Virtus NFJ Small-Cap Value Fund

A: PCVAX (92837Q108) | ADMIN: PVADX (92837Q702)
C: PCVCX (92837Q207) | INST: PSVIX (92837Q603) | P: ASVPX (92837Q504) | R6: ANFVX (92837Q405)

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 communications services sector rose an astonishing 54% in the Russell 2000® Value Index, followed by a 20% gain from energy and an 8% appreciation from REITs. In contrast, returns for the consumer staples, utilities, and financials sectors sunk into negative territory for the quarter.

FUND PERFORMANCE

The Fund returned 1.52% (Class I) in the quarter, compared to the Russell 2000® Value Index, which returned 4.56%. Stock selection detracted from results as highly speculative meme stocks led Index returns and the Fund's higher-quality holdings failed to keep pace with benchmark shares. Sector allocation also detracted due to underweight positions in the best-performing sectors over the period.

Apollo Commercial Real Estate Finance and AllianceBernstein were the largest contributors to performance over the quarter.

> Apollo Commercial Real Estate Finance reported quarterly results ahead of consensus estimates, boosted by higher-than-anticipated net interest income.

> Investment manager AllianceBernstein benefited from market appreciation and strong flows, which contributed to AUM growth across institutional and retail channels.

Homebuilders M.D.C. Holdings and KB Home were the largest detractors from performance over the quarter.

> M.D.C. Holdings' Q1 earnings exceeded analysts' estimates in a quarter when homebuilder stocks generally declined. The company's robust results were driven in part by 49% year-over-year sales growth and higher gross margin.

> While KB Home's fiscal Q2 earnings skyrocketed 173% year-over-year and order backlog surged 126% year-over-year, besting analysts' expectations, the company's net revenue fell short of consensus.

PORTFOLIO CHANGES

Notable new holdings include ePlus and AudioCodes, while the team exited Science Applications International and Bruker.

> The team determined relative valuations were favorable when purchasing shares of ePlus. The packaged software company also appears committed to returning value to shareholders, authorizing a share repurchase program earlier in the year.

> AudioCodes provides communications software, products, and productivity solutions for the digital workplace. Company management hiked the semi-annual dividend in February 2021 and fundamentals were deemed attractive at time of purchase.

> Organic growth for Science Applications International has lagged in part due to COVID-related headwinds, and the team sold its shares to invest in opportunities elsewhere.

> After a recent run-up in share price, the team exited its position in life sciences and diagnostic tools company Bruker.

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

PORTFOLIO MANAGERS

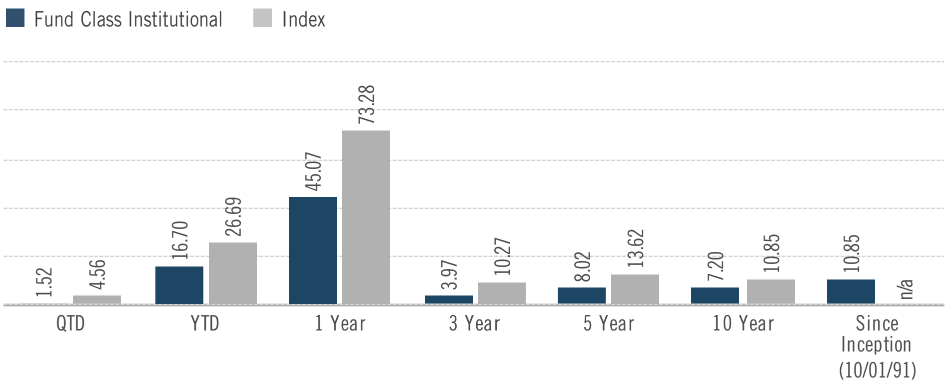
Paul A. Magnuson
Industry start date: 1985
Start date as Fund Portfolio Manager: 1995

John R. Mowrey, CFA
Industry start date: 2007
Start date as Fund Portfolio Manager: 2013

Jeff N. Reed, CFA
Industry start date: 2004
Start date as Fund Portfolio Manager: 2018

J. Garth Reilly
Industry start date: 2005
Start date as Fund Portfolio Manager: 2020

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 0.88%. The net expense ratio is 0.83%, which reflects a contractual expense reimbursement in effect through 2/1/2023. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 0.82%.

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 TEN HOLDINGS	% Fund
CoreSite Realty Corp.	2.04
ONE Gas, Inc.	2.04
Community Bank System, Inc.	1.90
Blackstone Mortgage Trust, Inc.	1.79
KB Home	1.68
Apollo Commercial Real Estate Finance, Inc.	1.65
M.D.C. Holdings, Inc.	1.60
South State Corp.	1.42
Spire Inc.	1.37
National Health Investors, Inc.	1.17

Holdings are subject to change.

TOP FIVE CONTRIBUTORS	% Contribution
Apollo Commercial Real Estate Finance, Inc.	0.25
AllianceBernstein Holding L.P.	0.22
CoreSite Realty Corp.	0.22
Houlihan Lokey, Inc.	0.22
Acushnet Holdings Corp.	0.18

TOP FIVE DETRACTORS	% Contribution
M.D.C. Holdings, Inc.	-0.26
KB Home	-0.22
SkyWest, Inc.	-0.18
Lumentum Holdings, Inc.	-0.13
ePlus Inc.	-0.13

% 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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