

Virtus Ceredex Mid-Cap Value Equity Fund

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

MARKET REVIEW

Value stocks again delivered positive returns for the quarter but continued to lag growth peers, with large-cap companies outperforming small caps in both segments. The Russell Midcap® Value Index rose 5.50%, led by materials (+10.50%), consumer staples (+8.64%) and consumer discretionary (+7.22%). All of the Index's sectors posted gains, except telecommunication services (-8.54%).

Economic growth in the U.S. and overseas remained upbeat. Strong earnings, employment gains, increased business investment, and corporate tax reform all offered an extremely constructive investment environment for U.S. stocks, which capped off an impressive year that saw the Dow Jones Industrial Average and S&P 500® Index reaching all-time highs. Volatility also remained low as investors continued to shrug off geopolitical concerns and continued chaos and intense partisan fighting from Washington, DC.

PERFORMANCE

The Fund's return of 4.95% (Class I) underperformed the 5.50% return of the Russell Midcap® Value Index, largely due to stock selection in financials and utilities. Stock selection in real estate and consumer discretionary was additive to returns.

Regal Entertainment Group and Taubman Centers were the strongest stock contributors.

- > Movie theater chain Regal Entertainment came off a weak summer with a cyclical rebound from strong film receipts, driven by blockbuster releases including "It" and "The Last Jedi." Shares also surged after the announcement of discussions for a potential buyout by U.K.-based Cineworld Group.
- > Luxury mall operator Taubman Centers rose on strong fundamentals and improving investor sentiment toward the retail store segment. Shares were also lifted higher by the announcement of a second activist investor acquiring a stake in the real estate investment trust and joining the push for changes.

First Republic Bank and SCANA Corporation were the largest stock detractors.

- > First Republic Bank fell on missed earnings, higher expenses, and its announcement of new equity issuance to help fund its growth strategy. There were also concerns about the impact of the repeal of state and local tax deductions, given the company's large New York and California exposure. We added to our position — one of the Fund's largest — as the firm's strong management team continues to position it for long-term success with differentiating strategies. These include targeting potential future high income earners by investing in its student loan business with expectations to expand on these relationships with services such as wealth management and mortgage financing down the road.

- > SCANA shares declined on the fallout from the South Carolina utility's decision to abandon building its nuclear plant construction project when the contractor went bankrupt, after already spending \$9 billion funded by rate hikes and investor dollars. State politicians began pursuing legislation to stop the firm from using customer money for the failed project, and the U.S. Attorney's office opened a criminal investigation. Given this elevated risk, we exited the stock.

PORTFOLIO CHANGES

During the quarter, the Fund bought Anadarko Petroleum, Republic Services, and Sealed Air Corp. Among the positions exited were American Water Works, Edison International, and Life Storage.

- > We initiated a position in exploration and production ("E&P") company Anadarko Petroleum based on our positive outlook for the segment and the positive trend of many of these firms, including Anadarko, introducing business metrics that focus much more intensely on return on invested capital and rewarding investors.
- > We bought waste company Republic Services, Inc., which has benefited from the strong economy and housing market, and offers an extremely attractive free cash flow yield.
- > Our new holding in packaging company Sealed Air should benefit from growing online fulfillment momentum, as well as lower input costs and greater focus on high margin businesses after the completion of its spinoff of food hygiene and cleaning business New Diversey.
- > We exited Southern California-based utility company Edison International on valuation pressures due to investor concerns about wildfire damage liabilities.
- > We sold water utility American Water Works and storage company Life Storage after strong performance reached our price targets.

OUTLOOK

We remain optimistic in our outlook. Markets tend to follow earnings, which have been very robust and are set to benefit from tax reform-driven gains in 2018. Economic growth continues to strengthen, and business confidence is finally translating into capital expenditures. While equity valuations may appear expensive on an absolute basis, from a relative perspective they still are generally attractive, albeit certain segments such as mid-cap are somewhat pricey. Geopolitical risks give some reason for pause, but overall it remains a favorable investment backdrop. Extended stock prices do offer some challenges for value investors, but we continue to find compelling opportunities and remain fully invested.

Virtus Ceredex Mid-Cap Value Equity Fund

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

INVESTMENT PROFESSIONAL



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

TOP TEN HOLDINGS

	% Fund
Martin Marietta Materials, Inc.	3.59
First Republic Bank	3.03
Humana Inc.	2.98
Zimmer Biomet Holdings, Inc.	2.96
American Campus Communities, Inc.	2.64
Motorola Solutions, Inc.	2.60
Macquarie Infrastructure Corp.	2.55
MB Financial, Inc.	2.52
Williams Companies, Inc.	2.42
AmerisourceBergen Corp.	2.41

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 12/31/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 11/30/2001
NAV	4.95	11.68	11.68	8.05	12.94	9.76	9.95
Index	5.50	13.34	13.34	9.00	14.68	9.10	10.69

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 1.10%. The net expense ratio is 1.09%, which reflects a contractual expense reimbursement in effect through 7/31/2019. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.08%.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, would reduce the performance quoted. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required 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: May be more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. The net asset value per share of a fund will fluctuate as the value of the securities in the portfolio changes. **Value Stocks:** Are subject to the risk that the broad market may not recognize their intrinsic value. **Mid-Capitalization Stocks:** Typically carry additional risks since mid-cap companies generally have a higher risk of failure. **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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