

Virtus KAR Mid-Cap Growth Fund

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

MARKET REVIEW

2022 was a very volatile and difficult year for equity and fixed income markets, with investors losing money in both asset classes for only the third time since 1926. Fortunately, the year ended on a positive note with U.S. large-cap stocks, as measured by the S&P 500® Index, rallying to a 7.56% return in the fourth quarter. Value stocks performed better than hard-hit growth stocks, with the Russell 1000® Value Index up 12.42% and the Russell 1000® Growth Index up 2.20% in the fourth quarter. Small-capitalization stocks, as measured by the Russell 2000® Index, returned 6.23% in the quarter, slightly underperforming U.S. large-cap stocks. Emerging market stocks, as measured by the MSCI Emerging Markets Index, outperformed U.S. large-cap stocks for the period, gaining 9.70%.

FUND PERFORMANCE

The Virtus KAR Mid-Cap Growth Fund returned 3.82% (Class I) in the quarter, underperforming the Russell Midcap® Growth Index, which returned 6.90%. Stock selection in the healthcare and consumer discretionary sectors detracted from performance, while stock selection in the industrials and consumer staples sectors contributed positively to performance.

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

- > Shares of analytics software company Fair Isaac traded in a relatively narrow range in 2022 (although better than most technology companies) but performed well when the company reported strong 2023 guidance. Setting higher-than-expected estimates for revenue and earnings, Fair Isaac noted its strong pricing power can offset weak volumes in mortgages and autos, as well as some volume gains from personal loan originations and new channels like myFICO.com.
- > Management consultant Gartner's business benefited from strong sales in its research and consulting business. Momentum also continued in its conferences business as people returned to in-person events following the pandemic. The broad-based strength prompted the company to raise guidance for the second time this year.

STAAR Surgical and The Trade Desk were the largest detractors from performance during the quarter.

- > China represents 55% of STAAR Surgical's revenue, which has continued to grow despite the impact of the country's zero-COVID policies. The next leg of growth for the manufacturer of implantable ophthalmic lenses is set to come from the U.S. where the EVO Visian lens was approved at the end of March 2022. Early datapoints for sales sent the stock higher over the summer, but growth plateaued in the third quarter and sellers erased all gains the stock made over the summer.
- > Despite reporting strong revenue growth and profitability, The Trade Desk's shares came under pressure due to concerns of a slowdown in advertising and negative market sentiment toward technology-related names. As one of the largest independent demand-side platforms (DSP) in the programmatic advertising space with high switching costs, the company's future remains bright in our view.

PORTFOLIO CHANGES

During the quarter, we purchased energy business Halliburton, casino and resort company Las Vegas Sands, semiconductor manufacturer Lattice Semiconductor, and restaurant management software business Toast. We sold lighting company Accuity Brands, fast casual restaurant chain Sweetgreen, and software and data company ZoomInfo Technologies.

OUTLOOK

The Federal Reserve's hawkish monetary policy combined with improving supply chain issues appear to be working in reducing the core inflation rate. Inflation concerns, however, have been replaced by impending recession fears in the market. We certainly have witnessed a growth slowdown over the last year, and we are likely to see a continued growth slowdown over the next six to 12 months. The stock market seems to be already pricing in a moderate recession for 2023. This has to be the most anticipated recession in the history of corporate America. This does not mean that a recession cannot occur, but it does suggest a hard landing is less probable. Recession fears will not disappear overnight so investors should expect continued volatility in 2023 and will need to be patient. Additionally, the top-heavy S&P 500 companies—MAMAA (Meta, Apple, Microsoft, Amazon, and Alphabet) in particular—are having significant fundamental growth issues, which has not been the case since 2008. In our view, this may bode well for many small- and medium-sized companies, which can continue to grow in a lackluster economic environment.

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

TOP TEN HOLDINGS

	% Fund
Celsius Holdings Inc.	5.13
Gartner Inc.	4.82
SiteOne Landscape Supply Inc.	4.07
Fair Isaac Corp.	3.95
Paycom Software Inc.	3.71
Mettler-Toledo International Inc.	3.56
Amphenol Corp.	3.26
Equifax Inc.	2.91
Brown-Forman Corp.	2.76
Ross Stores Inc.	2.76

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Fair Isaac Corp.	1.64
Gartner Inc.	0.93
Mettler-Toledo International Inc.	0.91
Ross Stores Inc.	0.78
Celsius Holdings Inc.	0.68

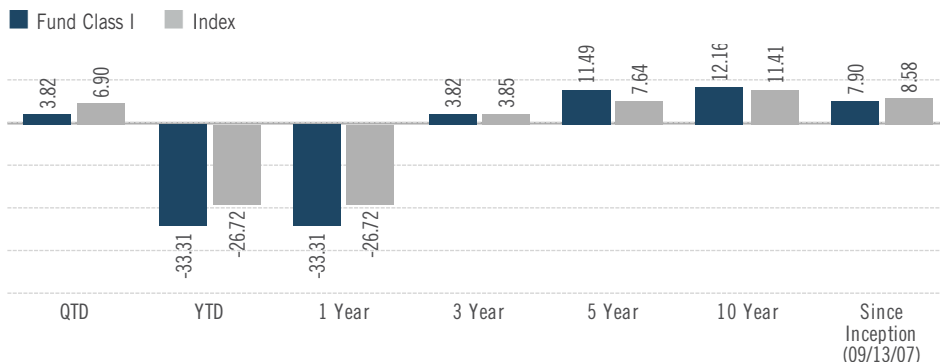
TOP FIVE DETRACTORS

	% Contribution
STAAR Surgical Co.	-0.68
The Trade Desk Inc.	-0.56
Signature Bank/New York NY.	-0.56
Security Scorecard Inc. Series E Preferred-Private Placement	-0.53
Bill.com Holdings Inc.	-0.48

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/30/22



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 or medium-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. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's 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.

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