

THE QUIET POWER OF QUALITY: KAYNE ANDERSON RUDNICK

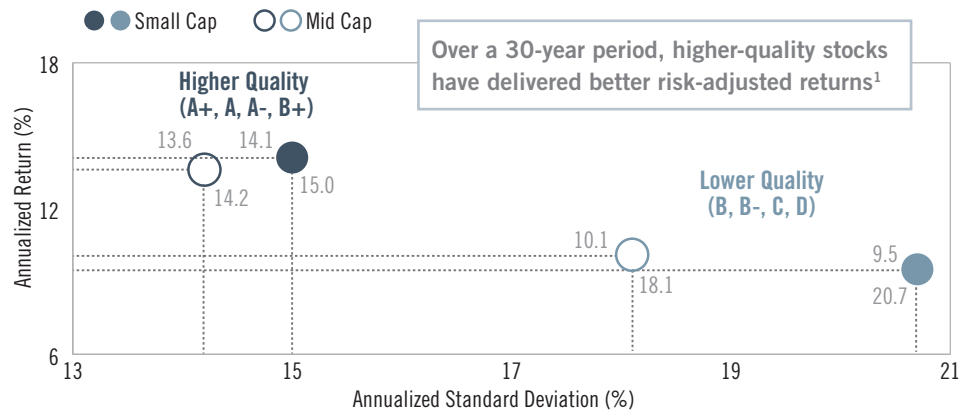


Owning equities for the long term is harder than often recognized. Choosing high-quality stocks may be a powerful solution.

Quality's Long-term Importance

Quality businesses have an unmistakable profile: durable earnings growth, high return on capital, strong balance sheets and cash flows, and management acumen at maintaining a competitive advantage. Of course these attributes—which are different than value or growth—sound attractive, but do they make a difference? Yes.

OUTPERFORMANCE BY HIGHER-QUALITY STOCKS: APRIL 1989–MARCH 2019



Past performance is not indicative of future results.
Stocks in the Russell 2000® and Russell Midcap® Indexes. Source: FactSet.

When Culture Drives the Solution

Owning quality is much easier said than done. Kayne Anderson Rudnick (KAR) has been committed to this goal since 1984. The firm's origins lie with John Anderson, entrepreneur and billionaire, who joined like-minded partners to focus on growing and preserving their own wealth responsibly by undertaking an unambiguous commitment to owning quality business, a trait that continues to underpin the firm's domestic and international equity portfolios. Together, they built an investment culture centered on owning businesses, not stocks.

A Concentrated Commitment to Quality

Distinction only comes from deviating from the crowd. KAR's exacting research generates concentrated portfolios that feature very high active share. KAR tends to own holdings for years, which has resulted in lower turnover.

	Active Share	Holdings	5-Year Average Turnover Range
VIRTUS KAR SMALL-CAP CORE FUND	0.99	27	20-30%
VIRTUS KAR SMALL-CAP VALUE FUND	1.00	28	20-30%
VIRTUS KAR SMALL-CAP GROWTH FUND	0.98	27	20-30%
VIRTUS KAR MID-CAP CORE FUND	0.96	27	25-35%

Past performance is not indicative of future results.
Active share and holdings as of 3/31/2019. Source: Morningstar Direct. Number of holdings is subject to change.

¹Asness, Clifford S. and Frazzini, Andrea and Pedersen, Lasse Heje, "Quality Minus Junk" (June 5, 2017). Available at SSRN: <http://ssrn.com/abstract=2312432>. Higher quality is defined as stocks with S&P Stock Rankings of B+ or above. Lower quality is defined as stocks with S&P Stock Rankings of B or below. **Active Share:** A measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index.

No one claims that they want to own low-quality companies. The facts don't lie: KAR's portfolios have historically generated compelling quality statistics.

Walking the Walk

We can powerfully show a portfolio's quality features by focusing on ratios such as return on equity and invested capital, return on assets, and net margins. These measures reflect a company's commitment to running an efficient, profitable enterprise.

	Return on Equity (%)	Return on Assets (%)	Return on Invested Capital (%)	Net Margin (%)
VIRTUS KAR SMALL-CAP CORE FUND (PKSFX)	38.03	17.99	59.52	19.63
RUSSELL 2000® INDEX	7.33	0.72	-0.66	8.33
PEER GROUP ¹	10.92	3.47	6.62	9.49
Percentile ▶	1%	1%	1%	1%
VIRTUS KAR SMALL-CAP VALUE FUND (PXQSX)	22.67	9.96	18.95	14.16
RUSSELL 2000® VALUE INDEX	6.82	2.18	3.97	12.01
PEER GROUP ¹	10.92	3.47	6.62	9.49
Percentile ▶	2%	2%	1%	8%
VIRTUS KAR SMALL-CAP GROWTH FUND (PXSGX)	33.37	19.05	55.64	23.42
RUSSELL 2000® GROWTH INDEX	7.83	-0.62	-3.42	4.67
PEER GROUP ¹	10.92	3.47	6.62	9.49
Percentile ▶	1%	1%	1%	1%
VIRTUS KAR MID-CAP CORE FUND (VIMCX)	28.09	12.79	19.27	15.79
RUSSELL MIDCAP® INDEX	17.34	6.01	10.94	12.49
PEER GROUP ²	16.69	5.67	10.25	11.73
Percentile ▶	3%	2%	1%	8%

Past performance is not indicative of future results.

¹ Peer Group: Each fund (Class I) is ranked against a broad universe of 1,938 (1,914 for ROIC) small-cap funds consisting of the combined Morningstar Small Blend, Small Growth, and Small Value categories.

² Peer Group: The fund (Class I) is ranked against a broad universe of 1,549 (1,528 for ROIC) mid-cap funds consisting of the combined Morningstar Mid Blend, Mid Growth, and Mid Value categories.

As of 3/31/2019. Source: Morningstar Direct.

ROE (Return on Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. **ROA (Return on Assets):** An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. **ROIC (Return on Invested Capital):** A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The return on invested capital measure gives a sense of how well a company is using its money to generate returns. **Net Margin:** The ratio of net profits to revenues for a company or business segment that shows how much of each dollar earned by the company is translated into profits.

The **Morningstar Percentile Ranking** compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst. Rankings shown are for the I share. Rankings for other share classes may vary.

Morningstar: Morningstar % Rank are based on the total return percentile rank within each Morningstar Category and does not account for a fund's sales charge (if applicable). Rankings will not be provided for periods less than one year. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. Historical percentile ranks are based on a snapshot of the funds as they were at the time of the calculation.

Percentile ranks within categories are most useful in those groups that have a large number of funds. For small universes, funds will be ranked at the highest percentage possible. For instance, if there are only two specialty-utility funds with 10-year average total returns, Morningstar will assign a percentile rank of 1 to the top-performing fund, and the second fund will earn a percentile rank of 51 (indicating the fund underperformed 50% of the sample).

Sound Execution: Attractive Gains, Lower Risk

10-YEAR	Avg. Annual Return (%)	Standard Deviation (%)	Sharpe Ratio	Downside Capture Ratio
VIRTUS KAR SMALL-CAP CORE FUND (PKSFX)	19.25	14.54	1.26	60.58
RUSSELL 2000® INDEX	15.36	17.71	0.87	100
PEER GROUP ¹	15.22	17.58	0.88	93.08
Percentile ►	3%	5%	1%	1%
10-YEAR				
VIRTUS KAR SMALL-CAP VALUE FUND (PXQSX)	15.27	15.73	0.96	75.82
RUSSELL 2000® VALUE INDEX	14.12	17.59	0.82	100.00
PEER GROUP ¹	15.22	17.58	0.88	90.70
Percentile ►	50%	12%	19%	9%
10-YEAR				
VIRTUS KAR SMALL-CAP GROWTH FUND (PXSGX)	21.99	15.10	1.37	56.93
RUSSELL 2000® GROWTH INDEX	16.52	18.28	0.91	100.00
PEER GROUP ¹	15.22	17.58	0.88	89.90
Percentile ►	1%	7%	1%	1%
5-YEAR				
VIRTUS KAR MID-CAP CORE FUND (VIMCX)	12.45	12.10	0.97	82.27
RUSSELL MIDCAP® INDEX	8.81	12.33	0.68	100.00
PEER GROUP ²	7.38	13.35	0.55	106.76
Percentile ►	4%	17%	2%	6%

Past performance is not indicative of future results.

¹ Peer Group: Each fund (Class I) is ranked against a broad universe of 1,015 small-cap funds consisting of the combined Morningstar Small Blend, Small Growth, and Small Value categories.

² Peer Group: The fund (Class I) is ranked against a broad universe of 1,144 mid-cap funds consisting of the combined Morningstar Mid Blend, Mid Growth, and Mid Value categories.

As of 3/31/2019. Source: Morningstar Direct.

Standard Deviation: Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Sharpe Ratio:** A statistic that measures the efficiency, or excess return per unit of risk, of a manager's returns. The greater the Sharpe Ratio, the better the portfolio's risk adjusted return. **Downside Capture Ratio:** A measure of a manager's ability to retain capital as the market declines. A value below 100 indicates that a manager was able to outperform in down markets.

Morningstar: Morningstar % Rank are based on the total return percentile rank within each Morningstar Category and does not account for a fund's sales charge (if applicable). Rankings will not be provided for periods less than one year. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. Historical percentile ranks are based on a snapshot of the funds as they were at the time of the calculation.

Percentile ranks within categories are most useful in those groups that have a large number of funds. For small universes, funds will be ranked at the highest percentage possible. For instance, if there are only two specialty-utility funds with 10-year average total returns, Morningstar will assign a percentile rank of 1 to the top-performing fund, and the second fund will earn a percentile rank of 51 (indicating the fund underperformed 50% of the sample).

KAR has achieved attractive risk-adjusted returns in a number of its offerings.

KAR

Kayne Anderson Rudnick

A VIRTUS INVESTMENT PARTNER

To learn more about Kayne Anderson Rudnick's relentless focus on high-quality businesses, contact us at 1-800-243-4361 or visit virtus.com

Average Annual Total Returns (%) Class I as of 3/31/2019

Virtus KAR Small-Cap Core Fund (PKSFX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 10/18/1996	SMALL GROWTH CATEGORY				
								OVERALL	3 YEAR	5 YEAR	10 YEAR	
NAV	21.42	21.42	12.35	22.41	15.87	19.25	10.47	★★★★★	★★★★★	★★★★★	★★★★★	
Index ¹	14.58	14.58	2.05	12.92	7.05	15.36	8.28	# OF FUNDS	588	588	522	392

The fund class gross expense ratio is 1.03%, and reflects the direct and indirect expenses paid by the Fund. The gross expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.01%.

Effective July 31, 2018, this Fund is closed to new investors. Please see the prospectus for exceptions.

Virtus KAR Small-Cap Value Fund (PXQSX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 6/28/2006	SMALL GROWTH CATEGORY				
								OVERALL	3 YEAR	5 YEAR	10 YEAR	
NAV	10.88	10.88	-4.20	9.30	7.68	15.27	8.12	★★★	★	★★★	★★★	
Index ²	11.93	11.93	0.17	10.86	5.59	14.12	6.62	# OF FUNDS	588	588	522	392

The fund class gross expense ratio is 0.99%.

Virtus KAR Small-Cap Growth Fund (PXSGX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 6/28/2006	SMALL GROWTH CATEGORY				
								OVERALL	3 YEAR	5 YEAR	10 YEAR	
NAV	22.20	22.20	23.07	28.68	20.54	21.99	12.53	★★★★★	★★★★★	★★★★★	★★★★★	
Index ³	17.14	17.14	3.85	14.87	8.41	16.52	9.25	# OF FUNDS	588	588	522	392

The fund class gross expense ratio is 1.14% and reflects the direct and indirect expenses paid by the Fund.

The gross expense ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests is 1.10%.

Effective September 28, 2018, this Fund is closed to new investors. Please see the prospectus for exceptions.

Virtus KAR Mid-Cap Core Fund (VIMCX)

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEP 6/22/2009	MID-CAP GROWTH CATEGORY				
								OVERALL	3 YEAR	5 YEAR	10 YEAR	
NAV	13.62	13.62	6.73	13.83	12.45	n/a	14.80	★★★★	★★★	★★★★★	n/a	
Index ⁴	16.54	16.54	6.47	11.82	8.81	n/a	15.54	# OF FUNDS	555	555	495	n/a

The fund class gross expense ratio is 1.14%. The net expense ratio is 0.95%, which reflects a contractual expense reimbursement in effect through 1/31/2020.

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit virtus.com for performance data current to the most recent month-end.

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. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

IMPORTANT RISK CONSIDERATIONS

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. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Prospectus:** For additional information on risks, please see the fund's prospectus.

¹The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies.

²The **Russell 2000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 largest U.S. companies.

³The **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.

⁴The **Russell Midcap® Index** is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies.

The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

Strong ratings are not indicative of positive fund performance.

Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads.

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