

## Virtus Zevenbergen Innovative Growth Stock Fund

A: SAGAX (92837F318) | I: SCATX (92837F292) | R6: VZGRX (92837X640)

### MARKET REVIEW

Economic “mixed messages” provided fuel for optimists and pessimists alike in the third quarter, amplifying market volatility. Investors contemplated the health of the consumer, the magnitude and direction of business profits, and what macro and corporate data points suggest for future investment returns. Despite the ever-shifting economic news, many financial experts agreed on one thing: the Federal Reserve is determined to curb inflation growth through restrictive monetary and quantitative tightening policies. Aggressive central bank rhetoric led to interest rates reaching levels not seen since 2000 and a broad reset in risk appetite for duration-sensitive assets.

### FUND PERFORMANCE

The Virtus ZCI Innovative Growth Stock Fund’s performance in the quarter reflected the downshift in investor sentiment, returning -5.65% (Class I) compared to the benchmark’s -3.34%. Underperformance was primarily due to stock selection within the technology (software and computer services) and healthcare (biotechnology, medical services) industries.

MercadoLibre and Uber Technologies were the largest contributors to performance in the quarter.

- > Founder-led, Latin American e-commerce and financial technology company MercadoLibre held up strongly in the quarter, supported by improving profitability in almost every segment and geography. Investments and disciplined management of rapidly scaling initiatives in its credit, logistics, and advertising divisions led the way for growth despite ongoing currency and macro uncertainty. Enhanced disclosures and commentary eased concerns around the impact of hyperinflation in Argentina, adding to the company’s history of successfully navigating through short-term turmoil. MercadoLibre’s rare combination of scaled platforms in a still underdeveloped region puts the company in an enviable position for continued compounding potential.
- > Digital mobility pioneer Uber Technologies’ shares and bookings showed resilience while the company continued to exceed profitability expectations. The benefits of scale and synergies between its rides and eats segments have led to improved driver supply as demand patterns normalize after pandemic volatility. An increasing focus on profitable growth, aided by high margin advertising, has been rewarded by markets seeking efficiency. Investments in membership, selection, and driver onboarding further fuel the flywheel of increased engagement, retention, and customer satisfaction.

Exact Sciences and Shopify were the largest detractors from performance in the quarter.

- > Interest rate hike forecasts and sentiment had a disproportionately negative impact on shares of smaller-cap companies, which contributed to weakness in leading colon cancer diagnostic company Exact Sciences. Concerns around blood-based diagnostic competitors have decreased over the course of the year, but fresh headlines around potential new data releases further contributed to weakness in Exact Sciences’ stock. Company sales (screening revenues were up 31% year over year in the second quarter) and profitability metrics outpaced expectations, providing increased conviction to the overall model and ability to fund further growth initiatives. Its leadership in scientific innovation, ease of use, and brand awareness position Exact Sciences strongly in a market where the importance of early detection is slowly becoming more mainstream.
- > After a strong start to the year attributable to strategic and operational changes, shares of founder-led commerce technology provider Shopify were negatively impacted by the sentiment toward high-growth stocks. Despite strong fundamentals, companies with above-market price multiples were bypassed by investors as the prospect of rising interest rates raised concerns about consumer and business spending capacity. During the quarter, management announced a deepening relationship with Amazon.com, underscoring Shopify’s desire to become the “operating system for retailers” through third-party infrastructure integrations.

### PERSPECTIVE

Time is an investor’s ally, supplying the fuel that powers compounding returns and the perspective that allows interim anxieties to fade into distant memories. While current topics often feel momentous, they may ultimately have minimal impact over the long run, particularly for investment returns. We encourage investors to “stay above the economic fray” and remain focused on fundamental business and industry trends. We continue to closely follow the development and adoption of artificial intelligence (AI), a technological tool offering significant promise in boosting labor productivity, with the potential to spark a wave of innovation and disruption akin to the automobile or internet. While higher interest rates are likely to act as a headwind in some pockets of the economy, they could spur AI adoption (as organizations seek to produce more with fewer resources) and help the market separate durable from non-durable business models. We believe this separation can create excess return opportunities for observant, patient investors.

**INVESTMENT ADVISER**

Virtus Investment Advisers, Inc.

**INVESTMENT SUBADVISER**

Zevenbergen Capital Investments LLC

**PORTFOLIO MANAGERS**



**Nancy Zevenbergen, CFA**  
 Industry start date: 1981  
 Start date as Fund Portfolio Manager: 2004



**Brooke de Boutray, CFA**  
 Industry start date: 1982  
 Start date as Fund Portfolio Manager: 2004



**Joseph Dennison, CFA**  
 Industry start date: 2011  
 Start date as Fund Portfolio Manager: 2015



**Anthony Zackery, CFA**  
 Industry start date: 2011  
 Start date as Fund Portfolio Manager: 2015

**TOP TEN HOLDINGS**

	<b>% Fund</b>
Tesla Inc.	8.62
NVIDIA Corp.	6.66
The Trade Desk Inc.	6.56
MercadoLibre Inc.	6.48
Amazon.com Inc.	5.46
Shopify Inc.	4.96
Uber Technologies Inc.	4.35
Axon Enterprise Inc.	3.54
Exact Sciences Corp.	3.38
Airbnb Inc.	3.28

Holdings are subject to change.

**TOP CONTRIBUTORS**

	<b>% Contribution</b>
MercadoLibre Inc.	0.40
Uber Technologies Inc.	0.25
NVIDIA Corp.	0.21
Airbnb Inc.	0.20
Seagen Inc.	0.20

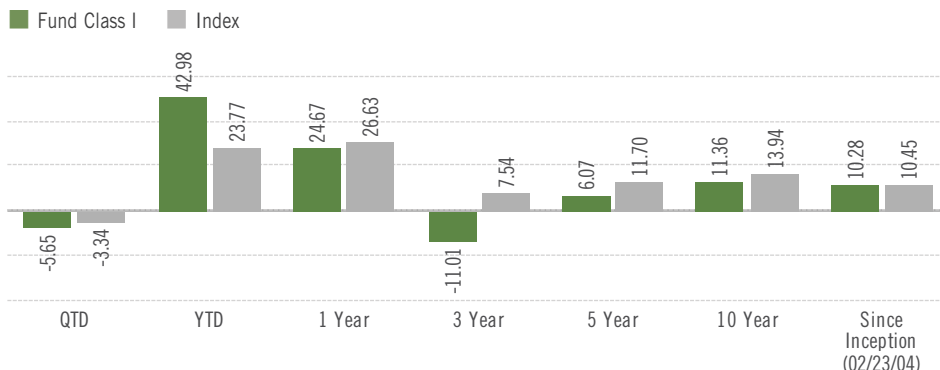
**TOP DETRACTORS**

	<b>% Contribution</b>
Exact Sciences Corp.	-1.19
Shopify Inc.	-0.85
DoubleVerify Holdings Inc.	-0.75
Enphase Energy Inc.	-0.66
Snowflake Inc.	-0.45

% Contribution: Absolute weighted contribution.

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

**AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23**



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](http://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](http://virtus.com) for details.

The fund class gross expense ratio is 1.15%. The net expense ratio is 1.00%, which reflects a contractual expense reimbursement in effect through 4/30/2024.

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 3000® Growth Index** is a market capitalization-weighted index of 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. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Consumer Concentration:** Because the portfolio is presently heavily weighted in the consumer sector, it will be impacted by that sector's performance more than a portfolio with broader sector diversification. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **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.

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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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