VIRTUS MUTUAL FUNDS

Virtus Newfleet Low Duration Income Fund

A: HIMZX (92828W346) | C: PCMZX (92828W338) | I: HIBIX (92828W320)

MARKET OVERVIEW

The environment remained favorable for fixed income markets in the third quarter. Most spread sectors outperformed U.S. Treasuries as spreads tightened and interest rates remained low. The Federal Reserve put off a third rate hike in September but announced the start of its balance sheet reduction plan. The U.S. dollar continued to drift lower, oil prices rebounded from recent bear market levels, and signs of synchronization in global growth and major central bank policy emerged.

For a more detailed overview of the third quarter and our outlook, please see the Q3 Newfleet Market Review.

HOW THE FUND PERFORMED

The Low Duration Income Fund (Class I) outperformed its benchmark in the third quarter with a return of 0.76% versus the BofA Merrill Lynch 1-5 Year US Corporate & Government Bond Index return of 0.44%.

Contributors

> Our underweight to **U.S. Treasuries** benefited performance as most spread sectors outperformed the government sector.

> The **Corporate High Yield** sector helped performance as the positive tone in the credit markets continued despite some brief pauses. Negative net issuance, improving fundamentals, and global accommodative central bank policy contributed to the sector's outperformance

Detractors

> **Asset-Backed Securities:** The Fund's allocation to asset-backed securities, while underweight the benchmark's allocation to the sector, slightly detracted from performance during the month as the sector underperformed most sectors during the quarter.

> **Agency Mortgage-Backed Securities:** The Fund's allocation to agency mortgage-backed securities, while underweight the benchmark's allocation to the sector, slightly detracted from performance during the month as the sector underperformed most sectors during the quarter.

CURRENT FUND STRATEGY

Sector Changes: We reduced our weightings to U.S. Treasuries and commercial mortgage-backed securities (CMBS). Much of the reduction in the CMBS exposure was through pay downs that were not reinvested in the sector due to full valuations. We redeployed the sale proceeds primarily into ABS, investment grade corporates, and agency mortgage-backed securities.

Securitized Product: Our allocation to non-agency residential mortgage-backed Securities (RMBS) and ABS continues to play an important role. This segment of the market offers a diversified collateral base and attractive valuations relative to many other areas of the fixed income markets. It also offers diversification to the portfolio's corporate credit allocation. Our consumer focus within the ABS sector benefits from the U.S. consumer's continued ability to drive the U.S. economy. RMBS benefits from the continuing improvement in the housing market and demand for mortgage credit.

OUTLOOK

We expect spread sectors to continue to perform well in the current environment of modest 2% growth and subdued inflation. Spreads are tighter, however, and we are watchful of risks that include the unprecedented retreat from quantitative easing by the major central banks, oil price volatility, geopolitical tensions, and continued gridlock in Washington, D.C. As always, we feel it is important to stay diversified, have granular positions, and focus on liquid investments. We are constructive on spread sectors and have maintained an overweight in our multi-sector portfolios based on sound and improving fundamentals, strong technicals, still-accommodative central banks, and attractive valuations in certain areas of the fixed income markets. With spreads well inside of long-term averages, issue selection and positioning within sectors is critical.

Effective May 8, 2017, the Fund's name was changed from Virtus Low Duration Income Fund.

Virtus Newfleet Low Duration Income Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management, LLC

INVESTMENT PROFESSIONALS

David L. Albrycht, CFA
Industry start date: 1985
Start date with the Fund: 2012

Benjamin Caron, CFA
Industry start date: 1997
Start date with the Fund: 2012

Lisa M. Baribault
Industry start date: 2003
Start date with the Fund: 2017

SECTOR ALLOCATIONS

SECTOR ALLOCATIONS	% Fund
Asset-Backed Securities	28.00
Corporate - High Quality	20.48
Non-Agency Residential MBS	14.90
Mortgage-Backed Securities	10.85
Non-Agency Commercial MBS	7.72
Bank Loans	6.09
Treasury	5.20
Corporate - High Yield	4.07
Yankee - High Quality	1.12
Emerging Market - High Yield	0.91
Cash	0.61
Taxable Municipals	0.06

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/23/1996
NAV	0.76	2.41	1.56	2.09	2.06	3.80	4.46
Index	0.44	1.60	-0.50	1.88	1.46	3.56	4.71

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit Virtus.com for performance data current to the most recent month-end.

The fund class gross expense ratio is 0.85%. The net expense ratio is 0.50%, which reflects a contractual expense reimbursement in effect through 4/30/2018.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, **would reduce the performance quoted**. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required and may not be available to all investors. For Fund Performance on other share classes, please visit www.virtus.com.

Index: The **Low Duration Income Fund Linked Benchmark** consists of the BofA Merrill Lynch 1-5 Year US Corporate & Government Bond Index which tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 5 years, 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. Performance of the Low Duration Income Linked Benchmark prior to 2/1/2017 is that of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index.

Notes on Risk: Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities 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 repayment of underlying collateral. **Foreign Investing:** Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **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 carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit Virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

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