

Virtus Ceredex Large-Cap Value Equity Fund

A: SVIIX (92837F524) | C: SVIFX (92837F516) | I: STVTX (92837F490) | R6: STVZX (92837F482)

MARKET REVIEW

Value stocks broadly rose during the second quarter, with small caps significantly outperforming as growing trade war fears weighed more heavily on large-cap gains. The Russell 1000® Value Index climbed 1.18%, with mixed performance in its underlying sectors. The energy (+14.55%), real estate (+8.56%), and utilities (+4.21%) segments delivered the strongest returns, and the weakest were in financials (-3.45%), consumer staples (-2.81), and industrials (-2.76%).

Sturdy U.S. growth continued to lead a global—albeit increasingly uneven—economic expansion, helping to keep earnings and fundamentals strong. However, there was notable divergence between the top corporate performers and the rest of the market, where price-to-earnings ratios contracted somewhat. Investors also appeared to be increasingly nervous about mounting macro uncertainties and the potential for a high-risk event, as well as tightening financial conditions from rising interest rates, a stronger dollar, and higher oil prices.

PERFORMANCE

The Fund's (Class I) return of 1.69% in the quarter outperformed the 1.18% return of the Russell 1000® Value Index. Stock selection in the information technology, industrials, financials, telecommunication services, and consumer staples sectors contributed positively to performance. Stock selection in the energy and real estate sectors and an overweight position in industrials detracted from returns.

UnitedHealth Group and BP were among the strongest stock contributors.

> Managed healthcare company UnitedHealth Group rose on strong revenues and upbeat forward earnings guidance. The firm continues to be a leader in its segment, with incredibly favorable fundamentals. Its Medicaid Advantage rates are the highest in eight years against low-cost trends. Optum, its information and technology business, is delivering tremendous growth. Also, the company is a tax-reform beneficiary. We trimmed the position to maintain the Fund's weighting.

> Oil and gas company BP climbed on oil price strength and rising production. Investors have also rewarded the firm for its early adoption of the industry's move toward disciplined return-on-investment metrics that focus sharply on returns versus production volume, as well as returning capital to shareholders.

Stanley Black & Decker and Allergan were among the largest stock detractors.

> Despite strong earnings, industrial tools and household hardware manufacturer Stanley Black & Decker declined on softer net income and lowered forward earnings guidance. The trade tantrum also weighed on shares. We took advantage of

price weakness to add to the position. Fundamentals remain solid, including a range of new product rollouts that could provide attractive organic growth. Any tariff pressures are likely to be offset with price increases.

> Pharmaceutical firm Allergan also underperformed. While earnings and revenue both beat market expectations, the firm faced increased competition and loss of exclusivity for several core products. We exited the position, as we had lost confidence in management's ability to create shareholder value effectively, particularly with the emphasis on its "Open Science" research and development model, which focuses on buying therapies created by other firms rather than by in-house development.

PORTFOLIO CHANGES

During the quarter, the Fund initiated positions in Marathon Petroleum and Southwest Airlines. In addition to selling Allergan, the Fund also exited Delta Air Lines, Praxair, and Texas Instruments as these stocks reached their price targets.

> We purchased refiner Marathon Petroleum on the stock's pullback after the company's announced acquisition of fellow refiner Andeavor. We believe this should be a powerful combination, representing roughly one billion dollars in potential synergies. The U.S. refining marketplace also remains an appealing segment of the energy sector and continues to be a beneficiary from the currently wide price spread between the world's benchmark oils, Brent and West Texas Intermediate.

> We bought Southwest Airlines largely as a replacement for Delta Air Lines.

OUTLOOK

Our investment approach firmly focuses on individual stock fundamentals, and through our research, we continue to find compelling opportunities in today's market. The overall backdrop for stocks remains positive, although we have grown slightly more cautious of late. Strong earnings expectations, a robust labor market, solid consumer spending, and signs of growing business investment all offer lots of good news about the U.S. economy and general stock outlook that could easily keep investors cheering. But we also are closely watching a number of potential overhangs that cause us concern, such as slower global growth, high leverage levels, and an increasing number of late-cycle U.S. economic indicators. The real threat of a trade war could easily cast a pall over markets as well, though it still remains to be seen how the current political rhetoric might ultimately play out.

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INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

PORTFOLIO MANAGER



Mills Riddick, CFA

Industry start date: 1982

Start date with the Fund: 1995

TOP TEN HOLDINGS

% Fund

Chevron Corp.	4.07
JPMorgan Chase & Co.	3.80
Crown Castle International Corp.	3.44
Citigroup Inc.	3.42
UnitedHealth Group Inc.	3.26
DowDuPont Inc.	3.25
Abbott Laboratories	3.19
Zimmer Biomet Holdings, Inc.	3.16
Schlumberger NV	3.00
Procter & Gamble Co.	2.99

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/12/1993
Fund Class I	1.69	-2.60	7.06	8.37	10.19	9.33	9.24
Index	1.18	-1.69	6.77	8.26	10.34	8.49	9.57

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so your shares, when redeemed, may be worth more or less than their original cost. Please visit Virtus.com for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.02%. The net expense ratio is 0.97%, which reflects a contractual expense reimbursement in effect through 7/31/2019.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

Index: The **Russell 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Notes on Risk: Equity Securities: May be more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. The net asset value per share of a fund will fluctuate as the value of the securities in the portfolio changes. **Value Stocks:** Are subject to the risk that the broad market may not recognize their intrinsic value. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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