

## 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 first quarter as the highest momentum companies posted one of the strongest quarters in over two decades, possibly due to the return of investors who had moved to the sidelines in 2023. Additionally, sticky inflation concerns pushed back investor expectations for the timing and number of interest rate cuts, negatively impacting more rate-sensitive areas of the market. Within the benchmark Russell Midcap® Value Index, the industrials, energy, and financials sectors led with double digits. In contrast, the communication services and real estate sectors slumped into negative territory, followed by relative weakness from healthcare, technology, and consumer staples.

### FUND PERFORMANCE

The Virtus NFJ Mid-Cap Value Fund returned 3.03% (Class INST) in the quarter, underperforming the Russell Midcap Value Index, which returned 8.23%. Performance results were driven by negative stock selection, though sector allocation also detracted, albeit to a lesser extent.

Edwards Lifesciences and Kaiser Aluminum were the largest contributors to performance in the quarter.

- > Edwards Lifesciences beat quarterly revenue expectations and announced earlier-than-anticipated approval of its EVOQUE tricuspid valve replacement system. The medical device company also continues to benefit from sustained demand for medical procedures previously delayed during the pandemic.
- > Kaiser Aluminum delivered solid quarterly results and benefited from strong demand within the aerospace industry in 2023.

Fox Factory and SBA Communications were the largest detractors from performance in the quarter.

- > Management for Fox Factory, which makes suspension components and systems for bicycle and commercial truck manufacturers, released weaker-than-expected sales and earnings guidance on softening demand for new bikes. Higher interest rates have also dampened demand for powersports vehicles, negatively impacting forecasts. The team exited the position.
- > While shares of tower REIT SBA Communications largely declined early in the quarter, the stock rallied somewhat following the release of its earnings results, which included above-consensus adjusted funds from operations per share. Further, management increased the quarterly dividend by approximately 15%.

### PORTFOLIO CHANGES

In addition to the previously mentioned sale of Fox Factory, the investment team exited electricity and natural gas utility Xcel Energy on fundamental concerns following news that the company's equipment may have sparked the Smokehouse Creek Fire in Texas during the quarter.

The team initiated a position in NextEra Energy, an electric utility and worldwide leader in renewable energy, due to attractive valuations and quality fundamentals. The company has a double-digit five-year dividend growth rate, and its renewable infrastructure is located in some of the country's most desirable wind and solar generation sites.

The team purchased property & casualty insurer Cincinnati Financial due in part to attractive valuations. Management has increased the dividend for 63 consecutive years, and the company's growth has exceeded the industry average.

### OUTLOOK

For the past year, inflation readings and their perceived impact on the Federal Reserve's (Fed) interest rate policy have been a primary driver of equity price performance. So far, inflation has disappointed in 2024 as prices continue to trend downward, though at a stubbornly slow pace. Markets began the year factoring in five to six quarter-point rate cuts from the Fed over the course of the year. Three months in, markets are wondering when the Fed might be able to ease, if at all. Yet stocks have continued their ascent despite these headwinds, suggesting recent gains have their foundation in solid economic growth and positive earnings results.

If the economy does experience a soft landing and avoids a recession this year, the S&P 500® Index could grow earnings by double digits in 2024 and 2025, providing support for a broader range of sectors. Importantly, this broadening of returns could have positive impacts for equities outside of the Magnificent Seven (Alphabet, Amazon.com, Apple, Meta, Microsoft, NVIDIA, Tesla), including mid- and small-cap names, as well as certain cyclical sectors such as energy, industrials, and financials.

While inflation continues to trend downward, economic growth remains stable, and earnings growth has held, lofty stock valuations have discounted the good news—and then some. The S&P 500 now trades at 22 times forward earnings and offers a paltry 1.4% dividend yield. While the stock market appears rich, it is also a broader “market of stocks,” providing opportunity for active investors to take advantage of specific areas and sectors that appear historically attractive. For example, the Russell 1000® Value Index lagged its growth counterpart last year by 31 percentage points.

Historically, coming out of years when growth has outperformed value by more than 25%, value went on to outperform growth by 16% the following year. This comes on the heels of a years-long cycle in which value has trailed growth for the past five- and ten-year periods. Further, while the Fed may eventually loosen monetary policy, bond yields are not expected to return to the ultra-low rates of years past. Without the tailwinds that have supported longer-duration growth stocks in the years since the 2008 global financial crisis, relative valuations may compress, offering a potential catalyst for the value investing style.

**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, FDP**  
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 3/31/24**

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/30/97)
Fund Class INST	3.03	3.03	14.52	6.80	8.83	8.38	9.56
Index	8.23	8.23	20.40	6.80	9.94	8.57	9.25

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](http://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](http://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
NextEra Energy Inc.	2.17
Truist Financial Corp.	2.06
Alexandria Real Estate Equities Inc.	2.04
Edwards Lifesciences Corp.	1.99
Veeva Systems Inc.	1.98
Eversource Energy	1.95
Stepan Co.	1.92
UGI Corp.	1.90
Rexford Industrial Realty Inc.	1.78
ENN Energy Holdings Ltd.	1.74

Holdings are subject to change.

**TOP FIVE CONTRIBUTORS % Contribution**

Edwards Lifesciences Corp.	0.49
Kaiser Aluminum Corp.	0.28
Target Corp.	0.24
Citigroup Inc.	0.23
Tronox Holdings PLC	0.22

**TOP FIVE DETRACTORS % Contribution**

Fox Factory Holding Corp.	-0.29
SBA Communications Corp.	-0.26
MarketAxess Holdings Inc.	-0.25
Xcel Energy Inc.	-0.25
Humana Inc.	-0.24

% 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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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