Virtus KAR Small-Cap Growth Fund

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

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 Small-Cap Growth Fund returned 5.94% (Class I) in the quarter, underperforming the 12.75% return of the Russell 2000® Growth Index. Stock selection in the consumer discretionary and information technology sectors detracted from performance, while an underweight in the energy sector, combined with stock selection in the industrials sector, contributed to performance.

AAON and Dream Finders Homes contributed the most to performance during the quarter.

> AAON's shares outperformed as the HVAC company reported strong revenue growth and margin expansion as alleviating supply chain disruptions, operational efficiencies, and capacity additions drove output while pricing remained strong. Although there were concerns around softer bookings last quarter, management noted underlying demand remains healthy and remains optimistic on its outlook for 2024, particularly given the 2025 refrigerant changeover.

> Dream Finders Homes continues to benefit from the generally underbuilt U.S. housing market, resulting in relatively resilient new home demand in the face of rising interest rates. The home builder company also continues to demonstrate improved profitability.

Fox Factory and BILL Holdings detracted the most from performance during the quarter.

> Fox Factory, which manufactures vehicle suspension products, suffered from a continued downdraft in its specialty sports business in the most recent quarter. Additionally, Fox Factory acquired a baseball bat and baseball accessory company, which the market appears to view as an expansion into a non-core market.

> Financial software company BILL Holdings reported a lower-fee payment mix, larger business customers scaling back spending in the macroeconomic environment, and proactively limiting credit line exposure on its virtual card product. Due to this confluence of headwinds, the company's stock underperformed.

PORTFOLIO CHANGES

During the quarter, we purchased Endava and Novanta for the portfolio, and we sold Oportun Financial.

> Endava is a provider of digital technology services. Customers engage the company to provide software development and engineering talent from lower-cost geographies in similar time zones ("near-shoring") to the customers' own engineering teams.

> Novanta is a leading global supplier of highly engineered components and sub-systems used to create a core technology solution for long lifecycle original equipment manufacturers' customer platforms in medical and advanced industrial niche markets.

> We sold loan company Oportun Financial as net charge-offs for recent vintage loans were developing at a higher pace than expected despite management's intention to tighten credit standards. Consequently, our confidence diminished in its ability to achieve sustained and attractive profitability.

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

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

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

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (06/28/06)
Fund Class I	5.94	20.36	20.36	-4.30	11.98	13.38	11.28
Index	12.75	18.66	18.66	-3.50	9.22	7.16	8.40

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.

TOP TEN HOLDINGS

	% Fund
Ryan Specialty Holdings Inc.	7.85
Morningstar Inc.	7.02
AAON Inc.	6.51
Auto Trader Group PLC	6.27
Rightmove PLC	5.34
ServisFirst Bancshares Inc.	4.61
Endava PLC	4.56
Interactive Brokers Group Inc.	4.50
Fox Factory Holding Corp.	4.45
nCino Inc.	4.04

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
AAON Inc.	1.62
Dream Finders Homes Inc.	1.34
Morningstar Inc.	1.31
Endava PLC	1.27
Auto Trader Group PLC	1.22

TOP FIVE DETRACTORS

	% Contribution
Fox Factory Holding Corp.	-2.24
BILL Holdings Inc.	-1.13
Ryan Specialty Holdings Inc.	-1.05
National Research Corp.	-0.33
Interactive Brokers Group Inc.	-0.20

% 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. **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. 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 for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.