% for the past four years. This increase in cross-border activity can also be attributed to the recently improved regulatory predictability. In concert with the increase in activity, deals valued at $10 billion contributed 21% of cross-border volume, a significant jump from 12% in the previous year.

As with domestic transactions, the uptick in international transaction levels indicates that many of the challenges hindering such activity are dissipating. It also signifies growing confidence in navigating the regulatory process and securing approvals.

PERFORMANCE

The Fund advanced by 2.98% during the fourth quarter, bringing its year-to-date performance to 5.86%, marking the Fund's 30th gain in the 40 quarters since its inception. We held 95 investments during the quarter and experienced one terminated deal. Reflecting a nearly 5:1 ratio of winners to losers, 78 positions posted positive gains, while only 17 had negative marks-to-market. We invested in 18 new situations during the quarter, and as of the end of December, we held 66 positions and were approximately 113% invested.

All sub-strategies, including arbitrage (+1.45%), special situations (+0.46%), opportunistic credit (+0.53%), and restructuring (+0.54%), contributed positively to performance in Q4. Of note, the Fund saw positive contributions from Seagen Inc./Pfizer Inc. (+0.42%), VMware Inc./Broadcom Inc. (+0.38%), and Closed-End Funds (+0.26%) in the fourth quarter. In terms of detractors, mark-to-market losses due to widening spreads came from Hess Corp./Chevron Corp. (-0.16%), Kellogg Co. (-0.15%), and given the S&P 500® Index's outsized 11.69% return during the quarter, from the macro portfolio hedge (-0.13%).

OUTLOOK

Looking ahead to 2024, we are optimistic about the continued increase in corporate activity following strong fourth-quarter activity. Uncertainty is among the biggest challenges to M&A, but with more regulatory clarity, stabilized funding rates and a positive track record of wins in the courtroom, we expect the fourth-quarter deal momentum to continue. Additionally, this predictability will likely tighten the bid-ask spread between corporate buyers and sellers. There is now approximately $1.8 trillion in cash on corporate balance sheets, and with an estimated $1.5 trillion in dry powder in the hands of private equity sponsors, there are $3.3 trillion reasons to transact. With a predictable cost of capital and ongoing pressure to look for opportunities to keep up with innovation across all industry groups, we anticipate an increase in corporate activity in 2024, a trend we have already begun to see in the first few weeks of the new year.

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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (1/2/2014)
Fund Class I	2.98	5.86	5.86	1.55	4.39	n/a	3.64
Index 1	1.37	5.01	5.01	2.15	1.88	n/a	1.25
Index 2	2.45	4.66	4.66	1.20	2.90	n/a	n/a
Index 3	2.72	5.60	5.60	2.78	4.43	n/a	3.36

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. 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.

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.

TOP TEN HOLDINGS

1	Hess Corp.	
2	Pioneer Natural Resources Co.	
3	Splunk Inc.	
4	WestRock Co.	
5	Capri Holdings Ltd.	
6	Spirit Realty Capital, Inc.	
7	Amedisys, Inc.	
8	United States Steel Corp.	
9	Carrier Global Corp.	
10	Endeavor Group Holdings, Inc.	
Top 10 Positions as % of fund		42.51

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Seagen Inc./Pfizer Inc.	0.42
VMware Inc./Broadcom Inc.	0.38
Closed End Funds	0.26
World Wrestling Entertainment Inc./Endeavor Group Holdings Inc.	0.19
Abcam PLC/Danaher Corp.	0.19

TOP FIVE DETRACTORS

	% Contribution
Hess Corp./Chevron Corp.	-0.16
Kellogg Co.	-0.15
Macro Portfolio Hedge	-0.13
Thyssenkrupp AG	-0.12
Capri Holdings Ltd./Tapestry Inc.	-0.11

% 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. **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.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.