

## Virtus Ceredex Small-Cap Value Equity Fund

A: SASVX (92837F433) | C: STCEX (92837F425) | I: SCETX (92837F417)

### MARKET REVIEW

After broadly coming off record highs in September, U.S. stock markets tumbled during the fourth quarter of 2018, giving up the prior nine-month gains. Large caps generally outperformed small caps, and value stocks tended to be more defensive than their growth counterparts. The Russell 2000® Value Index declined 18.67% in the period to end the year down 12.86%. The benchmark index experienced losses across all of its sectors, with the largest declines in energy (-41.12%), healthcare (-29.53%), and materials (-27.31%).

Strong fundamentals simply were not enough to overcome a perfect storm of investor fears. Softening global growth, trade war realities, and concerns that the Federal Reserve (Fed) may be tightening monetary policy too aggressively began to translate into lower capital expenditures and more cautious earnings outlooks, as companies increasingly became more uncertain about what may lie ahead. Collapsing oil prices, a flattening yield curve, and a general lack of market liquidity added to overall anxiety and the steep selloff.

### PERFORMANCE

For the quarter, the Fund (Class I) returned -17.12%, outperforming the -18.67% return of the benchmark Russell 2000® Value Index. Stock selection in the healthcare, consumer discretionary, real estate, and communication services sectors and an underweight position in energy were additive to performance. Stock selection in the industrials, financials, and energy sectors and underweight positions in utilities and financials detracted from returns.

B&G Foods and Meredith Corp. were among the strongest stock contributors for the quarter.

- > B&G Foods, which manufactures multiple food brands, rebounded after underperforming in the prior quarter as investors flocked to defensive names in an uncertain market. The company also benefited from stronger performance by its largest product line, Green Giant.
- > International media company Meredith's shares rose as it continued to work through the integration of its Time Inc. acquisition, avoiding the business missteps some investors had anticipated, while moving forward on a number of asset sales and cost-cutting measures. The company also benefited from strong political advertising sales at its television stations.

SM Energy and U.S. Silica Holdings were among the largest stock detractors.

- > Exploration and production firm SM Energy suffered sharp price declines amid overall weakness in the energy sector and investor concerns about how a potentially slower economy might affect oil prices. We maintained our position, as we believe the company is being priced too cheaply, especially given its attractive assets.

- > Declining oil prices also pushed down shares of industrial mineral producer U.S. Silica, which supplies silica sand used in hydraulic drilling. We continued to hold our position, as we remain positive on the firm's growth prospects. Additionally, approximately 40% of the company's business comes from outside the oil and gas industry, as its products are used in everything from swimming pool filters to cat litter.

### PORTFOLIO CHANGES

During the quarter, the Fund initiated positions in Valmont Industries and Neenah, Inc., and exited Nutrisystem and Plantronics.

- > We bought fabricated metal manufacturer Valmont Industries, which makes products ranging from farming irrigation systems to highway lighting to wireless towers. Shares appeared attractively priced during the quarter's broad market selloff, given anticipated growth in highway barriers, wireless expansion, and increased farming capital expenditures once trade issues are resolved.
- > We purchased paper producer Neenah after shares sold off on general weakness across paper firms. The company makes high-end, specialty papers, including those used in filtration equipment, which are generally not as cyclically sensitive as more traditional paper products. This made current valuations compelling, given the firm's attractive profit margins and global expansion.
- > We exited weight-loss company Nutrisystem after shares rose on the announcement it would be acquired by Tivity Health.
- > We sold headset manufacturer Plantronics on mounting concerns that its acquisition of audio equipment company Polycom would not be as beneficial as once expected. Additionally, we anticipate that the rapid acceleration in video gaming—a prime driver in the company's headset sales—may be peaking.

### OUTLOOK

While our outlook over the past few quarters has remained generally favorable, we have also continued to express a degree of caution in light of the elevated volatility. This remains the case as we come off the fourth quarter's sharp declines. U.S.-China trade tensions and Fed policy concerns seem to be moderating, but a flattening yield curve, slower worldwide growth, and substantial uncertainties around issues such as Brexit, ongoing U.S. political turmoil, and the potential for an economic hard landing in China remain unresolved. As bottom-up stockpickers, we remain closely focused on fundamentals—which remain generally strong—while keeping a very close eye on the risk environment.

## Virtus Ceredex Small-Cap Value Equity Fund

### INVESTMENT ADVISER

Virtus Fund Advisers, LLC

### INVESTMENT SUBADVISER

Ceredex Value Advisors LLC

### PORTFOLIO MANAGER



**Brett Barner, CFA**

Industry start date: 1985

Start date with the Fund: 1995

### TOP TEN HOLDINGS

% Fund

Power Integrations, Inc.	4.90
Meredith Corp.	4.87
B&G Foods, Inc.	4.77
Hill-Rom Holdings, Inc.	4.61
Energizer Holdings Inc	4.55
Kemper Corp.	4.09
Tetra Tech, Inc.	3.47
Physicians Realty Trust	3.42
OUTFRONT Media Inc.	2.90
Tanger Factory Outlet Centers, Inc.	2.89

Holdings are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 1/31/1997
Fund Class I	-17.12	-12.42	-12.42	7.65	3.70	12.30	9.70
Index	-18.67	-12.86	-12.86	7.37	3.61	10.40	8.44

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 1.18%.

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 2000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 largest 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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