

Virtus Newfleet Senior Floating Rate Fund

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

MARKET OVERVIEW

Bank loans finished the year with a positive fourth quarter, driven in no small part by the increase in the loan coupon, which went up from 34 basis points (bps) a month at the start of the year to 73 bps in December. In the fourth quarter alone, 3-month LIBOR shot up from 375 bps to 477. Overall, loans outperformed other fixed rate asset classes, ending the year down less than 1%, and we are entering the year with a coupon roughly north of 7%.

However, fundamentals still look tenuous: the downgrade-upgrade ratio trended higher over the quarter—an indicator that the overall loan market may be at greater risk for default—while the overall share of loans trading below 80 has also ticked up. All this is in addition to rising interest expense, which we expect will be fully felt in the coming quarters as the impact of rate hikes flows through the economy. While EBITDA growth has thus far outpaced higher borrowing costs, that figure is declining, causing the two metrics to start to converge.

That said, jobs numbers have held strong, with December's jobs report outperforming forecasts. CPI has also started to show some signs of cooling in the last few months, with the most recent print showing a slight decline in prices for December. These signs have stoked hopes that the Federal Reserve may still successfully execute a soft landing, and that if the economy does enter a recession, it will be relatively mild.

On the technicals side, though the retail market is still experiencing reduced demand, the rate of monthly outflows has stabilized. Collateralized loan obligation (CLO) issuance, which accounts for the majority of overall loan market demand, has remained surprisingly resilient this year, with 2022 marking the second highest year on record. That said, CLO demand began to wane by the end of the year as recession risk and its potential impact on CLO deal arbitrage worried investors.

The silver lining to this decline in demand is that supply has also largely dried up, helping balance out the technical. The quarter saw a bifurcated market for borrowers that was still open for higher-quality BB-rated refinancings but closed to leveraged buyouts (LBOs) and sponsor deals for lower-rated transactions. Another dominant trend for the quarter was the prevalence of hung deals, i.e., debt that banks were forced to hold due to limited interest from investors. Notable examples included Twitter, Citrix, and Nielsen.

HOW THE FUND PERFORMED

The Fund (Class I) returned 3.14% in the fourth quarter versus the Credit Suisse Leveraged Loan Index return of 2.33%.

Contributors

- > Issue selection within the information technology sector contributed positively to performance as less-inflation-sensitive sectors outperformed this quarter.
- > Issue selection within gaming and leisure helped performance as industries rebounding from COVID also outperformed.
- > Issue selection within food/tobacco also contributed to performance.

Detractors

- > Issue selection within retail hurt performance as industries vulnerable to inflation underperformed.
- > Legacy equity holdings from restructured credits also hurt performance.
- > Our cash holdings also detracted from performance.

CURRENT FUND STRATEGY

Looking ahead, we maintain an up-in-quality bias, with the caveat that we will be closely monitoring fourth quarter earnings results, jobs reports, and CPI figures to gauge the health of the market. The biggest potential negative catalyst for the short term we see is the impact of poor fourth quarter earnings results on credit downgrades, which could, in turn, affect the CLO market and overall volatility within loans. That said, now that the loan coupon accounts for a greater portion of weighted returns, this provides added cushion against potential volatility.

OUTLOOK

Given that mergers and acquisitions and LBO activity remain sparse, we expect to see more opportunistic transactions in the near-term, such as add-on deals. Our overall positioning will allow us to take advantage of buying opportunities driven by economic weakness, technical dislocations, or constrained capital markets access.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management

PORTFOLIO MANAGERS



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 Start date as Fund Portfolio Manager: 2008



Kyle A. Jennings, CFA
 Industry start date: 1992
 Start date as Fund Portfolio Manager: 2008



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TOP TEN HOLDINGS

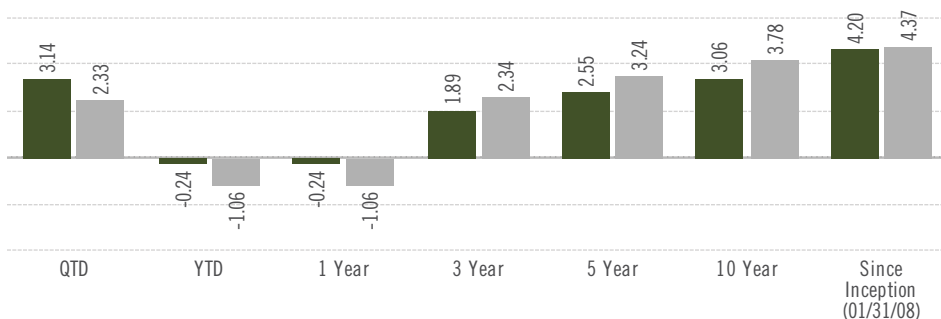
% Fund

Ineos US Finance LLC 2027-II Dollar Term Loan, 11/08/2027	1.31
Brookfield WEC Holdings Inc, Refinancing No 2 Term Loan, 08/01/2025	1.20
TransDigm Inc, Tranche F Refinancing Term Loan, 12/09/2025	1.13
UKG Inc First Lien 2021-2 Incremental Term Loan, 05/04/2026	1.13
Playa Resorts Holding BV, Initial Term Loan, 04/29/2024	1.13
Hyland Software Inc, 2018 Refinancing Term Loan (First Lien), 07/01/2024	1.04
Level 3 Financing Inc Tranche B 2027 Term Loans, 03/01/2027	1.02
Starfruit Finco BV Initial Dollar Term Loan, 10/01/2025	0.88
Go Daddy Operating Company, LLC Tranche B-5 Term Loan, 11/09/2029	0.83
Uber Technologies Inc 2021 Refinancing Term Loan, 02/25/2027	0.80

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/30/22

■ Fund Class I ■ Index



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 0.83%. The net expense ratio is 0.79%, which reflects a contractual expense reimbursement in effect through 1/31/2023.

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 **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is calculated on a total return basis, is unmanaged and not available for direct investment. The unmanaged index returns do not reflect any fees, expenses, or sales charges.

Newfleet Asset Management is a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser.

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. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **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. **Liquidity:** Certain securities may be difficult to sell at a time and price beneficial to the fund. **Leverage:** When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional, or global events such as war (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's 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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