

## Virtus KAR Mid-Cap Core Fund

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

### MARKET REVIEW

The U.S. equity market, as measured by the S&P 500® Index, had a positive return in the second quarter, advancing 4.28%. Large-cap growth stocks, as measured by the Russell 1000® Growth Index, were the best performers, gaining 8.33%. Value stocks, as measured by the Russell 1000® Value Index, lagged growth stocks, declining 2.17%. Small-cap stocks underperformed their larger-cap counterparts in the quarter, with the Russell 2000® Index declining 3.28%.

### FUND PERFORMANCE

The Virtus KAR Mid-Cap Core Fund returned -5.01% (Class I) in the quarter, underperforming the Russell Midcap® Index, which returned -3.35%. Stock selection and an overweight in the healthcare sector detracted from performance, as did stock selection in the consumer staples sector. Stock selection in the industrials and financials sectors contributed positively to performance.

Monolithic Power Systems and HEICO were the largest contributors to performance during the quarter.

- > Shares of semiconductor company Monolithic Power Systems outperformed in the quarter as strength in its enterprise data business related to the sale of graphics processing units (GPUs) offset weakness across other segments. The company has been a beneficiary of the artificial intelligence (AI) theme via its dominant position in power management for NVIDIA's GPUs, and it expects further AI-related demand and the recovery of other end markets to support long-term diversified growth for its high-performing power solutions.
  - > Shares of electronics company HEICO had a strong showing in the quarter as both the company's commercial and defense areas showed solid organic growth.
- Pool Corporation and Lamb Weston were the largest detractors from performance during the quarter.
- > Swimming pool products distributor Pool Corporation reported slow sales growth caused by customers deferring pool equipment upgrades exacerbated by poor weather at the beginning half of the year. The company also issued an update on the swimming season in June, guiding business results down because of cautious consumer spending on big ticket items, citing weak demand industrywide for new pool construction. In addition, after Home Depot announced the acquisition of a private competitor to Pool Corp in March, investors became concerned about the competitive environment for the company. These factors caused shares to underperform.

- > Potato processing company Lamb Weston's transition to a new enterprise resource planning (ERP) system disrupted business operations, resulting in the company losing share and lowering its near-term financial outlook during the prior quarter. Revenues were down 12% organically, with sales volume declining 16%, which included about 8 percentage points related to unfilled customer orders from the ERP transition. Of the remaining decline, over half was due to softer-than-expected restaurant traffic trends and the rest from voluntary exits of low-margin businesses. We believe it will take several quarters of solid execution to provide clarity that the company can work itself out of this problem without making significant concessions that undermine the quality of the business.

### PORTFOLIO CHANGES

During the quarter, we purchased Align Technology. There were no complete sales from the portfolio.

- > Align Technology designs, manufactures, and markets Invisalign clear aligners and iTero intraoral scanners and services for orthodontists and general practitioner dentists in the United States and internationally.

### OUTLOOK

It is always important to remember that no one can predict the macroeconomic environment with any regular accuracy. That is especially true right now. That said, until the Federal Reserve's (Fed) most recent hiking cycle, the U.S. economy enjoyed 13 years of low interest rates, averaging 0.5%. This supported asset prices and made it easier for businesses, regardless of quality, to be successful. While we expect the Fed to eventually cut interest rates, we do not expect rates to return to 0%. Assuming interest rates settle at around 3% to 4%, that could have a profound impact on how companies operate and how assets are priced. We believe rates at this level may allow for quality companies with low leverage to better differentiate themselves. From our perspective, competitively advantaged businesses are typically in a stronger position to weather a more capital-constrained environment.

#### 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.	5.83
Lennox International Inc.	4.46
Houlihan Lokey Inc.	4.18
HEICO Corp.	4.15
Ross Stores Inc.	4.12
Equifax Inc.	3.94
The Cooper Cos. Inc.	3.91
Monolithic Power Systems Inc.	3.86
West Pharmaceutical Services Inc.	3.73
Teledyne Technologies Inc.	3.68

Holdings are subject to change.

#### TOP FIVE CONTRIBUTORS

	% Contribution
Monolithic Power Systems Inc.	0.65
HEICO Corp.	0.53
Lennox International Inc.	0.38
Exponent Inc.	0.38
Verisk Analytics Inc.	0.36

#### TOP FIVE DETRACTORS

	% Contribution
Pool Corp.	-0.95
Lamb Weston Holdings Inc.	-0.80
West Pharmaceutical Services Inc.	-0.72
Align Technology Inc.	-0.60
The Cooper Cos. Inc.	-0.60

% Contribution: Absolute weighted contribution.

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

#### AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (06/22/09)
Fund Class I	-5.01	0.78	9.06	2.48	11.21	12.13	13.78
Index	-3.35	4.96	12.88	2.37	9.46	9.04	13.51

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 1.06%. The net expense ratio is 0.95%, 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 **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.

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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

**Not FDIC/NCUSIF Insured | May Lose Value | Not Bank Guaranteed**

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