Virtus AlphaSimplex Managed Futures Strategy Fund

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

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

Virtus AlphaSimplex Managed Futures Strategy Fund (Fund) Class I (ASFYX) shares returned -2.23% in the second quarter of 2024, while the Fund's benchmark, the Credit Suisse Managed Futures Liquid Index, returned -0.04% for the quarter. It is important to note that there are material differences between the Fund and its benchmark.

The Fund maintained broad diversification across trend horizons and approaches to trend following over the course of the quarter. The Fund's losses came primarily from currencies and commodities, with additional losses from equities and fixed income. Long positions in foreign currencies (short USD), especially in emerging market currencies like the Mexican peso and Polish zloty, detracted most from performance. Developed market currencies had losses from both long and short positions. One major exception was the Japanese yen, which provided strong positive gains from short positions (long USD). Commodity losses came primarily from energies, especially natural gas, crude oil, and gas oil. Gains from long positions in precious metals and base metals could not make up for these losses. In equities, losses came from long positions in international developed markets, especially the CAC 40 (France) and EURO STOXX 50. Emerging market equities contributed positively (particularly the FTSE Taiwan Index), while returns from U.S. equities were flat for the quarter. Fixed income was more mixed; bonds detracted across the board, especially international developed markets, but short positions in short-term rates markets provided gains.

At the model level, all three approaches detracted, with the adaptive models underperforming the basic multi-trend and short-horizon approaches. The cash portfolio continues to positively impact Fund performance.

RISK MANAGEMENT

The portfolio is managed to an annualized volatility target of 17%[1] or less. 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 12.9%, 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 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 (AI) 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.

[1]The 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

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Industry start date: 2007
Start date as Fund Portfolio Manager: 2014

Philippe P. Lüdi, Ph.D., CFA
Industry start date: 2006
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Start date as Fund Portfolio Manager: 2018

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Industry start date: 2003
Start date as Fund Portfolio Manager: 2017

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (7/30/10)
Fund Class I	-2.23	5.92	-0.76	7.53	9.04	5.24	5.11
Index 1	-0.04	0.86	-3.05	3.91	4.10	3.98	n/a

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 1.51%. 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.

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 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. **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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