Virtus Newfleet Multi-Sector Intermediate Bond Fund

A: NAMFX (92828R677) | C: NCMFX (92828R651) | I: VMFIX (92828R289) | R6: VMFRX (92828W544)

MARKET OVERVIEW

The U.S. presidential election, a trade deal between the UK and the EU, and announcements from the scientific community marked the final quarter of 2020 and signaled a significant moment in history as the world turned the tide on the COVID-19 pandemic that dominated the year. Scientific advancements are likely to continue as the fight against the virus wages on and the focus turns to the logistics of offering the available vaccines to the global population. The quarter also saw the return of some local and regional disruptions to economic activity as restrictions were reinstated to control the virus spread. The disruptions may weigh on near-term economic results, but we believe that the financial markets will remain focused on the progress of distributing the vaccines and the normalization of activity in 2021.

The unprecedented global monetary and fiscal policy response to combat the disruption of the pandemic was broad based and has proved successful in restoring economic activity. As the early initiatives have expired or reached limitations, central bankers have urged the politicians to continue to support the recovery with more fiscal assistance. After months of political wrangling, a year-end funding bill provided some much needed relief. We expect that the policymakers will continue to fine-tune their response to the crisis as warranted, and the incoming U.S. administration may make further adjustments in the coming months.

In our view, economic activity and corporate earnings will continue to rebound over the course of the new year. Financial markets pushed higher during the quarter, and we are continuing to find attractive investment opportunities across the many sectors of the bond market. We believe sector and issuer selection in this environment is critical and favors active over passive management. Elevated cash levels and a high degree of personal savings will be a tailwind to growth in the coming quarters.

Spread sectors outperformed U.S. Treasuries during the quarter led by higher beta sectors such as corporate high yield, bank loans, and emerging market (EM) debt. Within most sectors, lower quality and longer duration outperformed. Corporate credit outperformed most securitized sectors such as commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and asset-backed securities (ABS).

We continue to see value in spread sectors. While the pandemic certainly has proven disruptive to economies, we are confident that the crisis will be resolved with time. Our multi-sector approach to fixed income investing, time-tested over close to three decades, enables us to scan the bond market for the most attractive investment opportunities wherever they may be and is ideally suited for the current environment.

For more detail on the macroeconomic backdrop and specific sectors, see Newfleet's 4Q20 Market Review & Outlook on Virtus.com.

HOW THE FUND PERFORMED

The Fund (Class I) returned 4.67% in the fourth quarter versus the Bloomberg Barclays U.S. Aggregate Bond Index return of 0.67%.

Positive Contributors

> Underweight U.S. Treasury and agency mortgage-backed securities and overweight spread sectors.

> Allocation to, and issue selection within, the corporate high yield sector. With the election behind us, hopes for another stimulus package, and positive COVID-19 vaccine news, optimism for an economic recovery drove risk assets substantially higher in the quarter with the lower-rated credit tiers leading the way. Within the corporate high yield sector, an active but manageable primary market and positive fund flows also helped push valuations higher.

> Allocation to, and issue selection within, the EM debt high yield sub-sector. With the risk-on sentiment, the EM high yield sector was the best performing sector by a wide margin.

Detractors

> The underweight to the corporate high quality sector versus the benchmark, though issue selection and positioning within the sector were beneficial.

> Allocation to the ABS sector. The sector underperformed versus alternative higher-beta asset classes with the risk-on sentiment; however, issue selection and positioning within the sector were beneficial.

CURRENT FUND STRATEGY

Sector Changes: We reduced exposure to corporate high quality, Yankee high quality, and U.S. Treasury securities. We increased exposure to corporate high yield, EM high yield, and high yield bank loans.

Non-U.S. Exposure: We maintained the overall EM debt and non-U.S. exposure within the Fund while executing intra-sector trades throughout the period by increasing exposure to the high yield component within EM. Total non-U.S. exposure remains well below historical averages, and our total EM country exposure is below the six-year average for the Fund. We are using this volatile and uncertain time in the markets to look for names we believe are undervalued yet can sustain the current macro backdrop. We continue to favor sovereigns in larger capital structures and prefer hard currency over local market exposure.

Corporate High Quality: Spreads within the investment grade corporate sector moved steadily lower throughout the fourth quarter to end the year at 96 basis points (bps), just three bps wider for the year and 30 bps through long-term averages. Net supply was slightly negative in the quarter, though 50% ahead of the prior record for the full year. Issuers have large cash and debt balances and we expect relatively light supply in 2021. While valuations are becoming constrained broadly, we still see attractive opportunities within the BBB segment of the market, often in the more COVID-19-sensitive industries.

Corporate High Yield: The sector rallied hard in the quarter following vaccine announcements. Unlike earlier in the year, fourth quarter performance was led by risky CCC credits and those industries most impacted by the virus. The strong market performance led to wide open capital markets. While total issuance was down from the very high levels of Q2 and Q3, the issuers tapping the market were of much lower quality than prior quarters. Total issuance for the quarter was still high relative to past years and the full-year issuance set a new record at $418 billion. After the rally into year end, one has to question how much performance was pulled forward into 2020. Yields are at all-time lows and spread levels are below average—both may limit potential total returns in 2021. During the quarter, we made net additions to high yield in the Fund. The vaccine news led to some fundamental changes in our views on certain sectors and names. Specifically, we reduced our underweight to energy and increased our exposure to travel-related issuers.

Securitized Product: Our allocation to the securitized product sectors (non-agency RMBS, ABS, and CMBS) continued to be accretive to the overall performance of the portfolio. Credit spreads continued tightening in the fourth quarter but not with the same vigor as in the third quarter. We maintained a meaningful allocation to the space to continue to reap the advantage of liquidity and risk-adjusted spreads offered by our securitized investments. The new issue market still offered investors a concession with respect to pricing and more robust deal protections as rating agencies maintain a conservative

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approach to underwriting given uncertain economic results due to COVID-19. The fundamental performance of the U.S. consumer continued to improve as delinquencies and forbearance numbers trended lower, which positively impacted the valuation of our securities. The positive news on the vaccine front comforted investors and, in turn, spreads on lower-rated securities rallied. We finished the quarter with many securitized product valuation levels surpassing pre-COVID-19 levels.

OUTLOOK

As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments. COVID-19, like other events that trigger volatility in the market, can affect valuations and create opportunities that we can take advantage of in the course of implementing our multi-sector relative value approach. We highlight the importance of credit selection and positioning in the current environment. Given the widening in spreads late in the first quarter of 2020, valuations had cheapened substantially and we continue to identify opportunities in spread sectors, including those within non-investment grade sectors that we have added to and may continue to add to in the Fund. Even with the recovery since the end of March, valuations look attractive in many spread sectors and we believe some of the best total return and yield opportunities in fixed income can be found in spread sectors. Some of the specific sectors where we are finding the best relative value opportunities are out-of-index/off-the-run ABS, non-agency RMBS, high yield bank loans, corporate high yield, EM high yield, and BBB rated corporate investment grade.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

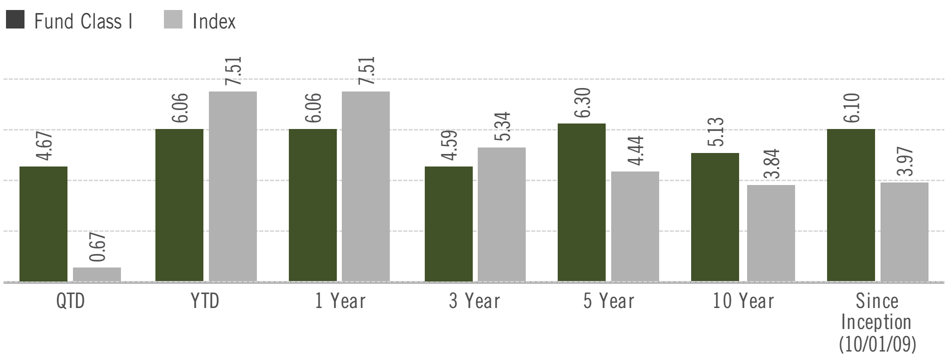
INVESTMENT SUBADVISER

Newfleet Asset Management, LLC

PORTFOLIO MANAGER

David L. Albrycht, CFA
Industry start date: 1985
Start date as Fund Portfolio Manager: 1994

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/20



SECTOR ALLOCATIONS

SECTOR ALLOCATIONS	% Funds
Corporate - High Yield	30.98
Corporate - High Quality	19.49
Non-Agency Residential MBS	13.78
Bank Loans	12.44
Asset Backed Securities	8.51
Emerging Market - High Yield	6.92
Yankee - High Quality	5.94
Non-Agency Commercial MBS	0.98
Treasury	0.51
Non-USD	0.20
Taxable Municipals	0.10
Cash	0.08
Equity	0.06

Sector weights are subject to change.

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 0.85%. The net expense ratio is 0.74%, which reflects a contractual expense reimbursement in effect through 1/31/2021

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 Barclays 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 it is not available for direct investment.

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. **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:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans are subject to credit and call risk, may be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Foreign & Emerging Markets:** Investing in foreign securities, especially In emerging markets, subjects the fund to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **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 fund. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's 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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