VIRTUS MUTUAL FUNDS

Virtus Newfleet Senior Floating Rate Fund

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

MARKET OVERVIEW

The overall positive tone for fixed income spread sectors was challenged in the first quarter with bouts of elevated volatility. Investors were forced to interpret the potential market implications of the emerging risks of a trade war among major economic powers; the changing composition of the Federal Open Market Committee (FOMC), including a new chair; as well as the ongoing evolution of the quantitative easing (QE) programs initiated by the key global central banks in the aftermath of the financial crisis. During the quarter, oil prices moved higher, U.S. economic data modestly improved, and interest rate volatility remained elevated. As expected, the Federal Reserve increased its target rate to a range of 1.5%-1.75% at the March FOMC meeting.

Bank loans delivered a positive return in the first quarter, outperforming the mostly negative returns of other fixed income asset classes. In a period of heightened market volatility and rising interest rates, the asset class demonstrated the importance of its floating rate feature and corresponding low correlation to fixed-rate securities. Three-month LIBOR (London Interbank Offered Rate), the benchmark rate against which bank loans periodically are reset, has risen steadily over the past few years. When rates rise, the loan coupon rises, thus reducing the risk tied to interest rate moves.

On a quality basis, CCCs (+2.75%) outperformed over the quarter, followed by Bs (+1.49%) and BBs (+1.17%). Defaulted loans had a negative return. On an industry basis, food & drug retailers (+3.28%), retailers (+2.62%), and cosmetics (+2.6%) were the quarter's top performers while aerospace & defense (+0.45%), containers & glass products (+0.95%), lodging & casinos (+1.06%), and business equipment & services (+1.07%) lagged, albeit all with positive returns. Oil & gas (+1.74%) also continued to outperform.

For a more detailed review of the first quarter and our outlook, please see Newfleet's 1Q18 Market Review & Outlook.

HOW THE FUND PERFORMED

The Fund (Class I) returned 1.13% in the first quarter versus 1.45% for the Fund's benchmark, the S&P/LSTA Leveraged Loan Index.

Contributors

> Solid credit selection in services, healthcare, and consumer durables all contributed positively to performance.

> Remaining fully invested with the modest use of leverage also benefited performance.

Detractors

> Credit selection in the manufacturing, forest products, retail, IT, and utility industry sectors detracted from returns.

> The Fund's allocation to the high yield bond sector, as part of our liquidity sector, also detracted from performance as the high yield market underperformed the loan market during the quarter.

CURRENT FUND STRATEGY

The Fund ended the first quarter with 95.1% invested in senior secured first lien bank loans, 2.7% 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 migrated slightly to single Bs as we selectively added some risk while also selling above-par higher quality credits. This is not a change in our philosophy but just optimization of the portfolio. We will continue to have a slight underweight to securities rated B and below in the aggregate, and a modest overweight to BBs.

> Our high yield allocation remains in place to support our liquidity strategy.

> We continue to review the secondary market for total return opportunities but these have become fewer and farther between.

> The Fund's largest overweights include energy, housing, and forest products (packaging). The largest underweights are to the information technology, retail, and financial industries.

> In the new issue market, we continue to see deterioration in credit quality as evidenced by higher leverage and weaker covenant structures. 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

We remain constructive on the bank loan asset class. Broad-based fundamentals for the bank loan issuer universe are favorable, maturity schedules have been pushed out, and the U.S. economic backdrop is supportive. There is still idiosyncratic risk and areas of stress in certain industries, and we continue to be concerned with the degradation in underwriting. Though spreads have tightened due to high levels of demand, price weakness has been more than offset by the steady increase in three-month LIBOR. Bank loans essentially have done what they are expected to do, which is to provide a hedge against rising interest rates as well as attractive income.

Effective May 8, 2017, the Fund's name was changed from Virtus Senior Floating Rate Fund.

Virtus Newfleet Senior Floating Rate Fund

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Start date with Fund: 2008

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AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 1/31/2008
Fund Class I	1.13	1.13	3.67	3.54	3.31	5.10	5.03
Index	1.45	1.45	4.43	4.20	3.89	5.62	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 0.87%. The net expense ratio is 0.81%, which reflects a contractual expense reimbursement in effect through 1/31/2019. 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 0.80%.

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. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus 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.

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