

Virtus Ceredex Mid-Cap Value Equity Fund

A: SAMVX (92837F474) | C: SMVFX (92837F466) | I: SMVTX (92837F458) | R6: SMVZX (92837F441)

MARKET REVIEW

After a choppy start, U.S. value stocks rebounded strongly in the fourth quarter, lifted higher by a sharp reversal in market sentiment that sparked a broad-based “everything” rally with notable gains across almost all major asset classes. Encouraging inflation data and easing financial conditions prompted by declines in U.S. Treasury yields, oil prices, and the U.S. dollar—all tumbling from last quarter’s highs—provided significant tailwinds for stock and bond markets. Late-quarter indications that the Federal Reserve (Fed) may cut interest rates sooner than expected, as well as growing signs that it may be achieving a much-hoped-for soft landing for the still-robust U.S. economy, added to the positive momentum.

Against this favorable backdrop, the Russell Midcap® Value Index rose 12.11% for the quarter, led by lower-quality, higher-beta stocks as investors looked to increase risk in the momentum market. More than half of the Index’s sectors delivered double-digit gains, with the largest in financials (+17.18%), real estate (+16.59%), and consumer discretionary (+15.86%). Energy (+0.12%) was the worst sector performer.

PERFORMANCE

The Virtus Ceredex Mid-Cap Value Equity Fund gained 11.80% (Class I) for the quarter, while the Russell Midcap Value Index rose 12.11%. Healthcare and energy stock selection and stock selection and an underweight in consumer discretionary detracted the most from performance. Industrials and materials stock selection and stock selection and an overweight in financials contributed the most to performance.

Equifax and KKR were among the strongest stock contributors.

- > Credit reporting agency Equifax rebounded on the reversal in market interest rates and improving mortgage origination expectations. We trimmed the position but continued to hold the stock as it should benefit from further rate declines, increasing pricing power, and margin expansions from its data migration to a cloud-based platform.
- > Private equity firm KKR gained on better-than-expected earnings after a competitor reported more disappointing results. The company benefited from its shift to a steadier capital base with growth in its insurance segment business helping to offset the industrywide slowdown in private equity deals. We held steady with the position as we see room for additional gains.

Chesapeake Energy and Revvity were among the largest stock detractors.

- > Energy exploration and production company Chesapeake Energy underperformed due to broad sector weakness. We took advantage of the pricing opportunity to add to the position as the long-term prospects of the gas market appear to remain favorable.

- > Shares of life science tools company Revvity fell after missing earnings estimates and lowering its fiscal 2023 outlook due to destocking pressures. We added to the position on the price weakness as the stock appeared oversold.

PORTFOLIO CHANGES

We initiated new positions in Alexandria Real Estate Equities and Microchip Technology. We exited Ameren and Exelon.

- > We bought office buildings and laboratories real estate investment trust Alexandria Real Estate Equities, which appeared well positioned to benefit from a rebounding biotech funding climate.
- > We purchased analog semiconductor company Microchip Technology on its destocking reset that offered a potentially attractive entry point.
- > We sold electric power companies Ameren and Exelon given the challenging utility rate environment.

OUTLOOK

With market valuations back at historically high levels and investors pricing in not only a soft landing but rate cuts as well, we think it is important to keep current euphoria in broader context. In essence, U.S. stocks are coming off two years of net-flat cumulative performance and continue to face considerable macro-driven uncertainty. While inflation has certainly improved, the largely resilient U.S. economy—supported by a still-sturdy labor market and healthy consumer spending—appears to offer the Fed plenty of cover to stay the course for the time being. This is likely to disappoint current expectations for aggressive monetary loosening beginning as early as March. Add in ongoing roller-coaster shifts in investor sentiment, elevated geopolitical risks, and what probably will be a very contentious election year, and there is plenty to be cautious about.

Given all of this, we are leaning even more into our fundamental company research. The fact is that many of the traditional heuristics historically used to help shape broader economic forecasting have broken down following the global financial crisis and pandemic. Consider data points like the inverted yield curve and tightening lending standards, which seem to indicate that a recession is coming. In this type of environment, we believe it is increasingly the stock-specific insights and opportunities that offer the most compelling potential, and at this point in the cycle, we remain very confident in our current portfolio holdings’ abilities to deliver the potential for outperformance.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

PORTFOLIO MANAGERS



Don Wordell, CFA
 Industry start date: 1996
 Start date as Fund Portfolio Manager: 2001



Cody P. Smith, CFA
 Industry start date: 2004
 Start date as Fund Portfolio Manager: 2023

TOP TEN HOLDINGS

% Fund

Humana Inc.	3.12
Marvell Technology Inc.	2.88
First Citizens BancShares Inc./NC	2.71
Ovintiv Inc.	2.70
Chesapeake Energy Corp.	2.54
Target Corp.	2.36
The Allstate Corp.	2.13
Global Payments Inc.	2.02
Dell Technologies Inc.	2.00
PPL Corp.	1.97

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Equifax Inc.	0.87
KKR & Co. Inc.	0.75
The Allstate Corp.	0.67
Target Corp.	0.65
Capital One Financial Corp.	0.62

TOP FIVE DETRACTORS % Contribution

Chesapeake Energy Corp.	-0.27
Revvity Inc.	-0.27
Kenvue Inc.	-0.18
Humana Inc.	-0.17
Hess Corp.	-0.16

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (11/30/01)
Fund Class I	11.80	10.97	10.97	7.20	10.13	7.65	9.12
Index	12.11	12.71	12.71	8.36	11.16	8.26	9.63

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 1.01%.

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 Midcap® Value Index** is a market capitalization-weighted index of medium-capitalization, value-oriented stocks of 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. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its 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.

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