VIRTUS FUNDS

Virtus Newfleet Core Plus Bond Fund

A: SAVAX (92828R107) | C: SAVCX (92828R305) | I: SAVYX (92828R404) | R6: VBFRX (92828W270)

FIXED INCOME MARKET REVIEW

Confidence that the U.S. economy and much of the rest of the global economy had avoided central bank-induced pain remained high during the first quarter. Consensus among strategists and economists on Wall Street is that the Federal Reserve (Fed) has pulled off the elusive soft landing, with more than a few even suggesting there wasn't much of a landing at all. While economies slowed around the globe and geopolitical events remained top of mind, central bankers appeared close to declaring victory over the inflation that has ravaged the landscape since the pandemic. While more recent data suggests that the "last mile" of the inflation fight will be bumpy, the Fed continues to signal that cuts are coming later this year. Most risk markets have rejoiced at the Goldilocks environment of slowing inflation, low unemployment, resilient earnings, and economic growth that has outperformed expectations. We are optimistic that we have seen the peak in interest rates this cycle, but also caution that monetary policy acts on the economy unpredictably, and with variable lags, so we will be paying close attention to the incoming data in the weeks and months ahead.

Few positive developments have occurred in the parts of the world that remain plagued by conflict, and though the financial markets have largely discounted day-to-day developments, they still bear monitoring as any further escalation has the potential to disrupt the improving global inflation picture. Political activity will ramp up as we move through 2024, with research from Wall Street showing that the year will see the largest proportion of the world population in history head to the polls.

Financial market performance was mixed during the quarter. We have seen significant progress on headline inflation readings as supply chains healed, demand shifted from goods to services, and energy prices rebalanced. Core inflation readings, while still stubbornly above targets, are annualizing towards levels that are consistent with central bank goals. 2024 will likely deliver the first interest rate cuts from policymakers across developed markets. However, they will be desynchronized. All of the above will likely create interesting opportunities for investors in the coming quarters.

With the positive economic tone, fixed-income sectors turned in mixed total returns as interest rates moved higher during the period. Spread sectors outperformed U.S. Treasuries and spreads tightened. Within spread sectors, shorter duration and risk asset classes outperformed. The U.S. Treasury curve shifted higher and further inverted along most of the curve. The 2-year Treasury yield increased 37 basis points (bps), the 5-year Treasury yield increased by 37 bps, the 10-year Treasury yield increased by 32 bps, and the 30-year Treasury yield moved 32 bps higher.

We continue to see value being restored across most of the fixed income sectors in which we invest. Yields remain elevated and bond prices are broadly discounted. We expect the Fed will be successful in returning inflation to acceptable levels over time. We continue to watch data releases to inform our views on the global economic trajectory.

As the markets digest economic and geopolitical developments, we continue to believe active sector and issuer selection is critical to take advantage of market volatility as it arises. Our approach to fixed income—the same approach we have implemented for over three decades—enables us to scan the bond market for the most attractive investment opportunities and is, in our view, ideally suited for the current environment.

For more detail on the macroeconomic backdrop and specific sectors, see Newfleet's 1Q24 Market Review & Outlook on Virtus.com.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned 0.48% in the first quarter versus the Bloomberg U.S. Aggregate Bond Index return of -0.78%.

Positive Contributors

> **U.S. Treasury Securities:** The Fund's underweight to U.S. Treasuries had a positive impact during the period as most sectors had positive excess returns during the quarter.

> **Residential Mortgage-Backed Securities (RMBS):** Allocation to RMBS over agency mortgage-backed securities (MBS) and positioning within RMBS had a positive impact on performance. RMBS outperformed MBS in the period due to demand from yield-oriented investors driven by strong housing technicals along with attractive yields for ratings and duration.

> **Investment Grade (IG) Corporates Selection:** Issue selection within the IG corporate sector was positive during the quarter as the Fund's overweight to financials and BBBs contributed to outperformance versus the Bloomberg U.S. Intermediate Corporate Bond Index.

> **Asset-Backed Securities (ABS):** Allocation to and issue selection within the ABS sector had a positive impact on performance in the first quarter. ABS outperformed similar average life corporate bonds during the period. New issue supply running 60% ahead of last year's pace was easily absorbed with insatiable demand, driving in spreads. In addition, the credit curve flattened as strong demand for risk tranches within ABS drove spreads materially tighter.

Performance Detractors

> **Emerging Markets High Yield (EMHY) Selection:** Despite the de minimis allocation to the sector, selection within EMHY had a negative impact on performance as compared to the J.P. Morgan Emerging Markets (EMBI) Global Diversified Bond Index. Within EM, the high yield cohort outperformed investment grade during the period.

> **Bank Loans Selection:** While the allocation to the bank loan sector had a positive impact on performance, issue selection and the Fund's up-in-quality positioning versus the Credit Suisse Leveraged Loan Index was negative for the period.

CURRENT FUND STRATEGY AND POSITIONING

> Increased exposure to ABS, investment grade corporates, and bank loans.
> Reduced exposure to cash, U.S. Treasuries, and taxable and tax-exempt municipal securities.
> In addition to changes to the Fund's sector allocation during the quarter, we continue to optimize positioning within sectors based on our view of the best relative value.

EM Debt and Non-U.S. Exposure: The first quarter of 2024 showed the resilience of EM debt markets. After a weak January with a total return on the EMBI Global Diversified Bond Index of -1.18%, the sector rallied in February and March, finishing the quarter at 1.40%. A slew of new issuance in January largely dried up in February and March, creating a technical bid on EM assets. While much of the day-to-day tone throughout the quarter was guided by macro headlines, central bank news, and China, the more distressed countries traded on the commitments of bi- and multi-lateral funding sources. The heavy election calendar also played an important role in many countries, causing pockets of volatility in some cases. The investment grade component of the EMBI Global Diversified Bond Index continued to underperform high yield by over 500 bps. While spreads on the overall Index traded inside 300 bps—a level not seen since before the pandemic—we still find value in the sector as growth has recovered, overall inflation is cooling, and monetary policy has become more supportive.

Investment Grade (IG) Corporates: Record supply for the IG corporate market was the headliner for the quarter with over $525 billion printing—nearly 40% ahead of the prior year's pace, which was about average. This heavy issuance periodically overwhelmed a healthy demand environment, leading to wider spreads in February. The supply wave began to crest towards the end of the quarter and spreads made their way to fresh 52-week lows, ending at +89 bps. This has been a very technical-driven start to the year as fundamentals remain healthy. Earnings growth turned positive in 2H2023, and rising stars continue to outpace fallen angels, though at a much smaller rate than in 2023. Several of our overweights are working year to date as financials and BBBs compressed relative to the broader IG corporate bond index. Though our enthusiasm for these overweights is being tempered, we see scope for this compression to continue into the second quarter.

Corporate High Yield: The high yield market is off to a solid start in 2024—the Bloomberg High Yield 2% Issuer Capped Bond Index saw a total return of 1.47% and stronger excess returns of close to 1.6%. Despite starting the year at a rather low level, credit spreads have tightened 20 bps to +303 bps and hit a low of +292 bps in mid-March. The soft-landing narrative, steady fundamentals, and strong technicals all drove this move tighter. In the Fund, the allocation was relatively flat during the quarter, remaining below long-term average levels. Credit spreads look rich versus historical levels, though yields are still attractive.

Securitized: Excluding agency mortgages, the securitized sector had another quarter of positive total returns. Spreads for securitized assets continued to compress versus risk-free assets during the quarter as demand for spread product outstripped supply. Stickier inflation data drove interest rates higher across the curve. Given the investor demand for higher yields, consumer- and credit-sensitive sectors continued to perform well versus IG alternatives. As in the fourth quarter, we continued to invest our marginal dollars into the more conservative parts of the capital structure as we get longer into the economic cycle. We maintained our overweight in ABS and RMBS as fundamentals and technical factors were both tailwinds for performance. Our modest increase to the commercial mortgage-backed securities sector was rewarded this quarter as credit spreads compressed materially versus risk-free assets. Lastly, we increased our exposure to higher-coupon agency MBS because they offer better yields than IG corporates, and because we expect them to outperform as rates stabilize.

OUTLOOK

Our multi-sector relative value approach helps enable us to take advantage of opportunities when events that trigger volatility, such as inflation worries, an economic slowdown, or geopolitical concerns, affect valuations. In the current environment, we believe some of the best total return and yield opportunities can be found in spread sectors. However, spreads in some sectors do not seem to be fully reflecting the risks and are largely pricing in a soft landing. The Fund's exposure to spread sectors that would typically be more negatively impacted, such as corporate high yield and EM, are below long-term averages. Credit selection and positioning remain key. Specific sectors that demonstrate the best relative value for us include
out-of-index/off-the-run ABS, bank loans, non-agency RMBS, and the BBB-quality tier within corporate IG.

The Fund maintains its higher-quality focus and short duration to limit both spread and interest rate volatility. As always, we aim to stay diversified, maintain granular positions, and emphasize liquid investments.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management

PORTFOLIO MANAGERS

David L. Albrycht, CFA
Industry start date: 1985
Start date as Fund Portfolio Manager: 2012

Steven H. Hooker, CFA
Industry start date: 1993
Start date as Fund Portfolio Manager: 2017

SECTOR ALLOCATION

SECTOR ALLOCATION	% Fund
Corporate - High Quality	26.83
Treasury	18.92
Non-Agency Residential MBS	17.63
Asset-Backed Securities	12.88
Bank Loans	5.96
Mortgage-Backed Securities	5.18
Corporate - High Yield	4.79
Non-Agency Commercial MBS	4.64
Yankee - High Quality	1.19
Cash	1.06
Emerging Market - High Yield	0.86
Taxable Municipals	0.07

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (03/07/96)
Fund Class I	0.48	0.48	4.19	-0.96	1.63	2.28	4.85
Index	-0.78	-0.78	1.70	-2.46	0.36	1.54	4.20

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 0.84%. The net expense ratio is 0.45%, which reflects a contractual expense reimbursement in effect through 3/1/2025.

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: **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. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

The **Bloomberg U.S. High-Yield 2% Issuer Capped Bond Index** is a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations. No single issuer accounts for more than 2% of market cap. The **Bloomberg U.S. Intermediate Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. The **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. The **J.P. Morgan EMBI Global Diversified Bond Index** tracks the total return for the U.S. dollar-denominated emerging markets debt, including Brady bonds, Eurobonds, and loans. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Newfleet Asset Management is a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser.

Notes on Risk: 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. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the non-repayment of underlying collateral, including losses to the portfolio. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **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. **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.

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.

Not FDIC Insured | May Lose Value | Not Bank Guaranteed

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.