Virtus AlphaSimplex Global Alternatives Fund

A: GAFAX (92835M489) | C: GAFCX (92835M471) | I: GAFYX (92835M463) | R6: GAFNX (92835M455)

MARKET REVIEW

The second quarter of 2024 saw choppy market moves that mostly corrected before quarter-end, leading to markets moving sideways. Inflation concerns tempered somewhat during the second quarter, as markets moved back into a disinflationary theme. Some of the major central banks, led by the European Central Bank, began easing monetary conditions. However, the disinflationary theme was not strong enough to allow the U.S. Federal Reserve (Fed) or the Bank of England to join the easing, nor to move bond yields much. While Japanese yields continued to hit cyclical highs, the yen continued to weaken, reaching multi-decade lows against the dollar. Some equity markets reached new highs, but this advance was led by a narrow subset of stocks. In commodities, base and precious metals advanced over the quarter, then gave back much of those gains based on supply concerns. Overall, markets were generally tepid as it appears much of the anticipated disinflation has already been factored in.

PERFORMANCE

The Virtus AlphaSimplex Global Alternatives Fund Class I (GAFYX) shares returned 0.77% in the second quarter of 2024. Although the Fund does not seek to track any particular index, the Barclay Fund of Funds Index may be used as a benchmark for performance analysis. This benchmark returned 0.65% for the same period. It is important to note that there are material differences between the Fund and its benchmark.

The Fund seeks to take on exposures that reflect the liquid, dynamic broad-market exposures of the hedge fund industry, as well as exposures related to hedge-fund-like alternative risk premia strategies. When the Fund takes on a “long” exposure to a market, the long exposure generally profits as the price of the underlying market rises, but suffers losses when its price falls. When the Fund takes on a “short” exposure, the short exposure generally suffers losses as the price of the underlying market rises, but profits as its price falls. In taking on these exposures, the Fund typically makes extensive use of futures and forward contracts on global stock indexes, fixed income securities, currencies, and commodities. The Fund can also use short and long exposures to single-name equities as part of its alternative risk premia strategies. As market events unfold, these market exposures result in a profit or loss for the Fund.

During the second quarter, gains came primarily from the Fund’s Hedge Fund Replication models, with additional gains from the Alternative Risk Premia models.

Hedge Fund Replication. The Fund’s Hedge Fund Replication models returned approximately 0.58% in total. Commodities and currencies drove gains, while equities detracted slightly. Commodity gains came primarily from metals, while currency gains were driven by short positions in the Japanese yen. Fixed income was more mixed, with gains from U.S. 10-Year Treasury notes and German bonds slightly outweighing losses from longer-term U.S. bonds. In equities, gains from the S&P 500® Index and Nasdaq-100® Index were outweighed by losses from the Russell 2000® Index and S&P MidCap 400® Index. Similarly, losses from international market equities slightly outweighed gains from emerging market equities.

Alternative Risk Premia. The Alternative Risk Premia (ARP) component of the portfolio returned approximately 0.19% for the quarter. Gains came from Event and Trend/Momentum models, while Value, Carry/Curve, and Structural/Flow approaches detracted from performance. In the Event category, gains came from a number of equity models including high-beta winners, dividend capture, and earnings models. Within the Trend/Momentum models, gains came primarily from commodity positions, with some additional gains from equities. Losses in the Value category came primarily from the equity profitability model, while losses in the Carry/Curve category came from fixed income models. The Structural/Flow category had losses from both currency and commodity models.

The cash portfolio continues to positively impact fund performance.

RISK MANAGEMENT

The Fund’s portfolio is adjusted on daily and monthly bases to incorporate changing market dynamics and new information about hedge funds’ exposures, and on a daily basis to control risk. The risk control mechanism is designed to target an average annual volatility of 9% or less. As market volatility increases, position sizes are reduced, and as market volatility decreases, position sizes are increased. The Fund’s realized volatility during the quarter was 5.4%, below the long-term realized volatility for the Fund. We continue to scale the size of the Fund’s positions to keep total portfolio risk at or below its target.

OUTLOOK

The third quarter may see elevated volatility as we move into election season in the U.K. and France, and the lead-up to the U.S. elections. Uncertainty surrounding these elections may affect markets, which could disrupt the current disinflationary theme. As several equity markets reach record highs, investors will be focused on whether disinflation and economic cooling will continue without a recession, thus allowing central banks to ease financial conditions. Market participants are also aware that large swings in equities have been driven by artificial intelligence and tech stocks, which may not be sustainable over the long term. Given the potential for volatility, we expect to see dispersion between asset classes going into the second half of the year. Finally, with inflation continuing to move towards the Fed’s target and economic data weakening, the expectation for a cut in interest rates before the end of the year is rising.

INVESTMENT ADVISER

Virtus Alternative Investment Advisers, Inc.

INVESTMENT SUBADVISER

AlphaSimplex Group, LLC

PORTFOLIO MANAGERS

Alexander D. Healy, Ph.D.
Industry start date: 2007
Start date as Fund Portfolio Manager: 2014

Peter A. Lee, CFA
Industry start date: 2007
Start date as Fund Portfolio Manager: 2010

Robert S. Rickard
Industry start date: 1993
Start date as Fund Portfolio Manager: 2008

Kathryn M. Kaminski, Ph.D., CAIA
Industry start date: 2008
Start date as Fund Portfolio Manager: 2020

Philippe P. Lüdi, Ph.D., CFA
Industry start date: 2006
Start date as Fund Portfolio Manager: 2014

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (9/30/08)
Fund Class I	0.77	6.92	7.43	3.60	2.51	1.84	3.13
Index	0.65	5.03	8.71	1.42	3.96	2.61	2.41

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 1.43%. The net expense ratio is 1.27%, which reflects a contractual expense reimbursement in effect through 5/19/2025.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.24%.

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: The **Barclay Fund of Funds Index** is a measure of the average return of all Fund of Funds ("FoFs") in the Barclay database. The index is simply the arithmetic average of the net returns of all the FoFs that have reported that month. Index returns are recalculated by Barclay Hedge, Ltd. throughout each month. Because of these recalculations, the Barclay Fund of Funds Index returns reported by the fund may differ from the index returns previously published for the same period. The performance of the index reflects the managed fees and other expenses of both the fund of funds in the Index and the hedge funds in which these fund of funds invest. 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: Leverage: the Fund leverages its portfolio, the Fund may be less liquid and/or may liquidate positions at an unfavorable time, and the value of the Fund's shares will be more volatile and sensitive to market movements. **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. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that 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. **Quantitative Model:** Investments selected using quantitative models may perform differently from the market as a whole or from their expected performance. There can be no assurance that use of a quantitative model will enable the portfolio to achieve positive returns or outperform the market. **Commodity and Commodity-Linked Instruments:** Commodity and commodity-linked instruments may experience a return different than the commodity they attempt to track and may also be exposed to counterparty risk. **Currency Rate:** Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the portfolio's shares. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Credit Risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **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. **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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