Virtus Ceredex Large-Cap Value Equity Fund

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

MARKET REVIEW

Value stocks again delivered positive returns for the quarter but continued to lag growth peers, with large-caps outperforming small-caps in both segments. The Russell 1000® Value Index rose 5.33% with gains across all its sectors, led by information technology (+10.30%), materials (+8.81%), financials (+8.49%), energy (+6.42%), and consumer discretionary (+5.64%).

Economic growth in the U.S. and overseas remained upbeat, and strong earnings, employment gains, increased business investment, and corporate tax reform all offered an extremely constructive investment environment for U.S. stocks, which capped off an impressive year that saw the Dow Jones Industrial Average and S&P 500® reaching all-time highs. Volatility also remained low as investors continued to shrug off geopolitical concerns and continued chaos and intense partisan fighting from Washington, DC.

PERFORMANCE

The Fund's return of 6.00% (Class I) outperformed the 5.33% return of the Russell 1000® Value Index. Stock selection in industrials, real estate, and telecommunications contributed to the outperformance. Overweight positions in information technology and materials were also additive, though stock selection in both sectors and an overweight to industrials detracted from returns.

Microsoft and Synchrony Financial were among the strongest stock contributors.

> Microsoft, a long-term holding, continued to deliver impressive results on strong fundamentals. One of the company's major revenue generators has been its Azure cloud computing service, which has benefited from increased adoption of cloud-based technologies and competitive migration gains that have proven it is a successful challenger to Amazon Web Services.

> Synchrony Financial, one of the largest issuers of private-label credit cards, rose on improved investor sentiment from positive forward-looking credit metrics and the announcement it would buy PayPal's $6.8 billion loan portfolio and fund future loans for users of the online payment service. The recent corporate tax cuts also provided a tailwind for the stock.

Allergan and Oracle were the largest stock detractors.

> Pharmaceutical firm Allergan fell on a patent lawsuit loss for its dry eye medication Restasis. Shares also suffered from a steep stock decline in Teva Pharmaceutical Industries, which Allergan sold its generics business to in 2016 in exchange for cash and a large equity stake. In addition, the firm's strong medical aesthetics and Botox franchise faced increased competition from new entrants. We scaled back our position but continue to see long-term intrinsic value at current prices.

> Despite strong earnings and revenue, Oracle fell on management's softer-than-expected outlook guidance that prompted growth concerns around the company's move to a cloud-based software- and platform-as-a-service model. We maintain a positive outlook for the stock, and it continues to be our largest position. Fundamentals remain strong, and at current valuations the company's growing cloud business is one of the most attractively priced in the sector.

PORTFOLIO CHANGES

The Fund bought Air Products and Chemicals, Republic Services, and BP. Notable exits included Halliburton, Public Storage, and Regency Centers Corp.

> We initiated a position in industrial gas manufacturer Air Products and Chemicals, which offers strong fundamentals driven by attractive organic U.S. growth, favorable pricing in its China business, and a healthy balance sheet with substantial capital to deploy.

> We also bought waste company Republic Services, which is benefiting from the strong economy and housing market, and offers an extremely attractive free cash flow yield.

> We exited oilfield services firm Halliburton, swapping into driller Schlumberger on greater confidence in the latter's ability to navigate the challenging oil patch climate, and added new holding integrated oil and gas company BP on a stronger profit outlook, attractive yield, and the adoption of return-on-investment metrics that firmly focuses the company on returns versus production volume.

> We also sold two equity real estate investment trust positions, Public Storage and Regency Centers, because we saw greater potential in other investment ideas.

OUTLOOK

We remain optimistic in our outlook. Markets tend to follow earnings, which have been very robust and are set to benefit from tax reform-driven gains in 2018. Economic growth continues to strengthen, and business confidence is finally translating into capital expenditures. While equity valuations may appear expensive on an absolute basis, from a relative perspective they still are generally attractive, albeit certain segments are somewhat pricey. Geopolitical risks give some reason for pause, but overall it remains a favorable investment backdrop. Extended stock prices do offer some challenges for value investors, but we continue to find compelling opportunities and remain fully invested.

The Fund is the successor of RidgeWorth Ceredex Large Cap Value Equity Fund, as a result of that fund's reorganization with and into the Fund on July 14, 2017.

Virtus Ceredex Large-Cap Value Equity Fund

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

INVESTMENT PROFESSIONAL

Mills Riddick, CFA
Industry start date: 1982
Start date with the Fund: 1995

TOP TEN HOLDINGS

	% Fund
Oracle Corp.	4.24
Procter & Gamble Co.	4.01
Abbott Laboratories	3.57
JPMorgan Chase & Co.	3.03
Chevron Corp.	2.98
Honeywell International Inc.	2.97
DowDuPont Inc.	2.96
Citigroup Inc.	2.96
Microsoft Corp.	2.93
Royal Dutch Shell Plc Sponsored ADR Class B	2.88

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/12/1993
NAV	6.00	16.23	16.23	8.57	13.79	8.12	9.55
Index	5.33	13.66	13.66	8.65	14.04	7.10	9.84

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 1.08%. The net expense ratio is 0.98%, which reflects a contractual expense reimbursement in effect through 7/31/2019. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.97%.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, **would reduce the performance quoted.** Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required 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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