

# NAVIGATING MARKET GYRATIONS

Experience and discipline leads to strong returns over time, but does not immunize portfolios from declines.

A consistent risk management discipline is what helps portfolios withstand market gyrations—and recover more quickly from downturns.

Newfleet Asset Management is a time-tested leader in unconstrained multi-sector fixed income management with the experience to manage the complexity of the fixed income market.

We seek to minimize credit and interest rate risk through active rotation among sectors and superior security selection within them. The value of our approach is demonstrated by the fact that the Virtus Newfleet Multi-Sector Short Term Bond Fund has only experienced two down years in 24.

## Virtus Newfleet Multi-Sector Short Term Bond Fund historical NAV through 3/31/17

|          | NAV Range |      | Price Return | Income Return | Total Return | Bond Market News   |
|----------|-----------|------|--------------|---------------|--------------|--|
|          | High      | Low  |              |               |              |  |
| 1993     | 4.93      | 4.81 | 1.66%        | 7.27%         | 8.93%        | High yield resurgence                                    |
| 1994     | 4.92      | 4.51 | -7.77        | 5.83          | -1.94        | Worst bond market in 75 years prior to 2008              |
| 1995     | 4.78      | 4.45 | 5.99         | 7.73          | 13.72        | Rates rally  |
| 1996     | 4.98      | 4.74 | 3.97         | 7.33          | 11.31        | Emerging markets rally                                   |
| 1997     | 5.17      | 4.90 | 0.00         | 9.46          | 9.46         | Asian financial crisis                                   |
| 1998     | 5.02      | 4.45 | -5.63        | 6.94          | 1.31         | LTCM liquidity crisis                                    |
| 1999     | 4.71      | 4.55 | -2.56        | 7.05          | 4.49         | NASDAQ reaches all time high/3 rate hikes                |
| 2000     | 4.58      | 4.42 | -0.88        | 7.97          | 7.09         | Curve inverted/tech sell off/3 rate hikes                |
| 2001     | 4.63      | 4.52 | 0.44         | 7.54          | 7.98         | Negative GDP   |
| 2002     | 4.64      | 4.49 | 1.98         | 5.42          | 7.40         | Record default rates                                     |
| 2003     | 4.87      | 4.63 | 4.31         | 4.78          | 9.09         | Emerging markets/high yield rally                        |
| 2004     | 4.89      | 4.67 | 0.21         | 4.60          | 4.81         | 5 rate hikes   |
| 2005     | 4.84      | 4.68 | -2.89        | 4.24          | 1.36         | 8 rate hikes/yield curve flattened                       |
| 2006     | 4.77      | 4.62 | 0.85         | 4.67          | 5.52         | 4 rate hikes/yield curve inverted                        |
| 2007     | 4.77      | 4.63 | -2.11        | 5.25          | 3.15         | Fed cuts rates 3 times                                   |
| 2008     | 4.67      | 3.71 | -19.14       | 5.18          | -13.96       | Credit crunch  |
| 2009     | 4.61      | 3.75 | 22.07        | 7.73          | 29.80        | Credit market recovery                                   |
| 2010     | 4.89      | 4.60 | 4.79         | 5.46          | 10.25        | Fed holds rates near zero                                |
| 2011     | 4.91      | 4.64 | -1.66        | 4.76          | 3.10         | EU sovereign debt crisis                                 |
| 2012     | 4.96      | 4.73 | 4.86         | 4.53          | 9.39         | Fiscal cliff   |
| 2013     | 4.99      | 4.80 | -2.02        | 3.53          | 1.52         | Accommodative monetary policy                            |
| 2014     | 4.92      | 4.71 | -2.06        | 3.11          | 1.05         | Accommodative monetary policy                            |
| 2015     | 4.81      | 4.63 | -2.73        | 2.82          | 0.09         | Global economic uncertainty                              |
| 2016     | 4.78      | 4.59 | 1.94         | 3.02          | 4.97         | Strong total return but not without pocket of volatility |
| YTD 2017 | 4.77      | 4.73 | 0.85         | 0.77          | 1.61         | Optimism over Trump's growth-oriented policies           |

Returns are for Class A shares at NAV. SEC Yield: 2.78% as of 3/31/17. SEC Yield: represents net investment income earned by a portfolio over a 30-day period, expressed as an annual percentage rate based on the portfolio's public offering price at the end of the 30-day period. All performance figures reflect a partial waiver of fees where applicable. Without the partial waiver of fees, the performance figures would be lower. The SEC Yield would have been 2.77%. Past performance is not indicative of future results.

During the extreme market and economic stress of 2008, the Fund (Class A at NAV) experienced a drawdown, peak-to-trough, of -14.68% between February and November, as a result of the indiscriminate selling of perceived risky assets. It had fully recovered by July, 2009. In contrast, the Fund's peers in the Morningstar Short-Term Bond Category experienced a drawdown of -6.90% between March and November, but were not back to even until August, 2009.

Though the Fund experienced a drawdown of more than double the peers, it rebounded in less time because the underlying investments were fundamentally sound, even as an irrational market caused bond prices, with the exception of U.S. Treasuries and other government-related securities, to fall significantly.

**Newfleet Asset Management**

**EXPERIENCE. DISCIPLINE. RESULTS.**

To learn more, please contact us at 1-800-243-4361 or visit [virtus.com](http://virtus.com)

Markets are unpredictable. Put the specialized knowledge of our tenured team to work in your portfolio.

As the financial crisis of 2008 began, our multi-sector funds had a meaningful allocation to liquid areas of the bond market including Agency MBS, Agency Debentures, and U.S. Treasuries. Panicked investors fled to quality, driving up the prices of these defensive sectors. Meanwhile, sectors such as CMBS, bank loans, and non-U.S. dollar bonds suffered steep declines.

Our analysis told us the hard-hit sectors were fundamentally sound and offered good value. Starting in the fourth quarter of 2008, we began selling our defensive holdings, exiting the majority of the defensive sector positions we held across portfolios by June 30, 2009. We reallocated assets to the areas that had sold off the most, purchasing these positions at attractive prices and yields, and the funds benefited when the sectors rebounded strongly.

**Virtus Newfleet Multi-Sector Short Term Bond Fund**  
**A shares: NARAX, C shares: PSTCX, C1 shares: PMSTX, I shares: PIMSX**

| Average Annual Total Returns             |       |       |                |               |               |                |                |                | Since Inception |
|--|-------|-------|----------------|---------------|---------------|----------------|----------------|----------------|-----------------|
| Class A as of 3/31/17 in percent         |       |       |                |               |               |                |                |                | 7/6/92          |
|  | QTD   | YTD   | 1 Year         | 3 Year        | 5 Year        | 10 Year        | 15 Year        | 20 Year        |                 |
| <b>NAV</b>                               | 1.61  | 1.61  | 5.47           | 2.14          | 2.92          | 4.45           | 4.89           | 5.16           | 5.52            |
| <b>POP</b>                               | -0.67 | -0.67 | 3.09           | 1.37          | 2.45          | 4.21           | 4.73           | 5.04           | 5.42            |
| <b>Index</b>                             | 0.74  | 0.74  | 2.06           | 1.66          | 2.06          | 3.37           | 3.73           | 4.54           | 4.84            |
| <b>Morningstar Class A as of 3/31/17</b> |       |       | <b>Overall</b> | <b>3 Year</b> | <b>5 Year</b> | <b>10 Year</b> | <b>15 Year</b> | <b>20 Year</b> |                 |
| <b>Rankings</b>                          |       |       | n/a            | 20/444        | 8/359         | 5/257          | 2/152          | 2/103          |                 |
| <b>Ratings</b>                           |       |       | ★★★★★          | ★★★★★         | ★★★★★         | ★★★★★          | ★★★★★          | ★★★★★          |                 |
| <i>Short-Term Bond Category</i>          |       |       | 444            | 444           | 359           | 257            |                |                |                 |

Benchmark life performance is reported from 06/30/92. The fund class gross expense ratio is 1.00% 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 0.99%.

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.

**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.**

Effective May 8, 2017, this Fund changed its name from the Virtus Multi-Sector Short Term Bond Fund.

Index: The BofA Merrill Lynch 1-3 Year A-BBB US 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 3 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 is not available for direct investment.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Morningstar Ranking / # of Funds in Category displays the fund's actual rank within its Morningstar Category based on average annual total return and number of Funds in that Category. The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst.

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**Strong ratings are not indicative of positive fund performance.**

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**This material must be preceded or accompanied by a prospectus or summary 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.**

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