

Virtus NFJ Dividend Value Fund

A: PNEAX (92837N105) | ADMIN: ANDAX (92837N709)
C: PNECX (92837N204) | INST: NFJEX (92837N600) | P: ADJPX (92837N501) | R6: ANDVX (92837N402)

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 1000® Value Index, the energy, financials, and industrials sectors led with double digits. In contrast, the real estate sector slumped into negative territory, followed by relative weakness from utilities, healthcare, and consumer staples.

FUND PERFORMANCE

The Virtus NFJ Dividend Value Fund returned 3.27% (Class INST) in the quarter, compared to the Russell 1000 Value Index, which returned 8.99%. Performance results were driven by negative stock selection, though sector allocation also detracted over the quarter, albeit to a lesser degree.

Bank of America and Citigroup were the largest contributors to performance over the quarter.

- > Bank of America's quarterly non-GAAP earnings and net interest income were in line with analyst forecasts as the bank benefited from good loan demand and growth in deposits. CEO Brian Moynihan stated that he anticipates a soft landing for the economy, due in part to solid U.S. consumer activity.
- > While restructuring efforts and charges negatively impacted Citigroup's quarterly earnings, the bank reported revenue growth across its banking and services businesses and announced plans to cut costs by reducing approximately 10% of its workforce by the end of 2026.

Rexford Industrial Realty and Humana were the largest detractors from performance in the quarter.

- > Rexford Industrial Realty reported strong results for the quarter—including a 26% increase in consolidated net operating income—and raised the quarterly dividend by 10%. However, the industrial REIT's full-year 2024 guidance missed Wall Street's forecasts and disappointed investors.
- > Humana lowered its full-year 2023 earnings guidance on rising medical care costs and reduced Medicare Advantage enrollment growth in 2024. The investment team exited the position in the health insurance company on deteriorated fundamentals.

PORTFOLIO CHANGES

In addition to the previously mentioned sale of Humana, 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 established a position in Chevron, premised in part on attractive valuations and solid fundamentals. The oil and gas major plans to grow production, driven by improved cost efficiencies and the recent acquisition of Noble Energy. Further, management repurchased \$15 billion in shares in 2023.

The team added to an existing position in Walt Disney on compelling valuations and the fundamental strength of the media and entertainment company.

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



R. Burns McKinney, CFA
Industry start date: 1996
Start date as Fund Portfolio Manager: 2007



Thomas Oliver, CFA, CPA
Industry start date: 1995
Start date as Fund Portfolio Manager: 2006



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



John R. Mowrey, CFA
Industry start date: 2007
Start date as Fund Portfolio Manager: 2015

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (05/08/00)
Fund Class INST	3.27	3.27	20.15	8.45	8.76	7.28	8.19
Index	8.99	8.99	20.27	8.11	10.32	9.01	7.56

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 0.74%. The net expense ratio is 0.70%, 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 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest 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
Bank of America Corp.	4.40
Alexandria Real Estate Equities Inc.	4.24
Intuit Inc.	3.78
Rexford Industrial Realty Inc.	3.52
NextEra Energy Inc.	3.34
Eversource Energy	3.21
Agilent Technologies Inc.	3.16
Crown Castle Inc.	2.80
Thermo Fisher Scientific Inc.	2.46
The PNC Financial Services Group Inc.	2.17

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Bank of America Corp.	0.54
Citigroup Inc.	0.39
TransUnion	0.27
RB Global Inc.	0.27
Ball Corp.	0.26

TOP FIVE DETRACTORS

	% Contribution
Rexford Industrial Realty Inc.	-0.38
Humana Inc.	-0.34
MarketAxess Holdings Inc.	-0.31
Zoetis Inc.	-0.29
NIKE Inc.	-0.27

% 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 for a prospectus or summary prospectus. Read it carefully before investing.

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