

Virtus KAR Emerging Markets Small-Cap Fund

A: VAESX (92828W627) | C: VCESX (92828W619) | I: VIESX (92828W593) | R6: VRESX (92828W189)

MARKET REVIEW

After declining during the third quarter, stocks globally moved sharply higher during the fourth quarter, boosted by declining inflation and expectations that major central banks around the world may be done raising interest rates. Information technology was the top-performing sector within emerging markets, led by enthusiasm for artificial intelligence (AI). Interest-rate-sensitive sectors, such as financials and real estate, also outperformed. The energy sector underperformed on weaker oil prices. From a geographic perspective, Poland performed strongly, on the election of a pro-European Union president, as did India, based on a strong showing for the ruling BJP party in key state elections. Taiwan and Korea also performed well during the quarter, boosted by technology-related stocks. China, on the other hand, declined during the period, as it continued to be out of favor on macroeconomic concerns. Southeast Asia (Indonesia, Thailand, Malaysia) also underperformed.

2023 was, in large part, a “risk-on” market environment for emerging markets small-cap equities. For the year, the MSCI Emerging Markets Small Cap Index was up 23.92%, much stronger than the broader international market (as measured by the MSCI ACWI Ex U.S. Small Cap Index, which returned 15.66%). It was one of the more “theme-driven” years, with many AI-related stocks skyrocketing to very demanding valuation levels, especially in Taiwan. We witnessed meme stock phenomena in some of the Korean EV battery materials companies, and many Indian small-cap stocks rose well beyond their fundamental value, driven by retail and foreign investors who have been allocating more capital away from China towards India. Mexico benefited as well from the “near-shoring” theme. All these markets beat the S&P 500® Index last year.

FUND PERFORMANCE

For the quarter, the Virtus KAR Emerging Markets Small-Cap Fund returned 11.79% (Class I), outperforming the 8.95% return of the MSCI Emerging Markets Small Cap Index. The Fund’s largest holding, Baltic Classifieds, contributed strongly, as did our holdings in Brazil, Poland, and Korea. Brazil performed strongly as inflation continued to come down and the central bank started cutting interest rates, and Poland recovered from the lows of 2022 due to the Ukraine war impact. Being underweight in strong markets like India and Taiwan, on the other hand, detracted from performance.

Baltic Classifieds and Wirtualna Polska were the largest contributors to performance during the quarter.

- > Baltic Classifieds is the leading online classifieds group in the Baltics. The company’s share price declined sharply in early 2022 following the Russian invasion of Ukraine. Since that time, Baltic has continued to generate strong growth in revenues and earnings. Over the course of 2023, the company continued to report excellent results, and the shares reacted positively.
- > Wirtualna Polska is a Poland-based internet company with a dominant media business, along with other internet businesses, including an online travel agency (OTA). The stock performed well during the quarter, producing strong results especially in the OTA segment as travel demand remained high.

Anhui Gujing Distillery and Saramin were the largest detractors from performance during the quarter.

- > Anhui Gujing Distillery is the largest producer of the distilled spirit baijiu in China’s Anhui province. Results were strong in 2023 despite China’s challenging macroeconomic conditions, with demand for the product recovering as COVID restrictions were relaxed. In the fourth quarter, however, investors started focusing on the prospect of normalizing (i.e., slowing) demand in 2024, and most baijiu companies underperformed during the quarter.
- > Saramin is a leading online job portal operating in South Korea. After two years of strong demand, hiring in Korea slowed in 2023 and year-over-year results declined. This was well anticipated, and Saramin has been underperforming for about a year now. Its competitive position remains strong, and we believe the business will start growing again once the weak hiring cycle turns.

PORTFOLIO CHANGES

During the quarter, we purchased UK-based Rightmove, an online real estate property portal. We sold Hungarian airline Wizz Air and Chinese talent acquisition services business Tongdao Liepin Group.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

PORTFOLIO MANAGERS



Craig Thrasher, CFA
Industry start date: 2003
Start date as Fund Portfolio Manager: 2013



Hyung Kim
Industry start date: 2004
Start date as Fund Portfolio Manager: 2017

TOP TEN HOLDINGS

	% Fund
Baltic Classifieds Group PLC	6.83
Grupa Pracuj SA	5.52
Tegma Gestao Logistica SA	4.56
Oracle Financial Services Software Ltd.	4.13
Union Auction PCL	3.86
Wirtualna Polska Holding SA	3.73
Heineken Malaysia Bhd	3.48
Allegro.eu SA	3.35
Rightmove PLC	3.27
Carlsberg Brewery Malaysia Bhd	2.93

Holdings are subject to change.

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/17/13)
Fund Class I	11.79	21.83	21.83	-2.61	8.69	6.24	6.19
Index	8.95	23.92	23.92	6.45	9.92	5.34	5.50

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 1.53%. The net expense ratio is 1.50%, which reflects a contractual expense reimbursement in effect through 1/31/2024.

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 **MSCI Emerging Markets Small Cap Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure small cap equity market performance in the global emerging markets. The index is calculated on a total return basis with net 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 FIVE CONTRIBUTORS % Contribution

Baltic Classifieds Group PLC	1.64
Wirtualna Polska Holding SA	1.08
Grupa Pracuj SA	1.05
LEENO Industrial Inc.	0.94
Koh Young Technology Inc.	0.77

TOP FIVE DETRACTORS % Contribution

Anhui Gujing Distillery Co. Ltd.	-0.22
Saramin Co. Ltd.	-0.19
Webcash Corp.	-0.10
Avia Avian Tbk PT	-0.10
IndiaMart InterMesh Ltd.	-0.10

% Contribution: Absolute weighted contribution.

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

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 & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Industrial Concentration:** Because the portfolio is presently heavily weighted in the industrial 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 for a prospectus or summary prospectus. Read it carefully before investing.

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