

Virtus Ceredex Large-Cap Value Equity Fund

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

MARKET REVIEW

U.S. value stocks rebounded in the fourth quarter to end 2022 on a positive note, regaining ground after experiencing broad declines for the better part of the year. Cyclical stocks led the market higher, outperforming defensive names as investors cheered growing evidence that inflation may be peaking, which in turn, may mean the Federal Reserve's (Fed) aggressive interest rate tightening cycle may be peaking as well. Commodity prices began to roll over, and employment and manufacturing numbers, while softening, generally remained resilient, with significant pressure mainly contained within the technology and consumer retail segments.

The Russell 1000® Value Index rose 12.42% in the period. The largest sector increases were in energy (+22.79%), industrials (+18.53%), and materials (+18.12%). The smallest were in communication services (+2.31%), real estate (+4.01%), and information technology (+5.98%). The quarter's impressive rally, however, was not enough to fully recoup the year's earlier losses, and the Index declined 7.54% for the full year.

PERFORMANCE

During the quarter, the Virtus Ceredex Large-Cap Value Equity Fund rose 13.24% (Class I), while the Russell 1000 Value Index gained 12.42%. Stock selection in financials, consumer discretionary, and healthcare, and an underweight in communication services were top performance contributors. Stock selection and an overweight in real estate and stock selection in information technology were notable performance detractors.

Baker Hughes and Honeywell International were among the strongest stock contributors.

- > Oil and gas services provider Baker Hughes outperformed after reporting strong earnings results, as well as overall momentum in the energy sector. The stock significantly rebounded after being oversold last quarter on performance concerns due largely to the sale of its business assets in Russia. We trimmed the holding on the price strength but continued to maintain a large position given the company's favorable fundamentals and positive outlook.
- > Technology and manufacturing conglomerate Honeywell International rose on higher-than-expected earnings. The company also raised its forward-looking guidance. We trimmed the position but continued to hold the stock as the company is well positioned in aerospace, green building technology, and automation end markets that continue to recover.

Extra Space Storage and L3Harris Technologies were among the largest stock detractors.

- > Self-storage facilities operator Extra Space Storage underperformed on lower forward-looking guidance and overall real estate investment trust (REIT) segment softness. We added to the stock at the lower valuation, as we believe it has been oversold and is positioned to potentially outperform given its locations in high-density geographies and limited supply growth from competitors, which should prove constructive for rents.
- > Aerospace and defense company L3Harris Technologies fell on softer-than-expected earnings and lower forward-looking guidance. We started a position in the stock on the valuation reset amid supply chain challenges. However, these issues are starting to improve, and the company should see some margin expansion looking ahead. It also has made some interesting mergers and acquisitions that help strengthen its overall position in the marketplace.

PORTFOLIO CHANGES

In addition to L3Harris Technologies (discussed above), new portfolio additions included Teradyne and PerkinElmer. We exited General Electric and Humana.

- > We purchased semiconductor test company Teradyne based on the stock's favorable valuation after resetting earlier this year and its potential for meaningful sales growth catalysts as the segment rebounds.
- > We bought scientific instruments firm PerkinElmer, which is going through a transformation to become a pure-play life sciences company and divesting its other businesses.
- > We sold industrials conglomerate General Electric and health insurer Humana when they reached our price targets.

OUTLOOK

At this point in the cycle, we are closely focusing on what the earnings picture is likely to look like in 2023 and how sticky recent inflationary input cost increases will be and their potential pressure on margins. The price/earnings contraction experienced in equity markets throughout much of 2022—largely driven by macroeconomic anxiety around interest rates, inflation, and the U.S. dollar, rather than fundamentals—appears to have relaxed and possibly peaked. That should be good news for bottom-up stockpickers as fundamentals begin to drive returns again like they started to do in the latter part of 2022.

Currently, we are not seeing much sign of a broad recession, though the risk remains, especially if the Fed overdoes it with rate increases. There are certainly pockets of major weakness, such as technology and consumer retail. Elevated political uncertainties in the U.S. and around the world also remain a significant tail risk. However, our fundamental work is currently finding a lot of opportunities as market expectations and valuations have come down.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

PORTFOLIO MANAGERS



Mills Riddick, CFA
 Industry start date: 1982
 Start date as Fund Portfolio Manager: 1995



Jennifer Graff, CFA
 Industry start date: 2001
 Start date as Fund Portfolio Manager: 2021

TOP TEN HOLDINGS

% Fund

QUALCOMM Inc.	3.19
Bank of America Corp.	3.17
Zimmer Biomet Holdings Inc.	3.05
Baker Hughes Co.	3.01
JPMorgan Chase & Co	2.96
Crown Castle Inc.	2.94
PPL Corp.	2.85
Honeywell International Inc.	2.84
Extra Space Storage Inc.	2.83
CMS Energy Corp.	2.75

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Baker Hughes Co.	1.15
Honeywell International Inc.	1.01
JPMorgan Chase & Co.	0.75
Zimmer Biomet Holdings Inc.	0.71
Teleflex Inc.	0.70

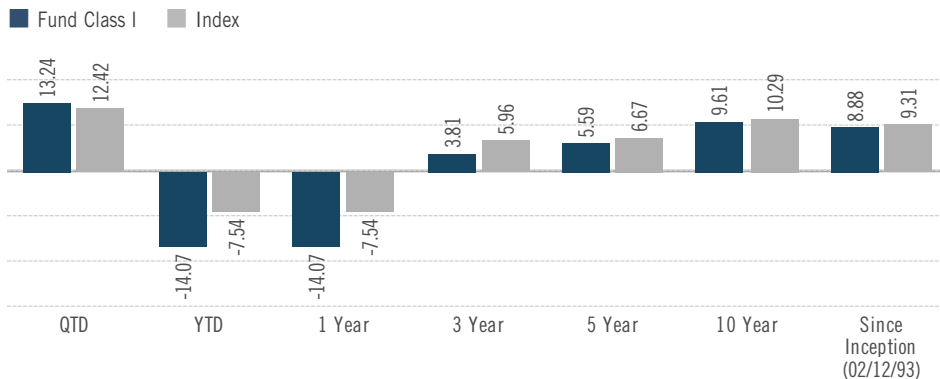
TOP FIVE DETRACTORS % Contribution

Extra Space Storage Inc.	-0.43
L3Harris Technologies Inc.	-0.28
American Homes 4 Rent	-0.24
Marvell Technology Inc.	-0.24
Signature Bank/New York NY	-0.16

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/30/22



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.00%. The net expense ratio is 0.97%, which reflects a contractual expense reimbursement in effect through 4/30/2023.

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.

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: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Value Stocks:** Value stocks are subject to the risk that the broad market may not recognize their intrinsic value. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional, or global events such as war (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **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.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.