

Virtus NFJ Mid-Cap Value Fund

A: PQNAX (92837N279) | ADMIN: PRAAX (92837N212)
C: PQNCX (92837N261) | INST: PRNIX (92837N220) | P: ANRPX (92837N238) | R6: ANPRX (92837N246)

MARKET REVIEW

The third quarter challenged U.S. equity markets, as interest rate spikes, an inverted yield curve, and credit tightening drove equity risk premiums upward and stock valuations downward. Adding to the uncertainty, Federal Reserve (Fed) policymakers indicated the fed funds rate may stay higher for longer into 2024, boding poorly for risk assets. Within the benchmark Russell Midcap® Value Index, just two sectors—financials and energy—generated positive returns for the quarter. In contrast, communication services slumped double digits, followed by weakness from the healthcare, consumer staples, and real estate sectors.

FUND PERFORMANCE

The Virtus NFJ Mid-Cap Value Fund returned -4.72% (Class INST) in the quarter, compared to the Russell Midcap Value Index, which returned -4.46%. Performance results were driven by poor sector allocation, which offset positive stock selection.

Sirius XM and Ovintiv were the largest contributors to performance in the quarter.

> Shares of satellite radio operator Sirius XM rose precipitously in mid-July, possibly due to a combination of factors, including short-sale covering, unwinding of a spread trade involving Liberty SiriusXM, and the purchasing of shares related to the rebalancing of the Nasdaq-100 Index. We exited the position after valuations reached less favorable levels.

> Oil and gas exploration and production company Ovintiv reported better-than-expected earnings and free cash flow due in part to productivity gains.

ENN Energy and Eversource Energy were the largest detractors from performance in the quarter.

> ENN Energy is a non-state-owned gas distributor in China that operates gas pipeline infrastructure. The company reported lower-than-expected core profit for the first half of 2023 due in part to a weak economic recovery. Management also announced a share award program for employees to foster an ownership mindset, as well as plans for a controlling shareholder to increase their position in the stock as a show of confidence in ENN's current strength and future prospects. We added to this high-conviction position during the quarter.

> Electric utility Eversource Energy reported adjusted earnings for the second quarter that exceeded consensus estimates, and management reiterated guidance for the full year 2023. However, negative sentiment for the broader utilities sector negatively impacted shares. We added to the position on increasingly attractive valuations during the quarter.

PORTFOLIO CHANGES

During the quarter, the investment team added to positions in ENN Energy and Eversource Energy and exited the position in Sirius XM (all noted above). The team also harvested gains and sold out of Global Payments. The payment technology and software solutions provider delivered solid results in the quarter, and management raised the low end of revenue and adjusted earnings guidance for 2023 due in part to an improving macro backdrop.

OUTLOOK

The most widely predicted recession in decades has yet to materialize, as the economy continues to stay afloat. The labor market has proved remarkably resilient, and consumers and companies still have excess cash from various stimulus programs. It is also possible that dislocations caused by the pandemic already caused different economic segments to undergo recessions at different times. These “rolling recessions” may have less impact when compared against a single, significant downturn. Given this backdrop, the U.S. may experience a general recession in the coming year, but it might not be as severe as recessions past.

Inflation figures are slowing significantly, and without the economic slowdown that many believe is necessary—the consummate “Goldilocks” scenario (not too hot, not too cold). Furthermore, the largest driver of the most recent Consumer Price Index (CPI) reports has been housing, and real-time data on shelter costs have been rolling over as well. The latest CPI showed 3.7% annualized inflation. As this figure continues to drop, central bank policymakers may find themselves near the end of the current tightening cycle. That said, the Fed's latest meeting indicated it may be some time before rate cuts take place. This fact, on top of market concern for rising deficits and political dysfunction, has resulted in Treasury yields surging to 16-year highs. If anything were to “break” the economic expansion, this tightening of credit offers the greatest risk.

Irrespective of recession predictions, we believe U.S. stocks are fairly rich at today's prices. The S&P 500® Index currently trades at 19.4 times forward earnings, suggesting that a soft landing may already be priced in, leaving the risk-reward skewed somewhat to the downside. Furthermore, the “there is no alternative” narrative of recent years espousing stocks as investors' only option for returns has weakened considerably. With risk-free government bonds yielding nearly 5%, the equity risk premium is now below its 40-year average, suggesting that investors do have viable alternatives. Within equities, the prospect of elevated interest rates over an extended period suggests more speculative growth areas may face headwinds, making the case for value stocks in investor portfolios.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

NFJ Investment Group, LLC

PORTFOLIO MANAGERS



Paul A. Magnuson
 Industry start date: 1985
 Start date as Fund Portfolio Manager: 2009



John R. Mowrey, CFA
 Industry start date: 2007
 Start date as Fund Portfolio Manager: 2014



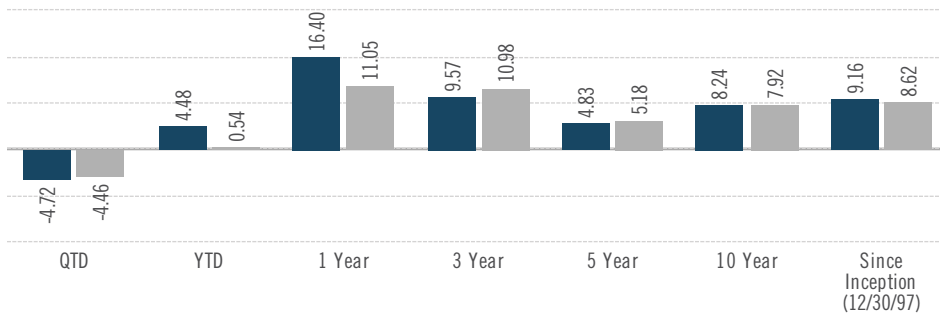
Jeff N. Reed, CFA
 Industry start date: 2004
 Start date as Fund Portfolio Manager: 2011



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

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

■ Fund Class INST ■ 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 0.80%. The net expense ratio is 0.65%, which reflects a contractual expense reimbursement in effect through 10/31/2023.

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 Midcap® Value Index** is a market capitalization-weighted index of medium-capitalization, value-oriented stocks of 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

Holdings	% Fund
MonotaRO Co. Ltd.	2.11
Truist Financial Corp.	2.08
Ovintiv Inc.	2.07
The PNC Financial Services Group Inc.	2.04
Rexford Industrial Realty Inc.	1.99
Cogeco Communications Inc.	1.99
Alexandria Real Estate Equities Inc.	1.98
US Bancorp	1.95
Eversource Energy	1.95
Nice Ltd.	1.93

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Sirius XM Holdings, Inc.	0.51
Ovintiv Inc.	0.50
HF Sinclair Corp.	0.30
Paylocity Holding Corp.	0.23
Global Payments Inc.	0.23

TOP FIVE DETRACTORS % Contribution

ENN Energy Holdings Ltd.	-0.46
Eversource Energy	-0.37
MonotaRO Co. Ltd.	-0.37
Nice Ltd.	-0.34
Edwards Lifesciences Corp.	-0.34

% Contribution: Absolute weighted contribution.

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

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 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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