

Virtus Ceredex Mid-Cap Value Equity Fund

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

MARKET REVIEW

Strong fundamentals and positive earnings momentum helped to lift stock markets higher during the quarter, with large caps generally outperforming small caps and growth leading value. The Russell Midcap® Value Index rose 3.30%, led by impressive gains in the telecommunication services (+16.68%), industrials (+9.60%), healthcare (+9.23%), and information technology (+7.60%) sectors, while the materials (-1.03%) and consumer staples (-0.39%) segments weighed on returns.

Although stocks broadly remained attractive from a bottom-up perspective, investors began to face a conundrum of what may lie ahead for equity markets. The U.S. economy remained solid but continued to show growing signs of late-stage expansion. Additionally, concerns around price-to-earnings contraction, higher bond yields, and the negative impact of a strengthening U.S. dollar on emerging markets added to increased levels of general market anxiety.

PERFORMANCE

The Fund's return of 3.36% (Class I) outperformed the 3.30% return of the Russell Midcap Value Index. Stock selection and overweight positions in the industrials and healthcare sectors and an underweight position in consumer discretionary contributed to outperformance. Stock selection in the materials, financials, and energy sectors detracted from returns.

Humana and Zimmer Biomet Holdings were among the strongest stock contributors.

- > Health insurance company Humana rose on higher-than-expected earnings and upbeat forward-looking guidance. The stock has been a consistently strong performer and continues to offer very attractive fundamentals, including an extremely healthy balance sheet and steady growth from Medicare Advantage enrollment increases driven by aging U.S. demographics.
- > Medical device company Zimmer Biomet Holdings climbed on positive sector momentum, stronger-than-expected earnings, and a general rebound after being oversold on regulatory concerns. The firm also saw market share stabilization and continued to benefit from strong management under its new CEO.

Martin Marietta Materials and Affiliated Managers Group were among the largest stock detractors.

- > Building material supplier Martin Marietta Materials fell on weather concerns. The company does considerable business in Texas and North Carolina, and the wet spring and summer in Texas, followed by Hurricane Florence in North Carolina (which forced a temporary operations shutdown), both weighed on shares. We added to our position on the price

weakness, as we see the slowdown as transitory. We continue to be enthusiastic about the firm's solid pricing power and the strong, longer-term tailwind of higher continued spending on aging infrastructure.

- > Despite strong earnings and revenue, asset manager Affiliated Managers Group declined on general weakness and continued pricing pressures in the active investment management segment. We believe the stock has been oversold and have been slowly adding to our position, as the company offers a solid, well-diversified product line, with an excellent balance sheet and a proven track record of delivering strong results.

PORTFOLIO CHANGES

The Fund initiated positions in Zions Bancorporation and Devon Energy and exited MB Financial and Anadarko Petroleum.

- > Bank holding company Zions Bancorporation is a new holding purchased for its strong fundamentals, including attractive excess capital, prudent credit underwriting, and an experienced management team focused on capturing steady shareholder returns.
- > We bought gas exploration and production (E&P) company Devon Energy, which should benefit from higher commodity prices. We also view as favorable the firm's commitment to being a "pledger," which refers to a recent trend among E&P companies to introduce sounder business metrics that focus more intensely on invested capital return and rewarding investors than has been typical in the past. As such, Devon has announced plans to sell non-core assets to help fund a large share repurchase.
- > We exited gas E&P company Anadarko Petroleum, which had been a solid performer for the portfolio but had begun to lag as it wavered on its "pledger" commitment.
- > We sold bank holding company and long-term holding MB Financial when shares rallied on the announcement it planned to be acquired by Fifth Third Bancorp.

OUTLOOK

In our view, it is stock fundamentals that matter most in the current market. While we remain bullish on the overall economy and see further upside potential in stocks, particularly in the companies we own, mounting signs of late-cycle pressures and the general increase in investor anxiety warrant a degree of caution—especially at today's higher valuations. Investors should also expect that stocks will continue to be more severely punished for results that miss market expectations than rewarded for beating them. In this type of environment, we believe it is imperative to keep risk exposure tightly controlled.

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

AmerisourceBergen Corp.	3.91
Zimmer Biomet Holdings, Inc.	3.75
Motorola Solutions, Inc.	3.63
Humana Inc.	3.53
Perrigo Co PLC	3.39
Pinnacle Financial Partners, Inc.	2.67
Martin Marietta Materials, Inc.	2.55
Affiliated Managers Group, Inc.	2.52
Stanley Black & Decker, Inc.	2.43
Hartford Financial Services Group, Inc.	2.31

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 11/30/2001
Fund Class I	3.36	6.34	11.59	14.79	10.02	12.23	9.89
Index	3.30	3.13	8.81	13.09	10.72	11.29	10.39

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 1.02% 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.

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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