

Virtus Ceredex Large-Cap Value Equity Fund

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

MARKET REVIEW

Strong fundamentals and positive earnings momentum helped to lift stock markets higher during the quarter, with large caps generally outperforming small caps and growth leading value. The Russell 1000® Value Index rose 5.70% on impressive gains in the healthcare (+15.63%), industrials (+8.32%), information technology (+7.79%), and telecommunications services (+7.41%) sectors, as well as advancements across all other segments except for a minor loss in materials (-0.06%) that modestly weighed on returns.

Although stocks broadly remained attractive from a bottom-up perspective, investors began to face the conundrum of what may lie ahead for equity markets. The U.S. economy remained solid but continued to show growing signs of late-stage expansion. Additionally, concerns around price-to-earnings contraction, higher bond yields, and the negative impact of a strengthening U.S. dollar on emerging markets added to increased levels of general market anxiety.

PERFORMANCE

The Fund's return of 6.54% (Class I) outperformed the 5.70% return of the Russell 1000 Value Index. Stock selection in the industrials, real estate, and consumer staples sectors contributed to outperformance. Underweight positions in financials and consumer discretionary and an overweight position in industrials were also additive. Stock selection in the healthcare and consumer discretionary sectors and an overweight materials position detracted from returns.

Zimmer Biomet Holdings and Abbott Laboratories were among the strongest stock contributors.

- > Shares of medical device company Zimmer Biomet climbed on positive sector momentum, stronger-than-expected earnings, and a general rebound after being oversold on regulatory concerns. The firm also saw market share stabilization and continued to benefit from strong management under its new CEO.
- > Healthcare conglomerate Abbott Laboratories' stock also rose on sector strength and higher-than-expected earnings. In addition, the company's strong product portfolio received a number of approvals and favorable trial results that helped to buoy investor enthusiasm for the stock.

Omnicom Group and Schlumberger were among the largest stock detractors.

- > Advertising firm Omnicom Group fell on disappointing revenue and lackluster overall results. While it is a strong company with a healthy balance sheet, the firm continued to suffer from generally declining advertising budgets, and we exited the position.

- > The world's largest oilfield services company, Schlumberger, declined on softer year-over-year earnings and subdued investor expectations for lower sales and profits looking ahead. We continued to hold our position, as we believe slowdown worries are exaggerated. The firm has consistently demonstrated an ability to deliver solid results and generate cash flows in both good and challenging oil markets, capitalizing on its leadership position.

PORTFOLIO CHANGES

The Fund initiated positions in Perrigo and Nielsen Holdings. In addition to selling Omnicom Group, it also exited a number of positions that reached our price targets.

- > We bought pharmaceuticals firm Perrigo after its shares sold off on lowered forward-looking guidance from delayed generic drug approval. The company announced plans to divest its generics prescription business to focus on its more profitable private-labeled, over-the-counter consumer products, which should garner a higher multiple.
- > We purchased information, data, and measurement company Nielsen Holdings after a steep selloff following disappointing financial results and the abrupt departures of its CEO and CFO. The firm consists of two divisions: its well-known TV ratings business, which has performed favorably, and its product sales and market share data business, which has not. The lower stock valuation appeared to be an attractive entry point given growing pressures from the board of directors and activist investor Elliott Management Corp. that could lead to a favorable split of the two businesses.
- > We exited oil and gas companies BP and Royal Dutch Shell, commercial real estate company Simon Property Group, and low-cost carrier Southwest Airlines as they had reached our valuation targets.

OUTLOOK

In our view, it is stock fundamentals that matter most in the current market. While we remain bullish on the overall economy and see further upside potential in stocks, particularly in the companies we own, mounting signs of late-cycle pressures and the general increase in investor anxiety warrant a degree of caution—especially at today's higher valuations. Investors should also expect that stocks will continue to be more severely punished for results that miss market expectations than rewarded for beating them. In this type of environment, we believe it is imperative to keep risk exposure tightly controlled.

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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.	3.92
Abbott Laboratories	3.66
Microchip Technology Incorporated	3.58
Zimmer Biomet Holdings, Inc.	3.53
Schlumberger NV	3.52
DowDuPont Inc.	3.50
Marathon Petroleum Corp.	3.47
JPMorgan Chase & Co.	3.44
Crown Castle International Corp.	3.33
NextEra Energy, Inc.	3.30

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/12/1993
Fund Class I	6.54	3.78	10.01	14.12	10.07	10.49	9.42
Index	5.70	3.92	9.45	13.55	10.72	9.79	9.71

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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