VIRTUS MUTUAL FUNDS

Virtus Newfleet Multi-Sector Short Term Bond Fund

A: NARAX (92828R644) | C: PSTCX (92828R628) | C1: PMSTX (92828R594) | I: PIMSX (92828R610) | R6: VMSSX (92828W247)

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THOMSON REUTERS
LIPPER FUND AWARDS
UNITED STATES

Virtus Newfleet Multi-Sector Short Term Bond Fund
(I: PIMSX)

Best Short-Intermediate Investment Grade Debt Fund over 5 years, as of 11/30/16

MARKET OVERVIEW

The overall positive tone for fixed income spread sectors continued into the fourth quarter with short-lived bouts of increased volatility in October and November. Challenges to the status quo included continued geopolitical tensions and the turbulent political climate in Washington, D.C. During the quarter, oil prices moved higher, U.S. economic data modestly improved, and tax reform legislation was passed. As expected, the Federal Reserve raised its target rate at the December FOMC meeting to a range of 1.25%-1.50%.

Most spread sectors outperformed U.S. Treasuries during the quarter as spreads tightened and interest rates remained low.

For a more detailed review of the fourth quarter and our outlook, please see Newfleet's 4Q17 Market Review and 2018 Fixed Income Market Outlook.

HOW THE FUND PERFORMED

The Fund (Class I) outperformed its benchmark in the fourth quarter with a return of 0.15% versus the BofA Merrill Lynch 1-3 Year A-BBB US Corporate Index return of 0.00%. For the year, the Fund returned 3.92% versus 2.0% for the Index.

Contributors

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

> The **Corporate High Quality** sector benefited from strong technicals, improving fundamentals, and the expectation that the sector would benefit the most from tax reform (relative to other fixed income sectors). Overall issue selection also contributed positively to performance.

> Allocation to the **Bank Loan** sector was a positive contributor as loans benefited from rising interest rates and positive supply and demand dynamics.

> Issue selection within the **Asset-Backed Securities** (ABS) sector had a positive impact on performance, specifically our out-of-index credit-sensitive securities.

Detractors

> **Emerging Markets High Yield:** Allocation to the sector was a detractor, primarily the result of a few country-specific events that affected the performance of specific issues. Overall fundamentals within the sector have shown signs of stabilizing, as economic growth appears to be bottoming in the aggregate. Year-to-date, the continued search for yield, strong risk sentiment, plus an overall weaker U.S. dollar have contributed towards positive performance in emerging market assets.

> **Non-U.S. Dollar Securities:** During the quarter, the U.S. dollar strengthened compared to the Fund's non-U.S. dollar bonds, which are concentrated in emerging market countries. This was due to prospects for U.S. tax reform and improving economic data, therefore negatively impacting our non-U.S. dollar holdings.

CURRENT FUND STRATEGY

Sector Changes: We reduced our exposure to corporate high quality and emerging market high yield securities. We redeployed the sale proceeds primarily into corporate high yield and RMBS.

Foreign Exposure: We maintained the overall non-U.S. exposure within the Fund and continued to overweight emerging markets. Valuations in specific countries are attractive and fundamentals are slowly getting better with Brazil, Argentina, and Russia expected to drive improvements in 2018. The Fund's non-U.S. 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 non-U.S. exposure remains below 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. These segments of the market offer a diversified collateral base and attractive valuations relative to many other areas of the fixed income markets. They also offer 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

As we look ahead to 2018, we expect that spread sectors will continue to perform well in the current environment of steady GDP growth, subdued inflation, and a favorable macroeconomic backdrop. We are constructive on spread sectors based on sound and improving fundamentals, strong technicals, and still-accommodative central banks. Valuations, however, are fair to rich in many areas of the fixed income market. With spreads well inside of long-term averages, issue selection and positioning within sectors is critical. Risks include the unprecedented retreat from quantitative easing by the major central banks, oil price volatility, geopolitical tensions, economic developments in China, the path of the U.S. dollar, and continued gridlock in Washington, D.C. As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments.

Effective May 8, 2017, the Fund's name was changed from Virtus Multi-Sector Short Term Bond Fund.

Virtus Newfleet Multi-Sector Short Term Bond 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: 1993

SECTOR ALLOCATIONS

SECTOR ALLOCATIONS	% Fund
Asset Backed Securities	21.84
Corporate - High Quality	21.43
Non-Agency Residential MBS	12.93
Bank Loans	11.21
Corporate - High Yield	8.92
Emerging Market - High Yield	5.34
Mortgage Backed Securities	4.65
Non-Agency Commercial MBS	4.47
Yankee - High Quality	3.50
Non-USD	3.26
Treasury	1.36
Equity	1.03
Taxable Municipals	0.06
Cash	0.01

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/6/2008
NAV	0.15	3.92	3.92	3.21	2.54	n/a	5.00
Index	0.00	2.00	2.00	1.86	1.75	n/a	3.04

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 0.75% and reflects the direct and indirect expenses paid by the Fund.

The gross 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 **BofA Merrill Lynch 1-3 Year A-BBB U.S. Corporate Index** measures performance of U.S. corporate bond issues rated A1 through BBB3, inclusive (based on an average of Moody's, S&P, and Fitch), with a remaining term to final maturity less than three years. 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.

Annual Lipper Fund Awards: Virtus Newfleet Multi-Sector Short Term Bond Fund had the highest "Lipper Leader for Consistent Return (Effective Return)" value in its Lipper classification, Short-Intermediate Investment Grade Debt Funds, for the 5-year period, out of 114 funds. Lipper ranks the funds based on total return as of 11/30/16. Each fund is ranked within a universe of funds similar in portfolio characteristics and capitalization. Rankings do not include the effect of a fund's sales load, if applicable. Lipper ranking is for Class I shares only, other classes may have different performance characteristics.

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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