

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

U.S. equities surged in the fourth quarter, buoyed by softening inflation, fading calls for recession, and the prospect of interest rate cuts in 2024. Market breadth widened, and small-capitalization companies generally outpaced their larger-capitalization counterparts over the period. Within the benchmark Russell Midcap® Value Index, six of eleven sectors appreciated double digits, led by robust gains from financials, real estate, consumer discretionary, and industrials companies. In contrast, energy was flat for the quarter, followed by relative weakness from the consumer staples and healthcare sectors.

FUND PERFORMANCE

The Virtus NFJ Mid-Cap Value Fund returned 11.65% (Class INST) in the quarter, underperforming the Russell Midcap Value Index, which returned 12.11%. Performance results were driven by negative stock selection, which offset positive sector allocation.

U.S. Bancorp and Truist Financial were the largest contributors to performance in the quarter.

- > Minneapolis-based U.S. Bancorp reported strong third quarter interest income and better-than-expected revenue, benefiting in part from higher interest rates and the recent acquisition of MUFG Union Bank. Management also hiked the quarterly dividend by 2.1%.
- > Truist Financial announced plans to sell its insurance-brokerage business to private-equity firm Stone Point Capital for \$10 billion. Additionally, the bank reported quarterly core earnings per share ahead of consensus estimates and solid net interest income.

Cogeco Communications and Li Ning were the largest detractors from performance in the quarter.

- > Management for Cogeco Communications increased the quarterly dividend by 10.1%. However, shares for the internet services provider declined after Rogers Communications announced it will sell its subordinate voting shares in both parent company Cogeco Inc. and Cogeco Communications to Quebec's provincial pension plan manager for C\$829 million. We exited the position during the quarter.
- > China-based sports apparel brand Li Ning reported weak retail sales growth for the prior quarter, and markets reacted negatively to news that the company will purchase a Hong Kong office building for HK\$2.21 billion (US\$283 million). Management announced a HK\$3B share repurchase program, as well as plans to destock its inventory to support better growth prospects in fiscal 2024.

PORTFOLIO CHANGES

In addition to the Cogeco Communications trade previously discussed, the investment team also exited solar and battery systems provider Enphase Energy after the company issued weaker-than-expected quarterly revenue guidance on softening demand and channel inventory destocking.

The team took advantage of an attractive entry point to add to an existing position in Edwards Lifesciences, the global leader in patient-focused medical innovations for structural heart disease and critical care monitoring. The company reported in-line quarterly results, and markets largely responded favorably to the company's recent investor day.

Stapan manufactures specialty and intermediate chemicals used across multiple industries and applications, including disinfection, agricultural, and oilfield solutions, as well as foam insulation. Management recently approved a 2.7% increase to the quarterly dividend, and the team added to the position during the quarter.

OUTLOOK

In the face of falling inflation, the Federal Reserve (Fed) announced the end of its current rate hike cycle and forecasted the possibility of interest rate cuts in 2024. This backdrop, along with the possibility of a soft economic landing, helped propel equities higher in the last quarter of 2023 and lent optimism going into 2024.

Although 2023 may invariably be remembered as the year that the "Magnificent Seven" mega-cap technology stocks and generative AI dominated market returns, many sectors that lagged "growthier" tech began to rally in the fourth quarter. These included small caps, financials, and interest-rate-sensitive areas such as REITs.

We expect this increased breadth driving returns to continue into the new year, given that many equities (apart from the "Magnificent Seven") have delivered essentially flat performance results over the past two years. Further, valuation spreads for the Russell 2000® and S&P 500® Indexes are near their widest levels in over 20 years. We believe this creates an attractive environment for savvy stock pickers to generate relative outperformance over the year ahead.

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



Kris P. Marca, CFA
 Industry start date: 2003
 Start date as Fund Portfolio Manager: 2023

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/30/97)
Fund Class INST	11.65	16.65	16.65	8.76	11.02	8.33	9.53
Index	12.11	12.71	12.71	8.36	11.16	8.26	9.01

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 0.82%. The net expense ratio is 0.65%, which reflects a contractual expense reimbursement in effect through 10/31/2024.

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 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

	% Fund
Truist Financial Corp.	2.09
Stepan Co.	2.02
Edwards Lifesciences Corp.	2.00
Rexford Industrial Realty Inc.	1.99
The PNC Financial Services Group Inc.	1.98
UGI Corp.	1.95
U.S. Bancorp	1.94
Eversource Energy	1.94
Alexandria Real Estate Equities Inc.	1.93
Tyson Foods Inc.	1.86

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

U.S. Bancorp	0.58
Truist Financial Corp.	0.58
Alexandria Real Estate Equities Inc.	0.55
Stepan Co.	0.52
The PNC Financial Services Group Inc.	0.51

TOP FIVE DETRACTORS % Contribution

Cogeco Communications Inc.	-0.37
Li Ning Co. Ltd.	-0.30
Paycom Software Inc.	-0.29
Fox Factory Holding Corp.	-0.26
Enphase Energy Inc.	-0.21

% 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.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

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