VIRTUS FUNDS

Virtus NFJ Dividend Value Fund

A: PNEAX (92837N105) | ADMIN: ANDAX (92837N709)
C: PNECX (92837N204) | INST: NFJEX (92837N600) | P: ADJPX (92837N501) | R6: ANDVX (92837N402)

MARKET REVIEW

Although 2021 marked the second-best first half of a year since 1998, the second quarter saw an end to the euphoric rise that U.S. equities exhibited through March. Stocks instead climbed a wall of worry as investors began to abandon companies that stand to benefit from a reopening economy in favor of more defensive positioning. Concerns ranged from higher inflation and eventual interest rate hikes to further COVID-19 restrictions amid rising cases overseas. Against this backdrop, the energy and real estate sectors rose double digits in the Russell 1000® Value Index, followed by strength from financials and healthcare. In contrast, utilities, technology, and industrials were the weakest-performing sectors.

FUND PERFORMANCE

The Fund returned 6.47% (Class I) in the quarter, compared to the Russell 1000 Value Index, which returned 5.21%. Stock selection drove the outperformance, though sector allocations also modestly contributed to returns.

American Tower and Allstate were the largest contributors to performance over the quarter.

> American Tower shares were lifted by the work-from-home trends that have benefited cell tower REITs. The rollout of 5G adds to the margins of this "pick-and-shovel" play on digital connectivity. Additionally, the first two tranches of the Telxius Towers acquisition increase the company's international footprint across Germany, Spain, Brazil, Peru, Chile, and Argentina.

> Property & casualty insurer Allstate posted favorable adjusted earnings results, boosted in part by strength from the car insurance business as accidents and claims tracked below normal. Company management also raised the quarterly dividend by 50% in the quarter.

Scotts Miracle-Gro and NextEra Energy were the largest detractors from performance.

> Lawn and garden products provider Scotts Miracle-Gro underperformed as spiking commodity prices threatened margins, though management reported record Q2 results and increased fiscal 2021 guidance.

> Shares of clean energy leader and electric utility NextEra Energy fell on concerns that inflation will negatively impact renewables' input costs and the Federal Reserve's suggestion that interest rates might rise faster than previously expected.

PORTFOLIO CHANGES

Notable new holdings include Scotts Miracle-Gro and EOG Resources, while the team exited Motorola Solutions and Avery Dennison.

> A recent share price dip offered a favorable entry point into Scotts Miracle-Gro. Management has a history of growing the dividend, and company fundamentals were deemed favorable when we initiated a position.

> The team purchased shares of EOG Resources due in part to attractive valuations. The oil & gas exploration & production company is positioned to benefit from rising oil prices.

> Motorola Solutions has performed well of late, and the shares were sold after valuations reached less favorable levels.

> The position in Avery Dennison was sold, in part due to rising valuations, and proceeds from the sale were redeployed into Scotts Miracle-Gro.

OUTLOOK

Consumers and companies coming out of the COVID-19 recession are positioned to rebound more strongly than they did in 2009 following the Great Recession. U.S. household debt service is the lowest it has been in decades. The share of fully vaccinated U.S. adults now exceeds 50%, with vaccines doing as much to boost the economy as any level of stimulus. June's payroll report was solid, and consumer confidence is the strongest it has been since before the pandemic. Capital spending is poised to sustain growth, as companies increased machinery and software orders amid the largest monetary and fiscal response witnessed during a U.S. recession. The M2 money supply (total amount of dollars held by the public) is up 30% from the beginning of 2020, and the total fiscal response of roughly $5 trillion dwarfs the $830 billion spent in 2007-09. These efforts have led to a V-shaped rebound, putting the economy on pace to exceed its projected path—had the pandemic never occurred—by the end of 2021.

Still, is it possible to have too much good news? There are nascent signs that the recovery risks overheating. The latest headline figures indicate 5% inflation, with core inflation at nearly 4%. Inflation expectations for the next five years are up to 2.8%. Some of this surge can be explained by base effects and supply chain bottlenecks. Recent Fed statements suggest these price jumps are temporary, as many long-term secular forces that have led to years of price stability will persist long after short-term issues fade. However, markets may take a different view, given expected timing for initial rate hikes has shifted forward and longer-term rates have declined.

Interestingly, inflation usually begins to heat up at the end of an expansion. This suggests we may be later in this cycle than many pundits are predicting. Given these conditions, we still find the risk-reward positive for equities, with the equity risk premium nearly twice its long-term average. Within equities, the valuation gap between growth and value remains extreme. That said, high-beta names may be past their leadership peak as quality cyclicals with stronger fundamentals appear increasingly well positioned. Should inflation prove stickier than the market expects, sustainable and growing dividends represent shorter duration plays, while companies with pricing power appear increasingly attractive in what we expect will be a stock picker's market.

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

NFJ Investment Group, LLC

PORTFOLIO MANAGERS

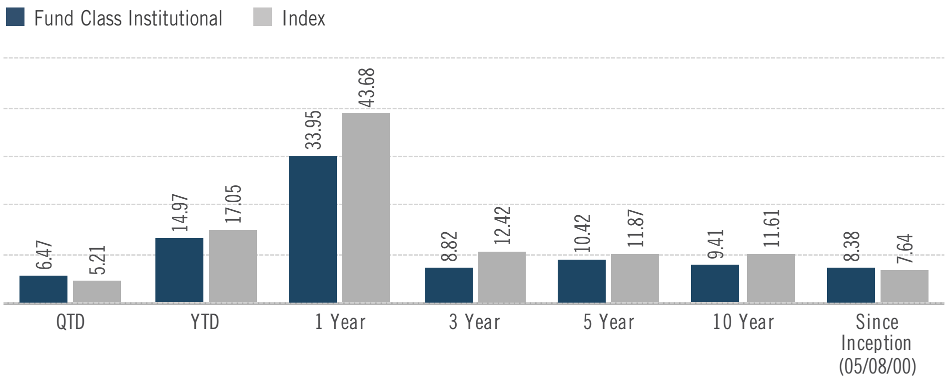
R. Burns McKinney, CFA
Industry start date: 1996
Start date as Fund Portfolio Manager: 2007

Thomas Oliver, CFA, CPA
Industry start date: 1995
Start date as Fund Portfolio Manager: 2006

Jeff N. Reed, CFA
Industry start date: 2004
Start date as Fund Portfolio Manager: 2011

John R. Mowrey, CFA
Industry start date: 2007
Start date as Fund Portfolio Manager: 2015

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/21



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 0.73%. The net expense ratio is 0.70%, which reflects a contractual expense reimbursement in effect through 2/1/2023.

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 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest 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 TEN HOLDINGS	% Fund
JPMorgan Chase & Co.	4.69
American Tower Corp.	4.45
Home Depot, Inc.	3.84
Lockheed Martin Corp.	3.72
Allstate Corp.	3.44
Broadcom Inc.	2.96
Norfolk Southern Corp.	2.70
NextEra Energy, Inc.	2.70
Thermo Fisher Scientific Inc.	2.64
CoreSite Realty Corp.	2.62

Holdings are subject to change.

TOP FIVE CONTRIBUTORS	% Contribution
American Tower Corp.	0.56
Allstate Corp.	0.46
CoreSite Realty Corp.	0.31
Microsoft Corp.	0.28
MSCI Inc.	0.27

TOP FIVE DETRACTORS	% Contribution
Scotts Miracle-Gro Co.	-0.07
NextEra Energy, Inc.	-0.07
Abbott Laboratories	-0.05
WEC Energy Group Inc.	-0.05
Atmos Energy Corp.	-0.05

% Contribution: Absolute weighted contribution.

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

Notes on Risk: Market Volatility: Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's 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 or medium-sized companies may enhance that risk. **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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