

## Virtus SGA Global Growth Fund

A: SGAAAX (92836N106) | C: SGACX (92836N205) | I: SGAPX (92836N304) | R6: SGARX (92836N403)

### MARKET REVIEW

Global markets posted their best quarter since the COVID rebound in 2020 as investors cheered an improving inflation backdrop. While U.S. and European central banks held rates steady during the quarter, given easing inflationary pressures, market expectations for rate cuts in 2024 rose, driving developed markets bond yields significantly lower. Falling yields supported a strong rally in global bonds and long-duration equities.

Economic growth remained resilient in the U.S. with a better-than-expected third-quarter gross domestic product (GDP) report showing 4.9% annualized real growth, driven by strong consumption, raising expectations for a “soft landing.” The economic backdrop was more muted in other developed markets, however, with GDP declining 0.5% and 2.9% on an annualized basis (quarter-to-quarter) in the Eurozone and Japan, respectively, as weak consumption and business spending weighed on economic activity. In contrast, growth came in better than expected in Mexico and Brazil, where falling inflation also supported expectations for further rate cuts.

Growth in China also surprised to the upside with third-quarter GDP increasing 4.9% (year-over-year) as stimulus measures appeared to have begun delivering a positive effect. Continuing concerns around the country’s property market, policy actions, and relations with the West, however, weighed on investor sentiment. Overall, global earnings growth expectations moved higher during the quarter, reflecting a generally resilient global economic backdrop and rising expectations for a “soft landing” in the U.S.

The fourth-quarter market advance was broad based, as only four countries out of the 47 included in the MSCI AC World Index (ACWI) posted negative returns for the quarter, most notably China, which declined over 4% in the period. More than half of the markets in the Index delivered double-digit returns.

### PERFORMANCE

The Virtus SGA Global Growth Fund returned 11.11% (Class I) for the quarter versus 11.03% for the MSCI AC World Index. Stock selection in consumer discretionary and information technology and a zero-weight in energy contributed to performance. Stock selection in consumer staples, financials, and industrials detracted from performance.

Workday and Microsoft were among the strongest stock contributors.

- > Shares of Workday, a human capital management software leader, outperformed on its quarterly results. The company’s business executed well across customer segments and geographies as it strengthened its competitive position and saw its win rate for new business continue to improve. We trimmed the position on strength but remain very positive on the company’s three-to-five-year growth opportunity.
- > Shares of technology giant Microsoft benefited as the company delivered strong revenue and operating profit growth on continued margin expansion. Azure, its enterprise cloud service, also posted strong results. We continue to see an attractive growth opportunity ahead for Microsoft and maintained an above-average weight position.

China Mengniu Dairy and Aon were among the largest stock detractors.

- > China Mengniu Dairy, a leading Chinese dairy company, was negatively impacted by weakness in Chinese equities. Some of the company’s more discretionary items such as normal-temperature yogurt and flavored milk beverage have failed to recover their sales growth against easy comparisons from last year given weakness in the Chinese macro environment, and therefore, disappointed some investors. We maintained a below-average weight position in the stock given continued near-term uncertainty.
- > Shares of Aon, a leading global commercial insurance broker, were pressured as investors reacted negatively to the announcement of its planned acquisition of NFP and a restructuring program aimed at increasing its technology spend to enhance data and analytics offerings while reducing headcount. These decisions make sound long-term strategic sense but will have a negative impact on near-term earnings and free cash flow. The company’s third-quarter results were in line with expectations. We maintained an above-average weight position given our favorable long-term growth outlook and attractive valuation.

### PORTFOLIO CHANGES

There were no full position changes in the portfolio during the quarter. We trimmed positions in MercadoLibre, Workday (discussed above), S&P Global, and Atlassian on strength. We added to positions in Danaher, Canadian Pacific Kansas City (CPKC), Autodesk, Novo Nordisk, Alcon, and Aon (also discussed above) on weakness.

### OUTLOOK

We remain focused on assembling a portfolio of attractively valued, high-quality companies that can reliably compound earnings and cash flows at above-average rates with less macroeconomic sensitivity over the long-term. Optimism over the likelihood of interest rate cuts in 2024 and a soft landing offset concern over the lagged impact of higher interest rates and their eventual effect on a still tight labor market. In our view, broad-based growth is likely to remain modest and volatile given a challenging economic backdrop in China. Over the next three years, we expect the portfolio to generate higher and more resilient growth than the MSCI AC World Index. Regardless of the direction of the macro-economic environment, we have confidence that the higher-quality and more predictable growth companies in our portfolio offer the potential to deliver attractive returns over full market cycles.

**4Q  
23** Virtus SGA Global Growth Fund  
**QUARTERLY COMMENTARY**

**INVESTMENT ADVISER**

Virtus Investment Advisers, Inc.

**INVESTMENT SUBADVISER**

Sustainable Growth Advisers, LP

**PORTFOLIO MANAGERS**



**Hrishikesh (HK) Gupta**  
Industry start date: 2009  
Start date as Fund Portfolio Manager: 2021



**Kishore Rao**  
Industry start date: 1997  
Start date as Fund Portfolio Manager: 2022



**Robert L. Rohn**  
Industry start date: 1983  
Start date as Fund Portfolio Manager: 2010

**TOP TEN HOLDINGS**

	% Fund
Microsoft Corp.	5.29
Amazon.com Inc.	4.87
Visa Inc.	4.53
HDFC Bank Ltd.	4.16
Novo Nordisk A/S	3.58
S&P Global Inc.	3.48
Workday Inc.	3.47
Intuit Inc.	3.32
Icon PLC	3.28
Canadian Pacific Kansas City Ltd.	3.22

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 (10/04/13)
Fund Class I	11.11	26.92	26.92	0.52	11.99	9.88	10.26
Index	11.03	22.20	22.20	5.75	11.72	7.92	4.16

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 1.16%. The net expense ratio is 1.08%, 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 AC World Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and 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 CONTRIBUTOR** % Contribution

Workday Inc.	1.02
Microsoft Corp.	0.96
Amazon.com Inc.	0.89
S&P Global Inc.	0.74
Salesforce Inc.	0.71

**TOP FIVE DETRACTORS** % Contribution

China Mengniu Dairy Co. Ltd.	-0.39
Aon PLC	-0.31
Cp All Pcl	-0.03
Veralto Corp.	-0.02
Alcon Inc.	0.00

% 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. **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. **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. **Industry/Sector Concentration:** A portfolio that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated portfolio. **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. **ESG:** The portfolio's consideration of ESG factors could cause the portfolio to perform differently from other portfolios. While the subadviser believes that the integration of ESG factors into the portfolio's investment process has the potential to contribute to performance, ESG factors may not be considered for every investment decision and there is no guarantee that the integration of ESG factors will result in better performance. **Currency Rate:** Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the portfolio's shares. **Depository Receipts:** Investments in foreign companies through depository receipts may expose the portfolio to the same risks as direct investments in securities of foreign issuers. **Prospectus:** For additional information on risks, please see the fund's prospectus.

**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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