

Virtus KAR Small-Cap Growth Fund

A: PSGAX (92828N627) | C: PSGCX (92828N619) | I: PXSGX (92828N593) | R6: VRSGX (02828N247)

MARKET REVIEW

2022 was a very volatile and difficult year for equity and fixed income markets, with investors losing money in both asset classes for only the third time since 1926. Fortunately, the year ended on a positive note with U.S. large-cap stocks, as measured by the S&P 500® Index, rallying to a 7.56% return in the fourth quarter. Value stocks performed better than hard-hit growth stocks, with the Russell 1000® Value Index up 12.42% and the Russell 1000® Growth Index up 2.20% in the fourth quarter. Small-capitalization stocks, as measured by the Russell 2000® Index, returned 6.23% in the quarter, slightly underperforming U.S. large-cap stocks. Emerging market stocks, as measured by the MSCI Emerging Markets Index, outperformed U.S. large-cap stocks for the period, gaining 9.70%.

FUND PERFORMANCE

The Virtus KAR Small-Cap Growth Fund returned 1.63% (Class I) in the quarter, underperforming the Russell 2000 Growth® Index, which returned 4.13%. Stock selection in the information technology and consumer discretionary sectors detracted from performance. Stock selection and an underweight in the healthcare sector, combined with stock selection in the communication services sector, contributed positively to performance.

AAON and Fox Factory were the largest contributors to performance during the quarter.

- > Heating, air conditioning, and ventilation company AAON reported a quarter with strong revenue growth, a record backlog with improving production rates, and profit recovery.
- > Fox Factory, which makes suspension products for mountain bikes and other recreational vehicles, benefited from the COVID pandemic as more consumers participated in outdoor activities and were introduced to its products, increasing demand. In 2022, end market demand became more uncertain. However, in the fourth quarter, Fox's performance was satisfactory, and the stock price reacted positively. While we do not know the ultimate level of "normalized" demand, we believe the competitive position of the business remains intact.

Bill.com and ServisFirst Bancshares were the largest detractors from performance during the quarter.

- > Bill.com, which produces financial automation software for small and midsize businesses, reported strong organic sales growth and profit growth in the quarter, though down from the prior sequential quarter. The shares underperformed due to the growth deceleration and the overall challenging environment for growth stocks.
- > ServisFirst Bancshares reported strong loan growth and return on equity in the most recent quarter. Despite these positives, the full-service commercial bank stock underperformed due to concerns that it will struggle to find low-cost deposits to fund future loan growth.

PORTFOLIO CHANGES

During the quarter, there were no new purchases. We sold tax compliance software company Avalara after it was sold to another company.

OUTLOOK

The Federal Reserve's hawkish monetary policy combined with improving supply chain issues appear to be working in reducing the core inflation rate. Inflation concerns, however, have been replaced by impending recession fears in the market. We certainly have witnessed a growth slowdown over the last year, and we are likely to see a continued growth slowdown over the next six to 12 months. The stock market seems to be already pricing in a moderate recession for 2023. This has to be the most anticipated recession in the history of corporate America. This does not mean that a recession cannot occur, but it does suggest a hard landing is less probable. Recession fears will not disappear overnight so investors should expect continued volatility in 2023 and will need to be patient. Additionally, the top-heavy S&P 500 companies—MAMAA (Meta, Apple, Microsoft, Amazon, and Alphabet) in particular—are having significant fundamental growth issues which has not been the case since 2008. In our view, this may bode well for many small- and medium-sized companies, which can continue to grow in a lackluster economic environment.

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



Todd Bailey, CFA
 Industry start date: 1999
 Start date as Fund Portfolio Manager: 2008

TOP TEN HOLDINGS

	% Fund
Ryan Specialty Holdings Inc.	9.14
Fox Factory Holding Corp.	7.14
AAON Inc.	5.50
Auto Trader Group PLC	5.22
Bill.com Holdings Inc.	4.93
Rightmove PLC	4.70
Interactive Brokers Group Inc.	4.68
ServisFirst Bancshares Inc.	4.42
Morningstar Inc.	4.39
MarketAxess Holdings Inc.	3.68

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

AAON Inc.	1.58
Fox Factory Holding Corp.	0.91
MarketAxess Holdings Inc.	0.71
Rightmove PLC	0.66
Interactive Brokers Group Inc.	0.56

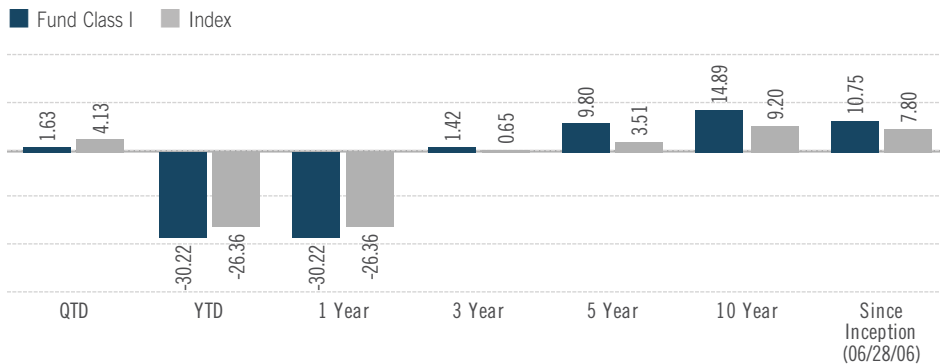
TOP FIVE DETRACTORS % Contribution

Bill.com Holdings Inc.	-1.06
ServisFirst Bancshares Inc	-0.72
nCino Inc.	-0.69
Holley Inc.	-0.60
Olo Inc.	-0.49

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/30/22



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 1.07%.

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 2000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 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 it 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 or medium-sized companies may enhance that risk. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **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. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **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. Price changes may be short- or long-term. Local, regional, or global events such as war (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's 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.

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