VIRTUS FUNDS

Virtus KAR Mid-Cap Core Fund

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

MARKET REVIEW

The first quarter saw a continuation of 2023 trends with investors favoring stocks with strong growth prospects, in many cases driven by opportunities in artificial intelligence. As the quarter progressed, economic and inflation data came in ahead of expectations, leading investors to realize there could be fewer interest rate cuts this year than previously expected.

The S&P 500® Index advanced 10.56% in the quarter, its largest first quarter gain since 2019. Large-cap growth stocks, as measured by the Russell 1000® Growth Index, were the best performers in the quarter, gaining 11.41%. Value stocks, as measured by the Russell 1000® Value Index, lagged growth stocks, returning 8.99%. Small-cap stocks, as measured by the Russell 2000® Index, underperformed their larger-cap counterparts, advancing 5.18%.

FUND PERFORMANCE

The Virtus KAR Mid-Cap Core Fund returned 6.10% (Class I) in the quarter, underperforming the Russell Midcap® Index, which returned 8.60%. Stock selection in the industrials and information technology sectors detracted from performance, while underweight positions in the real estate and communication services sectors contributed positively to performance.

AMETEK and Domino's Pizza were the largest contributors to performance during the quarter.

> AMETEK manufactures electronic instruments and electromechanical devices. The company outperformed in the quarter after posting solid financials with organic growth boosted by its ability to maintain pricing in this inflationary environment. In addition, we believe demand continues to be strong even with the pricing adjustments.

> Restaurant chain Domino's Pizza continues to benefit from executing well in its everyday business and returning delivery service levels back to pre-Covid levels. Additionally, the company experienced positive sales and transaction levels for its U.S. delivery and carryout business.

Azenta and Exponent were the largest detractors from performance during the quarter.

> Biotech company Azenta reported results that were ahead of expectations, most notably for-profit margin expansion. At the same time, guidance for next quarter was muted due to the timing of inconsistent revenue reported from an acquisition.

> Shares of research company Exponent underperformed in the quarter due to further weakness in consumer electronics and the postponement of projects in other areas such as chemicals litigation due to client budget concerns. This led to disappointing financial guidance for the following year. In addition, expense normalization is expected to pressure profitability.

PORTFOLIO CHANGES

During the quarter, there were no new purchases in the portfolio. We sold our position in technology company Dolby Laboratories to fund increases in credit bureau company Equifax and rail technology company Westinghouse Air Brake Technologies (Wabtec). We believe these two positions offer strong risk-reward metrics over the long term.

OUTLOOK

One large challenge coming out of the Covid-19 pandemic is how to parse the underlying strength in the economy. Our supply chains were whipsawed, our employment patterns changed dramatically, and we saw unprecedented monetary and fiscal support. This makes it hard to gauge how much of the U.S. economy's strength is due to fundamentals versus other exogenous effects. And while interest rates have increased materially in a short period of time, they are only modestly restrictive compared to the long-run average. As a result of low rates and strong government support during the pandemic, we believe the tide lifted all companies and made it easier for everyone to prosper. However, without this added assistance, we expect that more fundamental factors will drive corporate profits and thus equity performance going forward. In this environment, we believe companies that are competitively advantaged with better profitability, cash flow, and lower leverage will be able to better distinguish themselves going forward.

Related Reading: 1Q 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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (06/22/09)
Fund Class I	6.10	6.10	22.05	7.47	13.71	13.08	14.43
Index	8.60	8.60	22.35	6.07	11.10	9.95	14.01

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 1.06%. 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.

TOP TEN HOLDINGS	% Fund
AMETEK Inc.	6.12
The Cooper Cos Inc.	4.35
West Pharmaceutical Services Inc.	4.26
Equifax Inc.	4.13
Pool Corp.	4.02
Ross Stores Inc.	4.02
Lennox International Inc.	3.87
Lamb Weston Holdings Inc.	3.85
Houlihan Lokey Inc.	3.80
Azenta Inc.	3.60

Holdings are subject to change.

TOP FIVE CONTRIBUTORS	% Contribution
AMETEK Inc.	0.65
Domino's Pizza Inc.	0.58
Brown & Brown Inc.	0.56
West Pharmaceutical Services Inc.	0.52
Monolithic Power Systems Inc.	0.51

TOP FIVE DETRACTORS	% Contribution
Azenta Inc.	-0.31
Exponent Inc.	-0.14
Aspen Technology Inc.	-0.11
Teledyne Technologies Inc.	-0.10
FactSet Research Systems Inc.	-0.09

% 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. **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.