

Virtus Zevenbergen Innovative Growth Stock Fund

A: SAGAX (92837F318) | I: SCATX (92837F292)

MARKET REVIEW

Euphoria carried into the second quarter as U.S. stock indices continued to rally, fueled by an accommodative Federal Reserve (Fed) and economics. However, a broad and deep sell-off across global stock markets occurred in May, as trade tensions reignited. Technology stocks were among the hardest hit in reaction to heightened trade risk from China and potentially stiffer U.S. antitrust oversight. In June, the Fed delivered the near-perfect salve for stocks: holding rates steady (though signaling willingness to ease), while acknowledging negative global market and economic forces building (without indicating too much pessimism). The nuanced commentary reinforced the bulls and investor preference for growth over value strategies. As stocks flirt with new records, recession is mentioned more frequently. Recent gauges like hiring, manufacturing, and sentiment have weakened, however, the general negative bias leans toward sensationalism. Endeavoring to stay above the fray, we continue to focus on fundamentals, not headlines. Away from political and trade drama, a plethora of opportunity still awaits.

PERFORMANCE

For the quarter, the Fund returned 9.16% (Class I), outperforming the 4.50% return of the Russell 3000® Growth Index.

Shopify, Exact Sciences, Okta, and MercadoLibre were the strongest performance contributors.

- > Shares of multi-channel e-commerce platform Shopify appreciated to new highs following a strong earnings report, driven by additional merchants, international market share gains, and adoption of Merchant Solutions. The company introduced new international capabilities and unveiled its next generation point-of-sale hardware, reducing mobile payment friction by allowing employees to accept payment anywhere in the store. Management also announced a \$1 billion investment to strengthen its fulfillment network and provide expedited shipping.
- > Shares of Exact Sciences climbed as new physicians, higher ordering rates, and brand campaigns contributed to robust Cologuard® test volumes and revenue growth above guidance. To foster adoption among diverse health providers, the company established gastroenterology and women's health sales teams. With partner Pfizer's support, television campaign investments should continue to broaden Cologuard awareness. Through its longstanding collaboration with Mayo Clinic, Exact Sciences has identified biomarkers for 13 of the 15 most fatal cancers, a foundational step toward broad adoption of Exact Sciences' platform for early cancer screening.
- > Leader in digital identity management Okta exceeded revenue expectations and raised full-year guidance, driven by strong subscription growth and enterprise customer demand. Accelerated migration to the cloud, increasing digital workflows, and a plethora of applications have given rise to complex security requirements. Okta's "zero trust" architecture increases security by evaluating the user and device, rather than policing the network's perimeter. To meet global demand, management is increasing international investment, focusing on Asia-Pacific and Europe.

- > Latin American e-commerce leader, MercadoLibre, Inc. exceeded revenue and earnings expectations driven by rapid adoption of payment services. Mobile point-of-sale and digital wallet payment volumes grew triple-digits, as Latin American consumers continued to embrace alternative payments. To maintain market leadership, management is investing in complementary financial solutions and logistics capacity for its marketplace. Its shares climbed steadily throughout the quarter, reflecting the company's continued success in serving its competitive niche: small and medium-sized businesses.

2U and Tesla were two of the biggest performance detractors.

- > Online education provider 2U reported double-digit revenue growth as up-skilling and re-skilling have become critical to remaining competitive in the workforce. Shares declined after management tempered full-year guidance. Despite a deeper pool of quality applicants, university partners are opting to maintain exclusivity through more selective admissions. To deepen its science and technology offerings, management announced the acquisition of Trilogy Education, specializing in high-demand industries such as coding, data science, UX design, and cybersecurity.
- > Tesla shares declined after deliveries missed expectations, weighing on revenue and profitability. Management reiterated full-year guidance, outlining strategic plans to balance domestic and international fulfillment. Pacifying demand concerns, 90% of new orders originated from non-reservation holders. While headlines regarding autonomous driving may focus on negatives (accidents), increased driver safety and significant reduction in ownership costs remain compelling investment incentives. Tesla's focus on "hard-core cost cutting" in the coming quarters reflects the competitive intent to achieve profitability while converting consumers to sustainable transport.

OUTLOOK

This year's market gains have mostly been accompanied by marked degrees of skepticism. Even as equities hover near record highs, many investors remain pessimistic. For the time being, the pain trade (for those not positioned to participate), is for stocks to march upward. The more the market appreciates, the more pressure there is to invest, driving prices even higher. Perversely, calls for a recession are mounting. Investors anticipating Fed rate cuts ahead have become inversely sensitized to economic news supporting continued expansion. In reality, the cyclical landscape may be slowing, but still growing. Against this backdrop, companies with strong growth characteristics should be favored, as growth becomes more scarce. Stock selection remains key in this differentiated environment.

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INVESTMENT ADVISER

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Start date as Fund Portfolio Manager: 2015



Anthony Zackery, CFA
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TOP TEN HOLDINGS

	% Fund
Exact Sciences Corp.	5.83
Amazon.com Inc.	5.71
Shopify Inc.	5.55
Netflix Inc.	5.09
MercadoLibre Inc.	5.03
Teladoc Health Inc.	4.77
The Trade Desk Inc.	4.72
Tesla Inc.	4.05
PayPal Holdings Inc.	3.91
Okta Inc.	3.85

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/23/2004
Fund Class I	9.16	36.70	22.04	30.37	15.67	18.22	11.58
Index	4.50	21.41	10.60	17.81	13.02	16.13	9.63

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit virtus.com for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.19%. The net expense ratio is 1.01%, which reflects a contractual expense reimbursement in effect through 4/30/2020. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests 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. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

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 or medium-sized companies may enhance that risk. **Growth Stocks:** Growth stocks are typically sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth stocks typically fall.

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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