VIRTUS FUNDS

Virtus AlphaSimplex Global Alternatives Fund

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

MARKET REVIEW

The fourth quarter of 2023 saw a market-wide shift in sentiment as investors seemed optimistic that central banks will soon begin cutting interest rates. While October continued the trends from earlier in the year, improving inflation data in November led to a significant rally in equity prices, a decrease in bond yields, and a weakening of the U.S. dollar. These moves represented a clear reversal of long-term trends that had focused on inflation, rising rates, and weaker sentiment in equity markets, especially since August. There was also a general decline in energy prices, despite earlier concern that these prices would spike going into year-end. This sentiment continued into December, leading to a strong market finish for both the quarter and the year.

PERFORMANCE

The Virtus AlphaSimplex Global Alternatives Fund Class I shares (GAFYX) returned 0.38% during the fourth quarter of 2023. 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, and it returned 4.00% 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 fourth quarter, gains came primarily from the Fund's Hedge Fund Replication models, while the Alternative Risk Premia models detracted from performance.

Hedge Fund Replication. The Fund's Hedge Fund Replication models returned approximately 0.89% in total. Gains came primarily from long equity positions; these gains outweighed losses from fixed income and commodities, while currency positions were flat for the month. In equities, gains were driven by U.S. equities, with additional gains from the MSCI EAFE, DJ EURO STOXX 50 (Europe), and MSCI Emerging Markets Index. Fixed income losses came primarily from short positions in U.S. 10-year notes and the German Bund, positions that provided gains in the third quarter. In commodities, losses came from long positions in energies (crude oil and Brent crude oil). Currencies were more mixed, with gains from emerging market currencies and the Australian dollar slightly outweighing losses from short positions in the Japanese yen.

Alternative Risk Premia. The alternative risk premia (ARP) component of the portfolio returned approximately -0.51% for the quarter. Losses were driven by the Trend/Momentum, Carry/Curve, and Structural/Flow models, while the Value and Event categories contributed positively. Within the Trend/Momentum models, equity positions contributed positively, but these gains were outweighed by losses in fixed income, commodities, and currencies as strong trends from earlier in 2023 reversed during the quarter. In the Carry/Curve category, losses came from both fixed income and commodity models. In the Structural/Flow category, gains from low volatility models were outweighed by losses from currency flow and commodity contrarian models. Gains in the Value category came from the equity profitability model, while the earnings and activist models were the largest contributors to gains within the Event category.

The cash portfolio continues to positively impact Fund performance, even as the rate hike cycle appears to have peaked as inflation slowly heads towards the Federal Reserve's goal of 2%.

RISK MANAGEMENT

The Fund's portfolio is adjusted on a daily and monthly basis 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 4.4%, 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 primary question going into 2024 will be if or when central banks will begin cutting rates. Market sentiment seems to expect rate cuts in 2024 and continued moderation of inflation across major economies, in addition to believing the highest probability is for a soft landing. However, investors should be aware that a soft landing is not a foregone conclusion. In addition, markets continue to monitor the dispersion between the U.S. and the rest of the world, and between those economies that will prove resilient and those that might slide into recession. Finally, the geopolitical picture remains unclear given the ongoing Russia-Ukraine war and Israeli-Palestinian conflict, as well as the upcoming U.S. election.

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 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (9/30/08)
Fund Class I	0.38	3.79	3.79	1.50	2.49	1.35	2.79
Index	4.00	6.15	6.15	1.33	4.09	2.34	2.19

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 1.44%. The net expense ratio is 1.25%, 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: When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **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.

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