

Virtus NFJ Small-Cap Value Fund

A: PCVAX (92837Q108) | ADMIN: PVADX (92837Q702)
C: PCVCX (92837Q207) | INST: PSVIX (92837Q603) | P: ASVPX (92837Q504) | R6: ANFVX (92837Q405)

MARKET REVIEW

U.S. equities surged in the first quarter as the highest momentum names 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 2000® Value Index, the energy sector led with double digits, followed by strength from healthcare, industrials, and materials. In contrast, the communication services, financials, consumer staples, real estate, and utilities sectors slumped into negative territory.

FUND PERFORMANCE

The Virtus NFJ Small-Cap Value Fund returned 0.66% (Class INST) in the quarter, underperforming the Russell 2000 Value Index, which returned 2.90%. Performance results were driven by negative stock selection, while sector allocation modestly contributed over the period.

Iovance Biotherapeutics and MKS Instruments were the largest contributors to performance over the quarter.

- > Shares of Iovance Biotherapeutics soared following the Food and Drug Administration granting accelerated approval for the biotechnology company's metastatic melanoma treatment.
- > Quarterly non-GAAP net earnings and net revenue for MKS Instruments bested consensus estimates, buoyed by better-than-expected semiconductor and electronics & packaging division sales.

Columbia Banking System and MarketAxess were the largest detractors from performance over the quarter.

- > Quarterly operating earnings for Columbia Banking System fell short of Wall Street's expectations, due in part to the bank holding company's lower net interest income and higher expenses.
- > Though electronic trading platform operator MarketAxess recorded an earnings beat and hiked its quarterly dividend by 2.8%, comments from management that market share may come under pressure amid near-term challenges disappointed investors.

PORTFOLIO CHANGES

The investment team took advantage of a compelling entry point to initiate a position in CONMED, a medical equipment manufacturer with attractive valuations and exposure to areas like global orthopedics that are expected to grow at above-market rates over the long term.

The team took advantage of favorable valuations to purchase shares of Chart Industries, a manufacturer of highly engineered cryogenic equipment with multiple applications across the industrial gas and clean energy markets. The company has attractive fundamentals and demonstrated strong earnings growth with an ability to generate robust free cash flows over time.

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.

The team also trimmed exposure to Genpact after management for the professional services firm reported better-than-expected results for the quarter and 2023.

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 by 31 percentage points last year.

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 (10/01/91) |
|-----------------|------|------|--------|--------|--------|---------|----------------------------|
| Fund Class INST | 0.66 | 0.66 | 19.05 | 4.26 | 6.74 | 4.79 | 10.26 |
| Index | 2.90 | 2.90 | 18.75 | 2.22 | 8.17 | 6.87 | n/a |

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 0.92%. The net expense ratio is 0.82%, 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 2000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 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 |
|---------------------------------|--------|
| Community Bank System Inc. | 2.01 |
| First Financial Bankshares Inc. | 2.01 |
| Stepan Co. | 1.91 |
| UGI Corp. | 1.86 |
| Rexford Industrial Realty Inc. | 1.81 |
| Addus HomeCare Corp. | 1.76 |
| Commerce Bancshares Inc. MO | 1.54 |
| MonotaRO Co. Ltd. | 1.50 |
| Terreno Realty Corp. | 1.49 |
| Globus Medical Inc. | 1.47 |

Holdings are subject to change.

| TOP FIVE CONTRIBUTORS | % Contribution |
|---------------------------------|----------------|
| Iovance Biotherapeutics Inc. | 0.38 |
| MKS Instruments Inc. | 0.34 |
| Kaiser Aluminum Corp. | 0.30 |
| Armstrong World Industries Inc. | 0.24 |
| Tronox Holdings PLC | 0.23 |

| TOP FIVE DETRACTORS | % Contribution |
|------------------------------|----------------|
| Columbia Banking System Inc. | -0.39 |
| MarketAxess Holdings Inc. | -0.37 |
| Fox Factory Holding Corp. | -0.31 |
| Cia Siderurgica Nacional SA | -0.21 |
| Malibu Boats Inc. | -0.20 |

% 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.

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