

Virtus Newfleet Senior Floating Rate Fund

A: PSFRX (92828R545) | C: PFSRX (92828R537) | I: PSFIX (92828R529) | R6: VRSFX (92828W254)

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 and oil prices rebounded from recent bear market levels.

Favorable fundamentals and well-balanced technicals have supported the leveraged loan market. The sector's rally over the last 15 to 18 months has left little room for price appreciation, so the incremental return has come predominantly from income. Energy was the sector leader in the quarter, boosted by September's rally in energy prices. Retail lagged as the sector struggles with changes in consumer preferences. On a credit quality basis, lower quality outperformed higher quality. The effective yield for loans at quarter end was 4.82%.

For a more detailed overview of the third quarter and our outlook, please see the [Q3 Newfleet Market Review on Virtus.com](#).

HOW THE FUND PERFORMED

The Senior Floating Rate Fund (Class I) returned 0.95% in the third quarter versus 1.04% for the Fund's benchmark, the S&P/LSTA Leveraged Loan Index.

Contributors

- > Solid credit selection in energy and utilities contributed positively to performance. The top three performers in the Fund were from these two industry sectors, namely, Seadrill Operating LP, Drillships Financing Holdings, Inc., and Vistra Energy Corp.
- > Our underweight to the struggling retailers also benefited performance.
- > Our allocation to high yield and remaining fully invested with the modest use of leverage also boosted returns.

Detractors

- > Credit selection in the services, financial, and information technology industry sectors detracted from returns. Within this group, CPI Acquisitions, Inc. was the largest detractor for the Fund during the quarter.
- > A slight underweight to single B credits also detracted from performance as these credits continued to outperform over the period.

CURRENT FUND STRATEGY

The Fund ended the third quarter with 91% invested in senior secured first lien bank loans, 3% in non-first lien bank loans, and the majority of the remaining exposure in high yield bonds as part of our liquidity strategy.

- > The Fund's credit quality exposure has remained fairly constant. We continue to have a slight underweight to securities rated single B and below in the aggregate, and a modest overweight to double Bs.
- > Our high yield allocation decreased marginally during the quarter because we were cautious to add to our exposure as rates rallied during the quarter.
- > We continue to review the secondary market for total return opportunities and have added a few discounted loans for this purpose.
- > The Fund's largest overweights include housing, forest products (packaging), and healthcare. The largest underweights are to the information technology, retail, and financial industries.
- > In the new issue market, underwriting standards have weakened throughout the latter half of 2016 and into early 2017. We have noted an increase in leverage, increased loan-only capital structures, large adjustments to cash flow in marketing transactions, and several non-traditional agents bringing deals to get around Federal Reserve leverage guidelines. We see this vintage of new loan transactions as aggressive, and are passing on a substantial number of new deals.
- > We are comfortable with our liquidity position and cautiously monitor and consider it daily in managing the Fund.

OUTLOOK

Our outlook for leveraged loans remains constructive given a combination of solid fundamentals and more balanced supply/demand. Valuations appear fair or even rich from a price perspective but remain attractive on a risk-adjusted basis. The Fed will begin shrinking its balance sheet in October, which could lead to modestly higher rates that may drive flows into the sector. With spreads so tight, it is difficult to see much potential for price appreciation. We are thus forecasting coupon-clipping returns as we move toward year end, all else being equal.

Virtus Newfleet Senior Floating Rate 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: 2008



Kyle A. Jennings, CFA
Industry start date: 1992
Start date with the Fund: 2008



Francesco Ossino
Industry start date: 1996
Start date with the Fund: 2012

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 1/31/2008
NAV	0.95	2.38	4.54	3.32	3.68	n/a	5.06
Index	1.04	2.97	5.30	3.87	4.09	n/a	5.26

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 0.83%. 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 0.76%.

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 S&P/LSTA Leveraged Loan Index is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the Index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the Index represent a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and 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. **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. **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. **Leverage:** When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Liquidity:** Certain securities may be difficult to sell at a time and price beneficial to the fund. **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.

2021 10-17 © 2017 Virtus Mutual Funds