

Virtus KAR Mid-Cap Growth Fund

A: PHSKX (92828N767) | C: PSKCX (92828N742) | I: PICMX (92828N734) | R6: VRMGX (92828N254)

MARKET REVIEW

2023 proved to be an outstanding year for capital markets. At the start of the year, investors were braced for an imminent recession, but it never materialized, and the fourth quarter ended up being the strongest quarter of the year. Large-cap stocks, as measured by the S&P 500[®] Index, advanced 11.69% in the fourth quarter alone, bringing the year-to-date return to 26.29%. Large-cap growth stocks, as measured by the Russell 1000[®] Growth Index, gained 14.16% in the quarter, outperforming large-cap value stocks, as measured by the Russell 1000[®] Value Index, which returned 9.50%.

The “Magnificent Seven” mega-cap tech stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) were responsible for most of the outperformance by large-cap growth stocks during the year. However, market breadth started to improve in the fourth quarter, as small-cap stocks, as measured by the Russell 2000[®] Index, advanced 14.03% in the quarter. Falling interest rates, due to the continued improvement in the inflation outlook, was the principal reason that equities performed so well during the quarter.

FUND PERFORMANCE

During the quarter, the Virtus KAR Mid-Cap Growth Fund returned 9.73% (Class I), underperforming the Russell Midcap[®] Growth Index, which returned 14.55%. Stock selection and an overweight position in the consumer staples sector detracted from performance, along with stock selection in the consumer discretionary sector. Stock selection and an underweight position in the industrials sector contributed positively to performance, as did an underweight position in the materials sector.

Fair Isaac and Gartner were the largest contributors to performance during the quarter.

- > Shares of Fair Isaac (FICO) outperformed in the quarter as the data analytics and credit scoring company continued to produce strong financial results despite a weak loan origination market due to its ability to raise credit score pricing. Meanwhile, its software business continued to deliver on its land-and-expand strategy.
- > Research and consulting company Gartner’s subscription contract value is sold to what it calls “technology vendor clients.” These clients use the company to help select technology vendors. This is a high margin business for Gartner, as leads with the vendors are also often monetized. After decelerating for several quarters, technology vendor growth stabilized, and the company guided to a rebound. Additionally, the company, which had been in intense competition for talent with well-funded start-ups over the years, has recently seen

talent pressures abate and ramped up its sales team significantly. We believe these new sales representatives may add to sales momentum.

Paycom Software and BILL Holdings were the largest detractors from performance in the quarter.

- > Online payroll software company Paycom’s BETI product is a self-service payroll tool that allows employees to review pay for accuracy prior to running payroll, which helps reduce errors and saves human resources and accounting teams hours of labor each pay period. This quarter, the company missed revenue estimates due to errors that were occurring in BETI, which guided shares down for the year. Over time, we believe the company should be able to effectively monetize BETI, however, we trimmed our position due to the uncertainty of that timing as well as the general weakness across its customer base.
- > Financial automation software company BILL reported growth in both revenues and profitability over the past four quarters. However, macroeconomic headwinds facing its customer base of small-to-midsize businesses slowed transaction volume flowing through the company’s payment solutions. These economic challenges have also caused customers to trade down to lower-fee payment methods, leading the company to proactively limit credit lines to its customers. In the face of these headwinds, BILL’s shares underperformed.

PORTFOLIO CHANGES

During the quarter, we purchased beauty retailer Ulta Beauty for the portfolio. We sold casino and resort company Las Vegas Sands and analytical instrument company Waters.

OUTLOOK

With the Federal Reserve’s hiking cycle likely behind us and corporate earnings growth likely to resume, we believe 2024 should be a favorable year for equity returns. Coming into 2024, investor sentiment is nowhere near as negative as it was coming into 2023, but there is still plenty of cash on the sidelines built up over the last year. As short-term interest rates decline and the yield curve moves to flat, or even positively sloped, we believe this capital will make its way into fixed income and equity markets. From our perspective, returns in 2024 are unlikely to be as robust as they were in 2023 but are likely to be in line with earnings growth. We also expect that 2024 will experience more volatility due to the U.S. presidential election, which is likely to be contentious.

Related Reading: [Q4 KAR Market Review & Outlook](#)

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

PORTFOLIO MANAGERS



Douglas S. Foreman, CFA
Industry start date: 1986
Start date as Fund Portfolio Manager: 2012



Chris Armbruster, CFA
Industry start date: 2004
Start date as Fund Portfolio Manager: 2020



Noran Eid, CFA
Industry start date: 2006
Start date as Fund Portfolio Manager: 2023

TOP TEN HOLDINGS

% Fund

Celsius Holdings Inc.	6.90
Fair Isaac Corp.	6.57
Gartner Inc.	5.53
MercadoLibre Inc.	3.97
Amphenol Corp.	3.63
SiteOne Landscape Supply Inc.	3.32
Goosehead Insurance Inc.	3.18
Equifax Inc.	3.16
Pool Corp.	2.90
IDEXX Laboratories Inc.	2.82

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

% Contribution

Fair Isaac Corp.	1.81
Gartner Inc.	1.43
Equifax Inc.	0.90
MercadoLibre Inc.	0.83
IDEXX Laboratories Inc.	0.65

TOP FIVE DETRACTORS

% Contribution

Paycom Software Inc.	-0.85
BILL Holdings Inc.	-0.50
Celsius Holdings Inc.	-0.35
Lattice Semiconductor Corp.	-0.26
The Trade Desk Inc.	-0.26

% Contribution: Absolute weighted contribution.

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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (09/13/07)
Fund Class I	9.73	22.30	22.30	-6.11	14.34	11.91	8.74
Index	14.55	25.87	25.87	1.31	13.81	10.57	9.57

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 1.00%.

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® Growth Index** is a market capitalization-weighted index of medium capitalization, growth-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.

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. **Technology Concentration:** Because the portfolio is presently heavily weighted in the technology sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **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.

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