Q3 Fixed Income Review and Outlook with Newfleet Asset Management
Call Conducted on July 27, 2016
Transcript edited for clarity

Barry Mandinach: Good afternoon everyone. I'm Barry Mandinach, executive vice president and head of distribution at Virtus Investment Partners, and it is my pleasure to welcome you to our call today. Joining me are Joe Terranova and three portfolio managers from Newfleet Asset Management, Ben Caron, Frank Ossino, and Steve Hooker.

Fixed income markets are obviously trading at historic lows in terms of interest rates and very high duration in terms of core bond portfolios – truly in unchartered waters for many of us. It's a great opportunity to think about where fixed income fits in your portfolio and how to navigate the markets. More and more people are thinking about focusing on expanding the opportunity set to a broader worldwide opportunity set. And we know that Newfleet is a pioneer in the area of multi-sector investing. The core team that implements the portfolios and the process at Newfleet has worked together for an average of 20 years. And the track record goes back over 23 years. So they have an opportunity to give us a view of the world credit markets in a very comprehensive and time-tested manner.

Joe, who many of you will recognize as an ensemble member of CNBC's Halftime Program, is Virtus' Chief Market Strategist. He will be moderating today's review of the fixed income markets with the team. Ben Caron is a senior managing director and co-portfolio manager of ***Virtus Low Duration Income Fund (A: HIMZX, I: HIBIX)*** *and the closed-end* ***Virtus Global Multi-Sector Income Fund (VGI).*** *And he also assists in the management of a number of the funds managed by Newfleet, including the flagship* ***Virtus Multi-Sector Short Term Bond Fund (A: NARAX, I: PIMSX).*** *Ben has worked with Dave Albrycht and the Newfleet team for 12 years. Frank Ossino is a senior managing director and sector head of the bank loan asset class. He's co-portfolio manager of the* ***Virtus Senior Floating Rate Fund (A: PSFRX, I: PXFIX)*** *and has 20 years of experience in the bank loan sector, and has been part of Newfleet for more than four years. Steve Hooker is head of the foreign team and sector head of emerging markets. He's also a co-portfolio manager of the* ***Virtus Emerging Markets Debt Fund (A: VEDAX, I: VIEDX).*** *Steve has been a part of the Newfleet team for over 17 years. At Virtus we are committed to driving better client outcomes and helping you build better outcomes. And we believe an insightful market perspective is key to helping that happen. It is my pleasure now to turn the call over to my friend, Joe Terranova.*

Joe Terranova: Thank you very much, Barry. Welcome to all of you. And thank you to the Newfleet team for joining us this afternoon. Certainly it has been a rather interesting first half of 2016. A year that can be described when you think about fixed income as the consensus being wrong, with the 10-year U.S. Treasury going from nearly 2.25% down to where it is trading right now at 1.50%, and strong returns both in high yield and investment grade.

So Ben, I'd like to open up the dialogue with you, and ask you to reflect back on the performance so far year-to-date for overall fixed income. Let us know your insight and your outlook in terms of performance as the first half has experienced, and what we may see in the second half.

Ben Caron: Thanks Joe. 2016 started out as one of those volatile years in the market since 2009. It was driven by a combination of factors. First, the selloff in the Chinese stock market left investors fearful that the economy was contracting at a very rapid clip. You also had a significant drop in crude [oil] prices, 20% in the first three weeks of the year.

So what turned things around? In mid-February, [Federal Reserve Chair Janet] Yellen's dovish comments in front of Congress was really, in my opinion, the spark that ignited the rally in the credit markets and the overall risk markets. Other factors that had an influence on the markets turning around, specifically the credit markets, were first you had very attractive valuations in credit. In mid-February, some spread sectors reached recessionary levels, with high yield reaching a yield of almost 10.5%, and investment grade corporates hitting a widened spread at 215 basis points over Treasuries. You also had very accommodative and dovish global central banks, whether it was the ECB buying euro corporate bonds, QE in Japan, and more and more dovish comments out of the Fed. Also, despite good economic data, the narrative out of the Fed shifted from policy divergence to recognition of global macro tail risks. And now the Fed also has uncertainty with the Brexit vote to deal with.

You also had economic data in the U.S. that really reduced fears of an impending recession. I mentioned China; Chinese growth has not fallen off a cliff. You had a weaker dollar, stabilization in currencies and oil, as well improved technicals in the high yield market, so really an accumulation of factors contributed to the turnaround in the credit markets. And many of these factors continue to be positive influences on the credit markets.

And also you've had very attractive relative yields in the U.S. versus yields in other parts of the world, which I think is a key factor and a key driver of some of the demand you're seeing for credit. And although the credit markets, as I mentioned, experienced a rollercoaster ride in the first half of the year, overall for the year so far in 2016 spread sectors have outperformed Treasuries.

In addition to the rally in credit, one of the drivers of performance was duration. So generally speaking, the longer duration the asset, the better the performance was in the first half of the year. And that contributed to some of the underperformance in some of the shorter duration sectors in the fixed income market such as bank loans and asset-backed securities which had respectable returns but trailed some other sectors.

Some specific sectors from a high level that outperformed during the first half of the year in the credit markets were emerging market sovereigns and corporates, foreign wealth, corporate high yield, as well as non-dollar securities as the dollar weakened.

To put performance in perspective, looking at index sector returns through July 26 year-to-date, the Barclays U.S. Aggregate Bond Index (the "Agg") was up 5.4%. Treasuries up 5.1%. Asset-backed securities (as I mentioned, a shorter duration sector) up 2.2%. High yield up 12.3%—and high yield energy, which has been a big driver of performance for the first part of this year, up a little over 24%. Emerging markets up 11%, and then finally bank loans I mentioned, were up a respectable 6.55% but trailing some other sectors given the shorter duration nature of that sector.

Now looking at some of the key performance drivers specific to our multi-sector fixed income funds (**Virtus Multi-Sector Short Term Bond Fund, Multi-Sector Intermediate Bond Fund, and Low Duration Income Fund**) for the first of the year, some of the positives that generally apply to all of our multi-sector funds were first, our general underweight to U.S. Treasuries and agency mortgage-backed securities benefited performance, as well as our exposure to corporate high yield which was one of the best performing sectors for the first half of the year.

You also had emerging markets and non-dollar as big performance drivers for the majority of the portfolios, with the exception being the more conservative **Virtus Low Duration Income Fund** (A: HIMZX, I: HIBIX), which had no exposure to non-dollar and a lesser exposure to emerging markets.

And then on the structured [finance] side, finally one of the drivers there was non-agency mortgages, with some of the strength in the housing market a positive contributor to the funds.

One additional positive contributor to performance of the funds was in mid to late February, we started to add to our exposure to spread sectors, such as corporate high yield, emerging market sovereign and corporates, some non-dollar, and also some investment grade and some higher quality high yield energy companies. And this has also been a contributor to the performance for the first half of the year.

And from a negative standpoint, given the strong performance there was not a lot of detraction for the first half. One thing I can point out, although our exposure to corporate high yield was a very significant positive contributor, the higher quality bias that we had in the majority of the portfolios did detract as lower quality outperformed for the year.

One fund that would be an exception to this would be the **Virtus Multi-Sector Intermediate Bond Fund** (A: NAMFX, I: VMFIX), which has a little more aggressively positioned high yield, did not underperform the high yield index.

Joe Terranova: *So Ben, it sounds as though you're presenting a rather optimistic and benign view of the landscape for fixed income in the first half of the year. And I think you would agree with me. That's counter to the collective consensus coming into the year as it related to fixed income. As we're having this conversation, the Federal Reserve has left in place the Fed funds rate. However, it has upgraded the economic description, talking about labor strength and talking about some of the near-term risks diminishing. When you look at the second half of the year and interest rates themselves, do you foresee this grand reallocation that everyone feared at the beginning of the year, or does it come six to nine months later? Or are you comfortable that we can continue this kind of benign environment that fixed income has enjoyed in 2016?*

Ben Caron: Sure. I'll summarize my overall thoughts and then get into more detail. I do think that you will continue to see, at least in the short to medium term, this generally benign, positive environment for fixed income, and specifically for credit sectors. Just quickly, some high level thoughts on the markets which leads to our thoughts on the direction of the bond market from here, our view on the domestic market, and on the U.S. economy.

We expect the continued moderate growth outlook in the U.S. and inflation to remain low. GDP picked up in the second quarter, and will likely come out somewhere near 2.5%. For the full year 2016, we expect moderate growth of about 2% GDP in the U.S. And inflation, as I mentioned, has picked up but our expectation is that it will stay contained. And the Fed kept rates unchanged today. Going forward, now that they've had their first rate increase, it's going to be very data dependent, dependent on the U.S. economy as well as the global financial markets.

The housing markets have stabilized. Our expectation is that they will continue to grow in line with wage growth. I would characterize the overall growth in the housing market as healthy; not an overheated market but healthy growth that is continuing to modestly support the overall U.S. economy.

And then the consumer; consumer fundamentals overall are stable. Generally speaking, the consumer balance sheet is not over-levered. And the consumer has been, and we think will continue to be, an area of strength in the U.S. economy.

For the global markets, over the last couple years, the foreign economies have generally grown at slower rates than expectations. Having said that, there are signs in the last three to four months that the fundamentals may be bottoming, especially within emerging market countries Those countries have been helped by stronger oil, accommodative central bank policy, stabilization in China as well as well-contained inflation in a lot of these countries.

You've also had stimulus, as I mentioned, which continues, whether it's in Japan or in the eurozone, QE in Europe. And this has contributed to keeping global rates low and also boosting demand for U.S. assets.

Now, however, there are still plenty of challenges in the global market. The Brexit vote was very largely unexpected. Now growth-wise, our expectations that this will mostly affect Europe and the UK, but in general terms it does lend, and continues to lend, a level of uncertainty in the markets. But on the positive side, it likely will keep the Fed and central banks generally speaking more accommodative than they might have been otherwise.

China, I mentioned that growth has not fallen of a cliff. But they've got a lot of stimulus there. So the question will be, if they back off stimulus, do we see more weakness in China? And what is the growth trajectory there? And then very recently you had the recent failed coup attempt in Turkey.

On the positive side, oil had risen to about the $45 to $50 range. And this has helped all credit sectors but especially emerging markets and oil exporters. Although oil has backed down in the last week or so to around $40, $42.

So, to summarize the overall markets, overall there remain a number of global challenges, but in a lot of cases some of the risks have subsided at this point. Interest rates declined after the Brexit vote, but have started to trend higher with the better economic data. The 10-year Treasury yield earlier today was at 1.55%. That's versus a recent low of 1.35% after the Brexit vote. And then compared to pre-Brexit the 10-year Treasury yield was at 1.74%.

Our expectation is for rates to stay lower for longer. We think a range on the 10-year Treasury of about 1.5% to 2% is likely. And this would be unless the U.S., but also the global economy, really accelerates or, on the other side if growth really tanks, which is not our base case.

We also expect low global rates to continue to anchor the long end of the yield curve. In this case, we think that a flatter curve doesn't necessarily mean the economy is weakening, given all the central bank involvement globally, and also the low global rates.

Our thoughts on Fed rate hikes, we expect potentially one rate hike this year. I think two are probably unlikely. But again this will be very dependent on the economy and the global markets, as well as any noise from the Brexit vote. Fed fund futures currently are pricing in a 28% chance of a rate increase in September, and a 48% chance of a rate increase by the end of 2016.

Joe Terranova: *Excellent. Well that's great perspective on the overall fixed income environment. I think what's important for our listeners right now is if we could get some strategy, some of your investment thoughts. I know you have the team on the phone with you. I know Frank Ossino is here. I know Steve Hooker is here. Some areas that are of interest would be emerging markets, high yield, bank loans, asset-backed securities themselves. If collectively, gentlemen, maybe we could begin by talking about high yield and the bank loans. So let's talk about the actual investment strategy style here. Frank, high yield and bank loans – hopefully you could tackle that for us.*

Frank Ossino: Leveraged finance, non-investment grade credit has not been a straight line for the last 12 months or so. Going into February of this year, the loan market saw nine consecutive months of negative returns. The high yield market going into February saw seven out of nine months being negative. And as Ben mentioned, valuations got to a point in mid-February that were looking like recession levels. Energy started to stabilize, a dovish Fed, and some better economic data is really when the rally started.

And so from February really until now, it's been the other way. It's been positive. The loan market is up roughly 6.5%. The high yield market is up roughly 12%. And what's important here is that what brought us lower is what rallied the most. And so double B loans are up 5%, single B is up 6.5%, and triple Cs are up near 14%.

The high yield market is not dissimilar. Returns are 12.4% in the high yield market. When you strip out energy, it's 10.5%. And when you strip out energy and commodities, high yield is up 9%.

And so in order to really get market returns in loans or high yield, you had to get energy and commodities right, and because of the violence of the way up, there aren't many that were able to capture all of that upside. In terms of fundamentals and technicals in both spaces, fundamentals are adequate is what we call them. We agree with Ben's thoughts that our base case is no U.S. recession this year. When the fundamental market is benign, that's good for credit. Two percent GDP growth, strong interest coverage, balance sheets that are in good shape is good for credit investing.

The technical side is also very strong, and really a main driver of the rally. There just hasn't been a lot of LBO and general non-investment grade M&A business. And when there's not a lot of supply, but strong demand driven by high yield retail, the institutional market, the SMA market, folks in Asia and Europe looking for yield and coming into the U.S., when you have more demand than you do supply that's being generated, the technical right now is very, very strong. The supply picture in the loan market, for example, we have not seen this low level of supply since February 2015. Our view is that the technical picture will be strong through the rest of this summer.

In terms of valuation now in mid-July, we've had a tremendous rally. The loan market has gone from the high 80s in mid-February to now mid-95s. That mid-95 dollar price is deceiving. Sixty percent of the loan market today is trading at 98 cents or higher. Almost 40% of the loan market is now trading just over par, and so a tremendous rally.

The high yield market started in mid-February in the mid-10% yield area. Today it's yielding about 6.5%. If we strip out energy, the high yield market is yielding 6.20%. And if we strip out energy and metals, the high yield market is yielding just over 6%, and so again tremendous rally.

So what we're doing in terms of leveraged finance is we were risk-off for the better part of 12 months going into February. That led to outperformance. Valuations in February led us to add risk. Within the **multi-sector strategies**, we shifted from a loan-heavy allocation to a high yield-heavy allocation. That's what we did in the **multi-sector strategies**.

In the dedicated [sector] strategies – **Virtus Senior Floating Rate Fund**, **Virtus High Yield Fund** – we incrementally added risk. Adding risk would mean becoming more fully invested, adding quality energy at the margin, and adding what we felt were really beaten up single B credits that we may have passed at new issue, but were at nicer discounts, and so we added some of those as well.

Today, that helped with performance. But given where valuations are now, we're taking a slight pause. We are certainly waiting for the Fed. Brexit happened. We'll look for some more economic data before we start to continue to add risk given where valuations are.

But having said all that – and Steve will try to put some of this in context – when I look at the loan market yielding mid-5%, from a market perspective, I look at quality high yield [corporates] yielding 4.5% to 5%, those are attractive yields in a yield-starved environment in my view when I look at what the rest of the world looks like. And maybe that's a good segue into Steve's world.

Steve Hooker: Sure. Well, good afternoon everybody. As far as emerging markets go and speaking broadly, as we know, the markets like to think of emerging markets as a whole, but in fact they're very different and very individual situations.

We have started to see signs that fundamentals are returning for the better. Commodity prices were and are in a sweet spot. Chinese economic data has stabilized. In dovish developed markets, central banks gave central banks and emerging economies cover to take on more of an easing bias to support growth. These conditions are in a market where valuations have become attractive and technicals were improved due to investors being largely underweight the asset class. And for these reasons, we've had an upward bias in allocations across our strategies.

Recent geopolitical events such as Brexit, more frequent terrorist activity, and the failed coup in Turkey, have reintroduced some downside risk, and we're watching the data to gauge the impact. But so far, I'd say the early data points are more encouraging than most investors had feared.

In the meantime, as Frank alluded to, the backdrop of the global search for yield is supportive of foreign markets. Some countries that we currently have a positive view on are Argentina, Mexico, Brazil, India, and Indonesia, just to name a couple.

We've been favoring sovereign over corporate, and investment grade over high yield in the foreign space. I expect that we will continue to be active and adjust positions as valuations and market conditions warrant. I would say credit selection remains critical and really supports an active approach to emerging markets.

Ben Caron: Asset-backed securities ("ABS") is a shorter or generally shorter duration, higher quality sector that we're very favorable on. First, fundamentals are positive. Technicals are also positive in this sector. And we view the valuations as overall attractive, specifically for non-traditional out-of-index/asset-backed securities. And this is a segment of the asset-backed market that we are overweight and generally focus on. Not your index-type credit cards or prime auto-type asset-backed securities. We'll look at the asset-backed securities backed by bonds or securitization – collateral such as subprime autos, time share receivables, and royalty fee deals.

Consumer ABS fundamentals are very positive. Household debt service is hovering near 25-year lows. Credit card delinquencies hit a new record low in May at 1.36%. And much of the subprime auto space continues to perform within loss expectations. And the rating agencies have upgraded numerous deals so far in 2016. In addition, the low unemployment rate at 4.7% bodes very well for a positive consumer debt performance.

Looking at technicals, technicals are positive. Volume, or issuance, is down 19% year-over-year, as well as demand is outstripping supply. So based on current valuations, we are very favorable as I mentioned on non-traditional asset-backed securities, and we've maintained an overweight to the sector so far in 2016.

We also like asset-backed securities because the sector tends to be less sensitive to global macro events and offers good diversification in the portfolio, and overall good diversification to our corporate and sovereign exposure.

Summarizing our thoughts on the overall fixed income markets and our outlook:

- Overall, we view valuations for spread sectors as attractive with room for modest spread tightening. However, credit selection and being tactical, rotating between sectors, in our opinion would be very vital in this later stage of the credit cycle.
- Current valuations in spread sectors are supported by a number of factors. For example, although credit sectors have rallied since February, spreads are still at or slightly wide of long-term averages in most sectors and are well wide of the tights in spread.
- Fundamentals have certainly weakened over last year. But overall I would characterize as good to neutral.
- Credit conditions are still supportive and our expectation for moderate and economic growth is also supportive for credit sectors.
- And you have attractive relative yields in the U.S. versus global yields that are driving the demand for yield as well as contributing very much so to the strong technicals.
- Going forward, we will look to maintain our overweight to spread sectors, but again to be tactical to take advantage of the volatility. We're going to continue to underweight the lowest quality companies in some of the higher beta sectors, such as high yield and bank loans.
- And some specific sectors that we talked about where we're seeing value, are asset-backeds, specifically non-traditional out-of-index type asset-backeds.
- And then investment grade corporates. We didn't get into too much on that sector in this call, but valuations and yields relative to global alternatives look attractive in our opinion. So we'll maintain a meaningful weight there to that higher quality investment grade sector.
- And finally, emerging markets, Steve talked about that. We're positive on that area, but also very country and credit specific as well, as we still see value in bank loans and high yield.
- A couple of the biggest risks to our outlook, not our base case but risks that are out there, would be a U.S. recession although I think that's not likely. If Chinese growth were to really drop significantly, that would be an issue. And if oil drops back down in the 30s for an extended period of time, that could stress the energy sector but just the overall credit markets.

Joe Terranova: *Thank you, Ben. Would you comment on the value that Newfleet adds versus passively managed fixed income funds?*

Ben Caron: With passive products, you're really missing out on some key areas of the fixed income market that we have expertise and have added value over the last 20-plus years. For example, non-traditional asset-backed securities are very important, and also non-agency mortgage-backed securities not in the index. As well as some higher beta sectors, higher yielding sectors such as corporate high yield and bank loans, which you would not get exposure to if you're investing in an Agg Index fund. So with a Barclays U.S. Aggregate Index strategy, an investor is taking on I think a somewhat unappreciated risk of owning a long duration, low yielding strategy that has the potential for significant negative returns if rates were to rise meaningfully. To put it in perspective, the duration on the Agg is about 5.5 years and has a yield of about 1.9%, 1.95%.

You also, from year to year, have a very wide range or dispersion of sector returns. So by investing with Newfleet, you have the benefit of an active multi-sector, relative value approach -- essentially picking sectors that we think will outperform from year to year, and also avoiding problem credits or certain problem areas of the market that with a passive approach you wouldn't have that benefit to be able to avoid certain areas of the market.

So essentially I think it comes down to using our expertise and experience to allocate to the fixed income sectors and outsourcing the complexity within today's bond market. Then also with Newfleet, you get our well-defined proven process, experienced team, and very strong performance track record. Barry mentioned that the core group of investment professionals have worked together for an average of 20-plus years on the team. We have over two decades of experience with our multi-sector approach investing across the broad spectrum of the fixed income markets, 14 sectors. This is more experience than most other managers have and also managing broader cross-section of the fixed income market.

And also the last two points I would make is we've managed over two decades through many up and down credit cycles as well as interest rate environments, and the last point, which is an accumulation of these factors, is we've had a very strong performance track record across our multi-sector funds over time.

Joe Terranova: *What if any impact on portfolios and positioning is the U.S. election having or going to have?*

Ben Caron: It is something we have started to consider. It's a little early in our opinion to understand the full ramifications of the election and the results. Whichever candidate gets elected, it seems that will implement additional fiscal spending that could put some pressure potentially on inflation, maybe if it works, to see a little stronger economic growth. Whichever candidate gets elected, I don't believe that will make a meaningful difference on inflation or growth. But it's something to consider.

Steve Hooker: I would say, as we're about to get into the height of the campaign and election season is we're going to hear a lot of rhetoric, and the politicians will be saying things in order to get elected. So that has the potential to create volatility, certainly in some of my markets, which ultimately may prove to be interesting buying opportunities. Whoever is going to be in the seat come later this year, the policies that they ultimately enact might look very different from what they're saying on the campaign trail. So we'll have to watch and see.

Frank Ossino: I'll add finally, historically markets like certainty. Situations where there's been gridlock in Washington has actually been good for markets. I'm going to assume that Congress remains in control of the Republicans. And if that happens and Hillary wins, I suspect not much will get done. If Donald Trump wins, the Republicans don't like him either. I suspect that nothing gets done. And so either way, I can paint a picture where the next four years is continued gridlock, and that may be a push for markets. More importantly, the way I think about the election at least is less so of which candidate wins and how that impacts markets, but which candidate wins and gets to elect one to maybe even three Supreme Court justices and what the impact of that might be.

Barry Mandinach: *I want to thank Joe, Ben, Frank, and Steve. I hope this conversation helps inform everybody about the fixed income market. Newfleet delivers a great suite of both diversified and targeted fixed income offerings, allowing for ways for you to access the world's credit market in thoughtful ways.*

VIRTUS LOW DURATION INCOME FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 07/21/1999
NAV	1.47	2.48	2.24	2.33	2.67	4.02	4.21
POP	-0.81	0.18	-0.06	1.56	2.20	3.78	4.07
Index	1.59	4.07	4.33	2.95	2.90	4.48	4.85

Class A operating expenses are 0.75% and gross operating expenses are 1.12%.
Operating expenses reflect a contractual expense reimbursement in effect through 4/30/2017.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 2.25%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

VIRTUS MULTI-SECTOR INTERMEDIATE BOND FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 12/15/1989
NAV	4.60	6.81	2.91	3.33	4.13	5.87	7.23
POP	0.67	2.80	-0.95	2.02	3.34	5.47	7.08
Index	2.21	5.31	6.00	4.06	3.76	5.13	6.34

Benchmark life performance is reported from 12/29/1989
Class A operating expenses are 1.11%.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 3.75%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

VIRTUS MULTI-SECTOR SHORT TERM BOND FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 07/06/1992
NAV	2.44	3.60	2.23	2.37	3.01	4.79	5.57
POP	0.13	1.26	-0.07	1.59	2.55	4.55	5.47
Index	1.10	2.35	2.35	2.06	2.27	3.79	4.95

Benchmark life performance is reported from 06/30/1992
Class A operating expenses are 0.97%.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 2.25%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

VIRTUS SENIOR FLOATING RATE FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 01/31/2008
NAV	1.87	3.69	0.35	2.21	3.26	n/a	4.69
POP	-0.94	0.84	-2.40	1.27	2.69	n/a	4.35
Index	2.92	4.51	0.94	2.76	3.79	n/a	5.03

Class A operating expenses are 1.20%.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 2.75%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

VIRTUS EMERGING MARKETS DEBT FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 09/05/2012
NAV	5.89	10.30	6.25	3.42	n/a	n/a	2.35
POP	1.92	6.17	2.26	2.11	n/a	n/a	1.33
Index	5.02	10.31	9.79	7.20	n/a	n/a	4.46

Class A operating expenses are 1.35% and gross operating expenses are 1.49%.

Operating expenses reflect a contractual expense reimbursement in effect through 1/31/2017. Operating expenses do not include indirect expenses incurred by the underlying funds in which the Fund invests.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 3.75%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

VIRTUS HIGH YIELD FUND

Average Annual Total Returns Class A as of 06/30/2016 in percent

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 07/28/1980
NAV	4.38	6.56	1.07	3.76	5.45	5.12	7.35
POP	0.47	2.56	-2.72	2.45	4.64	4.72	7.24
Index	5.52	9.06	1.65	4.20	5.84	7.61	n/a

Class A operating expenses are 1.15% and gross operating expenses are 1.33%.

Operating expenses reflect a contractual expense reimbursement in effect through 1/31/2017. Operating expenses do not include indirect expenses incurred by the underlying funds in which the Fund invests.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Net Asset Value (NAV) returns do not reflect the deduction of any sales charges. POP (Public Offering Price) performance reflects the deduction of the maximum sales charge of 3.75%. A contingent deferred sales charge of 0.50% may be imposed on certain redemptions within 18 months on purchases on which a finder's fee has been paid.

IMPORTANT RISK CONSIDERATIONS

Virtus Low Duration Income Fund: Risk notes: 1, 2, 3, 8, 10
Virtus Multi-Sector Intermediate Bond Fund: Risk notes: 1, 2, 3, 4, 7, 10
Virtus Multi-Sector Short Term Bond Fund: Risk notes: 1, 2, 3, 4, 7, 10
Virtus Emerging Markets Debt Fund: Risk notes: 1, 2, 7, 10
Virtus High Yield Fund: Risk notes: 1, 2, 8, 9, 10
Virtus Senior Floating Rate Fund: Risk notes: 1, 2, 4, 5, 6, 10

1. Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a security may fail to make payments in a timely manner. Values of debt securities may rise and fall in response to changes in interest rates. This risk may be enhanced with longer-term maturities.

2. 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.

3. 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.

4. Bank Loans: There may be no ready market for loan participation interests. The fund may have to sell the interests at a substantial discount. Such interests are subject to the credit risk of the underlying corporate borrower.

5. Leverage: When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded.

6. Liquidity: Certain securities may be difficult to sell at a time and price beneficial to the fund.

7. Foreign & Emerging Markets: Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk.

8. Foreign Investing: Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk.

9. Industry/Sector Concentration: A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund.

10. Prospectus: For additional information on risks, please see the fund's prospectus.

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.