VIRTUS FUNDS

Virtus Duff & Phelps Real Estate Securities Fund

A: PHRAX (92828R586) | C: PHRCX (92828R560) | I: PHRIX (92828R552) | R6: VRREX (92828W528)

MARKET REVIEW

During the initial quarter of 2024, the financial markets grappled with a confluence of factors, with the trajectory of interest rates serving as a focal point. This period marked a departure from the preceding quarter, where we saw interest rates move lower after hitting an intra-year peak. While 2023 witnessed a steady ascent in rates overall, the onset of 2024 introduced a mixed pattern, triggering both optimism and apprehension among investors.

The timing and magnitude of potential rate cuts came into focus, with economic updates increasingly supporting a later, softer rate cut trajectory as compared to market expectations at the start of the year. The potential stickiness of inflation underscores the challenges faced by policymakers in calibrating monetary policy and with respect to investors' expectations, which will likely weigh on the direction and level of volatility around interest rates over the remainder of this year.

Against this backdrop, the performance of capital-intensive sectors and bond prices was pressured lower. However, despite these challenges, the technology sector continued its trend, spearheading the rally in broader market indices. Publicly listed real estate performance reversed course to start the year, underperforming broader financial markets, following sector leadership in the fourth quarter of 2023.

Within real estate, specialty and regional mall REITs emerged as top performers, leveraging evolving consumer trends and the growing demand for niche property types. In contrast, the diversified and gaming REITs sectors underperformed on various constituents facing interest rate volatility and the potential that acquisitions or dispositions activity may be constrained by that volatility.

PORTFOLIO REVIEW

The Virtus Duff & Phelps Real Estate Securities Fund underperformed the benchmark during the quarter, with security selection and allocation weighing on performance. Given macroeconomic and fundamental crosscurrents, we had expected management teams to conservatively set earnings expectations for the year. However, a few key companies set expectations more conservatively in comparison to the peer set.

An underweight to the diversified sector, an overweight to data centers, and selection within the self-storage sector all contributed positively to performance. Conversely, security selection within the industrial sector was the largest detractor, followed by an overweight allocation to telecommunication REITs and selection within the apartment sector.

At the security selection level, our largest positive attribution contributors came from not owning Healthcare Realty Trust (HR), an overweight to Brixmor Property Group (BRX), and overweight positions in Sabra Healthcare (SBRA) and CubeSmart (CUBE).

The overweight to Ventas (VTR) was the portfolio's primary detractor, followed by overweight positions in Rexford Industrial Realty (REXR), Apartment Income REIT (AIRC), and Americold Realty (COLD).

INVESTMENT OUTLOOK

The Duff & Phelps Real Estate Securities Team expects global economic growth to slow in response to higher interest rates and quantitative tightening. Unlike last year, in 2024, we expect the Federal Reserve to lower rates to curtail economic landing risk surrounding the November presidential election, which in our view may benefit listed real estate.

Naturally, just as we expect the economy to slow, we expect listed real estate cash flow to remain positive yet decelerate across many property sectors, as companies absorb higher financial and operating costs. Quality and resiliency in the form of well-positioned balance sheets and sustainable growth in cash flow and dividends will likely be preferred by investors as we continue to face an uncertain economic environment.

Fundamentally, secular growth drivers should continue to benefit data centers and logistics. Within the U.S. healthcare property sector, senior housing operating properties and skilled nursing facilities will continue to see an improvement in occupancy, and pricing power should increase further in senior housing. Self-storage has been impacted by the moderation in housing turnover caused by higher interest rates and, in certain markets, a higher level of new supply, which is negatively impacting pricing for new customers. The residential apartments subsector in the U.S. is also in the process of digesting a significant amount of new supply over the next 12 to 18 months. The office property sector will likely remain one of the more challenging and controversial sectors.

Given the capital that has been raised by private equity sponsors on a global basis, the new year may see a pick-up in public-to-private M&A activity, particularly if debt availability and pricing improve and global listed real estate continues to trade at discounted valuations.

In our view, listed real estate has shown an ability to outperform following the end of a rising interest rate cycle and could be a beneficiary of lower rates. With an abundance of private capital on the sidelines and discounted pricing available via listed real estate, we see listed real estate as more attractive than private real estate.

As always, thank you for your continued support of our team and investment strategy.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Duff & Phelps Investment Management Co.

PORTFOLIO MANAGERS

Geoffrey P. Dybas, CFA
Industry start date: 1989
Start date as Fund Portfolio Manager: 1998

Frank J. Haggerty, Jr., CFA
Industry start date: 1996
Start date as Fund Portfolio Manager: 2007

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/29/06)
Fund Class I	-1.24	-1.24	6.54	3.36	5.27	6.76	5.18
Index	-0.20	-0.20	10.54	4.14	4.15	6.61	5.07

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 1.12%.

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 **FTSE Nareit Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market System.
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 it is not available for direct investment.

TOP TEN HOLDINGS

	% Fund
Prologis Inc.	11.16
Equinix Inc.	6.02
Welltower Inc.	5.63
Simon Property Group Inc.	4.90
Public Storage	4.89
AvalonBay Communities Inc.	4.88
Realty Income Corp.	4.71
Digital Realty Trust Inc.	4.60
Ventas Inc.	4.35
American Homes 4 Rent	3.74

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Simon Property Group Inc.	0.48
Digital Realty Trust Inc.	0.43
Iron Mountain Inc.	0.34
Welltower Inc.	0.21
Equinix Inc.	0.20

TOP FIVE DETRACTORS

	% Contribution
Ventas Inc.	-0.55
Rexford Industrial Realty Inc.	-0.37
VICI Properties Inc.	-0.29
Americold Realty Trust Inc.	-0.27
American Tower Corp.	-0.25

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

Notes on Risk: 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. **Real Estate:** The portfolio may be negatively affected by factors specific to the real estate market, including interest rates, leverage, property, and management. **Industry/Sector Concentration:** A portfolio that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated portfolio. **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. **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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