

NEWFLEET ASSET MANAGEMENT, LLC

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ITEM 1 – COVER PAGE

NEWFLEET ASSET MANAGEMENT, LLC

PRINCIPAL OFFICE:

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SAN FRANCISCO, CA 94133
800-828-1212

OTHER OFFICE LOCATIONS:

100 PEARL STREET
HARTFORD, CT 06103
800-248-7971

WWW.VIRTUS.COM

MARCH 30, 2012

This Brochure provides information about the qualifications and business practices of Newfleet Asset Management, LLC ("Newfleet"). If you have any questions about the contents of this Brochure, please contact us at (800) 828-1212 or DLNFSFCompliance@newfleet.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Newfleet is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information with which you determine to hire or retain an adviser.

Additional information about Newfleet also is available on the SEC's website at www.adviserinfo.sec.gov.

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ITEM 2 – MATERIAL CHANGES

On June 2, 2011, SCM Advisors LLC was renamed Newfleet Asset Management, LLC. At that time, Newfleet Asset Management – Hartford was added and is primarily comprised of investment professionals who were previously with Goodwin Capital Advisers, Inc., an unaffiliated adviser located in Hartford, CT; and operations of Newfleet Asset Management, Inc. located in Boston, MA were merged. The Boston office closed December 31, 2011.

Newfleet may employ leverage in the form of borrowing.

David Fusco was named Chief Compliance Officer of Newfleet in June 2011.

The principal items in this Brochure, dated March 30, 2012, that are being updated to reflect these changes are Item 4, Advisory Business, and Item 8, Methods of Analysis, Investment Strategies and Risk of Loss.

This Brochure does not contain any other material changes from our last annual update, dated December 31, 2010. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting us at 800-828-1212 or DL_NFSFCompliance@newfleet.com. Our Brochure is available on our web site www.newfleet.com, also free of charge.

Additional information about Newfleet is also available via the SEC's website at www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with Newfleet who are registered, or are required to be registered, as investment adviser representatives of Newfleet.

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ITEM 4 – ADVISORY BUSINESS

Newfleet provides investment management services to foundations, endowments, corporations, public funds, multi-employer plans and private clients. Newfleet also provides portfolio investment management services as a sub-adviser to registered investment companies (including "Affiliated Funds") and private and institutional clients of its affiliate Kayne Anderson Rudnick Investment Management, LLC, and serves as the collateral manager for certain structured products (collateralized debt obligations "CDO" and collateralized loan obligations "CLO"). The firm is an indirect, wholly-owned subsidiary of a publicly traded company, Virtus Investment Partners, Inc. ("Virtus"), and has been in business since 1989.

Newfleet's management of client portfolios is generally on a fully discretionary basis. The firm actively manages those portfolios with an overall goal of maximizing total returns subject to each client's risk profile and investment guidelines and tailored to the individual needs of clients. Newfleet does not consider the above services "financial planning" or any similar term.

TYPES OF INVESTMENTS

Newfleet offers a variety of fixed income investment strategies, utilizing securities that include, but are not limited to, corporate bonds (both higher and lower rated), municipal bonds (both insured and uninsured), bank loans and certain cash equivalents (e.g. money market funds).

Newfleet may offer investment advice on the following types of investments:

- Corporate debt securities (other than commercial paper), including foreign
- Municipal securities
- Mutual funds
- Closed-end funds
- Exchange-traded funds
- U.S. government securities
- Futures contracts
- Credit default swaps
- Structured Products (CDO, CLO and CMO)
- Bank Loans
- Foreign Government Bonds
- Structured securities (Commercial Mortgage Backed Securities (CMBS), Non-Agency Residential Mortgage Backed Securities (RMBS), Agency Mortgage Backed Securities (MBS), Asset Backed Securities (ABS))

In limited circumstances, where clients are deemed able and are willing to accept greater risk in pursuit of potential higher total return, Newfleet also uses some leveraging and hedging techniques, including buying securities on margin.

INVESTMENT STRATEGIES

Newfleet invests and manages client portfolios in accordance with an investment strategy selected by the client. The strategy employed will also be in accordance with the clients' overall investment objectives and any restrictions.

The strategy may be based on a model type portfolio of securities that Newfleet believes best represents the client's selected strategy. The current model investment strategies offered by Newfleet are as follows: **Fixed income strategies:** 1) High Quality High Yield; 2) All-Weather Bond Strategy; 3) Enhanced Core; 4) Core; 5) Investment Grade; 6) Cash Management; 7) Municipal Bonds; 8) Corporate Credit including senior secured floating rate loans (bank loans); and 9) Opportunistic Structured Finance Value.

Clients may impose restrictions on investing in certain securities or types of securities. Some of Newfleet's clients have restrictions as to which securities may be purchased. For instance, for some clients, no investments shall be made in securities of corporations whose operations are not consistent with moral teachings or whose behavior raises serious questions concerning social justice, weapons production, abortion, or other ethical and moral issues. Clients have also placed restrictions on the percentage of assets under management that may be held in the securities of any one company.

A range of actively managed multi-sector strategies, as well as a senior floating rate strategy and high yield strategy, are also offered by Newfleet. The multi-sector strategies are diversified, fixed income portfolios which employ sector analysis, sector allocation and a research intensive value approach for issue selection. The senior floating rate strategy invests primarily in the bank loan sector. The actively managed high-yield strategy invests primarily in high-yield fixed income securities.

Newfleet also offers a tax-exempt investment process that employs a tax-efficient, relative value approach. Many sources of information are utilized including credit research, yield curve positioning, specific security structure, sector valuations and geographic prospects to identify the best opportunities within the municipal bond market to meet investment objectives.

The individual issue selection process for tax-exempt securities is based on fundamental credit analysis, which includes reviewing financial statements to measure the issuers debt paying ability over the term of the bond, analyzing the bond's sector and its future prospects, speaking with key issuer personnel, and/or reviewing the bond's rating history with the major rating agencies and credit enhancer if insured. After reviewing the creditworthiness of the issuer, the bond's price is reviewed on a historical basis and relative to similar issues in the market to determine fair valuation. Lastly, technical market conditions are analyzed, specifically the supply and demand of the issuer, sector, structure, or geographic region to identify the relative value of the individual bond. Generally, the tax-exempt bonds used will be high quality and liquid, although the Virtus CA Tax-Exempt Bond Fund may hold BBB rated issuers.

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Oversight continues with review of unusual price movements, online news and rating events, issuer financials and relative valuation changes among securities. Some of the tools utilized in the process include in-house credit research, broker-dealer research and strategy ideas, rating agency research and reports (access to Moody's, S&P, and Fitch rating information), Bloomberg, Barclay's index reports, and proprietary portfolio reporting and analysis software. Independent third party credit research and market analysis are also utilized for the selection process.

ASSETS UNDER MANAGEMENT

As of December 31, 2011, the total assets under management amounted to \$8.1 billion. Approximately \$29 million was managed on a non-discretionary basis, and the remainder was managed on a discretionary basis.

ITEM 5 – FEES AND COMPENSATION

Fees for investment advisory service are detailed in each contract for service, and are subject to negotiation. Generally, Newfleet charges a fixed-percentage fee per annum for investment advice based on assets under management. Fees are typically payable quarterly in advance. Clients may decide to have fees deducted from assets, or to be billed for fees incurred. Fees may be negotiable where special circumstances prevail, and arrangements with any particular client may vary. In some cases, fees charged by Newfleet may be greater than fees charged by other investment advisers for similar services; in other cases our fees may be lower.

Investment advisory fees may be based on the fair market value of the assets, or the current face value of the assets on an annual basis, or fixed fees. Newfleet may negotiate and enter into a performance based fee arrangement with eligible clients meeting the criteria as set forth under Rule 205-3 of the Investment Advisers Act of 1940, as amended.

Terminated accounts will be charged advisory fees and additional expenses incurred by Newfleet in the transfer or final disposition of the account. Accounts may be terminated by giving written notice (in most cases, 30 days) to Newfleet, and clients will generally receive a pro-rata refund of any unearned prepaid fees upon such termination.

Clients will incur brokerage, custodial, and other transactions costs in addition to fees. Clients have the option to purchase the investment products recommended by Newfleet through other brokers or agents that are not affiliated with Newfleet. Please refer to Item 12, Brokerage Practices, for additional details.

In certain instances Newfleet may purchase or sell for separately managed clients' accounts shares of one of the Affiliated Funds for which it serves as sub-adviser. When this occurs, the separately managed client account assets invested in an Affiliated Fund are not subject to the advisory fee otherwise applicable to the account; rather, those assets are subject only to the Affiliated Fund fees and charges applicable to all shareholders of the fund, as set forth in

the fund's current prospectus. Depending on which Affiliated Fund the account is invested in, the Affiliated Fund fees—a portion of which are paid to Newfleet—may be more or less than the separate account advisory fee otherwise applicable to the account.

Newfleet receives fees for managing one or more of the following registered investment companies:

- Virtus Bond Fund
- Virtus High Yield Fund
- Virtus Balanced Fund
- Virtus Tactical Allocation Fund
- Virtus CA Tax-Exempt Bond Fund
- Virtus Multi-Sector Fixed Income Fund
- Virtus Multi-Sector Short Term Bond Fund
- Virtus Senior Floating Rate Fund
- Virtus Multi-Sector Fixed Income Series
- Virtus Strategic Allocation Series
- Virtus Total Return Fund
- Virtus Global Multi-Sector Income Fund
- Dunham Corporate/Government Bond Fund (Class A, Class C and Class N)

Advisory fees for services under existing sub-advisory contracts for the Virtus registered investment companies range between 0.175% and 0.475% depending upon the type and size of the portfolio. Specific advisory fees and expense related information may be found in the prospectus and/or statement of additional information describing for each registered investment company. Fees for the Virtus Mutual Funds, Virtus Global Multi-Sector Income Fund and Virtus Variable Insurance Trust are paid monthly in arrears based on annual fees. Fees for the Dunham fund are further described in Item 6.

FEE SCHEDULES:

The following describes Newfleet's basic fee schedule for separately managed client accounts; however, fees may be negotiable where special circumstances prevail, and arrangements with any particular client may vary from the foregoing. In some cases, fees charged by Newfleet may be greater than fees charged by other investment advisers for similar services; in other cases our fees may be lower.

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FEE SCHEDULES: INSTITUTIONAL SEPARATELY MANAGED ACCOUNTS

Investment Grade, Core, Enhanced Core, Intermediate

Minimum account size: \$10 million

Below \$50mm	0.45%
\$50 to \$100mm	0.35% on all assets < \$100mm
Next \$50mm	0.30%
Amounts over \$150mm	0.25%

High Yield, All-Weather Bond Strategy

Minimum account size: \$7 million

First \$30mm	0.75%
Amounts over \$30mm	0.50%

Cash Management

Minimum account size: \$10 million

First \$50mm	0.15%
Amounts over \$50mm	0.10%

Collateral Manager to Structured Products

Minimum account size: \$250 million

Outstanding principal	0.08% to 0.45%
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Corporate Credit

Minimum account size: \$10 million

First \$40mm	0.55%
Amounts over \$40mm	0.40%

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ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Newfleet may receive fees based upon documented performance metrics for designated client accounts. In all cases where Newfleet or its affiliates charge a performance-based fee, any such arrangements will comply with Section 205 of the Investment Advisers Act of 1940, as amended, and the rules thereunder, and all applicable laws and regulations.

Newfleet receives annual collateral management fees and/or service fees, which range up to 0.20%, for the management of two CDO and two CLO structured products. The fees for the CLO structured products are based on par value of the assets. The fees for the CDO structured products are based on market value for any defaulted securities and par value for the rest of the assets. The fees for these structured products are paid yearly, with the exception of one CLO, which is paid on a quarterly basis.

Newfleet receives an annual base fee of 0.35% of assets under management and also a performance based fee (fulcrum fee) for managing the Dunham Corporate/Government Bond Fund. The fulcrum fee is derived from a comparison of the net return of the fund's Class N shares to a comparative index and will vary by up to +/- 15 basis points (0.15%) and is added to or subtracted from the base fee to arrive at the fulcrum fee. In addition, the fulcrum fee will increase/decrease by 1 basis point (0.01%) for each 10 basis points (0.10%) of outperformance/underperformance of the comparative index and the highest possible fee is 0.50%, lowest is 0.20% (0.35% base fee plus or minus 0.15% performance fee) should Newfleet outperform the index by 1.50%. The fulcrum fee accrues daily and is paid monthly, based on the Fund's average daily net assets and the performance against the index over the prior rolling 12-month period.

Newfleet manages accounts that are charged an asset-based fee in the same strategy as the account that is charged a performance-based fee. In certain situations Newfleet may have an incentive to favor the performance-based fee account. To address this conflict of interest, Newfleet manages both types of accounts in a similar manner, with similar investments and similar allocations.

Side-by-Side Management

"Side-by-side management" refers to the simultaneous management of multiple types of client accounts/investment products. Newfleet manages numerous accounts with a variety of strategies, which may present conflicts of interest. For example, Newfleet may be selling securities for one or more client accounts while purchasing the same or substantially similar securities for other client accounts.

ITEM 7 – TYPES OF CLIENTS

Newfleet offers investment advice to investment companies; individuals; institutional clients; bank and thrift institutions; state or other public entities; pension and profit-sharing plans; trusts, estates and charitable organizations; corporations; structured products and other private funds, and other business entities. Minimum account sizes depend upon the type of account and strategy utilized.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Newfleet's security analysis methods include fundamental and technical analysis, as well as a charting and cyclical review. Newfleet will use varied sources of information including, but not limited to, financial newspapers and magazines; inspections of corporate activities; research materials prepared by others; corporate rating services; timing services; annual reports, prospectuses, and filings with the Securities and Exchange Commission; and company press releases. Newfleet may also utilize the services of a third party research provider. The research team is always engaged in fundamental research and uses a proactive approach to identify the current fundamentals of a particular issuer and to predict future developments in credit rating for specific issuers.

Newfleet's investment strategies may include one or all of the following:

- long-term purchases (securities or bank loans held at least a year)
- short-term purchases (securities or bank loans sold within a year)
- trading (securities or bank loans sold within 30 days) (resulting in increased brokerage and other transaction costs and taxes)
- short sales
- leverage in the form of borrowing
- option writing (including covered options, uncovered options and spreading strategies); and
- the use of certain other derivatives.

Interest rate, credit spread and credit default hedges may also be implemented if consistent with a client's investment guidelines.

Newfleet's multi-sector strategy is based on the principle that active sector rotation, along with disciplined risk management and strong security selection, provides an effective method of achieving favorable returns in the fixed income market. Newfleet seeks the best opportunities for total return while avoiding interest-rate forecasting. Newfleet offers multi-sector strategies of varying

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duration and risk level. A dedicated bank loan strategy and high yield strategy are also offered.

Newfleet may enter into derivative transactions when the use is consistent with established client investment guidelines and the firm's investment strategy as selected by the client. A derivative is a financial arrangement between two parties whose payments or values are based on—or "derived" from—the performance of some agreed-upon benchmark. Common benchmarks include securities, indices, commodities, interest rates, currency exchange rates, securities spreads and other assets or economic benchmarks with varying degrees and types of associated risks.

Derivatives can be used for a variety of reasons. For example, if a portfolio consists of foreign investments that are denominated in the currency of the country of the issuer, we may want to reduce the risk of fluctuations in the value of such currencies. Or, we may want to modify the risk/return profile of a portfolio without incurring huge transaction cost and without disturbing the portfolio. Derivatives can be used to achieve these and other goals.

There are significant risks associated with derivatives that can result in the loss of principal, or, in certain cases, the loss of more than the initial investment. The primary risks associated with derivatives are (i) market risk (the risk that the market value of the investment will decline), (ii) credit risk (the risk that the counterparty to the transaction will default on its obligations), (iii) liquidity risk (the risk that the instrument will not be readily marketable) and (iv) valuation risk (the risk that because the instrument is thinly traded, it may have only one pricing source). In no event will Newfleet invest in any derivative instrument unless such investment is consistent with established client investment guidelines.

Debt securities are subject to various risks, the most prominent of which are credit risk and interest rate risk. Credit risk is the risk that the issuer of a security will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of the security to decline. Debt securities rated below investment-grade are especially susceptible to this risk. Interest rate risk exists because the values of debt securities usually rise and fall in response to changes in interest rates. Interest rate risk is generally greater for investments with longer maturities. These risks can affect a security's price volatility to varying degrees, depending upon the nature of the instrument.

Borrowing risk: when an account that is a registered investment company borrows money, it may be required to maintain continuous asset coverage (total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed. If the asset coverage declines, for example as a result of market fluctuations, the account may be required to sell some of its portfolio holdings quickly to reduce the debt and restore the required asset coverage, even though it may be disadvantageous from an investment standpoint to do so. Borrowing may exaggerate the effect on the account's net asset value of any increase or decrease in the market value of the portfolio. Money borrowed will be subject to interest costs that may or may not be offset by appreciation of the securities purchased. The account also may be subject to other conditions or fees that

would increase the cost of borrowing over the stated interest rate. The various costs of borrowing may therefore ultimately exceed the income or potential capital gains from investments made with such leverage.

The value of securities used in any of Newfleet's offered investment strategies may go up, or down, in response to factors not within the control of the investment manager, such as the status of an individual company underlying a security, or the general economic climate.

Investors should be aware that their investment is not guaranteed, and understand that there is a risk of loss of value in their investment.

ITEM 9 – DISCIPLINARY INFORMATION

Item 9 is not applicable.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The following investment advisers are all subsidiaries of Virtus:

1. Virtus Investment Advisers, Inc.
2. Newfleet Asset Management, LLC, Registrant
3. Duff & Phelps Investment Management Co.
4. Zweig Advisers LLC
5. Kayne Anderson Rudnick Investment Management, LLC
6. Euclid Advisors LLC
7. Virtus Alternative Investment Advisers, Inc.

VP Distributors, LLC, a subsidiary of Virtus, is a registered broker-dealer that serves as the underwriter and distributor of the open-end registered investment companies in the Virtus Mutual Funds and Virtus Variable Insurance Trust. It is also the administrator for the Duff & Phelps Global Utility Income Fund Inc., Virtus Global Multi-Sector Income Fund, Virtus Total Return Fund, The Zweig Fund, Inc. and The Zweig Total Return Fund, Inc., whose portfolios are managed by Newfleet and/or Newfleet's affiliates. Newfleet is associated with investment companies offered by the Virtus family of funds, which are sub-advised by both affiliated and non-affiliated investment advisers. Newfleet serves as sub-adviser to certain of the Virtus Funds.

The investment management services of Newfleet are offered by Virtus under its multi-adviser asset management platform. The distribution of investment products and services in conjunction with this platform is dependent on interrelationships among Newfleet, its affiliates, and other entities in support of these activities. There exist certain potential or actual conflicts of interest within these interrelationships, which may or may not be readily apparent to an investor.

In a variety of instances, Newfleet may utilize the personnel and/or services of one or more of its affiliates in the performance of its business including, without limitation, investment advice,

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portfolio execution and trading, back office processing, accounting, reporting and client servicing. Such utilization may take a variety of forms including dual employee or delegation arrangements, formal sub-advisory or servicing agreements, or other formal and informal arrangements among Newfleet and its affiliates. In these circumstances, Newfleet, with which the client has its investment management agreement, remains responsible for the account within the framework of the Investment Advisers Act of 1940, as amended (the "Advisers Act") and/or other applicable regulatory frameworks and the relevant investment management agreement, and no additional fees are charged to the client for the affiliates' services except as set forth in the investment management agreement.

Additionally, Newfleet's parent and affiliated subsidiaries may enter into marketing or sponsorship arrangements with third parties, sub-advisers and brokerage firms to promote the distribution of proprietary investment products including, but not limited to, variable products, mutual funds, closed-end funds, managed accounts or the general enhancement of the "Virtus" marketing image. Such parties, sub-advisers, and brokerage firms may concurrently have advisory, distribution, or other relationships with Newfleet. These arrangements may or may not necessarily result in additional assets under management to Newfleet or inure to the direct or indirect benefit of clients of the firm.

ITEM 11 – CODE OF ETHICS

Newfleet or a related person may recommend that clients buy or sell securities or investment products in which Newfleet or a related person has some financial interest. Likewise, Newfleet or a related person may buy or sell securities that Newfleet also recommends to clients.

To fully protect the interests of Newfleet's clients, employees, and affiliates, any employee found to engage in improper or unlawful activity faces appropriate administrative and legal action. Everyone has a responsibility to ensure that employees are conducting business professionally and are complying with the procedures and policies governing Newfleet's collective responsibility. Anyone aware of employees engaged in wrongdoing or improper conduct must immediately report such activity to their supervisor and compliance officer. Failure to do so may result in additional action being taken against that individual.

Newfleet has adopted The Virtus Code of Conduct and a Code of Ethics for personal trading, which are designed to prevent and detect possible conflicts of interest with client trades. Compliance with these codes is a condition of employment. All of our supervised persons must acknowledge their terms annually, or as amended. The following highlights some of the provisions of the Virtus Code of Conduct:

Virtus Code of Conduct

Commitment to Shareholders

- Conflicts of interest

- Insider trading and personal trading
- Market timing

Commitment to Customers

- Safeguarding assets
- Other market conduct
- Privacy

Commitment to Corporate Citizenship

- Complying with the legal and regulatory requirements
- Anti-money laundering
- Lobbying and political contributions

Commitment to Employees

- Equal opportunities
- Sexual harassment
- Workplace safety

Commitment to Ethics and Compliance

- Ethical decision-making
- Monitoring Code compliance
- Whistleblower protection

A complete copy of the Virtus Code of Conduct is available upon request.

Newfleet Code of Ethics

The following highlights some of the provisions of the Newfleet Code of Ethics:

- Pre-clearance is required for all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling at the same time as the firm.
- 60 day holding period for covered securities.
- Brokerage provision of duplicate copies of brokerage statements and confirmations to our Compliance Department, or the electronic equivalent.
- Employee provision of Initial Holdings Reports, Quarterly Transaction Reports, and Annual Certification and Holdings Reports, which our Compliance Department reviews for trading activity.
- Requirement that personal transactions be consistent with the Code of Ethics in a manner that avoids any actual or potential conflict of interest.
- Any covered employee not in observance of the above may be subject to discipline. Newfleet does not purchase or sell securities for its own account. Newfleet's directors,

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officers, and employees may buy, hold, or sell the same investments for their own accounts as are held or to be held or sold for a client account. None of Newfleet's directors, officers, or advisory persons may buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction and that they know at the time of such transaction that is being bought, sold, or considered for purchase or sale for a client account, unless:

- they have no influence or control over the transaction from which they will acquire a beneficial interest
- the transaction is non-volitional on their part or the client's
- the transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer's securities, or
- they have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations

Newfleet's officers and employees are encouraged to invest in shares of Virtus Mutual Funds that Newfleet advises.

Newfleet ensures that the investment management and overall business of the firm complies with both Newfleet and Virtus policies and applicable U.S. federal and state securities laws and regulations.

A complete copy of Newfleet's current Code of Ethics is available by contacting Newfleet at 800-828-1212 or DL_NFSFCompliance@newfleet.com.

ITEM 12 – BROKERAGE PRACTICES

Newfleet is aware of its fiduciary obligations to seek the "best execution" of client transactions. Best execution is a process that entails the efficient placement of orders, clearance, settlement, and overall execution quality, as well as the price obtained for the transaction. It is Newfleet's policy to seek the best execution available in light of the overall quality of brokerage and research services provided to it or its clients. Best execution involves reasonably seeking the most-favorable terms for a transaction under the circumstances. Each Newfleet office allocates client transactions to unaffiliated broker-dealers in the best interest of its clients, based on review of the current market, and the broker-dealer. A brokerage committee specific to each office of Newfleet will perform periodic reviews of execution results and brokerage services.

Each Newfleet office generally determines the broker through

whom securities transactions are to be affected. In selecting brokers for a portfolio transaction, Newfleet considers, without limitation, the overall direct net economic results to an account, including both price paid or received and any commissions and other costs paid, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, the availability of the broker to stand ready to execute possibly difficult transactions in the future, responsiveness to Newfleet, and the financial strength and stability of the broker.

From time to time, Newfleet may utilize the trading facilities of affiliated registered investment advisers, and affiliated registered investment advisers may use Newfleet's trading facilities.

The actual allocation of brokerage business may vary from year to year, depending on Newfleet's evaluation of all applicable considerations. In no case will Newfleet make binding commitments as to the level of trade volume it will allocate to a broker, nor will it commit to pay cash if an informal target is not met.

RESEARCH

Newfleet evaluates the amount and nature of research and research services provided by brokers and attempts to allocate a portion of the brokerage business of its clients on the basis of that consideration.

When Newfleet uses client brokerage commissions (or markups or markdowns) to obtain research or other products and services, Newfleet benefits because it does not have to pay for the research, products or services. Newfleet may have an incentive to select a broker-dealer based on its interest in receiving research or other products and services.

Subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 ("Section 28(e)"), Newfleet may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and research services provided by or through the broker. Newfleet believes it is important to its investment decision making process to have access to independent research.

Research furnished by brokers may be used to service any or all of Newfleet's clients and may be used in connection with accounts other than those transacting with the broker providing the research, as permitted by Section 28(e). In addition, there may be times when commissions generated by clients with a certain strategy may result in services that are of benefit only to clients with a different strategy.

Brokerage and research services provided by brokers may include, among other things, effecting securities transactions and performing services incidental thereto (such as clearance, settlement, and custody), and providing information regarding: the economy; industries; sectors of securities; individual companies; statistical information; taxation; political developments; legal developments; technical market action; pricing and appraisal services; credit analysis; risk measurement analysis and performance analysis. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts. In

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addition, research services may be provided in the form of access to various computer-generated data, computer hardware and software, and meetings arranged with corporate and industry spokespersons, economists and government representatives. In some cases, research services are received from third parties but are provided to Newfleet by or through brokers.

DIRECTED BROKERAGE

Newfleet will accept direction from clients regarding the brokers to be used for their account. Clients may have existing arrangements permitting them to offset certain administration, accounting, custody, consultant or other fees in relation to the amount of brokerage transactions handled by a specific broker. At the same time, Newfleet and/or related entities may have arrangements to receive investment related research products or services provided by the same intermediary, which are separate from the arrangement negotiated by the client. Nevertheless, in following the client's direction to use a particular broker to execute either all or part of the brokerage transactions from their accounts, clients must be aware that, in so doing, they may adversely affect our ability to, among other things, obtain, investment related research, volume discounts on bunched orders and/or seek to achieve best execution. Newfleet, because of the inherent client specific nature of directed brokerage, will not typically bunch such transactions between offices.

When effecting bunched orders we attempt to include transactions of clients who have directed the use of a particular broker in the bunched order. In such transactions the executing broker must agree to transfer that portion of a bunched order relating to a client who has directed the use of a particular broker to the broker specified by the client. If the executing broker does not agree to make this transfer, the order for the same security on behalf of a client who has directed the use of a particular broker will be effected through the specified broker, and the cost of the transaction may be greater.

TRADE AGGREGATION AND ALLOCATION

Each Newfleet office typically trades and allocates independently. Within each trading office, Newfleet seeks, but is not obligated, to bunch orders for the purchase or sale of the same security for client accounts where Newfleet deems this to be appropriate and in the best interests of the accounts, consistent with applicable regulatory requirements. When a bunched order is filled in its entirety, each participating client account will participate at an average price for the bunched order on the same business day, and the transaction costs shall be shared pro-rata based on each client's participation in the bunched order, to the extent practical for the specific type of security. When a bunched order is only partially filled, the securities purchased will be allocated on a pro-rata basis to each account participating in the bunched order based upon the initial amount requested for the account, subject to certain exceptions (such as de minimis orders) and each participating account will participate at the average price for the bunched order on the same business day to the extent practicable. Should the Newfleet offices combine orders for any specific issue, the aggregation and allocation procedures noted here will be followed. Municipal portfolio management personnel serve both Newfleet offices and another affiliate. In this

capacity, the municipal portfolio management personnel combine orders according to the trade aggregation and allocation procedures noted here.

Newfleet performs investment advisory services for various clients and may give advice, and take action, with respect to any of those which may differ from the advice given, or the timing or nature of action taken, with respect to any one account, provided that over a period of time Newfleet, to the extent practical, allocates investment opportunities to each account on a fair and equitable basis relative to other similarly situated client accounts.

CROSS-TRANSACTIONS

To reduce transaction costs and promote trading efficiency for mutual fund clients, Newfleet may engage in inter-account transactions consistent with procedures adopted pursuant to Rule 17a-7 under the Investment Company Act of 1940. Where appropriate, Newfleet may engage in inter-account or cross-transactions with eligible advisory accounts and will comply with the applicable disclosure and consent requirements associated with such transactions under the Advisers Act.

ITEM 13 – REVIEW OF ACCOUNTS

A Senior Portfolio Advisor, with extensive experience, is assigned to each account and is responsible for monitoring and maintaining compliance with client-specific guidelines. Formal reviews are performed at least annually and include client portfolio structure, strategies, adherence to client investment policy and guidelines, and benchmarks. Portfolio Advisors also perform more frequent informal reviews for accounts on an ongoing basis that include market conditions, portfolio holdings and transactions, cash flows and account performance.

Written account and performance reviews are offered to most clients on a quarterly basis. More-frequent reports may be provided upon request.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

Newfleet does not enter into agreements with or make commitments to broker-dealers under which Newfleet is obligated to compensate broker-dealers for client referrals. However, for clients other than those covered by ERISA, when Newfleet believes that a broker-dealer who has referred clients to Newfleet is capable of providing the best-price services and overall execution as to a particular portfolio transaction, considering all the factors described herein, Newfleet may select that broker-dealer in recognition of the broker-dealer's referrals or possible future referrals. In doing so, except where specifically disclosed to client, Newfleet will not pay higher commissions than would otherwise be payable to another broker-dealer.

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Certain designated persons will act as advisory representatives of Newfleet. These persons may be institutional account representatives of affiliates of the firm and may offer advice or opinions as to the value of Newfleet's services or the appropriateness of such services for a potential client. Compensation will be provided to these persons by way of salaries and bonuses through the Newfleet affiliate of which the designated person is employed.

Newfleet may also permit certain designated persons (referred to as "Solicitors") to refer potential business to Newfleet. Any solicitor will be required to enter into a written agreement with Newfleet that contains an undertaking that the Solicitor will deliver a disclosure document relating to Newfleet and a separate disclosure document relating to the Solicitor's arrangement with Newfleet. Payments to Solicitors may range, depending on the type of investment vehicle, from 5% to 40% of the first-year investment management fee received by Newfleet. Subsequent years' fees will be subject to negotiation on a case-by-case basis. Newfleet currently has one such solicitor agreement in place.

ITEM 15 – CUSTODY

Newfleet does not have custody of client assets.

Clients should receive account statements from their bank, broker-dealer or other qualified custodian, in addition to the account statement that they may receive from Newfleet. We urge clients to carefully review both account statements and compare official custodial records to the account statements provided by Newfleet.

Newfleet statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

ITEM 16 – INVESTMENT DISCRETION

Newfleet may manage accounts on a discretionary or non-discretionary basis. When managing accounts on a discretionary basis, Newfleet has full authority in determining which securities are purchased or sold. Newfleet exercises its investment discretion consistent with its investment policies, as well as with any investment guidelines or restrictions adopted by a client and accepted by Newfleet. When managing accounts on a non-discretionary basis, Newfleet performs its duties in accordance with the limitations described in the client contract.

Generally, investment agreements between Newfleet and its clients are established at the time the account is opened, detail investment objectives and guidelines, and grant full discretionary authority over securities purchases and sales, subject to those investment objectives and guidelines. Newfleet may select brokers or dealers that provide research or other transaction-related services and may cause a client to pay such broker-dealer commissions for effecting transaction in excess of commissions other broker-dealers may have charged. Newfleet will consider the full range and quality of a broker's or

dealer's services, including, among other things, the value of research provided, execution capability, commission rate, financial responsibility, market making capabilities, efficiency, confidentiality, responsiveness and other factors it deems appropriate.

The Board of Directors, Managers or Trustees of each registered investment company sub-advised by Newfleet, establishes guidelines regarding investment strategy, and restrictions. Such guidelines can be found in each fund's prospectus. Newfleet complies with these guidelines in its exercise of investment discretion on behalf of each fund.

CLASS ACTION LAWSUITS

Newfleet is not responsible for exercising client's rights to participate in the proceeds of class action lawsuits affecting securities they own or have owned. Newfleet will generally not notify clients regarding class action lawsuits and will not transmit proof of claim forms to clients except upon client request.

ITEM 17 – VOTING CLIENT SECURITIES

PROXY VOTING POLICIES AND PROCEDURES

Where Newfleet is responsible to vote proxies for a client, it has adopted policies and procedures in an effort to ensure that votes are cast in the best interests of its clients and that proper documentation is maintained relating to how proxies were voted. Newfleet's basic policies and procedures are as follows:

Newfleet has adopted pre-determined proxy voting guidelines (the "Guidelines") to make every effort to ensure the manner in which shares are voted is in the best interest of clients and the value of the investment. Under the Guidelines, Newfleet may delegate to a non-affiliated third party vendor the responsibility to review proxy proposals and make voting recommendations on behalf of Newfleet. Newfleet may also vote a proxy contrary to the Guidelines if we determine that such action is in the best interest of our clients.

Conflicts of Interests relating to proxy proposals will be handled in various ways depending on the type and materiality. Generally, where the Guidelines outline Newfleet's voting position, as either "for" or "against" such proxy proposal, voting will be in accordance with Newfleet's Guidelines. Where the Guidelines outline Newfleet's voting position to be determined on a "case by case" basis for such proxy proposal, or such or such proposal is not listed in the Guidelines, then Newfleet will choose either to vote the proxy in accordance with the voting recommendation of a non-affiliated third party vendor, or vote the proxy pursuant to client direction. The method selected by Newfleet will depend on the facts and circumstances of each situation and the requirements of applicable law. The method selected by Newfleet may also conflict with the interest of the client in voting their securities.

Newfleet may choose not to vote proxies in certain situations or for certain accounts, such as: (1) where a client has informed the firm that it wishes to retain the right to vote the proxy, the firm

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will instruct the custodian to send the proxy material directly to the client; (2) where the firm deems the cost of voting would exceed any anticipated benefit to the client; (3) where a proxy is received for a client account that has been terminated with the firm; (4) where a proxy is received for a security the firm no longer manages (i.e. the firm had previously sold the entire position), and/or; (5) where the exercise of voting rights could restrict the ability of an account's portfolio manager to freely trade the security in question.

If you are a client of Newfleet and you would like to find out how your proxies have been voted or you would like a complete copy of Newfleet's current Proxy Voting Policies, Procedures and Guidelines, please send a written request to:

Newfleet Asset Management, LLC Attention: Compliance
Department
909 Montgomery Street, Fifth Floor
San Francisco, CA 94133

Email requests may be sent to: [DL NFSFCompliance@newfleet.com](mailto:DL_NFSFCompliance@newfleet.com).

ITEM 18 – FINANCIAL INFORMATION

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Newfleet has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. Newfleet does not require or solicit prepayment of advisory fees. Newfleet does not act as custodian for any client account. Newfleet has not been the subject of a bankruptcy proceeding.

As a wholly owned subsidiary of Virtus the firm's financial statements are consolidated with those of the parent company. There has been no material adverse change in the financial condition of Newfleet since the date of the financial statements provided in our parent firm's most recent Form 10-Q.