

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 entered bear market territory in the second quarter as the market posted its worst first half since 1970. The Federal Reserve (Fed) enacted its biggest hikes in nearly 30 years with hopes of reining in blistering inflation. Value and quality stocks generally led against this volatile backdrop. In the Russell Midcap® Value Index, more defensive sectors like utilities, consumer staples, and healthcare held up on the downside, as well as energy, boosted by continued supply side pressures. Conversely, more cyclical areas of the market, including communication services, technology, and materials, slumped double digits amid recession fears.

FUND PERFORMANCE

The Virtus NFJ Mid-Cap Value Fund returned -11.02% (Class I) in the quarter, compared to the Russell Midcap Value Index, which returned -14.68%. Strong stock selection drove relative outperformance while sector allocations modestly detracted from returns.

Naspers and Valero Energy were the largest contributors to performance over the quarter.

- > Investors cheered news that internet company Naspers would slowly sell some of its 29% stake in Chinese internet giant Tencent and return the cash to shareholders.
- > Refiners like Valero Energy have performed well in the post-COVID demand recovery, especially after closures in 2020 reduced capacity, leading to record crack spreads, aka the price difference between a barrel of crude oil and the petroleum products refined from that barrel.

Stanley Black & Decker and State Street were the largest detractors from performance over the quarter.

- > Shares of Stanley Black & Decker came under pressure amid near-term challenges, including rising inflation and headwinds from Russia. That said, the tool & hardware manufacturer grew revenue by 20% in Q1 and has planned several divestitures, including the sale of its security business, in part to support its \$4 billion share repurchase program.
- > State Street reported Q1 results ahead of consensus, and management announced plans to increase the quarterly dividend by 10.5%, subject to board approval. That said, analysts generally reduced their price targets for the name amid the challenging economic environment, and shares trended downward.

PORTFOLIO CHANGES

Notable portfolio changes during the quarter included the purchase of First Interstate BancSystem and Vonovia, and reduced exposure among utilities.

- > The investment team took advantage of a favorable entry point to purchase shares of First Interstate BancSystem. The community bank successfully converted all Great Western Bank locations to First Interstate Bank branches during the quarter and is poised to benefit from broadening its geographical coverage and an overall sound financial condition.
- > Vonovia is a real estate investment trust that manages, leases, and sells apartments throughout Germany. As a result of economic concerns throughout the European region from inflationary pressures, rising interest rates, and impacts from Russia's invasion of Ukraine, the investment team was able to purchase a high-quality company at attractive valuation levels. The company's fundamental strength and historical stable growth profile is expected to help it weather the current macro downdraft.
- > The sales of electric utility Sempra Energy and natural gas distributor Atmos Energy were largely premised on elevated valuations.

OUTLOOK

Concerns for rising recession odds and when it may strike have topped investors' wall of worries, particularly given the Fed's poor track record of engineering soft landings (11 of the past 14 rate-hike cycles resulted in recession). That said, with the job market still tight and monetary policy still relatively loose, recession appears more likely in 2023 as opposed to 2022. Interestingly, with stocks down 20% or more year to date, much of a potential future downturn may be priced in—making equities' risk-reward profile begin to appear more favorable.

Looking ahead, we continue to monitor inflationary pressures and earnings estimates as both have the potential to impact investors' future returns. Though we are proponents of remaining fully invested, rather than attempting to time the market, we believe there are biases within the market that investors can opportunistically take advantage of. First, with volatility likely to increase, quality becomes increasingly important. Second, rising inflation highlights the importance of income and income growth. We believe companies with a history of paying and raising dividends, particularly businesses that can generate significant free cash flow, will be critical to rewarding shareholders. In our view, NFJ strategies, which emphasize attractive valuations and quality characteristics, as well as market-exceeding dividend growth, should be well positioned in such an environment.

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



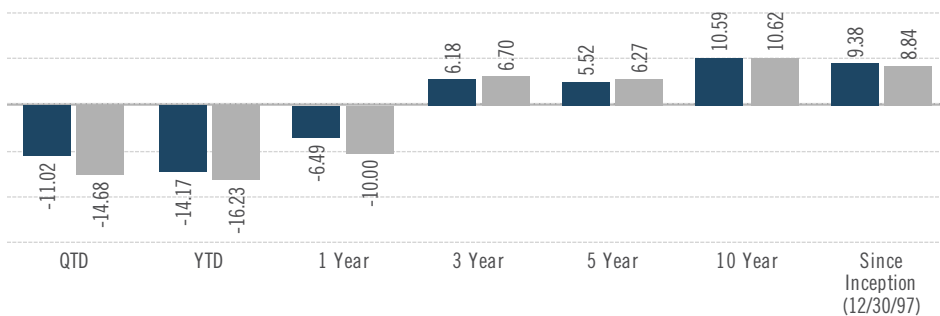
Jeff N. Reed, CFA
 Industry start date: 2004
 Start date as Fund Portfolio Manager: 2011



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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/22

■ Fund Class Institutional ■ 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 0.82%. The net expense ratio is 0.65%, which reflects a contractual expense reimbursement in effect through 9/20/2023.

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

% Fund

Alexandria Real Estate Equities, Inc.	2.10
Veeva Systems Inc. Class A	2.05
Stanley Black & Decker, Inc.	1.97
Vonovia SE Shs Un-sponsored American Depository Receipt Repr 1/2 Sh	1.82
First Interstate BancSystem, Inc. Class A	1.63
First Republic Bank	1.51
Naspers Ltd. Sponsored ADR Class N	1.51
Teleflex Inc.	1.47
Lam Research Corp.	1.47
State Street Corp.	1.40

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Naspers Ltd.	0.32
Valero Energy Corp.	0.18
First Interstate BancSystem Inc.	0.13
Dollar General Corp.	0.11
Reinsurance Group of America Inc.	0.07

TOP FIVE DETRACTORS % Contribution

Stanley Black & Decker Inc.	-0.50
State Street Corp.	-0.36
Teleflex Inc.	-0.32
Skyworks Solutions Inc.	-0.32
Lam Research Corp.	-0.28

% 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. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the fund and its investments, including hampering the ability of the fund's 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.

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