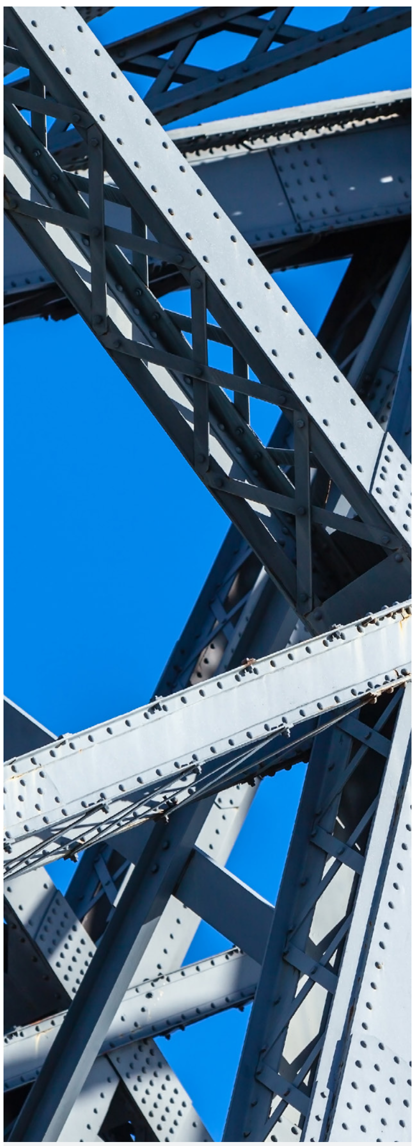
VIRTUS FUNDS

Assessing Deal Strength

The Merger Fund®



WESTCHESTER CAPITAL MANAGEMENT
A VIRTUS INVESTMENT PARTNER

While M&A activity has broken records in recent years, the confluence of geopolitical turmoil, increased inflation, bearish financial markets, and increased regulatory scrutiny have fueled uncertainty.

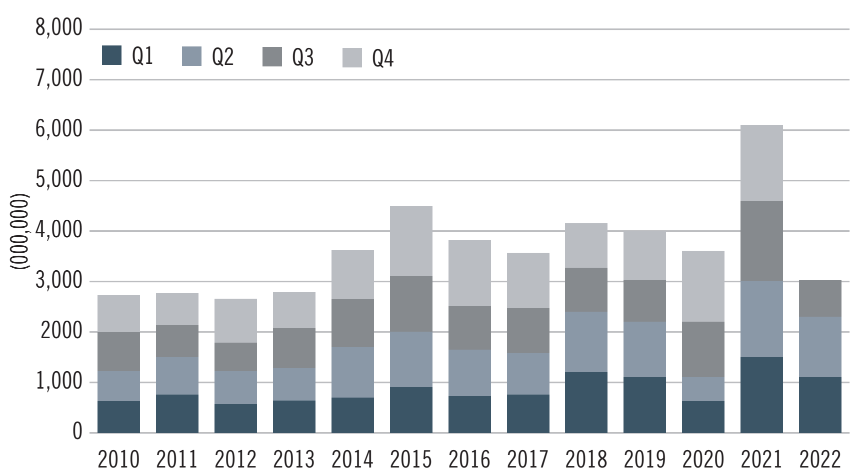
Reflecting that uncertainty, average deal spreads — the gap between the deal price and the share price — have risen from 5.1 percent annualized, at the start of the year, to 12.5 percent through October 31, 2022, according to data from UBS Special Situations, which considers deals with a spread of between zero and 50 percent.[1]

However, although gross M&A activity has declined from the record achieved just last year, the opportunity set remains quite attractive: in fact, transaction activity is easily comparable to 2017–2019 levels.

Deal Flow Remains Attractive

For the first nine months of 2022, global transactions reached USD 2.97tn — a decline from the same period during 2021's record year and roughly level with the comparable and very active period in pre-pandemic 2019.

GLOBAL ANNOUNCED M&A ACTIVITY
Volume USD Year-to-Date through September 30, 2022 (000,000)

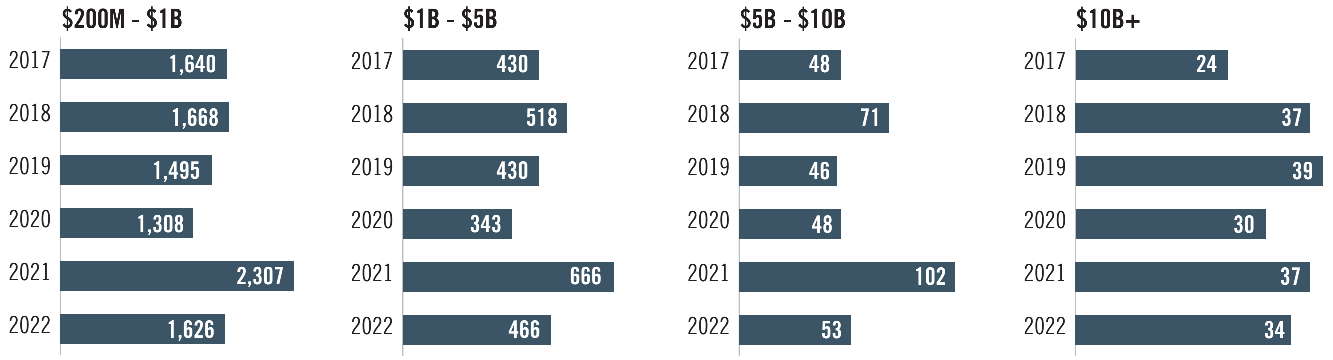


Source: Dealogic

[1]Source: UBS Special Situations, Bloomberg. Mergers with an equity value over $400 million involving publicly traded targets in the U.S.

The market for megadeals (deals with a value exceeding $10 billion) remains strong. One would think that uncertainty would discourage such large and complicated transactions. But 2022 has produced as many megadeals as the technology, media, and telecom flurry during 2021. Megadeals accounted for 28 percent of 2022 deal value through Q3 2022 versus 23 percent a year earlier. There were 34 through October, compared with 37 during all of 2021 and 2020.

GLOBAL NUMBER OF M&A DEALS BY SIZE RANGE[2]
Number of Deals Year-to-Date through October 31, 2022

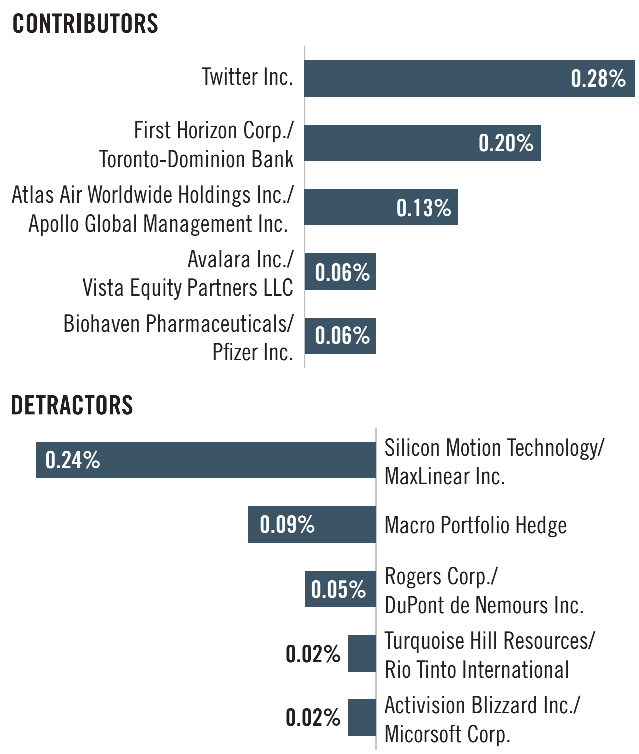


Source: Citi Banking, Capital Markets &b Advisory | Mergers & Acquisitions.

The Merger Fund®

The Merger Fund returned 1.04% in the month of October, bringing its year-to-date performance to 0.98%. The Bloomberg U.S. Aggregate Bond Index ("Agg") lost another 1.30% during the month and has retreated 15.72% year-to-date. The ICE BofA US Treasury Bill 3 Month Index, the Fund's absolute return benchmark, gained 0.16% and 0.76%, respectively, for the same periods. The Fund's outperformance against the Agg is primarily due to its investments in "hard catalysts," which provide both price support and contribute to the low effective duration of the portfolio.

CONTRIBUTORS AND DETRACTORS
(Absolute, as of October 2022)



Notwithstanding the prevailing market pessimism, the portfolio management team is tracking approximately 200 transactions, consistent with the Fund's historical opportunity set of between 180-220 deals globally. The Fund's invested in seven new deals during the month, and 17 were successfully completed.

Cash has consistently remained the preferred form of deal consideration this year, with its share rising to levels much higher than in 2021. Deals with cash consideration do not require an offsetting short position, given that the consideration has a fixed value; therefore, regardless of market conditions, if the deal closes, one would earn the expected "profit" on the trade. Outside of the long-dated mega-cap deals, the effective duration of the Fund remains low at approximately 4-6 months, as of month end October.

[2]M&A activity excludes de-SPAC (mergers between SPACs and target private businesses) M&A volumes.

CONDITIONAL CORRELATION

During periodic precipitous market drawdowns or panics, the correlation between merger arbitrage and equity markets may temporarily increase above historical averages. While disconcerting at the time, market dislocations often provide attractive opportunities to invest in situations that previously did not meet the Fund's investment criteria. This year is no different.

Moreover, unlike traditional investing, where results can be dependent upon overall market conditions, the outcomes of merger arbitrage investments are typically reliant on specific, catalyst-focused events. The Fund has often recouped the negative marks-to-market as deals progress, providing attractive and positive relative returns as reflected in recent months.

Outlook

M&A activity has been impacted this year by both economic and regulatory variables, which have created significant volatility and uncertainty. This volatility and uncertainty have made it more difficult to value and price acquisition targets. Declining valuation levels, particularly for technology companies, have created a gap between sellers' and buyers' price expectations. Accordingly, sellers have not brought down their expectations, continuing to base their expected valuation on the higher levels of previous years. Hence, there have been mismatches between buyers (who have money to spend, but not at the prior valuations) and sellers who missed last year's "sell window." This is a possible factor driving the activity downturn from last year. Historical experience suggests that sellers require a period to realign their expectations with changing valuation multiples. It may pressure certain companies and create opportunities for restructuring specialists and distressed investors. For example, because the weakening economy leads companies to focus on balance sheets and the corporate portfolio, executives and board members may seek to sell or prepare assets for divestiture via corporate carve-outs. In addition, when activity slows down, activist investors often continue to pursue corporate actions that often lead to significant value accretion.

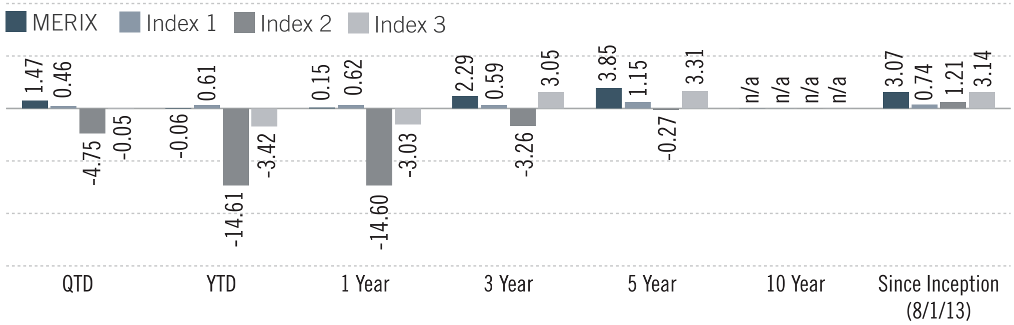
Regarding the macro environment, inflation, rising interest rates, and recessionary periods have generally not created drags on M&A activity. Although the cost of capital has increased year-to-date, banks continue to honor their debt commitments, and many companies are sitting on record cash reserves. Private equity and family offices still have significant amounts of uncommitted capital seeking to be deployed. Dealmakers willing to assume more risk in such volatile environments are often rewarded down the road through higher stock prices and exit valuations. Moreover, the recent U.S. dollar strength gives domestic acquirors a significant advantage when considering overseas targets. To date, transatlantic dealmaking accounts for its lowest share of total cross-border M&A volumes in a decade.

While we may not see the dollars or volume of 2021, we believe astute business leaders will take advantage of the recent weakness to "buy low" and continue making transactions during the remainder of 2022 and throughout 2023.

VIRTUS FUNDS

To learn more, please contact us at 800-243-4361 or visit virtus.com.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/22



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 1.42%. The net expense ratio is 1.32%, 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.

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.

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 indexes and category averages are calculated on a total return basis, are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

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; less publicly available information about the foreign investment; 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**: 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. **Technology Concentration:** Because the portfolio is presently heavily weighted in the technology sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **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. **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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