VIRTUS FUNDS

Virtus Westchester Credit Event Fund

A SHARES WCFRX (95737C707) | I SHARES WCFIX (95737C806)

MARKET REVIEW

It certainly was a challenging year for typical bond investors. Even as stocks and bonds posted gains for the year, volatility was elevated—especially in the bond market, which whipsawed during the year yet ended with a fourth quarter surge.

Driving that volatility was the shifting outlook for Federal Reserve Bank (Fed) actions. During the fourth quarter, as the Treasury bond market swung from a large mid-year sell-off to a sharp rally, volatility jumped to its highest level in at least five years. The catalyst behind this reversal of fortune was the shift in Fed policy from interest rate increases (tightening) to prospective cuts (loosening) in 2024, resulting in a sharp rally that reversed bond market performance from negative to slightly positive for the year.

Given the expectation of modest rate cuts, we had always believed that 2024 would likely be the year of a bond recovery. However, the Fed's recent shift appears to have hastened that recovery by several months. As inflation continues to inch lower, we believe this recovery will continue as rates stabilize at lower levels.

PERFORMANCE

Despite the market turmoil, year-to-date returns were positive in nearly every fixed-income market sub-asset class. Any bond index with longer-term duration was lifted by the tide of lower expected Treasury yields. The Bloomberg U.S. Aggregate Bond Index return for Q4 was 6.82%, resulting in a year-to-date return of 5.53%.

The Virtus Westchester Credit Event Fund stood out by delivering positive performance during each quarter of 2023 despite the ongoing battle between bond bears and bulls. In the fourth quarter, the Fund provided a return of 2.86%, finishing the year at +9.56%. All sub-strategies contributed positively to performance in Q4 including merger-related credit (+1.87%), restructuring/reorg credit (+0.01%), relative value credit (+0.77%), and catalyst driven credit (+0.20%).

As of December 31, the Fund's "effective duration" was 1.51 years. However, because our internal assumptions regarding the expected holding duration measure the time to event completion rather than maturity and call features, our unofficial assumption of 1.17 years seems more accurate to use instead. This shorter term lowers the portfolio's sensitivity to interest rate movements compared to longer durations, which has helped us navigate the recent rate fluctuations while minimizing correlation.

In the fourth quarter, the Fund saw positive contributions from its closed-end fund holdings, which added 0.79% to its value. We initiated positions in various closed-end municipal bond funds in late summer, purchasing their NAVs at abnormal mid-teen discounts. Going forward, we expect that rate cuts will increase the underlying NAV on this instrument and contribute to a tightening of the discount to NAV to their historic range of sub-10%, providing a "double boost" to the Fund. Should rate cuts be delayed, we expect the Fund should continue to pay attractive dividends in the interim. Additional winners came from Mauser Packaging Solutions bonds, whose private equity backer, Stone Canyon Industries, is still preparing to sell the company for as much as $8 billion. A long-time holding for the Fund, the positive contribution of 0.29% stems from our fixed income position as high-yield bonds have rallied this year in addition to earning a high-single-digit coupon on the bonds. MoneyGram, which issued attractive 9% coupon bonds, continued to accrete in value, adding 0.19%. Recall that MoneyGram issued an attractive 9% coupon paper to finance the company's leveraged buyout. Since last quarter, the bond continued to increase from 90 to 97+ cents, plus coupon. The Fund originally purchased these bonds at 83 cents.

The Fund's largest detractor resulted from the terminated acquisition of Origin Energy Ltd. (-0.09%). Origin Energy had agreed to be acquired by Brookfield Asset Management and Mid-Ocean Energy/EIG in March 2023. The deal was subject to a shareholder vote, requiring 75 percent approval to proceed. After multiple revised offers, shareholders voted against the parties' best and final proposal, and the transaction was terminated on December 4th. We are in the process of exiting our bond position in an orderly manner. Additional mark-to-market losses came from IEA Energy Services (-0.06%) and Allen Media LLC (-0.01%).

OUTLOOK

Notwithstanding our non-directional investing and market neutrality posture, our outlook for 2024 is in line with consensus. We would not be surprised if there are multiple interest rate cuts in 2024. During the Fed's December meeting, Chairman Jerome Powell made clear that the U.S. economy is possibly heading towards a "soft landing." He further hinted that he would entertain rate cuts but that the decision would be "data dependent." The 1-Year T-Bill futures contract reflects an expectation of multiple rate cuts, decreasing from the current 5.1% to as low as 3.9% over the next twelve months.

Looking ahead to 2024, we are optimistic about a continued increase in merger and acquisition (M&A) activity following the strong fourth quarter. 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. 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: 2017

Michael T. Shannon, CFA
Industry start date: 1988
Start date as Fund Portfolio Manager: 2017

Steven V. Tan
Industry start date: 2000
Start date as Fund Portfolio Manager: 2017

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/29/17)
Fund Class I	2.86	9.56	9.56	3.89	7.96	n/a	6.06
Index 1	1.37	5.01	5.01	2.15	1.88	n/a	1.88
Index 2	6.82	5.53	5.53	-3.31	1.10	n/a	0.92
Index 3	4.09	6.81	6.81	0.51	2.28	n/a	1.69

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 1.53%. The net expense ratio is 1.48%, 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 gross 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 **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.

Index 3: The **Morningstar US Fund Nontraditional Bond Category Average** contains funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe. 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

1	Splunk Inc.	
2	Michael Kors USA Inc.	
3	California Resources Corp.	
4	Seg Hld LLC/Seg Fin Corp.	
5	NFP Corp.	
6	Calumet Specialty Food Products Partners, L.P.	
7	Textainer Group Holdings Ltd.	
8	PGT Innovations Inc.	
9	Lagardere SA	
10	Alliance Resource Operating Partners LP/ Alliance Resource Finance Corp.	
Top 10 Positions as % of fund		40.60

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Closed End Funds	0.79
Mauser Packaging Solutions Holding Co.	0.29
Moneygram International, Inc secured note 144A	0.19
SPACs	0.19
Treehouse Foods Inc.	0.16

TOP FIVE DETRACTORS

	% Contribution
Origin Energy Ltd/Mid-Ocean Partners LP	-0.09
IEA Energy Services	-0.06
Allen Media LLC	-0.01
Radius Global Infrastructure Inc/ EQT AB	0.00
Hostess Brands Inc./The JM Smucker Co.	0.00

% 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. **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. **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. **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 portfolio 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. **Lower-rated securities:** Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. **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. **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.

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