

Virtus KAR Mid-Cap Core Fund

A: VMACX (92828N114) | C: VMCCX (92828N122) | I: VIMCX (92828N130) | R6: VRMCX (92828N262)

MARKET REVIEW

2023 proved to be an outstanding year for capital markets. At the start of the year, investors were braced for an imminent recession, but it never materialized, and the fourth quarter ended up being the strongest quarter of the year. Large-cap stocks, as measured by the S&P 500® Index, advanced 11.69% in the fourth quarter alone, bringing the year-to-date return to 26.29%. Large-cap growth stocks, as measured by the Russell 1000® Growth Index, gained 14.16% in the quarter, outperforming large-cap value stocks, as measured by the Russell 1000® Value Index, which returned 9.50%.

The “Magnificent Seven” mega-cap tech stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) were responsible for most of the outperformance by large-cap growth stocks during the year. However, market breadth started to improve in the fourth quarter, as small-cap stocks, as measured by the Russell 2000® Index, advanced 14.03% in the quarter. Falling interest rates, due to the continued improvement in the inflation outlook, was the principal reason that equities performed so well during the quarter.

FUND PERFORMANCE

The Virtus KAR Mid-Cap Core Fund returned 11.49% in the quarter (Class I), underperforming the 12.82% return of the Russell Midcap® Index. Stock selection in the financials and information technology sectors detracted from performance, while an underweight in the energy sector, combined with stock selection in the consumer staples sector, contributed positively to performance.

Monolithic Power Systems and Azenta contributed the most to performance in the quarter.

- > Monolithic shares outperformed as the semiconductor-based power electronics company saw strong sequential growth in its enterprise data business given the high share of power management the company supplies to NVIDIA's H100 graphic processing units, which are in high demand due to heavy investments in artificial intelligence. While other end markets the company serves (such as industrial, communications, and consumer) were notably weaker, we believe they provided attractive counter-balancing revenue streams in the volatile semiconductor environment.
- > Biotech company Azenta reported results building on the prior quarter's successes, with better-than-expected growth from a newly acquired company, as well as more normalized patterns in its life sciences instruments business. Azenta's large, automated stores continue to enjoy strong demand, but the overall biotech environment appears to be normalizing, which we believe should support earnings growth going forward.

Zebra Technologies and West Pharmaceutical Services detracted the most from performance in the quarter.

- > Shares of digital solutions provider Zebra Technologies underperformed despite a broader recovery in technology stocks, as market participants grapple with demand uncertainty after several years of large buildouts in retail,

e-commerce, and logistics. While distributor destocking has been moderating, demand recovery ultimately hinges on an improving goods economy that has been subdued as consumers allocate more spending towards services. We sold our position in the quarter.

- > West Pharmaceutical reported solid third quarter revenue, one of the last quarters where year-over-year comparisons were weaker thanks to unusually high COVID demand. That said, investors may have been hoping for even stronger top-line growth given West's exposure to GLP-1 (weight loss) drug delivery devices. The premium market continues to be strong, whereas some less advanced drug delivery mechanisms have been soft post-COVID. We do not believe there are any competitive changes to the marketplace.

PORTFOLIO CHANGES

During the quarter, we purchased FactSet Research Systems and Wabtec for the portfolio, and we sold Equity LifeStyle Properties and Zebra Technologies (discussed above).

- > FactSet Research Systems is a global provider of integrated financial information, analytical applications, and services for the investment and corporate communities.
- > Wabtec is a worldwide leader in rail technology. The company manufactures, modernizes, and services locomotives, equipment, and digital solutions to the freight and transportation rail industries globally.
- > The elevated interest rate environment has muted the story for Equity LifeStyle Properties, a real estate investment trust that owns and operates lifestyle communities, so we sold our position to fund the purchase of FactSet Research Systems.
- > While we admire Zebra Technologies' long-term opportunities and business model, we sold our position to fund the purchase in Wabtec, which we believe offers incrementally larger growth opportunities with a comparable valuation.

OUTLOOK

With the Federal Reserve's hiking cycle likely behind us and corporate earnings growth likely to resume, we believe 2024 should be a favorable year for equity returns. Coming into 2024, investor sentiment is nowhere near as negative as it was coming into 2023, but there is still plenty of cash on the sidelines built up over the last year. As short-term interest rates decline and the yield curve moves to flat, or even positively sloped, we believe this capital will make its way into fixed income and equity markets. From our perspective, returns in 2024 are unlikely to be as robust as they were in 2023 but are likely to be in line with earnings growth. We also expect that 2024 will experience more volatility due to the U.S. presidential election, which is likely to be contentious.

Related Reading: [Q4 KAR Market Review & Outlook](#)

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

PORTFOLIO MANAGERS



Jon Christensen, CFA
 Industry start date: 1995
 Start date as Fund Portfolio Manager: 2009



Craig Stone
 Industry start date: 1989
 Start date as Fund Portfolio Manager: 2009

TOP TEN HOLDINGS

	% Fund
AMETEK Inc.	5.86
The Cooper Cos. Inc.	4.28
Monolithic Power Systems Inc.	4.28
Pool Corp.	4.20
Lamb Weston Holdings Inc.	4.14
Azenta Inc.	4.12
West Pharmaceutical Services Inc.	4.02
Ross Stores Inc.	4.01
Lennox International Inc.	3.77
Houlihan Lokey Inc.	3.76

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Monolithic Power Systems Inc.	1.31
Azenta Inc.	1.07
Ross Stores Inc.	0.83
Equifax Inc.	0.79
The Cooper Cos. Inc.	0.78

TOP FIVE DETRACTORS

	% Contribution
Zebra Technologies Corp.	-0.33
West Pharmaceutical Services Inc.	-0.29
Birkenstock Holding Plc	-0.13
LPL Financial Holdings Inc.	-0.09
Equity LifeStyle Properties Inc.	-0.04

% Contribution: Absolute weighted contribution.

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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (06/22/09)
Fund Class I	11.49	22.68	22.68	7.24	15.28	12.46	14.22
Index	12.82	17.23	17.23	5.92	12.68	9.42	13.62

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 1.04%. The net expense ratio is 0.95%, 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 **Russell Midcap® Index** is a market capitalization-weighted index of medium capitalization 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, medium, or large-sized companies may enhance that 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. **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. **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.

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