

## Virtus Ceredex Small-Cap Value Equity Fund

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

### 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 2000® Value Index climbed 8.30% with advances across all of its underlying sectors, led by energy (+21.17%), telecommunication services (+14.95%), real estate (+14.80%), and healthcare (+11.37%).

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 8.50% outperformed the 8.30% return of the Russell 2000® Value Index. Financials, consumer staples, and information technology stock selection and an underweight financials position were additive to returns. Consumer discretionary, real estate, and healthcare stock selection, an underweight energy position, and an overweight industrials position detracted from returns.

Kemper and B&G Foods were among the strongest stock contributors.

- > Insurance company Kemper rallied on better-than-expected earnings and the announcement that shareholders had approved its merger with Infinity Property & Casualty. Shares also benefited from general investor enthusiasm for domestic-focused businesses in light of trade war uncertainty.
- > B&G Foods, which manufactures multiple brands such as Green Giant and Spice Islands, gained on earnings strength. Investors were also drawn by attractive discounted valuations after general first quarter weakness that pressured shares across the segment. Food companies have seen an uptick in merger and acquisition activity, and B&G is well positioned for future beneficial portfolio additions as larger consumer staples companies continue to rejigger holdings and sell off well-known brands.

Meredith and Kelly Services were among the largest stock detractors.

- > Media conglomerate Meredith Corporation lagged on disappointing revenue and outlook guidance as it continued to work through its acquisition of Time Inc., which publishes well-known magazines such as *Time* and *Sports Illustrated*. Shares also suffered from uncertainty around planned divestment from several of these publications and a mixed

advertising market that has somewhat underperformed. While the stock drifted down modestly, it weighed on overall Fund performance given its relatively larger size in the portfolio. We maintained our position, as fundamentals remained strong and the stock continued to generate an attractive dividend. We also believe title sells may prove more beneficial than currently expected.

- > Office staffing company Kelly Services fell on weaker-than-expected earnings and lower guidance, despite strong revenue gains. We continued to hold the stock. The company is implementing cost-efficient initiatives we believe will be constructive and continues to expand in the education market. Its valuations are attractive relative to other stocks in the space and should benefit from the tighter employment market.

### PORTFOLIO CHANGES

During the quarter, the Fund initiated positions in The Andersons, Inc. and Commercial Metals Company. There were no notable exits.

- > We established a position in agribusiness The Andersons, a leader in grain storage and transport, ethanol, plant nutrients, and rail services. Valuations became very appealing recently over general farming and trade concerns, and we like the company's strong fundamentals, healthy dividend, and current focus on capturing new cash-flow and earnings efficiencies across its different businesses.
- > Steel and metal manufacturer Commercial Metals Company was a new holding that we purchased after the stock appeared oversold on steel tariff uncertainties. The company is in the midst of an acquisition of U.S. rebar assets from Gerdau S.A. that should prove highly accretive to earnings. It also looks less exposed to tariff issues and may actually be positioned to benefit more than receive any potential negative effects.

### 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. Additionally, small caps are usually more insulated from global trade and dollar fluctuations, as they tend to be less reliant on overseas markets. Nonetheless, we 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.

## 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

Energizer Holdings Inc.	4.94
B&G Foods, Inc.	4.06
Meredith Corp.	4.04
Kemper Corp.	3.84
Hill-Rom Holdings, Inc.	3.74
Tetra Tech, Inc.	3.34
Evercore Inc Class A	3.19
Education Realty Trust, Inc.	3.07
Physicians Realty Trust	2.79
Tanger Factory Outlet Centers, Inc.	2.75

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 1/31/1997
Fund Class I	8.50	4.24	16.24	10.55	11.52	11.31	10.84
Index	8.30	5.44	13.10	11.22	11.18	9.88	9.62

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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