

Virtus Ceredex Mid-Cap Value Equity Fund

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

MARKET REVIEW

Value stocks broadly rose during the second quarter, with small caps significantly outperforming as growing trade war fears weighed more heavily on large cap gains. The Russell Midcap® Value Index climbed 2.41%, with mixed performance in its underlying sectors. The energy (+17.21%), telecommunication services (+13.34%), and real estate (+8.57%) segments delivered the strongest returns, and the weakest were in industrials (-3.99%), financials (-2.70%), and consumer staples (-1.55%).

Sturdy U.S. growth continued to lead a global—albeit increasingly uneven—economic expansion, helping to keep earnings and fundamentals strong. However, there was notable divergence between the top corporate performers and the rest of the market, where price-to-earnings ratios contracted somewhat. Investors also appeared to be increasingly nervous about mounting macro uncertainties and the potential for a high-risk event, as well as tightening financial conditions from rising interest rates, a stronger dollar, and higher oil prices.

PERFORMANCE

The Fund's (Class I) return of 3.78% in the quarter outperformed the 2.41% return of the Russell Midcap® Value Index. Consumer staples, financials, and real estate stock selection and an underweight financials position were additive to returns. Information technology and energy stock selection detracted from returns.

MB Financial and Andeavor were among the strongest stock contributors.

- > Chicago-based bank MB Financial rose on its announced acquisition by Fifth Third Bancorp. We trimmed the position but expect to hold the new company after the deal, as it should benefit from attractive competitive positioning and cost-saving synergies. It will have combined Chicago deposit market share of approximately 6.5% and be the second-largest bank in the area in terms of middle market business relationships.
- > Petroleum refiner Andeavor climbed on its announced acquisition by Marathon Petroleum. We believe this should be a powerful combination, representing roughly one billion dollars in potential synergies. The U.S. refining marketplace also remains an appealing segment of the energy sector and continues to be a beneficiary of currently wide Brent-WTI crude oil spreads.

Hewlett Packard Enterprise and Affiliated Managers Group were among the largest stock detractors.

- > Despite solid earnings and revenue, technology company Hewlett Packard Enterprise fell on weaker forward guidance. We took advantage of lower valuations to add slightly to our position, as the firm offers attractive fundamentals, a strong balance sheet and a healthy dividend. It should also benefit

from the more constructive enterprise-spending environment, as well as from potential semiconductor price declines that we expect over the next 12 to 18 months.

- > Asset manager Affiliated Managers Group delivered strong earnings and revenue but lagged on active management concerns and equity outflows. Trade tariffs may have also weighed on shares given the firm's global and emerging markets product exposure. We added to the position, as the company has an excellent balance sheet with a proven track record of delivering solid results.

PORTFOLIO CHANGES

During the quarter, the Fund initiated positions in Crown Castle International, Kellogg Company, and Sempra Energy. It sold Baker Hughes, Cousins Properties, Dr Pepper Snapple Group, Pinnacle Foods, Republic Services, and Weyerhaeuser Company as these stocks reached their price targets.

- > We bought wireless infrastructure provider Crown Castle International on price volatility prompted by news that the Sprint and T-Mobile merger will shutter a sizable number of cell phone towers. However, we believe the company should benefit long term from positive trends in data transmission volume.
- > We purchased food manufacturer Kellogg Company after shares appeared oversold from general first quarter weakness across the segment. The firm has reinvigorated its top line with new products and may also benefit from the uptick in food company mergers and acquisitions.
- > We bought Sempra Energy, which has benefited from its acquisition of Energy Future Holdings Corp., the bankrupt owner of 80% of Oncor Electric Delivery Company. This dilutes exposure from the more challenging California climate into Texas. Activist involvement has also sent the stock higher.

OUTLOOK

Our investment approach firmly focuses on individual stock fundamentals, and through our research, we continue to find compelling opportunities in today's market. The overall backdrop for stocks remains positive, although we have grown slightly more cautious of late. Strong earnings expectations, a robust labor market, solid consumer spending, and signs of growing business investment all offer lots of good news about the U.S. economy and general stock outlook that could easily keep investors cheering. But we also are closely watching a number of potential overhangs that cause us concern, such as slower global growth, high leverage levels, and an increasing number of late-cycle U.S. economic indicators. The real threat of a trade war could easily cast a pall over markets as well, though it still remains to be seen how the current political rhetoric might ultimately play out.

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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

Humana Inc.	4.17
Zimmer Biomet Holdings, Inc.	3.20
AmerisourceBergen Corp.	3.12
First Republic Bank	2.73
Pinnacle Financial Partners, Inc.	2.65
Martin Marietta Materials, Inc.	2.62
American Homes 4 Rent Class A	2.57
Perrigo Co PLC	2.52
MB Financial, Inc.	2.28
Motorola Solutions, Inc.	2.21

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 11/30/2001
Fund Class I	3.78	2.88	7.70	9.45	10.92	11.56	9.83
Index	2.41	-0.16	7.60	8.80	11.27	10.06	10.34

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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