

Virtus KAR Emerging Markets Small-Cap Fund

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

MARKET REVIEW

Emerging markets small-cap equities, as measured by the MSCI Emerging Markets Small Cap Index, continued to post gains in the first quarter after returning 23.92% in 2023. Performance catalysts were broadly the same over both periods. Enthusiasm for artificial intelligence (AI) continued to be a strong driver, and China continued to underperform. In fact, the surge in AI interest created an unprecedented investment boom in Taiwan with retail investors flooding into ETFs. It was reported that Taiwanese people now hold more than USD \$50 million in ETFs tracking local stocks.¹ That is up more than 80% from a year ago and 12 times the 2019 level, with some investors even taking out reverse mortgages to buy ETFs. So far in 2024, however, broad gains for emerging markets small caps have been modest, partly because of the depreciation of emerging markets currencies against the U.S. dollar, as market expectations for interest rate cuts in the U.S. came down over the course of the quarter.

FUND PERFORMANCE

The Virtus KAR Emerging Markets Small-Cap Fund returned 3.92% (Class I) in the quarter, outperforming the MSCI Emerging Markets Small Cap Index, which returned 1.05%. Outperformance was driven by strong stock selection in a handful of companies, which helped offset the detractor that mainly came from the portfolio's meaningful underweight to Taiwan. Taiwan performed well during the quarter, led by the AI-theme referenced above.

Oracle Financial Services Software and Kaspi were the largest contributors to performance in the quarter.

> Oracle Financial Services Software is an India-based company that provides software products to financial institutions, primarily banks. Throughout most of 2023, business grew steadily, and in the last quarter of 2023, the company reported strong growth, which led to a sharp rise in the share price.

> Kaspi operates one of the leading consumer apps in Kazakhstan. The Kaspi Super App is used by over 12 million people, representing over 60% of the country's total population. The company continues to report solid results with all its business segments growing strongly. We believe Kaspi's outperformance in the quarter may have also been influenced by the fact that it listed shares in the U.S., and liquidity (i.e., trading volume) improved significantly as a result.

Union Auction and TOTVS were the largest detractors from performance during the quarter.

> Union Auction is one of the largest operators of used car auctions in Thailand. We believe the company's underperformance this quarter was a direct function of Thailand's equity market being one of the weakest performing in the quarter. Union Auction's business is also expected to grow at a slower pace in 2024, after having grown very strongly in 2023.

> Brazil-based TOTVS is a leading developer of enterprise resource planning (ERP) software, with approximately 50% market share among Brazil's small and medium-sized enterprises. The stock underperformed after the company reported results somewhat below market expectations, mainly affected by some weakness in some of its non-core business segments.

PORTFOLIO CHANGES

During the quarter, we purchased beer company Chongqing Brewery, based in China, and we sold two Korean holdings: electronics technology company Koh Young Technology and software company WebCash.

¹Hou, Betty, "AI Stock Frenzy Spurs \$50 Billion ETF Boom in Taiwan," Bloomberg.com, April 9, 2024, www.bloomberg.com/news/articles/2024-04-09/ai-stock-frenzy-spurs-50-billion-etf-boom-in-taiwan.

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
Oracle Financial Services Software Ltd.	8.27
Baltic Classifieds Group PLC	6.22
Grupa Pracuj SA	5.70
Tegma Gestao Logistica SA	3.92
LEENO Industrial Inc.	3.42
Heineken Malaysia Bhd	3.30
Wirtualna Polska Holding SA	3.27
Allegro.eu SA	3.16
Union Auction PCL	3.05
Rightmove PLC	2.98

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Oracle Financial Services Software Ltd.	4.43
Kaspi.KZ JSC	0.72
LEENO Industrial Inc.	0.64
Douzone Bizon Co. Lt.	0.62
Koh Young Technology Inc.	0.47

TOP FIVE DETRACTORS % Contribution

Union Auction PCL	-0.69
TOTVS SA	-0.45
Sarana Menara Nusantara Tbk PT	-0.39
Baltic Classifieds Group PLC	-0.38
momo.com Inc.	-0.30

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (12/17/13)
Fund Class I	3.92	3.92	18.69	-0.79	6.95	6.66	6.44
Index	1.05	1.05	20.56	4.23	8.51	5.09	5.47

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 1.52%. The net expense ratio is 1.50%, which reflects a contractual expense reimbursement in effect through 1/31/2025.

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.

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.

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