

NEWFLEET ASSET MANAGEMENT, LLC

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ITEM 1 – COVER PAGE

NEWFLEET ASSET MANAGEMENT, LLC

PRINCIPAL OFFICE:

909 MONTGOMERY STREET - SUITE 500
SAN FRANCISCO, CA 94133
800-828-1212

OTHER OFFICE LOCATIONS:

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

470 ATLANTIC AVENUE, 4TH FLOOR
BOSTON, MA 02210
617-273-8411

WWW.VIRTUS.COM

OCTOBER 5, 2011

This Brochure provides information about the qualifications and business practices of Newfleet Asset Management, LLC (fka SCM Advisors LLC). If you have any questions about the contents of this Brochure, please contact us at (800) 828-1212 or DL.NFSFCompliance@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 Asset Management, LLC 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 Asset Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

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ITEM 2 – MATERIAL CHANGES

On July 28, 2010, the United State Securities and Exchange Commission published "Amendments to Form ADV" which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure is prepared according to the SEC's new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our brochures prior to December 31, 2010 did not require. In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further 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 Asset Management, LLC (Newfleet) is also available via the SEC's web site 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 Asset Management, LLC was previously known as SCM Advisors LLC. SCM was renamed Newfleet Asset Management, LLC on June 2, 2011. All individuals from the SCM team remain with Newfleet Asset Management – San Francisco and continue to operate in their respective roles. 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. Additionally, on June 2, 2011, The team from an existing affiliate, Newfleet Asset Management, Inc., based in Boston, was added to Newfleet Asset Management, LLC. The Boston team's focus is on building customized, non-traditional fixed income strategies for institutions.

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 ("Affiliated Funds") and serves as the collateral manager for certain non-registered structured products (i.e. collateralized debt obligations "CDO" and collateralized loan obligations "CLO"). The firm is wholly owned by a publicly traded company, Virtus Investment Partners, Inc., and has been in business since 1989.

Newfleet also offers customized fixed income solutions to institutional investors including non-traditional absolute return strategies, impaired asset advisory, distressed asset management and liquidity management. Newfleet's services may include advice concerning restructuring and redemption of structured financial products, and their investments therein.

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 equity, balanced and fixed income investment strategies, utilizing securities that include, but are not limited to, common stock, preferred stock, 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:

- Equity securities (including exchange-listed securities, over-the-counter securities and foreign issues)
- Warrants
- Corporate debt securities (other than commercial paper), including foreign
- Commercial paper
- Certificates of deposit

- Municipal securities
- Mutual funds
- Money market mutual fund shares
- Option contracts on securities and commodities
- U.S. government securities
- Interests in limited liability companies
- 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, and selling securities short.

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: **Equity strategies:** 1) Growth with Controlled Risk (large capitalization equities); 2) Tax Sensitive Growth with Controlled Risk (large capitalization equities); 3) Small Cap Growth; and 4) All Cap Growth. **Balanced strategies:** 1) Balanced (contains both equities and fixed income). **Fixed income strategies:** 1) 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 are also offered by Newfleet. The multi-sector strategies are diversified, fixed income portfolios which employ sector analysis, sector allocation and a research intensive

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value approach for issue selection. The senior floating rate strategy invests primarily in the bank loan sector.

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.

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.

Customized strategies for institutional investors may include opportunistic investment in structured and/or distressed assets, speculative grade credit and liability matched liquidity management. Newfleet can also work with institutional investors to develop and execute exit strategies for impaired portfolios. Newfleet's services may include advice concerning restructuring and redemption of structured financial products, and their investments therein.

ASSETS UNDER MANAGEMENT

As of August 31, 2011, the total assets under management amounted to \$9.4 billion. Approximately \$31 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.

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 series 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 Institutional Bond
- Dunham Corporate/Government Bond Fund (Class A, Class C and Class N)

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Advisory fees for services under existing sub-advisory contracts for the Virtus registered investment companies range between 0.20% and 0.325% 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 Funds 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: PRIVATE-CLIENT SEPARATELY MANAGED ACCOUNTS

EQUITIES

Large Cap

Growth with Controlled Risk, Tax Sensitive Growth with Controlled Risk

Minimum account size: \$1 million

First \$5mm	1.00%
Next \$15mm	0.80%
Amounts over \$20mm	0.50%

Small Cap, All Cap

Small Cap Growth, All Cap Growth

Minimum account size: \$1 million

First \$15mm	1.00%
Next \$35mm	0.80%
Amounts over \$50mm	0.70%

BALANCED

Balanced Accounts

Minimum account size: \$2 million

Fees for Balanced Accounts will depend on specific products and asset allocation.

FIXED INCOME

Investment Grade, Core, Enhanced Core, Intermediate

Minimum account size: \$5 million

First \$50mm	0.50%
Amounts over \$50mm	0.35%

High Yield, All-Weather Bond Strategy

Minimum account size: \$4 million

First \$30mm	0.75%
Next \$70mm	0.50%

Municipals

Minimum account size: \$1 million

First \$5mm	0.35%
Amounts over \$5mm	0.30%

Cash Management

Minimum account size: \$5 million

First \$50mm	0.20%
Amounts over \$50mm	0.10%

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FEE SCHEDULES: INSTITUTIONAL SEPARATELY MANAGED ACCOUNTS

EQUITIES

Large Cap

Growth with Controlled Risk, Tax Sensitive Growth with Controlled Risk

Minimum account size: \$5 million

First \$25mm	0.75%
Next \$25mm	0.50%
Amounts over \$50mm	0.40%

Small Cap, All Cap

Small Cap Growth, All Cap Growth

Minimum account size: \$1 million

First \$15mm	1.00%
Next \$35mm	0.80%
Amounts over \$50mm	0.70%

FIXED INCOME

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%

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

As a general rule, Newfleet does not advise clients to purchase securities of issuers in which Newfleet or its associated persons have an interest, or sell securities to or purchase securities from clients. Newfleet, as a policy, does not own any securities. From time to time, however, Newfleet may recommend or cause a client to invest in a security in which Newfleet, or a person associated with Newfleet, has an ownership position. Newfleet has adopted certain procedures intended to prevent advisory persons and immediate family from benefiting from any price movements that may be caused by client transactions or Newfleet's recommendations regarding such securities. Under those procedures, without specific approval, advisory persons are not allowed to purchase securities for their own account or an account in which they have a beneficial interest for seven days before a client account purchases that security. Thus, if an advisory person purchases a security in an account in which he or she has a beneficial interest, he or she generally cannot cause any client accounts to purchase that security within seven days.

Newfleet receives annual collateral management fees and/or service fees, which range up to 0.20%, for the management of three 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.

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 held at least a year)
- short-term purchases (securities sold within a year)
- trading (securities sold within 30 days) (resulting in increased brokerage and other transaction costs and taxes)
- short sales
- 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 duration and risk level. A dedicated bank loan strategy is 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

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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.

The value of securities used in any of Newfleet’s offered investment strategies, whether equity or fixed, 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

Newfleet is wholly owned by Virtus Partners, Inc. (“Virtus”), which is in turn wholly owned by publicly-traded Virtus Investment Partners (VRTS).

Virtus directly owns the following investment advisers:

1. Virtus Investment Advisers, Inc.
2. Newfleet Asset Management, LLC (fka SCM Advisors 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. (fka Newfleet Asset Management, Inc.)

Virtus also owns VP Distributors, LLC, a registered broker-dealer that serves as the underwriter and distributor of the registered investment companies in the Virtus family of funds. 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.

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, 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 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.

ITEM 11 – CODE OF ETHICS

Each office of Newfleet has adopted a Code of Ethics expressing the firm’s commitment to ethical conduct. Individuals associated with Newfleet are required to pre-clear all non-exempt purchases and sales. Certain employees are subject to seven-day blackout periods. No person employed by Newfleet shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment management trading activities of advisory clients.

Pursuant to Section 204A-1 of the Investment Advisers Act of 1940, Newfleet requires that associated persons with the firm provide annual securities holdings reports and quarterly transactions reports to the firm’s Chief Compliance Officer, or his designee. These requirements are monitored on a regular basis by the Compliance Department. Violations of these and other specific provisions of the Code of Ethics are subject to penalty and sanction, up to and including termination of employment.

Newfleet has also adopted the Virtus Investment Partners, Inc. Code of Conduct, which outlines policies and procedures underlying the Virtus commitment to ethics, and compliance with applicable rules and best practice for its shareholders, customers, corporate integrity, and employees.

Acknowledgement of and compliance with both the Code of Ethics and Code of Conduct is a condition of continued employment.

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Newfleet will provide a copy of the applicable Code of Ethics to any client or prospective client upon request. Clients may request a complete copy of Newfleet's Code of Ethics by contacting us at 800-828-1212 or [DL NFSFCompliance@newfleet.com](mailto: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 brokerage commissions 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 an equity strategy may result in services that are of benefit only to clients with a fixed income strategy and vice versa.

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 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.

Newfleet currently has a commission recapture arrangement in place with Instinet and ITC.

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

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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 averaged 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 share prices for the bunched order on the same business day. Should the Newfleet offices combine orders for any specific issue, the aggregation and allocation procedures noted here will be followed.

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 Investment Advisers Act of 1940.

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. Two 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.

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.

The investment management services of Newfleet are also 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 particular, Newfleet's parent and affiliated subsidiaries may enter into marketing or sponsorship arrangements with third parties, sub-advisers and brokerage firms to promote the

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distribution of proprietary investment products including, but not limited to, variable products, mutual 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 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 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

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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.

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 Investment Partners, Inc. 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.