QUALITY COUNTS

INVESTING IN HIGH-QUALITY EQUITIES OVER THE LONG TERM

VIRTUS INVESTMENT PARTNERS

Allocating to high-quality stocks may improve long-term, risk-adjusted returns, helping support investors' commitment to their future investment goals and objectives. As history shows, a quality-focused portfolio tends to perform well *over time*—but *not all the time*.

In equity investing, the journey to successful outcomes is never a straight line. All investment styles—including growth, value, and quality—go in and out of favor with market cycles, but companies with high-quality attributes have historically outperformed over time and with less risk.

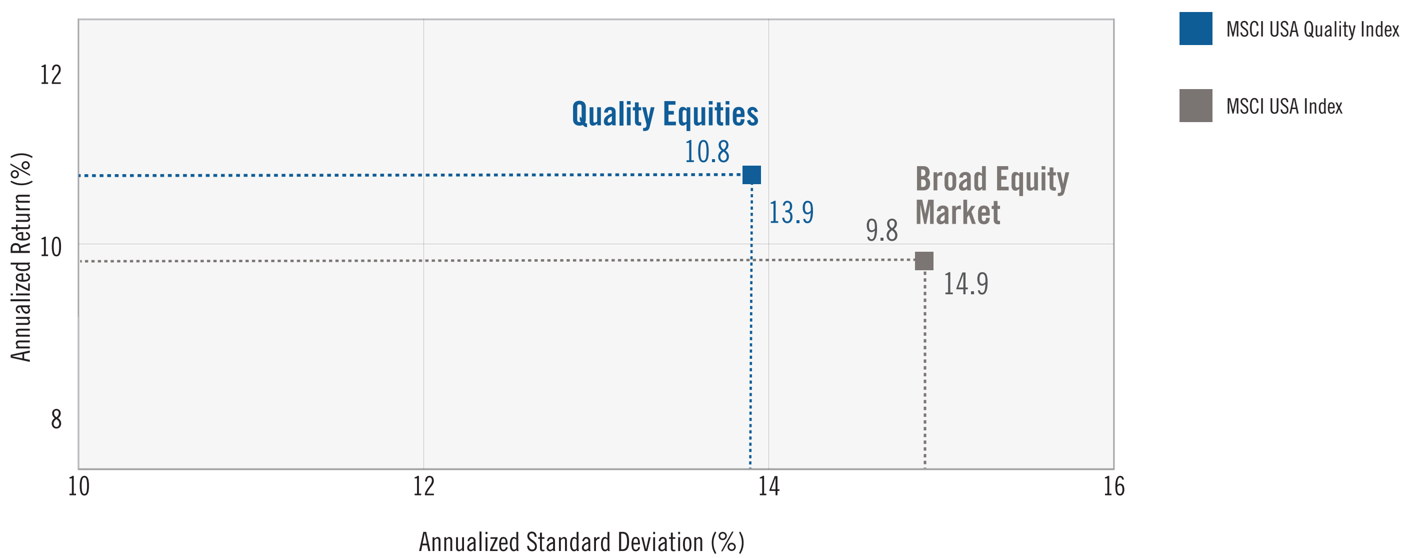
Since late 2020, the vast majority of companies within the U.S. considered high quality have lagged the broader market. Quality, as defined by the MSCI USA Quality Index, are businesses with high returns on equity, stable earnings growth, and low financial leverage. During this period, fears of inflation and rising interest rates have weighed on quality companies, pushing valuation multiples lower and running contrary to most investor expectations that quality stocks can typically weather heightened market volatility better.

Maintaining a longer-term perspective during periods of underperformance and uncertainty may help investors stay the course and remain committed to their investment plan.

The Benefits of a Long-Term View of Quality

Over the last 20 years, higher-quality stocks have delivered better risk-adjusted returns than the broader equity market. For investors with a long-term view, high-quality stocks offer the potential for growth and could mitigate market volatility across market cycles.

HIGHER-QUALITY STOCKS HAVE OUTPERFORMED OVER TIME WITH LOWER VOLATILITY
October 2002–December 2022



Source: Morningstar. **Past performance is not indicative of future results.**

The Advantage of a High-Quality Focus

The potential long-term benefits of investing in companies with higher-quality characteristics are well documented. The following charts show the excess returns of the MSCI USA Quality Index compared with the broader MSCI USA Index over increasingly longer rolling timeframes—three months, three years, and five years—spanning 20 years in total.

The message is clear: Historically, a quality-focused portfolio tends to perform well *over time*—but *not all the time*.

On a three-month rolling basis, market leadership between high- and low-quality stocks fluctuated often. However, over three- and five-year rolling periods, quality outperformed more frequently.

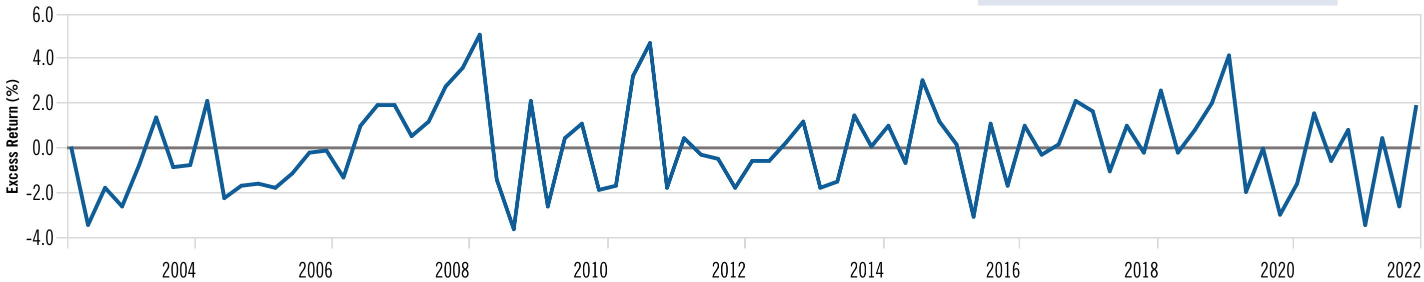
HIGH QUALITY HAS OUTPERFORMED MOST OF THE TIME

MSCI USA Quality Index   MSCI USA Index

Three-Month Rolling Returns

1/1/2003–12/30/2022

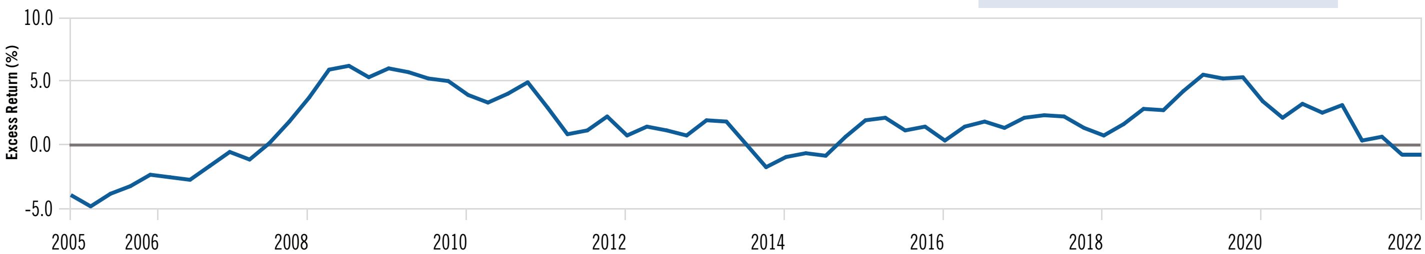
Quality outperformed in **49%** of rolling periods.



Three-Year Rolling Returns

1/1/2003–12/30/2022

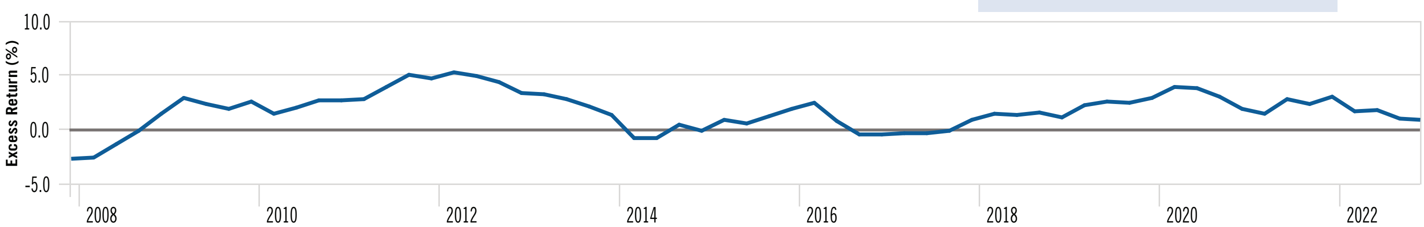
Quality outperformed in **75%** of rolling periods.



Five-Year Rolling Returns

1/1/2003–12/30/2022

Quality outperformed in **89%** of rolling periods.

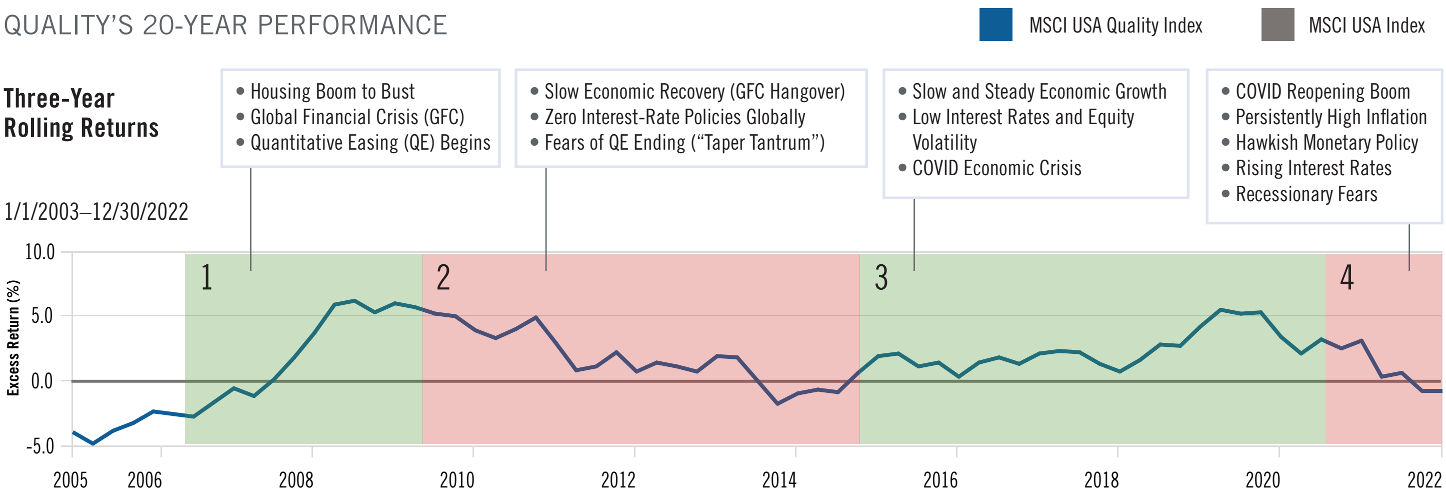


Source: Morningstar. As of 12/30/2022. **Past performance is not indicative of future results.**

Market Trends May Change, But Quality is Always in Style

Because nothing exists in a vacuum, the market environment can at times influence how quality performs. A closer look at the rolling three-year performance over the last 20 years reveals four distinct periods when quality experienced a shift in performance. Even with these shifts, quality stocks offered more attractive risk-adjusted returns in three out of the four periods.

QUALITY'S 20-YEAR PERFORMANCE



	Period	Quality Shift	Index	Annualized Return (%)	Standard Deviation (%)
1	3/1/2006–5/31/2009	Underperform to Outperform	MSCI USA Quality	-2.8	15.8
			MSCI USA	-7.6	18.3
2	6/1/2009–11/30/2014	Outperform to Underperform	MSCI USA Quality	18.7	11.9
			MSCI USA	18.4	13.0
3	12/1/2014–8/31/2020	Underperform to Outperform	MSCI USA Quality	15.2	14.0
			MSCI USA	12.1	14.7
4	9/1/2020–Present	Outperform to Underperform	MSCI USA Quality	2.3	20.2
			MSCI USA	4.7	19.4

Source: Morningstar. As of 12/30/2022. **Past performance is not indicative of future results.**

A "Smoother Ride" Over Time

Annual returns alone do not reveal the full extent of the "ride" experienced with any investment. Maximum drawdowns—the biggest value decline during a period—is perhaps a more important gauge for assessing how an investment may behave within a portfolio.

Over the last 20 years, quality stocks experienced lower maximum drawdowns in more than two-thirds of calendar years than the broader stock market. Additionally, quality stocks delivered, on average, a higher absolute return and a lower maximum drawdown during this period.

QUALITY'S LONG-RUN RESILIENCE

Returns (%)

Index	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Avg.
MSCI USA Quality	-19.5	20.2	10.2	2.5	12.0	10.6	-30.2	32.0	12.6	8.4	14.0	33.5	11.8	7.0	8.0	26.0	-2.6	39.1	22.9	27.6	-22.7	12.2
Maximum Drawdown	-30.6	-12.0	-6.7	-6.2	-7.9	-7.5	-40.2	-20.7	-13.8	-14.6	-9.1	-6.2	-6.7	-11.5	-9.7	-2.7	-19.5	-8.1	-30.7	-7.9	-29.9	-13.6
MSCI USA	-22.7	29.1	10.7	5.7	15.3	6.0	-37.1	27.1	15.4	2.0	16.1	32.6	13.4	1.3	11.6	21.9	-4.5	31.6	21.4	27.0	-19.5	11.4
Maximum Drawdown	-33.7	-13.7	-7.6	-6.8	-7.7	-9.8	-48.0	-26.7	-15.8	-18.8	-9.7	-5.7	-7.4	-12.1	-10.8	-2.5	-19.5	-6.6	-34.1	-5.4	-25.4	-14.7

Source: Morningstar. As of 12/30/2022. **Past performance is not indicative of future results.**

Diversifying an equity portfolio with high-quality stocks may potentially improve risk-adjusted returns on a long-term basis. Virtus offers a diverse range of equity solutions emphasizing quality through its affiliated investment partners.

CEREDEX VALUE ADVISORS®
A VIRTUS INVESTMENT PARTNER

With value equity investing roots tracing back to 1989, Ceredex Value Advisors has a strong history of identifying value across the equity markets. Ceredex's experienced investment team applies fundamental research to seek out compelling opportunities in undervalued companies with attractive upside potential.

KAR
Kayne Anderson Rudnick
A VIRTUS INVESTMENT PARTNER

Since 1984, Kayne Anderson Rudnick believes that superior risk-adjusted returns may be achieved through investment in high-quality companies with market dominance, excellent management, financial strength, and consistent growth, purchased at reasonable prices.

nfj
A Virtus Investment Partner

NFJ Investment Group is a global value equity manager with a rich heritage and deep roots in Dallas, Texas, dating to 1989. NFJ is unwavering in its commitment to investing at the intersection of value, quality, and shareholder yield, seeking to identify companies with low market expectations and the strongest prospects for returning capital to shareholders.

Vontobel

Founded in 1984, Vontobel Asset Management's Quality Growth Boutique believes that the best way to achieve capital appreciation and outperform the market over time is by investing in well-managed businesses that have consistent operating histories and financial performance with favorable long-term growth prospects.

SILVANT CAPITAL MANAGEMENT®
A VIRTUS INVESTMENT PARTNER

Silvant Capital Management is a growth equity boutique guided by their belief that growth companies can be found in every corner of the economy. Silvant strives to evaluate positive secular trends and disruptive products and services that can change the business landscape, identifying those companies best positioned to exceed investor expectations.

SGA
Sustainable Growth Advisers
A VIRTUS INVESTMENT PARTNER

Founded in 2003, Sustainable Growth Advisers is a growth equity manager focused on high-conviction U.S., global, emerging markets, and international large-cap portfolios. SGA believes that investing in differentiated businesses with predictable, sustainable earnings and strong cash flow growth can generate excellent absolute and relative returns over time.

To learn more about Virtus' quality-driven equity strategies, visit virtus.com or call us at 800-243-4361.

Past performance is not a guarantee of future results.

The following indexes are unmanaged, returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

The **MSCI USA Index** is designed to measure the performance of the large and mid-cap segments of the U.S. market. With 624 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

The **MSCI USA Quality Index** is based on the MSCI USA Index, its parent index, which includes large and mid-cap stocks in the U.S. equity market. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage.

Standard Deviation: Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

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.

All investments carry a certain degree of risk, including possible loss of principal.

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