VIRTUS MUTUAL FUNDS

Virtus Ceredex Large-Cap Value Equity Fund

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

MARKET REVIEW

Value stocks fell during the first quarter and continued to lag growth counterparts. The Russell 1000® Value Index declined 2.83%, driven by losses across all sectors, except information technology (+6.11%), with the weakest performance coming from consumer staples (-8.37%), real estate (-7.20%), and telecommunication services (-7.11%).

Markets began the year strongly, continuing the positive momentum of the fourth quarter; however, stocks tumbled, as January came to a close, on investor anxiety around higher wage inflation fears and a sharp spike in 10-year U.S. Treasury note yields. Volatility was the norm for the rest of the quarter as enthusiasm for tax reform and deregulation gave way to concerns about potential global trade wars targeting China and NAFTA renegotiations. While overall stock fundamentals remain solid, the quarter served as a reminder that, at current multiples, there simply isn't much room for error in any sort of mispricing scenarios.

PERFORMANCE

For the quarter, the Fund's return of -4.22% (Class I) underperformed the -2.83% return of the Russell 1000® Value Index, largely due to stock selection in the financials, information technology, and consumer staples sectors. An overweighting to information technology and stock selection in energy were additive to returns.

Microsoft and Abbott Laboratories were among the strongest stock contributors in the quarter.

> Long-term technology holding Microsoft continued to deliver impressive results on stronger-than-expected earnings and positive fundamentals. The company's Azure cloud-computing service has remained one of its major revenue generators and continued to benefit from increased adoption of cloud-based technologies and competitive migration gains that have proven it is a successful challenger to Amazon Web Services.

> Healthcare conglomerate Abbott's shares rose on stronger-than-expected earnings, delivering the best organic top-line growth in the mega-cap medical technology segment following a range of successful new product launches. The stock's attractive fundamentals also continued to make it a primary beneficiary due to a general investor rotation from pharmaceutical stocks.

Comcast and Duke Energy were among the largest stock detractors in the quarter.

> Telecommunication company Comcast posted strong financial results with healthy growth in its high-speed internet business. Despite attractive fundamentals, its shares fell on concerns around the company's bid for European pay-TV giant Sky plc, potentially triggering a bidding war with 21st Century Fox—and by extension Disney, which is in the process of acquiring most of Fox. We took advantage of this price weakness to add to our position.

> Electric power holding company Duke Energy's shares fell on its announcement of $2 billion in new stock issuance, as well as a general weakness in utilities stocks resulting from higher bond yields. While the firm's financial results were solid, we exited the position to add to other holdings that we felt offered greater upside potential after the market's February sell-off presented attractive valuations, particularly in the industrials and technology sectors.

PORTFOLIO CHANGES

The Fund initiated positions in Emerson Electric and Omnicom Group. Notable exits included Union Pacific, PACCAR, and Synchrony Financial.

> We bought Emerson Electric, an industrial goods company that has repositioned itself to focus more on process and automation, both attractive areas as businesses continue to look for new ways to capture productivity gains. The firm could also benefit under trade protectionism if companies start to bring offshore production back to the U.S.

> We bought Omnicom Group, a global marketing communications firm with a healthy balance sheet. We expect the company may benefit from tax reform as consumer staples and other companies have started to reinvest their savings into increased advertising spending after years of scaling back.

> We sold railroad Union Pacific and truck manufacturer PACCAR, given heightened trade war risk exposure for transportation businesses.

> We sold consumer finance firm Synchrony Financial on profit taking. The company is one of the largest issuers of private-label credit cards and has performed well for the portfolio but faces rising credit costs as well as several upcoming large contract negotiations.

OUTLOOK

We continue to focus intensely on stock fundamentals, which have remained strong. As such, the contraction in the recent quarter did not overly concern us and instead offered a number of attractive buying opportunities. Still, there are several potential market overhangs to watch. Investors have enjoyed an extremely favorable backdrop, but wage growth, inflation, and higher interest rates could transmit into lower stock multiples moving forward. Although earnings are expected to remain strong, it remains to be seen whether they will be strong enough for investors' elevated expectations. And while tax reform and deregulation have been highly constructive for companies, the wild card of trade protectionism could get ugly, depending on how negotiations and any new policy ultimately play out.

The Fund is the successor of the 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

PORTFOLIO MANAGER

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

TOP TEN HOLDINGS

	% Fund
Oracle Corporation	4.01
JPMorgan Chase & Co.	3.75
Abbott Laboratories	3.48
UnitedHealth Group Incorporated	3.42
Citigroup Inc.	3.37
Verizon Communications Inc.	3.07
NextEra Energy, Inc.	3.05
Crown Castle International Corp	3.04
U.S. Bancorp	2.98
Honeywell International Inc.	2.96

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/12/1993
Fund Class I	-4.22	-4.22	7.68	7.70	10.50	8.67	9.26
Index	-2.83	-2.83	6.95	7.88	10.78	7.78	9.62

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 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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