

Virtus KAR Small-Mid Cap Core Fund

A: VKSAX (92828N221) | C: VKSCX (92828N213) | I: VKSIX (92828N197) | R6: VKSRX (92828N189)

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-Mid Cap Core Fund returned 10.53% (Class I) in the quarter, outperforming the Russell 2500™ Index, which returned 7.43%. Stock selection in the healthcare sector, combined with stock selection and an overweight position in the industrials sector, contributed positively to performance. Stock selection in the consumer discretionary sector and an underweight position in the materials sector detracted from performance.

CooperCompanies and Fair Isaac were the largest contributors to performance during the quarter.

- > Medical device manufacturer CooperCompanies' business remains steady, with growth in its premium vision solutions as well as its non-core fertility and medical device business. Despite margins being hurt by changes in currency and higher labor and transport costs, demand remains robust for the company's products.
- > Analytics software company Fair Isaac reported a good quarter despite a tough macroeconomic environment with large mortgage declines. In addition, the company's fiscal year 2023 guidance was stronger than expected. As a result, shares increased in the quarter.

Aspen Technology and POOLCORP were the largest detractors from performance in the quarter.

- > The merger of industrial software company Aspen Technology with another software business closed in May 2022, which made the comparability of reported financials this quarter challenging relative to previous quarters. Despite the uncertain macroeconomic environment, demand from clients remains strong, and the merger business has already helped Aspen source deals in new industry verticals. Management reiterated its guidance for the current fiscal year and highlighted the company's increased scale and access to new geographies and verticals. Despite these positives, the share price came under pressure in December as markets became more challenging and concerns rose about a highly anticipated recession in 2023.
- > Despite having a business model that has been resilient in past recessionary environments, pool products and supplies distributor POOLCORP was among the housing-related stocks that investors sold during the quarter, causing its shares to decline.

PORTFOLIO CHANGES

There were no new purchases or complete sales from the portfolio during the quarter.

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: 2018



Julie Kutasov
 Industry start date: 2001
 Start date as Fund Portfolio Manager: 2018



Craig Stone
 Industry start date: 1989
 Start date as Fund Portfolio Manager: 2018

TOP TEN HOLDINGS

	% Fund
W R Berkley Corp.	5.77
The Cooper Cos. Inc.	4.71
Nordson Corp.	4.55
Pool Corp.	4.42
Bentley Systems Inc.	4.23
LPL Financial Holdings Inc.	4.13
Charles River Laboratories International Inc.	3.95
Globus Medical Inc.	3.86
Copart Inc.	3.74
Exponent Inc.	3.73

Holdings are subject to change.

TOP CONTRIBUTORS

	% Contribution
The Cooper Cos. Inc.	1.02
Fair Isaac Corp.	0.98
Bentley Systems Inc.	0.82
W R Berkley Corp.	0.74
Globus Medical Inc.	0.73

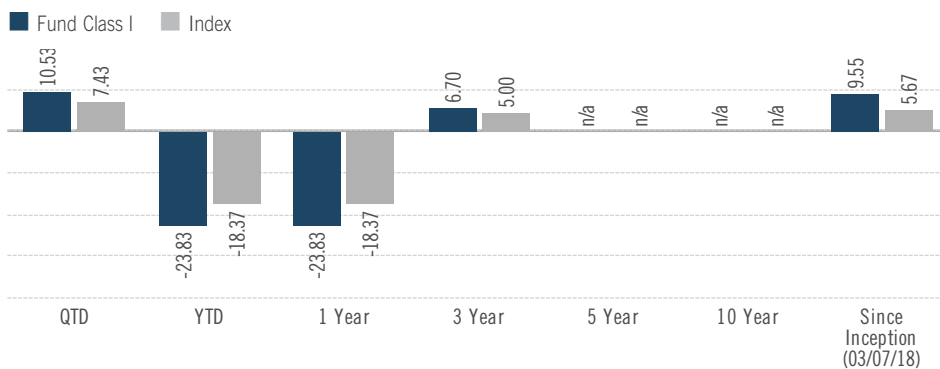
TOP DETRACTORS

	% Contribution
Aspen Technology Inc.	-0.44
Pool Corp.	-0.22
Zebra Technologies Corp.	-0.10
Jack Henry & Associates Inc.	-0.09
Watsco Inc.	-0.07

% 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 1.02%.

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 2500™ Index** is a market capitalization-weighted index of the 2,500 smallest 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 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. **Technology Concentration:** Because the portfolio is presently heavily weighted in the technology 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. 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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