

## Virtus Ceredex Mid-Cap Value Equity Fund

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

### MARKET REVIEW

Value stocks fell during the quarter and continued to lag growth counterparts. The Russell Midcap<sup>®</sup> Value Index declined 2.50%, with the weakest performance in real estate (-7.37%), energy (-5.37%), and consumer staples (-4.48%). Information technology (+7.02%), telecommunication services (+1.70%), and financials (+0.77%) were the only sectors to rise in the period.

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 -0.87% (Class I) outperformed the -2.50% return of the Russell Midcap<sup>®</sup> Value Index. Stock selection in the consumer staples, consumer discretionary, information technology, financials, and utilities sectors, as well as an overweighting to information technology, contributed to outperformance. Stock selection in industrials and materials detracted from returns.

Energizer Holdings and XL Group were among the strongest stock contributors in the quarter.

- > Battery manufacturer Energizer's stock rallied on the company's acquisition announcement of Spectrum Brands' global battery and portable lighting business, but then quickly fell back to previous levels on fears that government approval would face difficulty in the current political environment. The stock price again jumped when the Department of Justice passed on asking for additional information, indicating they will allow the deal, though Europe and other regulatory approvals remain pending.
- > Shares of XL Group rose after the insurance company agreed to be bought by French multinational insurer AXA at an attractive premium. The stock has been a strong performer for the Fund after being purchased at an attractive discount from book value last year on pricing weakness from concerns around its risk exposure due to the devastating hurricane season.

Macquarie Infrastructure and Cabot Oil & Gas were among the largest stock detractors in the quarter.

- > Macquarie Infrastructure's shares fell on disappointing earnings and a projected dividend reduction. The industrials firm owns several businesses but faced greater-than-anticipated pressure from its energy storage segment as the oil market moved from contango to backwardation. We exited the position.
- > Shares of exploration and production company Cabot Oil & Gas declined on gas price weakness and some concern about takeaway capacity in the Marcellus Shale region. We took advantage of the price softening to add to the position on the firm's strong fundamentals and its focus on generating attractive free cash flows that it largely returns to investors.

### PORTFOLIO CHANGES

During the quarter, the Fund initiated positions in L3 Technologies, Hewlett Packard Enterprise, and Dover Corporation. In addition to exiting Macquarie Infrastructure (rationale above), the Fund also exited Harris Corporation and Xylem.

- > We bought communication and electronic systems defense company L3 Technologies and technology company Hewlett Packard, both of which were trading at attractive valuations relative to their strong fundamentals during the quarter.
- > We also bought industrial products manufacturer Dover, which we expect to experience a positive transformation on its plans to spin off its upstream energy business. We believe this should leave the firm with a very strong balance sheet and well positioned to make future acquisitions that can grow profitability.
- > We sold technology defense firm Harris and industrial water company Xylem—both good companies that had performed well for the Fund—as their stocks reached our price targets.

### 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.

**Virtus Ceredex Mid-Cap Value Equity Fund**

**INVESTMENT ADVISER**

Virtus Fund Advisers, LLC

**INVESTMENT SUBADVISER**

Ceredex Value Advisors LLC

**PORTFOLIO MANAGER**



**Don Wordell, CFA**  
 Industry start date: 1996  
 Start date with the Fund: 2001

**TOP TEN HOLDINGS**

**% Fund**

First Republic Bank	3.37
Humana Inc.	3.07
Martin Marietta Materials, Inc.	3.05
Zimmer Biomet Holdings, Inc.	2.95
American Campus Communities, Inc.	2.88
MB Financial, Inc.	2.66
Pinnacle Financial Partners, Inc.	2.61
American Homes 4 Rent Class A	2.37
Perrigo Company, PLC	2.35
AmerisourceBergen Corp.	2.31

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 11/30/2001
Fund Class I	-0.87	-0.87	5.28	7.61	10.38	10.87	9.74
Index	-2.50	-2.50	6.50	7.23	11.11	9.81	10.35

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](http://Virtus.com) for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.02% and reflects the direct and indirect expenses paid by the Fund.

The gross expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests 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. 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](http://www.virtus.com).

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. **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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