

## BEST ETFs & MUTUAL FUNDS

### MUTUAL FUND PROFILE

# Virtus Fund Mixes Popular Leaders Like Amazon With Obscure Newcomers

Top-notch Virtus portfolio invests in stocks of all sizes, seeking innovation

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INVESTOR'S BUSINESS DAILY

What makes \$832.4 million Virtus Zevenbergen Innovative Growth Stock Fund<sup>SAGAX</sup> one of the best mutual funds? Like many of its peers, this portfolio includes widely held large-cap tech names **Amazon**<sup>AMZN</sup>, **PayPal**<sup>PYPL</sup> and **Facebook**<sup>FB</sup>. But this portfolio also does key things unlike the vast majority of its rivals.

For one, the fund can invest in stocks of any size. Nearly 68% of its shareholders' money was at work in large caps as of July 31, according to Morningstar Direct. About 30% was in midcaps and 2% was in small caps.

A second rare trait? This fund takes stakes in companies that are very young. The portfolio is a venture-capital mutual fund in spirit if not actuality.

"In terms of our philosophical approach, the characterization of venture-capital fund is correct," said Anthony Zackery, one of the fund's five managers. "But we do not participate in private (funding) rounds. So shareholders will not receive access to companies that are pre-IPO or privately held like Airbnb that may come public in the near future. But to the extent that we strive to invest early in promising companies, that is a fair characterization."

One such young holding is

**Tesla**<sup>TSLA</sup>. The fund has held a stake since Tesla's 2010 IPO. "We believe Tesla could disproportionately benefit from the growing global demand for electric vehicles," Zackery said.

### Seeking Leading Stocks Early

Taking early stakes in young companies means the fund managers may have to wait years for a stock to live up to its promise. "Most of our turnover happens in some of our newer positions," Zackery said. "Over time, as holdings meet our expectations and our confidence in them grows, we typically increase our portfolio weightings and we tend to hold those companies longer."

The fund has owned its top-10 holdings an average of five years, he says. They reflect the fund's process of getting into young innovative companies early and favoring those that continue to perform.

### Amazon's Share Of U.S. Retail Sales Continues To Grow

Up 77% this year going into Thursday, No. 2 holding Amazon is a key contributor to Innovative Growth Stock's status as one of the best mutual funds. This is certainly not an early-stage company.

The stock is driven by its web services, gaming and advertising businesses. Zackery says its fourth driver, e-commerce, still has an impressive runway ahead of it. "The most recent statistics I saw are that e-commerce as a percent of U.S. retail sales was 15% pre-pandemic," he said. "It accelerated to 20% to 25% in the

### Virtus Zevenbergen Innov Gr Stk A



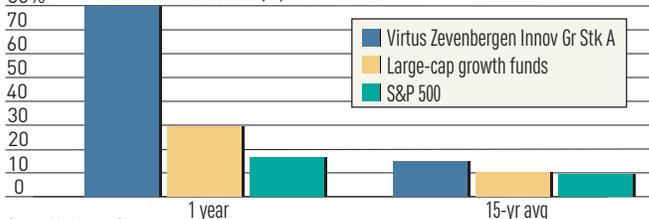
Anthony Zackery

- Max. front load: 5.75%
- Expenses: 1.25%
- Symbol: SAGAX

#### Total returns as of 9/9/20

2019: 36.73%	3-yr. avg.: 38.36%
YTD: 65.20%	5-yr. avg.: 27.30%
	10-yr. avg.: 20.68%

#### Total returns as of 9/9/20



Source: Morningstar Direct

#### Sector weightings as of 6/30/20

	% of stock assets	% of S&P 500
<b>Cyclical</b>	<b>29.03%</b>	
Basic materials	0.00	2.18%
Consumer cyclical	21.64	11.20
Financial services	4.60	12.82
Real estate	2.79	2.61
<b>Economically sensitive</b>	<b>51.57</b>	
Communication services	12.75	11.10
Energy	0.00	2.32
Industrials	0.00	8.32
Technology	38.82	25.22
<b>Defensive</b>	<b>19.40</b>	
Consumer defensive	3.27	7.33
Health care	16.13	14.07
Utilities	0.00	2.83

pandemic. And Amazon has the preeminent e-commerce destination in the U.S., capturing a big part of that share of total retail."

E-commerce will continue to grow, Zackery says. So will Amazon's role in e-commerce, he adds. And Amazon Web Services (AWS) is no slouch either. "They reported 28% year-over-year sales growth in the most recent quarter," he said. It's especially impressive that a line of business that's already so big can grow that fast, he says. And the world shows no signs of slowing its embrace of shifting

work to the cloud.

"We still foresee potential for (Amazon's) business to grow and for the stock to do well," he said.

### Nvidia's GPUs Are Math Whizzes

Up 116% so far this year, No. 10 holding **Nvidia**<sup>NVDA</sup> is another large-cap holding that makes Innovative Growth Stock one of the best mutual funds. Graphics processing units (GPUs) are Nvidia's key drivers. These chips perform the fast math vital to applications such as autonomous driving, artificial intelligence (AI), machine learning,

computer graphics, video games and cryptocurrency mining.

Zackery likes Nvidia's new products like its Ampere A100 chip. That chip bristles with 54 billion transistors on a single 7-nanometer architecture. In plain English, that translates into a big leap ahead in speed and power. "That's an order of magnitude faster and stronger than previous generations," he said.

He also likes Nvidia's RTX chips for gaming, laptops and personal computers. He expects **Microsoft**<sup>MSFT</sup> to launch a new Xbox game console for the upcoming holiday season. He also expects **Sony**<sup>SNE</sup> to bring out a new PlayStation. He sees Nvidia products in those consoles. "We believe they'll use Nvidia next-generation technology for ray-tracing," he said, referring to Nvidia products that provide

lifelike screen visuals.

Data centers and AI will also be big users of Nvidia products, he predicts. "Nvidia's founder and CEO Jen-Hsun Huang said on Nvidia's fiscal second-quarter earnings call that AI will be one of the most important technology developments in our lifetimes," Zackery said. "Nvidia GPUs are powering development of AI applications."

### How PayPal Helps Make This One Of The Best Mutual Funds

Another large-cap holding that is popular among investors is PayPal. PayPal plays a key role in facilitating online payments. But just as the U.S. dollar is the global reserve currency, PayPal wants to become "the de facto payment option during any online retail or shopping experience," Zackery said. To achieve

that, it is building partnerships. It has links to **Visa**<sup>V</sup>, Zackery says. In December, it took a majority stake in GoPay, a Chinese payments platform. It has invested in Gojek, an Indonesian payments platform.

PayPal has also introduced a new QR (quick response) code. A QR code is one of those square, matrix bar codes that enable mobile devices like smartphones to transmit payment data. It facilitates cashless payments between parties. In a Covid-19 world where more people want to avoid physical contact, QR codes become an increasingly appealing alternative to cash, checks and credit cards, Zackery says.

"PayPal is evolving into a total commerce payments company, not just a digital payments company," he said.

### Why This Fund Qualifies

Why say that this portfolio is one of the best mutual funds? The fund is a 2020 IBD Best Mutual Funds Award winner, having topped the S&P 500 in calendar 2019 as well as over the three, five and 10 years ended Dec. 31 on an average-annual-return basis.

Year to date, the fund was up nearly 10 times more than the broad market benchmark. Its return of 65.20% vs. the S&P 500's 6.61% puts the fund solidly on track to repeat as an IBD Best Mutual Funds Awards winner next year.

Its large-cap growth peers tracked by Morningstar Direct are up 19.85% on average.

In addition to Zackery, the fund is run by Nancy Zevenbergen, Leslie Tubbs, Brooke de Boutray and Joseph Dennison.

To learn more about the Virtus Zevenbergen Innovative Growth Stock Fund, please contact us at 800-243-4361 or visit [Virtus.com](http://Virtus.com).



This reprint must be accompanied by a current fact sheet for the [Virtus Zevenbergen Innovative Growth Stock Fund](#).

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Investing involves risk, including loss of your investment. Applicable sales charges, if included, would reduce performance shown. Holdings are subject to change.

The IBD 2020 Best Mutual Fund Awards list the five *Best Mutual Funds* in each of 13 categories based on their 10-year average annual return. *Best Mutual Funds* must beat their benchmark index in the past one, three, five, and ten years to be considered.

The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest 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.

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