

Virtus Ceredex Small-Cap Value Equity Fund

A: SASVX (92837F433) | C: STCEX (92837F425) | I: SCETX (92837F417) | R6: VVERX (92837X665)

MARKET REVIEW

After a choppy start, U.S. value stocks rebounded strongly in the fourth quarter, lifted higher by a sharp reversal in market sentiment that sparked a broad-based “everything” rally with notable gains across almost all major asset classes. Encouraging inflation data and easing financial conditions prompted by declines in U.S. Treasury yields, oil prices, and the U.S. dollar—all tumbling from last quarter’s highs—provided significant tailwinds for stock and bond markets. Late-quarter indications that the Federal Reserve (Fed) may cut interest rates sooner than expected, as well as growing signs that it may be achieving a much-hoped-for soft landing for the still-robust U.S. economy, added to the positive momentum.

Against this favorable backdrop, the Russell 2000® Value Index rose 15.26% for the quarter, led by lower-quality, higher-beta stocks as investors looked to increase risk in the momentum market. Many of the Index’s sectors delivered double-digit gains, with the largest in financials (+23.80%), consumer discretionary (+20.40%), and healthcare (+18.34%). Energy (-5.19%) was the only sector to move lower.

PERFORMANCE

The Virtus Ceredex Small-Cap Value Equity Fund gained 10.29% (Class I) for the quarter compared to the Russell 2000 Value Index’s rise of 15.26%. Industrials, information technology, and utilities stock selection and stock selection and an underweight in healthcare detracted the most from performance. An overweight in financials and stock selection in consumer discretionary contributed the most to returns.

Bank of Hawaii and Columbia Banking System were among the strongest stock contributors.

> Regional commercial bank Bank of Hawaii outperformed on earnings strength and better-than-expected fundamental results. The company benefited from total deposits that have faced less competition than feared after last year’s banking turmoil. We took advantage of that selloff to significantly increase the position, which paid off this quarter. We trimmed the stock on the gains but continued to hold it. As one of only a handful of banks in Hawaii, it operates in a very protected market.

> Bank holding company Columbia Banking System also gained after beating earnings estimates. We trimmed the position but see room for additional gains as the company has benefited from better-than-expected industry fundamentals. It also continues to integrate its recent acquisition of Umpqua Holdings Corporation.

ChampionX and Belden were among the largest stock detractors.

> Oil field services provider ChampionX underperformed after reporting a disappointing quarter due to general market oversupply and lower-than-expected North American drilling activity. We held steady with the stock as we believe it remains a strong company. It also offers international exposure, where activity is improving.

> Signal transmission solutions firm Belden fell after cutting its revenue outlook due to softening demand and destocking pressures. We maintained the position given the company’s still-strong fundamentals. It also should benefit from increased demand as businesses upgrade equipment to tap into artificial intelligence (AI) opportunities.

PORTFOLIO CHANGES

We initiated new positions in Huntington Ingalls Industries and Vail Resorts. Exits included Algonquin Power & Utilities and Dentsply Sirona.

> We purchased military shipbuilder Huntington Ingalls Industries based on increased defense spending and anticipated profitability improvements from an easing labor market.

> We bought mountain resort company Vail Resorts, which should benefit as consumers continue to spend more on services and experiences rather than products.

> We sold energy conglomerate Algonquin Power & Utilities, which has faced earnings and capital-raising pressures.

> We exited dental equipment manufacturer Dentsply Sirona on slowing demand expectations.

OUTLOOK

With market valuations back at historically high levels and investors pricing in not only a soft landing but rate cuts as well, we think it is important to keep current euphoria in broader context. In essence, U.S. stocks are coming off two years of net-flat cumulative performance and continue to face considerable macro-driven uncertainty. While inflation has certainly improved, the largely resilient U.S. economy—supported by a still-sturdy labor market and healthy consumer spending—appears to offer the Fed plenty of cover to stay the course for the time being. This is likely to disappoint current expectations for aggressive monetary loosening beginning as early as March. Add in ongoing roller-coaster shifts in investor sentiment, elevated geopolitical risks, and what probably will be a very contentious election year, and there is plenty to be cautious about.

Given all of this, we are leaning even more into our fundamental company research. The fact is that many of the traditional heuristics historically used to help shape broader economic forecasting have broken down following the global financial crisis and pandemic. Consider data points like the inverted yield curve and tightening lending standards, which seem to indicate that a recession is coming. In this type of environment, we believe it is increasingly the stock-specific insights and opportunities that offer the most compelling potential, and at this point in the cycle, we remain very confident in our current portfolio holdings’ abilities to deliver the potential for outperformance.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

Ceredex Value Advisors, LLC

PORTFOLIO MANAGERS



Charles E. Carter, CFA
Industry start date: 2001
Start date as Fund Portfolio Manager: 2023



Don Wordell, CFA
Industry start date: 1996
Start date as Fund Portfolio Manager: 2023

TOP TEN HOLDINGS

	% Fund
Ashtland Inc.	2.23
Bank of Hawaii Corp.	2.01
KBR Inc.	1.99
Schneider National Inc.	1.93
RB Global, Inc.	1.89
Pinnacle Financial Partners Inc.	1.85
IDACORP Inc.	1.85
OGE Energy Corp.	1.83
Louisiana-Pacific Corp.	1.80
Atlantic Union Bankshares Corp.	1.80

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01/31/97)
Fund Class I	10.29	14.70	14.70	9.47	9.25	6.44	9.62
Index	15.26	14.65	14.65	7.94	10.00	6.76	8.73

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 1.23%. The net expense ratio is 1.15%, which reflects a contractual expense reimbursement in effect through 4/30/2024.

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 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.

TOP FIVE CONTRIBUTORS % Contribution

Bank of Hawaii Corp.	0.82
Columbia Banking System Inc.	0.76
Signet Jewelers Ltd.	0.65
Pinnacle Financial Partners Inc.	0.59
Atlantic Union Bankshares Corp.	0.58

TOP FIVE DETRACTORS % Contribution

ChampionX Corp.	-0.34
Belden Inc.	-0.32
Dentsply Sirona Inc.	-0.26
Helios Technologies Inc.	-0.24
Cactus Inc.	-0.18

% Contribution: Absolute weighted contribution.

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

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. **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. **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. **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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