

Virtus Ceredex Mid-Cap Value Equity Fund

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

MARKET REVIEW

Most U.S. stock market segments generally drifted lower in the second quarter, except for large-cap growth, which continued to climb higher led by the impressive gains of a handful of mega-cap companies. This preference for large-cap securities carried over into value markets as well, helping the segment outperform mid-cap names, which outperformed small-caps. The Russell Midcap® Value Index declined 3.40% in the period. Utilities (+3.61%), information technology (+1.45%), and real estate (+0.84%) were the benchmark's only sectors to deliver positive returns. Consumer staples (-8.57%), healthcare (-7.96%), and materials (-7.90%) posted the weakest sector performance.

While it has been nearly a year since the last interest rate increase by the Federal Reserve (Fed), its resolve in holding the target federal funds rate at a two-decade high in its fight against stubbornly persistent inflation continued to play out across the U.S. economy. Growth and inflation continued to slow while unemployment ticked higher, though the broader labor market still remained strong and appeared simply to be returning to more normalized levels after its white-hot pace over the past few years. Consumers also pulled back on their spending. All of this helped to raise expectations that the Fed might begin to lower rates in the fall, with markets pricing in around two cuts by year-end, notably down from the six anticipated at the start of this year.

PERFORMANCE

The Ceredex Mid-Cap Value Equity Fund returned -3.68% (Class I) for the quarter compared to the Russell Midcap Value Index's return of -3.40%. Materials and utilities stock selection and stock selection and an underweight in healthcare were additive to performance. Stock selection in financials, consumer staples, information technology, and consumer discretionary detracted from returns.

Vistra and Carrier Global were among the strongest stock contributors.

- > Independent power producer Vistra outperformed, benefiting from the tight power market and high electricity demand resulting from artificial intelligence (AI) related data center construction and operation. We sold the stock after it reached our price target.
- > Climate control firm Carrier Global climbed on earnings strength and improved profitability driven by strong cost controls as it continued to move past its destocking trough. We sold the stock after it reached our price target.

Global Payments and Regal Rexnord were among the largest stock detractors.

- > Payment technology firm Global Payments underperformed amid concerns about a possible large acquisition that might require additional stock or debt issuance. We sold the stock as we saw better investment opportunities elsewhere.

- > Electric motors and transmission components manufacturer Regal Rexnord lagged on softer-than-expected revenue and general weakness across shorter-cycle industrial stocks. The company's higher leverage also has been pressured by higher interest rates, with softer end-markets limiting the potential to deleverage. We marginally added to the position as it should benefit from potential stimulus dollars flowing through the system and future rate cuts. Its comparables should also get dramatically easier moving ahead.

PORTFOLIO CHANGES

New holdings included Best Buy and CDW. In addition to Vistra, Carrier Global, and Global Payments, we exited Aon and Freeport-McMoRan.

- > We bought consumer electronics retailer Best Buy and business technology products and services provider CDW, as we believe both should benefit from the rollouts of AI personal computers and Windows 12.
- > We sold professional services and management consulting firm Aon and mining company Freeport-McMoRan after the stocks reached our price targets.

OUTLOOK

The current market environment has offered us opportunities to lean into a range of stocks at what appear to be favorable valuations resulting from overly low expectations. Investors tend to overreact on both the upside and downside of stock movements, and the latter is where we often find the greatest potential for our portfolios, relying on our bottom-up, fundamental research to identify attractive mispricings.

While our process remains focused on stock-specific opportunities, there are four broad themes that we have seen emerge where we are finding particularly compelling investment value potential. The first has been in rate-sensitive stocks that have broadly sold off during the Fed's tightening cycle. The second is in shorter-cycle industrial stocks that have missed market expectations after reporting slower earnings growth or modest declines, and the third is in second derivative plays in AI that may be less apparent to the market. The fourth, though maturing, has been around destocking pressures that continue to play out with expectation resets.

At this point in the cycle, we would not be surprised to see more earnings disappointments. However, we generally remain cautiously optimistic about the overall economy. It, of course, remains unknown if, when, and by how much the Fed might begin to lower interest rates and also the upcoming U.S. election. Neither are solely driving our investment decisions, but we are focusing on evaluating the likely specific risks and opportunities around various scenarios.

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
Marvell Technology Inc.	3.18
First Citizens BancShares Inc./NC	3.01
Revvity Inc.	2.71
Equifax Inc.	2.41
Target Corp.	2.21
Jabil Inc.	2.14
KeyCorp.	2.12
The Allstate Corp.	2.06
Microchip Technology Inc.	2.05
Humana Inc.	2.04

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Vistra Corp.	0.45
Carrier Global Corp.	0.19
Mid-America Apartment Communities Inc.	0.18
Best Buy Co. Inc.	0.16
UL Solutions Inc.	0.13

TOP FIVE DETRACTORS % Contribution

Global Payments Inc.	-0.44
Regal Rexnord Corp.	-0.40
Vail Resorts Inc.	-0.40
Jabil Inc.	-0.40
Target Corp.	-0.34

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (11/30/01)
Fund Class I	-3.68	5.22	12.67	2.73	7.39	7.19	9.15
Index	-3.40	4.54	11.98	3.65	8.49	7.60	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 1.02%.

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, medium, or large-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. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **Medium Market Capitalization:** Medium market capitalization companies may increase the volatility and risk of loss to the portfolio, as compared with investments in larger, more established companies. **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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