VIRTUS FUNDS

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

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 Midcap® Value Index, followed by strength from healthcare and materials. In contrast, utilities, consumer staples, and communication services were the quarter's weakest-performing sectors.

FUND PERFORMANCE

The Fund returned 6.63% (Class I) in the quarter, compared to the Russell Midcap Value Index, which returned 5.66%. Strong stock selection across the healthcare and financials sectors drove outperformance. Gains were modestly offset by negative stock selection within materials and utilities. Sector allocation marginally detracted due to an underweight in energy, while an underweight in communication services made a positive contribution.

ResMed and Roper Technologies were the largest contributors to performance over the quarter.

> ResMed offers cloud-connected medical and respiratory devices for conditions such as sleep apnea and chronic obstructive pulmonary disease and is well positioned to take advantage of structural trends in respiratory and digital health. Demand for ResMed's products increased after a key competitor issued a voluntary recall of some potentially defective devices.

> Roper Technologies reported above-consensus Q1 adjusted EPS, and management increased 2021 guidance. The diversified technology company boasted recurring revenue growth in Q1, driven by strong renewals and software-as-a-service adoption trends within the application software business.

Mercury Systems and Scotts Miracle-Gro were the largest detractors from performance over the quarter.

> Despite estimate-beating fiscal Q3 results, aerospace & defense company Mercury Systems' shares slumped after management lowered FY2021 guidance due in part to timing and program execution challenges. The company's pipeline remains compelling at ~$9 billion, and bookings are expected to increase by fiscal Q4.

> 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.

PORTFOLIO CHANGES

Notable new holdings include Citizens Financial Group and ViacomCBS, while the team exited LPL Financial and Lincoln National.

> Regional bank Citizens Financial Group is supported by strong fundamentals and was trading at attractive multiples when we initiated a position.

> ViacomCBS' TV and streaming business and history of dividend growth, as well as recent M&A activity within the media industry, make this a compelling opportunity. The team initiated a position after the shares stabilized coming out of a volatile Q1.

> LPL Financial's shares generally appreciated in Q1 and were sold in Q2 as the valuation was no longer deemed attractive.

> Stock gains for insurer Lincoln National were largely positive in the first half, and the team exited its position on less favorable valuation considerations.

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.

Q2 21 Virtus NFJ Mid-Cap Value Fund
QUARTERLY COMMENTARY

INVESTMENT ADVISER

Virtus Fund Advisers, LLC

INVESTMENT SUBADVISER

NFJ Investment Group

PORTFOLIO MANAGERS

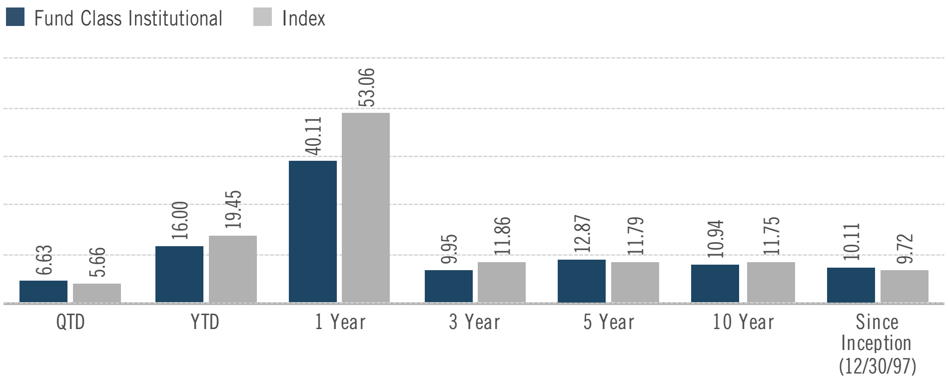
Paul A. Magnuson
Industry start date: 1985
Start date as Fund Portfolio Manager: 2009

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 06/30/21



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 0.80%. The net expense ratio is 0.65%, 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 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
Teradyne, Inc.	1.97
Mercury Systems, Inc.	1.71
Atmos Energy Corp.	1.64
American Tower Corp.	1.63
PulteGroup, Inc.	1.61
Roper Technologies, Inc.	1.47
Xcel Energy Inc.	1.44
Royal Gold, Inc.	1.32
Allstate Corp.	1.26
Eversource Energy	1.18

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
ResMed Inc.	0.26
Roper Technologies, Inc.	0.23
Discover Financial Services	0.23
IQVIA Holdings Inc.	0.22
American Tower Corp.	0.21

TOP FIVE DETRACTORS

	% Contribution
Mercury Systems, Inc.	-0.14
Scotts Miracle-Gro Co.	-0.09
Reinsurance Group of America, Inc.	-0.08
Hewlett Packard Enterprise Co.	-0.08
Eversource Energy	-0.07

% 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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