VIRTUS MUTUAL FUNDS

Virtus Newfleet Multi-Sector Intermediate Bond Fund

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

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 Multi-Sector Intermediate Bond Fund (Class I) outperformed its benchmark in the third quarter with a return of 1.81% versus the Bloomberg Barclays U.S. Aggregate Bond Index return of 0.85%.

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

> The **Emerging Markets High Yield** sector was the primary positive contributor to performance as a result of the continued search for yield, improving economic growth, strong risk sentiment, dovish central banks, and an overall weaker U.S. dollar.

> Exposure to the **Non-U.S. Dollar** sector was a top contributor to performance. Outperformance within the sector was driven by country selection and an overall weaker U.S. dollar as a result of growth momentum outside the U.S, subdued U.S. inflation, and continued uncertainty generated by U.S. politics.

Detractors

High Yield Bank Loans: The sector underperformed for the quarter. With the loan market trading near par, the sector has been a coupon-clipping performer. In addition, our higher quality and overall issue selection detracted from performance. Valuations in the sector remain attractive on a risk-adjusted relative basis and warrant a strategic allocation, especially given the short duration nature of the asset class in a rising rate environment.

CURRENT FUND STRATEGY

Sector Changes: We reduced our weightings to U.S Treasuries, bank loans, and residential mortgage-backed securities (RMBS). We redeployed the sale proceeds primarily into ABS, investment grade corporates and agency mortgage-backed securities.

Foreign Exposure: We slightly decreased the overall foreign exposure within the Fund, but still maintain an overweight to emerging markets. Valuations in specific countries are attractive and fundamentals are slowly improving with continued improvement expected in 2017 and 2018 driven by Brazil, Argentina, and Russia. The Fund's foreign exposure could continue to receive an uplift from improving global growth, stronger than anticipated Chinese growth, a weaker U.S. dollar, supportive commodity prices, and accommodative monetary policy from major global central banks. European political events are passing without market disruptions. In this space, we favor sovereigns in larger capital structures. Total foreign exposure remains close to historical averages, but our total emerging market country exposure is above the five-year average for the Fund.

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 Multi-Sector Intermediate Bond Fund.

Virtus Newfleet Multi-Sector Intermediate Bond Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

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INVESTMENT PROFESSIONALS

David L. Albrycht, CFA
Industry start date: 1985
Start date with the Fund: 1994

SECTOR ALLOCATIONS

	% Fund
Corporate - High Yield	28.51
Corporate - High Quality	21.72
Emerging Market - High Yield	10.56
Bank Loans	8.93
Non-Agency Residential MBS	8.41
Yankee - High Quality	5.23
Asset-Backed Securities	4.94
Non-USD	3.48
Mortgage-Backed Securities	3.06
Equity	2.49
Treasury	1.66
Non-Agency Commercial MBS	0.89
Taxable Municipals	0.12

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 10/1/2009
NAV	1.81	6.53	5.90	4.23	4.41	n/a	6.78
Index	0.85	3.14	0.07	2.71	2.07	n/a	3.54

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 0.92%. The net expense ratio is 0.77%, which reflects a contractual expense reimbursement in effect through 4/30/2018. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.74%.

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 **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 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. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, 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. **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. **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 can carry significant credit and call risk, can be difficult to value and have longer settlement times than other investments, which can make loans relatively illiquid at times. **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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