MARKET REVIEW
Water investments (as measured by the S&P Global Water Index (net)) declined 9.32% in the third quarter. Despite constructive fundamentals and resilient earnings growth, tighter financial conditions weighed on the sector’s earnings multiple. Both the water equipment & technology and infrastructure subsectors contracted during the period.

Water equipment & technology companies were generally weak in the quarter. Commercial and residential-exposed water companies continued their strong year-to-date performance in July on resilient economic activity and continued hopes of a bottom in construction activity, but the group softened in September as financial conditions tightened. Engineering and consulting firms proved relatively resilient, supported by strong earnings and favorable growth outlooks tied to increased infrastructure investment. Companies with elevated cyclical exposures, notably European industrials and agricultural equipment & technology providers, underperformed during the period.

The water infrastructure subsector contributed negatively during the quarter, as investors turned away from defensive sectors such as utilities, consumer staples, and real estate. Water utilities traded lower during the period in the face of rising interest rates, despite constructive earnings and visible long-term prospects. Water utilities in emerging markets outperformed, while utilities in developed markets, mainly the U.S. and U.K., were weak. We continue to hold a favorable view of water infrastructure companies over the medium term, as they stand to benefit from increased infrastructure spending both in the U.S. and internationally.

PERFORMANCE REVIEW
The Fund’s performance was negatively impacted by multiple contractions as elevated economic risks and market volatility more than offset tailwinds from constructive fundamentals, strong earnings results, and resilient growth outlooks. From a sector perspective, both the water equipment & technology and infrastructure subsectors declined during the quarter.

At the security level, the largest positive contributors were Danaher and Arcadis NV. Danaher is a global life-sciences company with a best-in-class water business focused on filtration, treatment, and testing. After a challenging start to 2023 due to weak life-sciences markets and negative guidance revisions, Danaher rebounded during the quarter. Visibility improved for stabilization in the life sciences segment during the quarter, resulting in a more favorable outlook as destocking headwinds abate. The company could stand to benefit from spinning off its water business, as both the stand-alone life-sciences company and spinoff (Veralto) are well positioned for the future in their respective end-markets. Arcadis is a leading global consulting and engineering firm that focuses on water, environment, infrastructure, and buildings. During the quarter, the company reported favorable earnings, with strong growth supported by tailwinds from global infrastructure programs, environmental and sustainability initiatives, and advanced manufacturing. Arcadis is also benefiting from strategic repositioning that strengthened its exposure to North America and high-growth markets such as life sciences and semiconductors. In addition, the company has enhanced its digital capabilities.

The largest detractors were Xylem Inc. and American Water Works. Xylem is the largest U.S. water-equipment manufacturer, specializing in pumps, pipes and valves, and digital technologies relating to water infrastructure. Xylem’s underperformance was driven by unexpected CEO and CFO transitions, which saw long-time CEO Patrick Decker step down. We had expected a CEO transition at some point in the future; however, the timing of the transition was a surprise to us and other investors, resulting in downward pressure on the stock. We maintain a favorable view of Xylem’s long-term potential and have full confidence that the new CEO and CFO will execute on the company’s growth and financial initiatives, including the integration of recently acquired Evoqua Water Technologies. American Water Works (AWK) is the largest investor-owned utility in the U.S. The significant move in interest rates during the quarter pressured AWK’s equity price. Additionally, we saw downward technical pressure on the company’s equity price in September due to broader volatility in the electric and renewable utility space, which drove all utilities lower. We believe AWK’s current valuation provides more attractive risk-adjusted total return potential and continue to hold a favorable view of the company’s fundamentals.

OUTLOOK
Secular growth trends in the water sector remain in place, as communities across the world invest in solutions to combat water scarcity and water quality challenges. We continue to see robust support for investment in water infrastructure and equipment & technology to provide a more sustainable water future. Additionally, the reshaping of supply chains and water-quality regulation are supporting water investment across many industries, including microelectronics, food and beverage, and pharmaceuticals.

We believe investment in the water sector is set to inflect positively over the next several years. This step-change in investment is expected to benefit companies that are building and rehabilitating infrastructure and those companies that are developing and deploying technology in the water sector. Several tailwinds are in place to support investment, including government infrastructure programs, regulation, and corporate initiatives. While deployment of capital from the Infrastructure Investment and Jobs Act (IIJA) has been slow to date, there is evidence that funds are now being released to drive investment in U.S. water infrastructure projects. Funding from the IIJA is a multi-year tailwind for the sector as funding is expected to peak in 2026–2027. Water companies, including E&Os, utilities, and equipment & technology providers will benefit as projects move forward, beginning in 2024. On the regulatory front, the EPA is expected to finalize PFAS regulation in early 2024, which will catalyze significant investment in treatment and remediation equipment & technology. The Environmental Business Journal estimates that PFAS represent an addressable market of $250 billion or more. Corporations are increasingly investing in water technologies as they reshore supply chains, improve operational resiliency, and capitalize on megatrends tied to growth in semiconductors, electrification, and health care, all of which require substantial water supply, advanced water treatment, and water efficiency programs, such as implementing water reuse capabilities. These initiatives are expected to support significant earnings growth for companies in the water infrastructure and technology subsectors in the years ahead.
INVESTMENT ADVISER
Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER
Duff & Phelps Investment Management Co.

PORTFOLIO MANAGERS
David D. Grumhaus, Jr.  
Industry start date: 1989  
Start date as Fund Portfolio Manager: 2022

Nicholas Holmes, CFA  
Industry start date: 2010  
Start date as Fund Portfolio Manager: 2023

Evan Lang, CFA  
Industry start date: 2014  
Start date as Fund Portfolio Manager: 2022

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23

<table>
<thead>
<tr>
<th>Fund Class</th>
<th>Index 1</th>
<th>Index 2</th>
</tr>
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<tbody>
<tr>
<td>QTD</td>
<td>20.80</td>
<td>20.81</td>
</tr>
<tr>
<td>YTD</td>
<td>11.55</td>
<td>11.55</td>
</tr>
<tr>
<td>1 Year</td>
<td>10.06</td>
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<tr>
<td>5 Year</td>
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</tr>
<tr>
<td>10 Year</td>
<td>3.47</td>
<td>3.47</td>
</tr>
</tbody>
</table>

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 1.22%. The net expense ratio is 0.93%, which reflects a contractual expense reimbursement in effect through 2/1/2024. 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 1: The MSCI AC World Index (net) is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets. The index is calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Index 2: The S&P Global Water Index (net) is a modified capitalization-weighted index comprised of 50 of the largest publicly traded companies in water-related businesses that meet specific investability requirements. The index is designed to provide liquid exposure to leading publicly-listed companies in the global water industry, from both developed markets and emerging markets. The index is calculated on a total return basis with net 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: 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. Issuer Risk: The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. 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. Water-Related Risk: Because the portfolio focuses its investments in water-related companies, it is particularly affected by events or factors relating to this sector, which may increase risk and volatility. Focused Investments: To the extent the portfolio focuses its investments on a limited number of issuers, sectors, industries or geographic regions, it may be subject to increased risk and volatility. Foreign Investing: Investing in foreign securities subjects the fund to additional risks such as increased volatility, currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. Sustainable Investing: Because the portfolio focuses on investments in companies that the Manager believes exhibit strong environmental, social, and corporate governance records, the portfolio’s universe of investments may be smaller than that of other portfolios and broad equity benchmark indices. ESG factors may not be considered for every investment decision and there is no guarantee that the integration of ESG factors will result in better performance.

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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