A QUALITY APPROACH TO LONG/SHORT INVESTING

SPOTLIGHT ON: Virtus KAR Long/Short Equity Fund

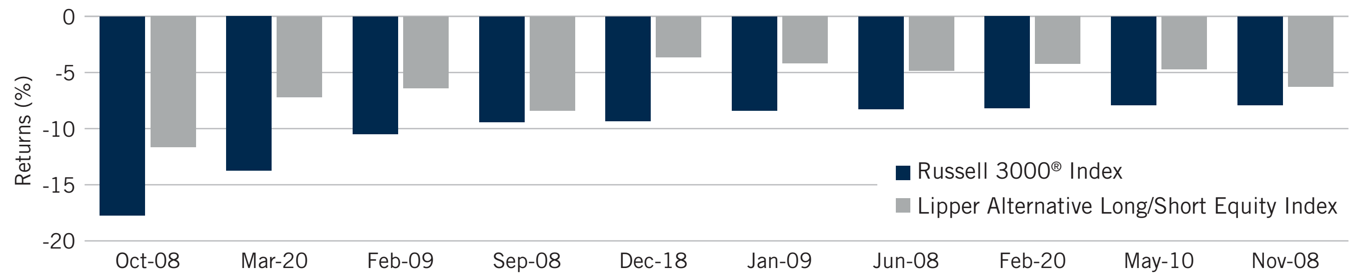
A: VLSAX / **C:** VLSCX / **I:** VLSIX / **R6:** VLSRX

Long/short strategies utilize broad investment flexibility, seeking to benefit from both rising and falling stock prices. With a long/short strategy, managers buy long positions in stocks they expect will outperform while selling short positions in stocks they believe will underperform.

Unlike traditional long-only strategies, long/short strategies leverage hedging strategies that offer the potential for higher risk-adjusted returns. Historically, utilizing short positions during market declines can reduce potential losses, as shown in the example below. It should also be noted that long/short investing may also result in higher losses.

Using Short Positions to Mitigate Losses

10 WORST MONTHS FOR THE RUSSELL 3000® INDEX SINCE OCTOBER 2003*



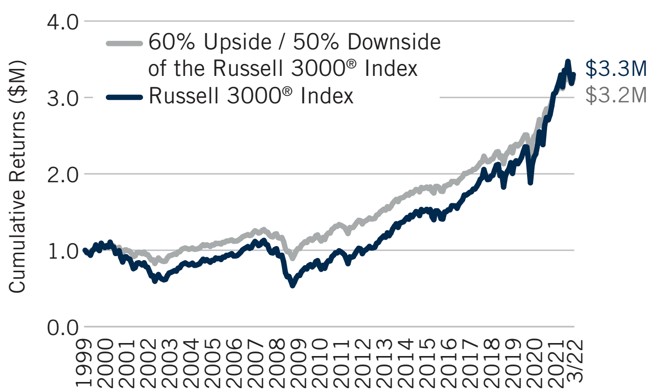
Past performance is not indicative of future results. *October 2003 is the inception of the Lipper Alternative Long/Short Equity Funds Index. Data is as of 3/31/22. Data is obtained from FactSet Research Systems and is assumed to be reliable.

By limiting portfolio declines, long/short strategies can also potentially recover more quickly after a market downturn. Consider: If an unhedged portfolio declines 50%, it will need to grow 100% to regain its original value before the decline. If a hedged portfolio declines 25%, it will need to appreciate 33% to regain its original value before the decline.

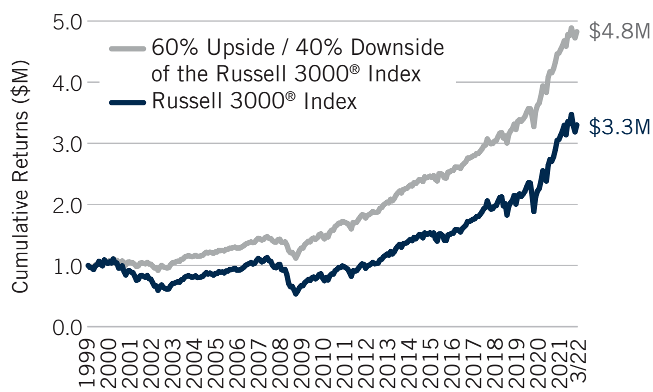
The Upside of Lower Downside: Potential Higher Returns

Reducing a portfolio's losses—less downside—can provide a meaningful boost to long-term wealth accumulation, as illustrated in these hypothetical portfolios.

RISK MITIGATION 60% / 50%



RISK MITIGATION 60% / 40%

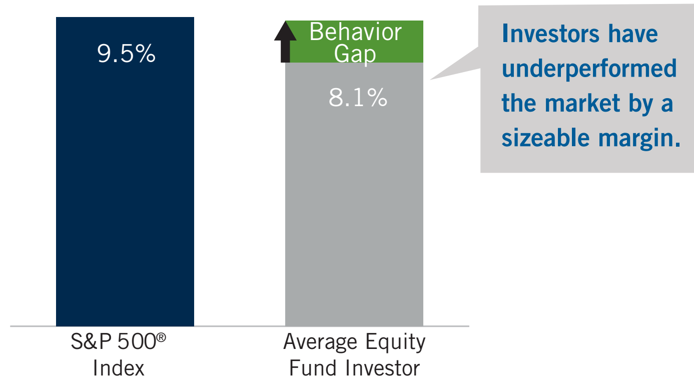


Past performance is not indicative of future results. Data is as of 3/31/22. Data is obtained from FactSet Research Systems and is assumed to be reliable. Hypothetical portfolios are for illustrative purposes only and not representative of any Virtus strategy. Performance of the 60/50 Portfolio represents 60% of the gains of the Russell 3000® Index and 50% of its losses. Performance of 60/40 Portfolio represents 60% of Index gains and 40% of its losses.

The Behavior Gap

Experiencing a sharp selloff can be extremely stressful for even the most expert investor and may prompt an emotional or fear-driven decision. Too often, panicked selling during a decline leads to sitting in cash as the market recovers and then re-entering after meaningful price appreciation has already occurred. Selling low and buying high produces investor returns that trail the overall market—also known as the "behavior gap." A long/short strategy that strives to reduce downside volatility may offer investors the peace of mind needed to stay fully invested during turbulent times with the added benefit of being in position to participate when the subsequent market rally occurs.

20-YEAR AVERAGE INDEX VS. INVESTOR RETURNS



Past performance is not indicative of future results.
Source: Quantitative Analysis of Investor Behavior, 2021, DALBAR, Inc., www.dalbar.com. Please see last page for additional information.

The KAR Quality Approach to Long/Short Investing

The **Virtus KAR Long/Short Equity Fund**, managed by Kayne Anderson Rudnick (KAR), seeks to generate attractive risk-adjusted returns using a disciplined, quality-driven investment process. KAR seeks to purchase long positions in the stocks of high-quality companies, at attractive valuations, and to sell short positions in the stocks of low-quality companies whose share price is expected to decline.

Long Strategy – Aims to own **high-quality** businesses that meet KAR's high-quality attributes—companies with durable competitive advantages, strong management teams, and strong balance sheets.

Short Strategy – Aims to sell short **low-quality** companies whose share price KAR expects to drop as it does not accurately reflect the poor fundamentals of the business. KAR's low-quality company attributes: erratic or mediocre financial performance, poor history of capital allocation, flawed business models, and/or high financial leverage.

3 Categories of Short Positions

SECULAR SHORTS **Low-quality businesses in secular decline**	**CYCLICAL SHORTS** **Low-quality businesses facing meaningful cyclical headwinds**	**TACTICAL SHORTS** **Businesses with heightened near-term financial performance risk**
▪ Typically, the share price and financials have already shown weakness. ▪ Regardless of current market leanings (high-quality vs. low-quality), the share price will follow the decline of the reported financials over time.	▪ For these types of shorts, KAR prefers companies with high financial leverage. ▪ As the cycle peaks and turns negative, the lack of pricing power and large amounts of debt cause equity values to compress.	▪ The stock and financials may not show weakness yet, but KAR expects that to change soon due to competition, customer concentration, input cost inflation, contagion effects, and other factors.

Short positions target companies with a short interest ratio no greater than 10 days and a short interest/float of less than 20%. This is important because stocks with a large short interest can be at risk of a short squeeze (i.e., the stock price rises rapidly due to a rush of short sellers closing a position) and they tend to be expensive to short (short sellers have to pay interest when shorting a stock). KAR does not use the proceeds from short sales to increase long exposure above 100%, since that is a form of leverage. From the KAR perspective, adding leverage to the Fund's long portfolio adds unnecessary risk and can magnify losses in a downturn and, more importantly, it is in conflict with the Fund's overall aim of providing downside protection.

Net market exposure (long exposure minus short exposure) will fluctuate based on the number and quality of investment ideas KAR is able to find as a result of its bottom-up fundamental analysis. KAR avoids macroeconomic calls. The Fund will generally have a net long bias, meaning the long exposure will typically exceed its short exposure.

Portfolio Construction Guidelines

	LONG PORTFOLIO	SHORT PORTFOLIO
Number of Positions	Typically 20-30 holdings	■ Typically 20-30 holdings ■ No overlap with any other KAR long-only strategy
Position Size	Typically 3%-5% at cost, max is 10% at market	Typically 1%-2% at cost
Market Cap	Target over $300 million	Target over $300 million
Sector Tolerances	Agnostic with respect to Russell 3000® Index sector weights, but seeks broad diversification	Agnostic with respect to Russell 3000® Index sector weights
Holding Period	Typically 3-5 years	Can be one year or less
Exposure	Typically 80%-100%	Typically 20%-30%, unlevered product
Qualities of Businesses	■ Durable competitive advantages ■ Strong fundamentals ■ Reasonable valuations	■ Lack of a durable competitive advantage ■ Mediocre financial performance ■ High financial/balance sheet risk

KAR: A Continuous Focus on Quality

KAR's emphasis on quality in the stock selection process is different from the valuation-based approach of other money managers. This quality focus also means there is intimate knowledge of the businesses owned in the portfolio. The Fund tends to be more concentrated than other long/short strategies, and KAR holds positions for the long term, resulting in lower turnover. This investing strategy derives from KAR's rigorous research process, long-term mindset, and quality investment analysis. As a result, KAR never attempts to time the market or adjust the portfolio's net exposure based on macroeconomic outlook.

KEY TAKEAWAYS: VIRTUS KAR LONG/SHORT EQUITY FUND
Focuses on selecting long and short positions based on **quality**: long "high quality" stocks and short "low quality" stocks
High-conviction, lower-turnover portfolio: typically 20-30 long positions and 20-30 short positions
KAR never attempts to time the market or adjust net exposure based on macroeconomic outlook

By owning a portfolio of businesses which have experienced success over various economic and market cycles and shorting companies whose financial and competitive prospects are far less certain, KAR strives to generate attractive risk-adjusted returns over the long term.

Supports behavior gap data on page 2: Average stock investor performance results are based on a DALBAR study, "Quantitative Analysis of Investor Behavior (QAIB), 2021." DALBAR is an independent financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period. The equity market is represented by the Standard & Poor's 500 Index. 20-year period ended 12/31/21.

KAR
Kayne Anderson Rudnick
A VIRTUS INVESTMENT PARTNER

To learn more, please contact us at 800-243-4361 or visit virtus.com

IMPORTANT RISK CONSIDERATIONS

Short Sales: The portfolio may engage in short sales, and may incur a loss if the price of a borrowed security increases before the date on which the portfolio replaces the security. **Non-Diversified:** The portfolio is not diversified and may be more susceptible to factors negatively impacting its holdings to the extent the portfolio invests more of its assets in the securities of fewer issuers than would a diversified portfolio. **Counterparties:** There is risk that a party upon whom the portfolio relies to complete a transaction will default. **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. **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, acts of terrorism, the spread of infectious illness or other public health issue, 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 **Russell 3000® Index** is a market capitalization-weighted index that measures the performance of the 3,000 largest U.S. companies. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The indexes are calculated on a total return basis with dividends reinvested. **Lipper Alternative Long/Short Equity Funds Index:** An unmanaged index considered representative of alternative long/short equity funds tracked by Lipper.

Please carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, 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.