VIRTUS FUNDS

The Patience Premium

Staying the Course in Managed Futures after Drawdowns

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Executive Summary

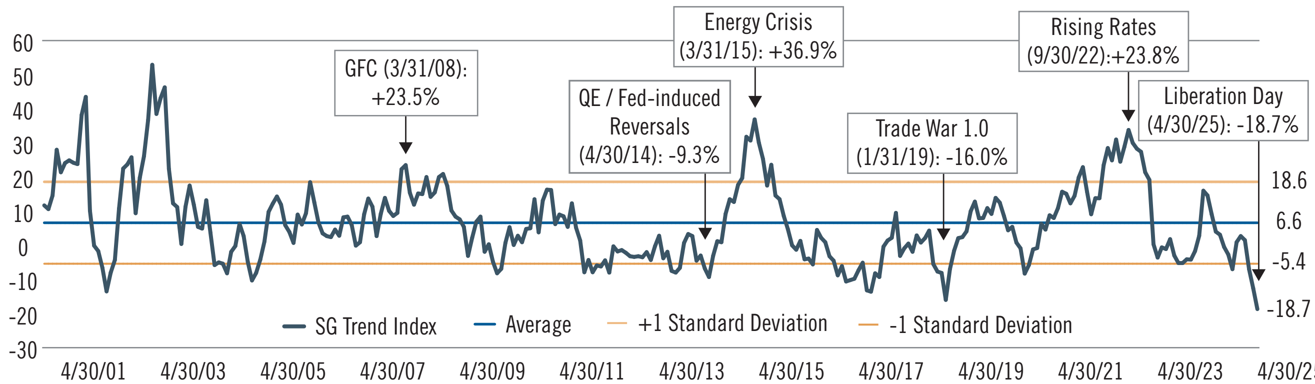
- Managed futures strategies are in the midst of a historically challenging period of performance, driven by a series of acute events which resulted in successive, widespread trend reversals.
- Like most asset classes and investment styles, managed futures performance is cyclical, with periods where it thrives and periods where it struggles.
- Historically, managed futures strategies have shown the potential to offer a "patience premium," rewarding investors by delivering periods of stronger-than-average returns following periods of underperformance or drawdowns.
- As markets look to navigate the current shocks to global trade policy, managed futures strategies may be well-suited to capitalize on potential trends related to a new macro regime defined by increased potential for stagflation and deglobalization.

How Difficult Has 2025 Been for Managed Futures?

2025 has proven to be a challenging year for many strategies. The extreme market moves following "Liberation Day" were reminiscent of the COVID-19 market crash. Managed futures strategies, which typically follow prevailing trends across different asset classes, struggled as markets whipsawed and trends reversed sharply in the wake of trade war uncertainty.

Putting the recent challenges into historical perspective, the SG Trend Index returned -18.7% for the one-year period ended 4/30/2025, marking the worst 12-month return of the Index's 25+ year history.

FIGURE 1: A HISTORY OF CYCLICAL RETURNS



Past performance is not indicative of future results. Rolling one-year performance for the SG Trend Index from January 2000 to April 2025.

Like most investments, managed futures strategies thrive in some time periods and struggle in others. Figure 1 shows this cyclicality, with periods of strong performance during the tech bubble, the global financial crisis (GFC), the energy crisis in 2014, COVID-19, and the rising-rate environment of 2022. On the other hand, we also see periods of struggle, including post-tech bubble, post-GFC (often called the CTA winter), early COVID, and now post-2022.

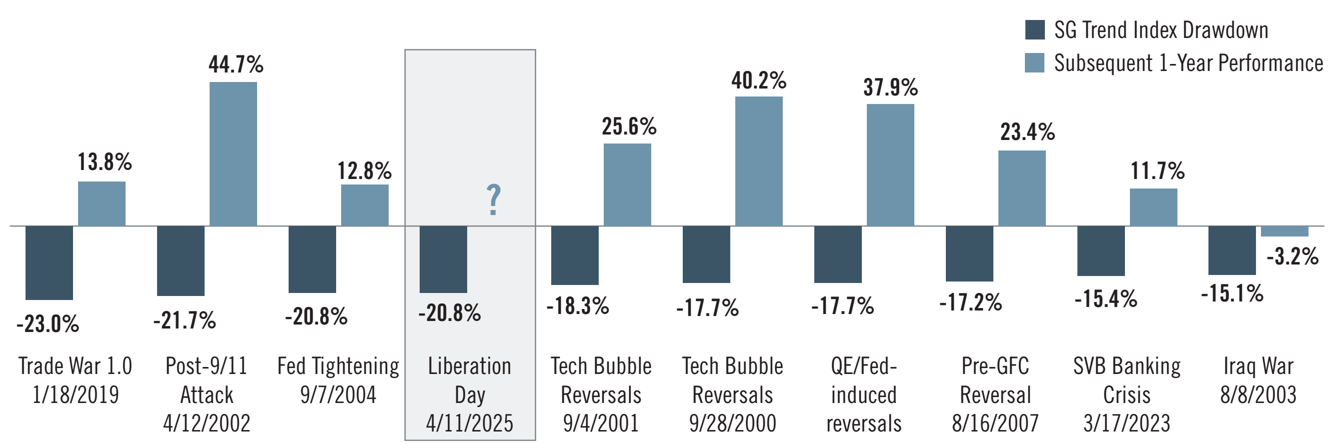
The time period from 2023 onward has clearly been challenging for managed futures. Despite largely positive trends across equity markets, managed futures have struggled to navigate large, yet short-lived stressful events, including the regional banking crisis in March 2023, the yen-carry unwind in August 2024, and now the shock of "Liberation Day" in the U.S. in April of 2025. The culmination of these struggles has led to one of the largest drawdowns for trend following in the last quarter century.

The Patience Premium

The history of managed futures also suggests potential benefits for longer-term investors. It can pay to be patient. Managed futures have historically performed well in the time periods following drawdowns.

Figure 2 plots the 10 largest drawdowns for managed futures and the subsequent one-year returns. Looking at one-year returns following these drawdowns reveals that managed futures tend to recover well. In fact, the Index posted negative one-year performance subsequent to drawdowns only once—in 2003. In all other periods of large drawdowns, the strategy found significant opportunities.

FIGURE 2: STRONG PERFORMANCE FOLLOWING DRAWDOWNS



Past performance is not indicative of future results. The 10 largest drawdowns (and subsequent 1 year period) for the SG Trend Index from January 2000 through April 2025.

This historical behavior makes intuitive sense given the return profile of managed futures. They tend to do well when there are sustained macro changes that lead to strong trends. This style is designed to capture big, multi-asset class themes that play out for months or years (as opposed to days), particularly shining in periods of sustained crisis.

Conversely, managed futures struggle during periods characterized by sharp trend reversals or range-bound markets where prices fluctuate without clear direction. These losses in choppy or trendless periods are often the result of markets grappling with uncertainty around a range of outcomes, like the path of interest rates in the U.S., and now tariffs.

Historically, we've seen that uncertainty can create dynamics in which managed futures struggle. But from this uncertainty strong trends can emerge and create potential opportunities for managed futures strategies to do well.

Taking the Long View

Over the long run, managed futures strategies have shown the ability to generate positive performance, independent of overall market direction, through their ability to take long or short positions across a diverse set of global markets. The benefit for investors has been a differentiated source and pattern of returns when compared to traditional long-only stock and bond portfolios.

FIGURE 3: CORRELATION MATRIX

Investment	1	2	3	4	5	6
1 SG Trend Index	1.00					
2 Global Balanced Portfolio*	-0.07	1.00				
3 S&P 500® Index	-0.12	0.93	1.00			
4 MSCI ACWI Ex USA Growth Index	-0.07	0.95	0.86	1.00		
5 Bloomberg US Agg Bond Index	0.01	0.33	0.13	0.20	1.00	
6 S&P GSCI Index	0.12	0.38	0.33	0.46	-0.09	1.00

Past performance is not indicative of future results. The correlation profile for certain indexes since common inception (1/1/2000) to 4/30/2025. Past correlations are not necessarily indicative of future results. It is not possible to invest in any index. Source: Morningstar Direct, AlphaSimplex. *The Global Balanced Portfolio represents a combination of the MSCI World (60%) and the Global Aggregate Bond Index (40%), rebalanced quarterly.

FIGURE 4: RISK-RETURN

	Return	Standard Deviation	Max Drawdown	Sharpe Ratio	Beta
SG Trend Index	5.25	15.31	-22.95	0.37	-0.03
Global Balanced Portfolio*	5.38	11.76	-38.71	0.46	0.42
S&P 500® Index	7.43	23.30	-55.25	0.44	1.00
MSCI ACWI Ex USA Growth Index	4.51	19.60	-60.58	0.28	0.44
Bloomberg US Agg Bond Index	4.01	5.04	-18.41	0.60	-0.03
S&P GSCI Index	1.30	27.97	-88.54	0.11	0.31

Past performance is not indicative of future results. The risk and return profile for certain indexes since common inception (1/1/2000) to 4/30/2025. Source: Morningstar Direct, AlphaSimplex. *The Global Balanced Portfolio represents a combination of the MSCI World (60%) and the Global Aggregate Bond Index (40%), rebalanced quarterly.

Despite recent performance struggles, managed futures strategies still display a 25+ year history of returns comparable to that of a global balanced portfolio. As we can see in Figure 4, the strategy has displayed higher volatility, but given the near-zero long-run correlation to broader equity and fixed income benchmarks shown in Figure 3, the diversification impact (when added to a global balanced portfolio) has been to reduce overall volatility and maximum drawdowns over the long-run.

Taking a closer look at the journey toward that longer-term outcome, a pattern of cyclicality emerges. Certain market environments can be particularly challenging for this investment style. Historically, managed futures strategies have tended to reward investors for their patience by proceeding to deliver periods of above-average performance when trends subsequently extend.

Presently, managed futures strategies are struggling at the onset of a shock to global trade policy. Looking forward, as markets seek to navigate a macro environment that includes heightened risks around stagflation and deglobalization, managed futures could prove to be particularly well-suited to capitalize on trends that may result from a new regime.

To learn more, please contact us at 800-243-4361 or visit virtus.com.

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INDEX DEFINITIONS

The **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg US Treasury Bill 1-3 Month Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The **MSCI ACWI Index** is a free float-adjusted market capitalization-weighted index that measures large and mid cap companies across 23 Developed Markets and 24 Emerging Markets countries. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The **S&P GSCI® Index** is designed to reflect the performance of a production-weighted basket of physical commodities. The index is calculated on a total return basis with all proceeds reinvested. The **SG Trend Index** is designed to represent the performance of the 10 largest Trend Following CTA programs in the managed futures space. To qualify for inclusion in the index, a program must be open to new investment, report returns on a daily basis, be an industry recognized trend follower as determined at the discretion of the SG Index Committee, and must exhibit significant correlation to trend following peers and the SG Trend Indicator. The index is equally weighted, and rebalanced and reconstituted annually. AlphaSimplex Group, LLC is a part of the SG Trend Index. All indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

Derivatives: Derivatives may include, among other things, futures, options, forwards and swap agreements and may be used in order to hedge portfolio risks, create leverage, or attempt to increase returns. Investments in derivatives may result in increased volatility and the portfolio may incur a loss greater than its principal investment. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Credit Risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **Currency Rate:** Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the portfolio's shares. **Commodity and Commodity-Linked Instruments:** Commodity and commodity-linked instruments may experience a return different than the commodity they attempt to track and may also be exposed to counterparty risk. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Leverage:** When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **Financial Concentration:** Because the portfolio is presently heavily weighted in the financial sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Portfolio Turnover:** The portfolio's principal investment strategies may result in a consistently high portfolio turnover rate. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when the portfolio is held in a taxable account. **Quantitative Model:** Investments selected using quantitative models may perform differently from the market as a whole or from their expected performance. There can be no assurance that the use of a quantitative model will enable the portfolio to achieve positive returns or outperform the market. **Market Price/NAV:** At the time of purchase and/or sale, an investor's shares may have a market price that is above or below the fund's NAV, which may increase the investor's risk of loss. **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. Local, regional, or global events such as war, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. Prospectus: For additional information on risks, please see the fund's prospectus.

GLOSSARY

Beta is a quantitative measure of the volatility of a given portfolio relative to the overall market. Higher beta suggests higher volatility. Beta can also refer to relative volatility to a portfolio's stated benchmark. **Correlation:** A measure that determines the degree to which two variables' movements are associated. The correlation will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation. **Maximum Drawdown** measures the peak-to-trough decline during a specific record period of an investment, fund, or commodity. A drawdown is usually quoted as the percentage between the peak and the trough. **Sharpe Ratio** measures the efficiency, or excess return per unit of risk, of a manager's returns. It is calculated by taking the portfolio's annualized return, minus the annualized risk-free rate (typically the 30-Day T-Bill return), divided by the portfolio's annualized standard deviation. The greater the Sharpe Ratio, the better the portfolio's risk adjusted return. **Standard Deviation** measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.