

Virtus AlphaSimplex Managed Futures Strategy Fund

A: AMFAX (92835M448) | C: ASFCX (92835M430) | I: ASFYX (92835M422) | R6: AMFNX (92835M414)

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

Virtus AlphaSimplex Managed Futures Strategy Fund Class I shares (ASFYX) returned -6.78% during the fourth quarter of 2023, while the Fund's benchmark, the Credit Suisse Managed Futures Liquid Index, returned -1.42% for the quarter. It is important to note that there are material differences between the Fund and its benchmark. Another index that may be used for performance analysis is the SG Trend Index, as it reflects a peer group of diversified, primarily trend-following investment managers, and it returned -5.07% during the fourth quarter of 2023.

The Virtus AlphaSimplex Managed Futures Strategy Fund maintained broad diversification across trend horizons and approaches to trend following. Over the course of the quarter, the Fund's losses were driven by short positions in fixed income and foreign currencies (long USD), as well as by long positions in energies, the same positions that provided positive returns earlier in the year, as a number of strong trends reversed over the quarter. Long positions in equities provided positive returns.

The largest losses in fixed income came from U.S. bonds, Australian 10-Year and 2-Year notes, and German bonds. Short positions in the short-term rates market also detracted from performance. Long positions in energies drove losses in commodity markets; these losses outweighed gains from short

positions in natural gas. Additional commodity losses came from agricultural commodities (especially sugar) and metals (especially silver, gold, and copper). Short positions in developed market currencies (long USD), especially the Japanese yen, also detracted from performance. Long positions in equities, particularly U.S. equities, provided gains but could not make up for losses in other asset classes.

At the model level, all three approaches detracted, with the basic multi-trend and adaptive models underperforming the short-horizon models. 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 portfolio is managed to an annualized volatility target of 17% or less.¹ We scale portfolio positions as often as daily in an effort to keep total portfolio risk within its target range. 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 12.1%, consistent with 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.

¹The Fund seeks to target a relatively stable level of annualized volatility (as measured by standard deviation), but the targeted volatility is subject to change. There is no guarantee that the target will be achieved, and the realized volatility level of the Fund can be higher or lower than its target volatility at any given point in time. Volatility is not an indicator of expected return or a measure of protection against loss.

INVESTMENT ADVISER

Virtus Alternative Investment Advisers, Inc.

INVESTMENT SUBADVISER

AlphaSimplex Group, LLC



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



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



Robert S. Rickard
Industry start date: 1993
Start date as Fund Portfolio
Manager: 2010



Kathryn M. Kaminski, Ph.D., CAIA
Industry start date: 2008
Start date as Fund Portfolio
Manager: 2018



John C. Perry, Ph.D.
Industry start date: 2003
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 (7/30/10)
Fund Class I	-6.78	-10.32	-10.32	7.99	9.16	5.14	4.86
Index 1	-1.42	-5.91	-5.91	7.30	3.72	3.43	n/a
Index 2	-5.07	-4.17	-4.17	10.01	9.10	5.02	4.11

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 1.56%. The net expense ratio is 1.45%, which reflects a contractual expense reimbursement in effect through 5/19/2025.

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 **Credit Suisse Managed Futures Liquid Index** seeks to gain broad exposure to the Managed Futures strategy using a pre-defined quantitative methodology to invest in a range of asset classes including: equities, fixed income, commodities, and currencies. Relative performance for the Credit Suisse Managed Futures Liquid Index is not available prior to January 31, 2011, which is the inception date of the index. Index 2: The **SG Trend Index** is equal-weighted, reconstituted and rebalanced annually. The index calculates the net daily rate of return for a pool of Commodity Trading Advisors (CTAs) selected from the larger managers that are open to new investment. AlphaSimplex Group, LLC is part of this Index.

Notes on Risk: 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. **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. **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. **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. **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. **Leverage:** When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **Financial Concentration:** Because the portfolio is presently heavily weighted in the financial sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **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. **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. **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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