

## Virtus NFJ Emerging Markets Value Fund

A: AZMAX (92838V395) | C: AZMCX (92838V387) | INST: AZMIX (92838V361) | P: AZMPX (92838V379)

### MARKET REVIEW

Emerging markets (EM) equities largely rose in the fourth quarter as softer inflation and resilient economic growth boosted investor hopes of lower interest rates and a soft economic landing.

Regionally, Brazil, Taiwan, and South Korea were among the best-performing EM countries, while China and South Korea led declines. In the MSCI Emerging Markets Index, technology was the lead sector, rising 18%, followed by robust gains from utilities and financials. In contrast, real estate, communication services, and consumer discretionary were the weakest-performing sectors over the quarter.

### FUND PERFORMANCE

The Virtus NFJ Emerging Markets Value Fund returned 1.83% (Class INST) in the quarter, underperforming the MSCI Emerging Markets Index, which returned 7.86%. Stock selection drove relative underperformance, while regional allocation contributed and sector allocation marginally detracted over the period.

Taiwan Semiconductor Manufacturing and ASML were the largest contributors to performance over the quarter.

- > The world's largest contract chip manufacturer, Taiwan Semiconductor Manufacturing, reported better-than-expected quarterly results, benefiting in part from strong revenue mix and margins. Further, management expressed optimism for the near- to mid-term, characterizing 2024 as a "healthy growth year."
- > Netherlands-based semiconductor equipment company ASML beat quarterly earnings estimates. The company expects secular growth drivers, like the transition to renewable energy, electrification, and AI, will continue to buoy demand for advanced lithography tools.

Li Ning and ANTA Sports were the largest detractors from performance over 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\$2.2 billion. Management announced a HK\$3 billion share repurchase program, as well as plans to destock its inventory to support better growth prospects in fiscal 2024.
- > ANTA Sports reported steady sales growth in the quarter, and management for the China-based sporting goods retailer allocated HK\$1.2 billion for share repurchases within the company's employee incentive program. That said, negative sentiment for China negatively impacted shares during the quarter.

### PORTFOLIO CHANGES

During the quarter, the investment team exited the portfolio's position in Enphase Energy. The solar and battery systems provider issued weaker-than-expected fourth quarter revenue guidance on softening demand and channel inventory destocking.

Though China Merchants Bank's year-to-date fiscal 2023 results included solid net profit and loan growth, concerns for the country's economic recovery and China equities in general hurt the stock. We trimmed the position.

The team initiated a position in Alibaba, an innovative company with dominant positions in cloud computing, online grocery shopping, and remote work applications, due in part to compelling valuations.

Also, the team added to an existing position in HDFC Bank, India's largest private sector bank by balance sheet size, partially because of attractive valuations and strong fundamentals.

### OUTLOOK

Uncertainty remains elevated as international equity investors look to navigate 2024. First, geopolitical volatility continues on multiple fronts as the war in Ukraine approaches its third year, while the long-term impacts of conflict across Israel, Gaza, and the Middle East are unknown. With the invasion of Ukraine, one implication investors considered was a possible energy crisis. As the war has reached a stalemate, uncertainty has somewhat subsided, and oil and gas supplies continue to meet market demand. Now, conflict in the Middle East poses the latest threat to oil supply. However, the U.S. has become a more impactful oil producer, and the conflict has yet to disrupt production. Other investor impacts have included periodic risk-off moves for global equities, creating a cap on interest rates, as well as offering long-term support for defense sector names.

Another contributor to overseas investors' uncertainty is the implications of China's faltering economic reopening for its trade partners. At the start of 2023, stock pickers had high hopes for the reversal of lockdowns in China. Instead, consumer confidence sagged, and China's housing market remained in a downturn. Even with these struggles, China's economic growth remains solid compared to global peers, and policymakers have many tools to stimulate business and consumer spending. Today, the MSCI China Index trades at a 32% discount to its ten-year median price-to-earnings ratio, while the country's economic rebound continues at a choppy, but upward, trajectory.

After a year in which U.S. equities generally led international markets, the relative valuation discount on overseas stocks remains near all-time high levels. U.S. large-cap stocks, as measured by the S&P 500® Index, trade at 22 times (22x) forward earnings, large-cap international stocks, as measured by the MSCI All Country World Index (ACWI), trade at over 16x earnings, and the MSCI ACWI ex U.S. trades at just under 13x earnings. Emerging markets are even more discounted, with large- and mid-cap EM stocks, as measured by the MSCI Emerging Markets Index, trading under 12x earnings, and Chinese large- and mid-cap stocks, as measured by the MSCI China Index, trading at 9x earnings. While geopolitical conflicts pose increasing and/or unpredictable risks, we believe discounted companies that are able to provide strong balance sheets, predictable earnings, and grow return of cash flow to shareholders offer positive prospects in 2024.

### INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

### INVESTMENT SUBADVISER

NFJ Investment Group, LLC

### PORTFOLIO MANAGERS



**R. Burns McKinney, CFA**  
Industry start date: 1996  
Start date as Fund Portfolio Manager: 2012



**John R. Mowrey, CFA**  
Industry start date: 2007  
Start date as Fund Portfolio Manager: 2013



**Thomas Oliver, CFA, CPA**  
Industry start date: 1995  
Start date as Fund Portfolio Manager: 2012



**J. Garth Reilly**  
Industry start date: 2005  
Start date as Fund Portfolio Manager: 2018

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/18/12)
Fund Class INST	1.83	7.14	7.14	-7.41	3.48	2.76	2.97
Index	7.86	9.83	9.83	-5.08	3.69	2.66	2.25

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 1.40%. The net expense ratio is 0.89%, which reflects a contractual expense reimbursement in effect through 02/01/2025.

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 MSCI Emerging Markets Index (net) is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net 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
Taiwan Semiconductor Manufacturing Co. Ltd.	7.28
ENN Energy Holdings Ltd.	4.26
Li Ning Co. Ltd.	4.20
ANTA Sports Products Ltd.	3.99
ASML Holding NV	3.71
Tencent Holdings Ltd.	3.45
HDFC Bank Ltd.	3.29
MonotaRO Co. Ltd.	3.23
Nippon Paint Holdings Co. Ltd.	3.11
Luxshare Precision Industry Co. Ltd.	2.44

Holdings are subject to change.

### TOP FIVE CONTRIBUTORS % Contribution

Taiwan Semiconductor Manufacturing Co. Ltd.	1.27
ASML Holding NV	0.92
Luxshare Precision Industry Co. Ltd.	0.45
Anglo American Platinum Ltd.	0.39
Nippon Paint Holdings Co. Ltd.	0.32

### TOP 5 DETRACTORS % Contribution

Li Ning Co. Ltd.	-1.40
ANTA Sports Products Ltd.	-0.47
ENN Energy Holdings Ltd.	-0.47
China Merchants Bank Co. Ltd.	-0.39
Alibaba Group Holding Ltd.	-0.29

% 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, medium, or large-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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