

Virtus Ceredex Small-Cap Value Equity Fund

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

MARKET REVIEW

Value stocks generally continued to climb in the second quarter, though at a more muted pace than their growth counterparts. The market's gains were driven largely by price/earnings (P/E) expansion, as there continued to be few signs of a looming recession despite going through several industry-specific recessions. Labor markets remained extremely strong, investors continued to drive up artificial intelligence (AI) stocks, and bond markets came under pressure amid the potential for additional interest rate increases, which led to a rally in the two-year Treasury yield and further inverted the yield curve.

The Russell 2000® Value Index rose 3.18% for the period. The largest sector increases were in information technology (+11.65%), industrials (+11.31%), and healthcare (+7.43%). Consumer staples (-5.80%), utilities (-4.18%), financials (-2.13%), and communication services (-0.42%) all declined.

PERFORMANCE

The Virtus Ceredex Small-Cap Value Equity Fund gained 2.00% (Class I) for the quarter versus the Russell 2000 Value Index's rise of 3.18%. Stock selection in consumer discretionary, real estate, and information technology, as well as an underweight and stock selection in healthcare, weighed the most on performance. Stock selection in consumer staples and materials and an overweight in industrials added the most to returns.

Herc Holdings and Owens Corning were among the strongest stock contributors.

- > Equipment rental company Herc Holdings, a new portfolio holding in the quarter, rose on higher-than-expected earnings and revenue. The company has benefited from higher rental rates and strong end-market demand fueled by multi-year fiscal stimulus, reshoring, increased mega construction projects, and long-term industrial maintenance contracts.
- > Building and construction materials firm Owens Corning outperformed on earnings and revenue strength driven by booming new home construction. We sold the stock after it reached our price target.

Academy Sports & Outdoors and First Interstate BancSystem were among the largest stock detractors.

- > Sporting goods chain store Academy Sports & Outdoors fell on news that its CEO was leaving. The stock has been a strong long-term performer for the portfolio, but we exited the position given the management uncertainty and our generally more cautious view on retail, particularly athletic footwear.
- > Financial holding company First Interstate BancSystem lagged on soft earnings, as well as the general malaise across the banking sector due to investor concerns around net interest

margins and capital levels. We held steady with the stock as we continue to like the bank's attractive footprint. It operates locations throughout the Western and Midwestern U.S., in markets with generally less competition and favorable economic tailwinds.

PORTFOLIO CHANGES

In addition to Herc Holdings (discussed previously), we bought Brixmor Property Group and Kemper. In addition to Owens Corning and Academy Sports & Outdoors (both discussed previously), we sold SLM.

- > We purchased shopping mall real estate investment trust (REIT) Brixmor Property Group, given its strong fundamentals and the portfolio's general underweighting to REITs.
- > We bought insurance company Kemper, which should benefit from rising insurance rates.
- > We sold consumer banking company SLM, best known for its education loan business Sallie Mae, due to concerns about student loan repayments.

OUTLOOK

The major themes we are currently seeing in the market appear mostly constructive for value stocks. Earnings have been generally much better than feared and likely have troughed, notwithstanding some continued degradation in economically sensitive areas. Inflation is slowing dramatically, which means the Federal Reserve's tightening cycle should be peaking soon. Employment is still strong. Many retail and consumer companies have been able to destock inventories as supply chains have normalized. The recent large federal spending bills are keeping many industrials well funded. AI has been a major technology catalyst with the potential to both elongate and possibly augment the business cycle.

The economic soft-landing thesis has been gaining momentum as the risk of major recession appears less probable, or at least much later. Clearly, consumers have been feeling inflationary pressures, but market expectations have been mostly low enough that it has yet to materially affect valuations. Plus, the strong labor market has remained very supportive, although the changes in spending behaviors are certainly something we are looking at closely as we evaluate cash-flow fundamentals.

Looking ahead, we believe the portfolio remains strongly positioned from a fundamental perspective, with opportunities to deliver potentially higher-than-expected earnings gains. The current investment climate looks to be favoring careful bottom-up stock picking that we believe is particularly well suited for our intense research focus on individual company fundamentals.

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

RB Global Inc.	2.49
Power Integrations Inc.	1.96
Dolby Laboratories Inc.	1.96
Perrigo Co. PLC	1.80
Dentsply Sirona Inc.	1.77
Colliers International Group Inc.	1.75
Curtiss-Wright Corp.	1.74
Herc Holdings Inc.	1.67
Belden Inc.	1.67
Wintrust Financial Corp.	1.63

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Herc Holdings Inc.	0.42
Owens Corning	0.36
Carpenter Technology Corp.	0.34
Power Integrations Inc.	0.32
SLM Corp.	0.25

TOP FIVE DETRACTORS % Contribution

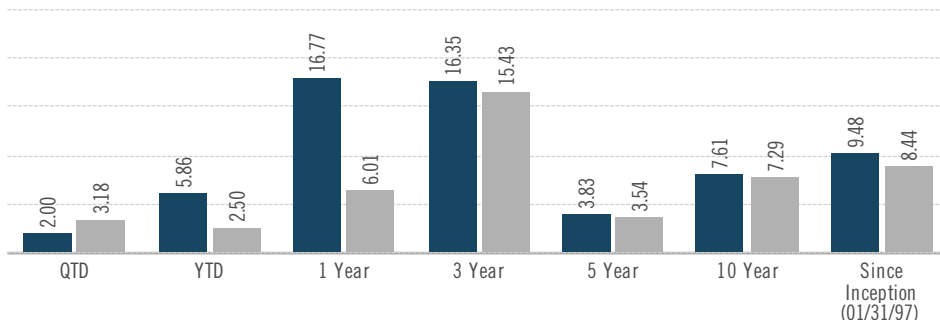
Academy Sports & Outdoors Inc.	-0.34
First Interstate BancSystem Inc.	-0.24
Bank of Hawaii Corp.	-0.24
Atlantica Sustainable Infrastructure PLC	-0.21
Signet Jewelers Ltd.	-0.19

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/23

■ Fund Class I ■ Index



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.

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, 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.

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