

Virtus KAR Small-Mid Cap Core Fund

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

MARKET REVIEW

The first half of 2020 brought about seemingly insurmountable challenges and unpredictability on a global basis. After stocks nosedived in the first quarter, the S&P 500® Index returned 20.54% in the second quarter—its best quarter in over 20 years—erasing most (but not all) of the first-quarter losses. Year to date, the S&P 500 Index was down 3.08%. International developed markets and U.S. small stocks also rebounded strongly in the quarter, returning 14.88% and 25.42%, respectively, but they were hit harder overall in the pandemic-driven downturn relative to the U.S. large-cap equity market, declining 11.34% and 12.98%, respectively, year to date. Value stocks significantly underperformed growth stocks in the first half of the year—the Russell 1000® Value Index was down 16.26% (as value indices contain many more businesses adversely affected by COVID-19), and the Russell 1000® Growth Index was up 9.81%.

PERFORMANCE

The Fund returned 28.26% (Class I) in the quarter, outperforming the Russell 2500™ Index, which returned 26.56%. Performance was primarily driven by overweight positions and strong stock selection in the technology and consumer discretionary sectors. Poor stock selection in the healthcare sector and an underweight in the energy sector detracted from performance.

DocuSign and Thor Industries were the biggest contributors to performance in the quarter.

- > As expected, with the COVID-19 pandemic, DocuSign reported very strong demand for its core e-signature solutions, which have allowed many businesses to continue working remotely and still be able to execute contracts.
- > As a result of consumers' lack of interest in utilizing airplanes and hotels due to COVID-19, there has been healthy demand for Thor's recreational vehicles as traveling in an RV can permit physical distancing and personal living space.

AMN Healthcare Services and Elanco Animal Health were the biggest detractors from performance in the quarter.

- > AMN's healthcare staffing business was negatively impacted by COVID-19. As expected, travel nurse demand was particularly high to address COVID-19 cases in hospitals. Elective procedures ground to a halt and with it, demand for other AMN positions declined dramatically.

- > Elanco Animal Health saw its shares fall as the onset of COVID-19 temporarily impacted companion animal vet visits, and this also hurt demand for some of its pharmaceuticals. After speaking with management, we are comfortable that the company should end up stronger with the addition of several solid brands in animal health, and we continue to be investors.

PURCHASES AND SALES

During the quarter, we purchased Bright Horizons Family Solutions, and we sold Winmark.

- > Bright Horizons is a primary childcare and back-up care provider that has built a high-quality brand. The business's target market is employer organizations that provide childcare as part of their benefit packages to employees. The business is also attractive for its high switching costs as an employer-subsidized childcare program is difficult to transition to another provider.
- > We sold sporting goods retailer Winmark as current operating conditions driven by the COVID-19 pandemic remain highly challenging with mandated store closures and low visibility in terms of both the duration and scale of the impact.

OUTLOOK

Although the market greatly recovered in the quarter, we do not believe it is anticipating a robust economic recovery as many market commentators have suggested. If businesses were to get back to normal quickly, then many of the hardest hit areas in the stock market would not be 40% to 80% off of their 52-week highs set over the last year when the economy was not in a recession. Additionally, with the 10-year U.S. Treasury yield at a paltry 0.65% and the yield curve with only a slightly positive slope, this suggests a modest but not robust economic recovery. While there continues to be above-average uncertainty with concerns mounting over second wave COVID-19 risk, U.S. election results, and the economic recovery timeline, we believe our time-tested strategy of owning quality companies will continue to be rewarded over the long haul.

Virtus KAR Small-Mid Cap Core Fund

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

DocuSign Inc.	7.08
The Scotts Miracle-Gro Co.	5.31
Teradyne Inc.	4.88
Thor Industries Inc.	4.65
MSCI Inc.	4.59
Nordson Corp.	3.94
SiteOne Landscape Supply Inc.	3.94
Zebra Technologies Corp.	3.80
Pool Corp.	3.72
Charles River Laboratories International Inc.	3.51

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

DocuSign Inc.	4.75
Thor Industries Inc.	3.67
Teradyne Inc.	2.28
SiteOne Landscape Supply Inc.	1.79
The Scotts Miracle-Gro Co.	1.68

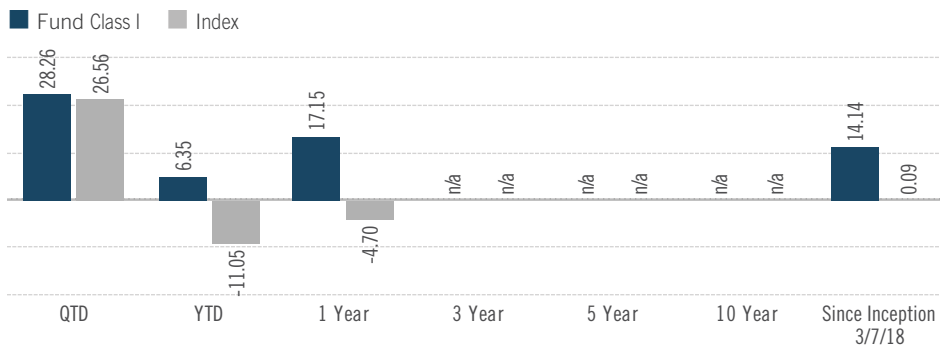
TOP FIVE DETRACTORS % Contribution

AMN Healthcare Services Inc.	-0.72
Elanco Animal Health Inc.	-0.09
Interactive Brokers Group Inc.	-0.06
Bright Horizons Family Solutions Inc.	0.03
Winmark Corp.	0.10

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/20



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 2.00%. The net expense ratio is 1.06%, which reflects a contractual expense reimbursement in effect through 1/31/2021. This ratio reflects the direct and indirect expenses paid by the Fund.

The net expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.05%.

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. **Limited Number of Investments:** Because the fund has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a less concentrated fund. **Market Volatility:** 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 fund and its investments, including hampering the ability of the fund's portfolio manager(s) to invest the fund'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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