VIRTUS FUNDS

Mid-Caps at the Center of Attention

A Core Component of a Diversified Equity Portfolio

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Mid-cap stocks have historically outperformed large- and small-cap stocks over the long run and with less risk than small caps. Investors lacking mid-cap exposure may be missing out on the diversification potential of a key equity segment. In this paper, we will review:

> the historical performance, attributes, and fundamental strengths that distinguish mid-cap companies from small caps and large caps,

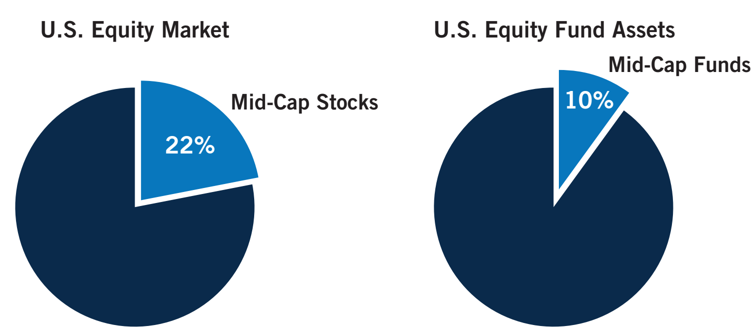
> the opportunity that exists for active portfolio managers to add value in the mid-cap equity space, and

> how a focus on high-quality mid-cap companies has helped the Virtus KAR Mid-Cap Core Fund achieve strong performance since its 2009 inception.

An Overlooked Equity Segment

Mid-caps—typically defined as companies with market capitalizations between $2 billion and $10 billion, but which can often reach $50 billion—fall between headline-grabbing large-cap stocks and small-cap stocks with high growth potential. Because the lines between market caps can be blurry, many investors believe owning a portfolio of large- and small-cap stocks provides sufficient exposure across the market cap spectrum. As a result, mid-caps are often underrepresented in investor portfolios, as evidenced by the fact that mid-caps make up about 22% of the U.S. equity market but account for just 10% of invested U.S. equity mutual fund assets. (Figure 1).

FIGURE 1: UNDEROWNED BY INVESTORS



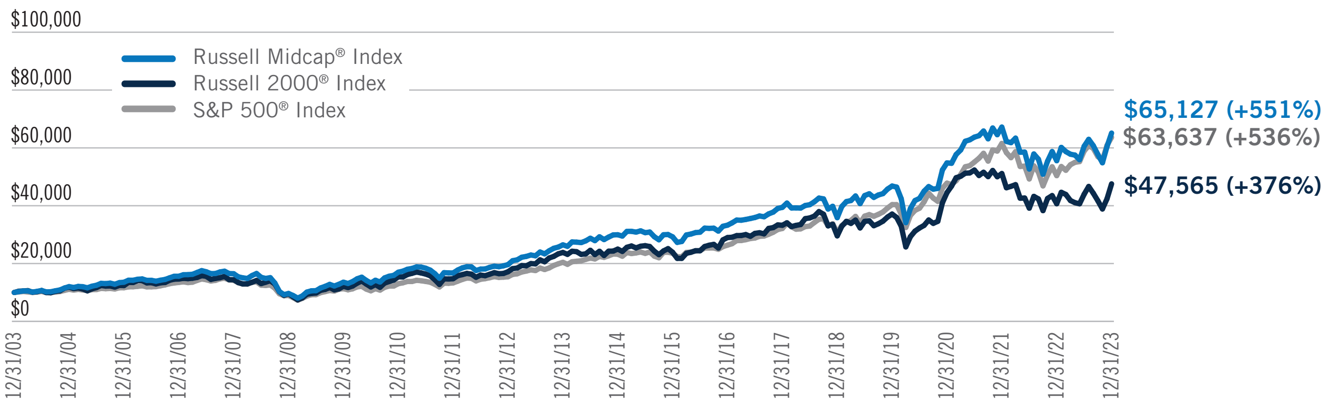
Sources: FTSE Russell and Morningstar Direct, as of 12/31/23. U.S. Equity Market = Russell 3000® Index. Mid-Cap Equity Market = Russell Midcap® Index. U.S. Equity Fund Assets = Morningstar U.S. Mid-Cap categories. For index definitions, please see page 5.

The Sweet Spot between Small and Large

Mid-caps can blend some of the more attractive attributes of small caps and large caps. Smaller companies offer outsized growth potential but may exhibit higher volatility and heavier dependence on debt. Large-cap companies may be well established and more likely to pay dividends but have more limited growth prospects. Mid-caps neatly bridge the gap in between—still small enough to experience relatively high growth rates yet mature enough to have proven business plans, more experienced management, and generally greater stability.

Over the last 20 years, mid-caps have outperformed both large caps and small caps. As shown in Figure 2, an investment in mid-cap stocks would have returned slightly more than large caps (over 2%) and about 37% more than small caps during this time frame.

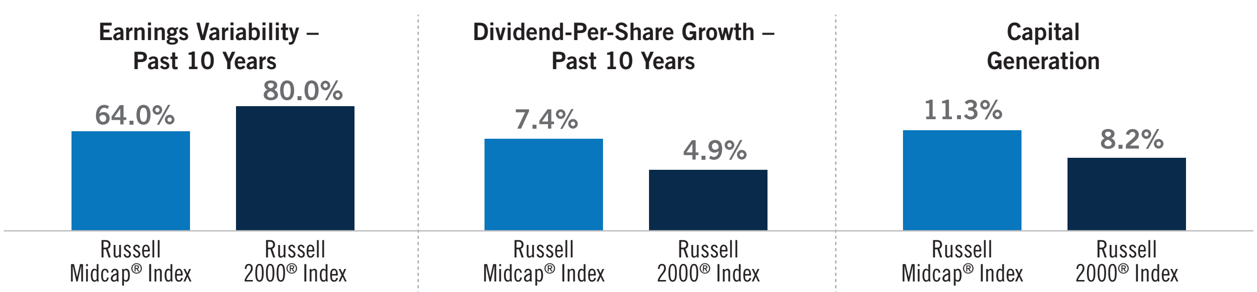
FIGURE 2: MID-CAPS HAVE OUTPERFORMED OVER TIME
Hypothetical Growth Of $10,000 by Market Cap Over 20 Years



Past performance is no guarantee of future results. Data is for the 20 years ending 12/31/23. Source: FactSet. Throughout this paper, large-cap stocks are represented by the S&P 500® Index, mid-cap stocks are represented by the Russell Midcap® Index, and small-cap stocks are represented by the Russell 2000® Index. For index definitions, please see page 5. Indexes are not available for direct investment.

A comparison of mid-caps to their small-cap peers (Figure 3) reveals that mid-caps have exhibited more consistency in profitability, as measured by earnings variability, higher income potential, as measured by dividend growth, and a greater ability to generate capital, which is a key indicator of their financial strength.

FIGURE 3: STRONG FUNDAMENTALS COMPARED TO SMALL CAPS



Past performance is no guarantee of future returns. Data as of 12/31/23, obtained from BNY Mellon, and assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. For investment term and index definitions, please see page 5.

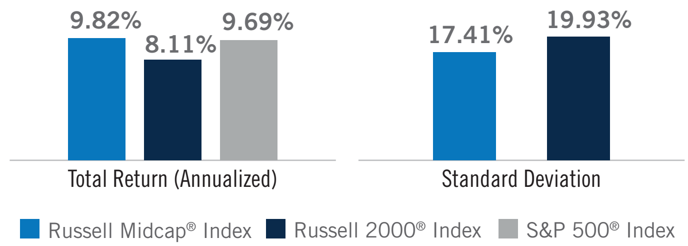
Diversification Potential

Mid-caps have produced higher returns than large caps and small caps over 20 years, with lower volatility than small caps (Figure 4). Equity portfolios without a dedicated mid-cap allocation may be missing out on the potential diversification benefits of mid-cap stocks over time.

The Market Opportunity

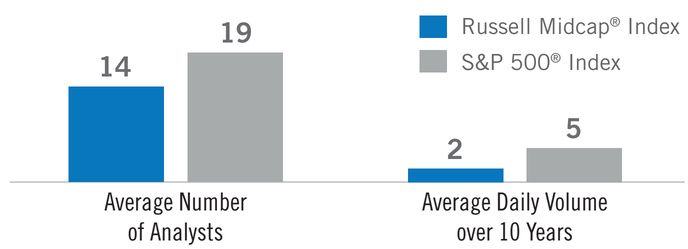
Mid-caps receive significantly less research coverage than large caps, and mid-cap shares trade at less than half the volume of large cap shares (Figure 5). This creates opportunities for active portfolio managers to add value by uncovering quality companies with the potential for strong returns.

FIGURE 4: HISTORICAL RETURNS, STANDARD DEVIATION – 20 YEARS



Past performance is no guarantee of future results. Data as of 12/31/23, obtained from Morningstar Direct, and assumed to be reliable. For investment terms and index definitions, please see page 5.

FIGURE 5: LESS COVERAGE, TRADING ACTIVITY

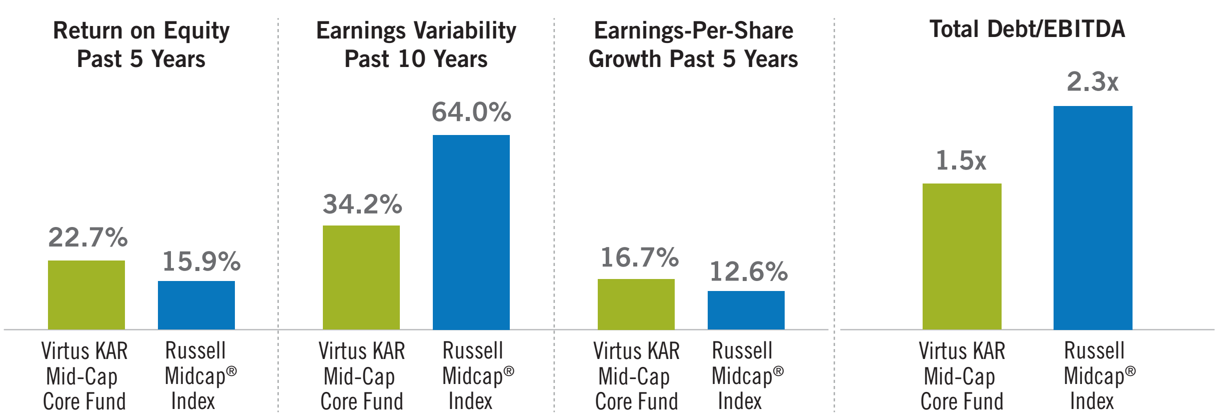


Past performance is no guarantee of future results. Data as of 12/31/23, obtained from FactSet, and assumed to be reliable.

A Quality Approach to Active Mid-Cap Investing

The Virtus KAR Mid-Cap Core Fund (I: VIMCX), managed by Kayne Anderson Rudnick (KAR), selectively invests in a portfolio of quality mid-cap companies believed to have durable competitive advantages, excellent management, lower financial risk, and strong growth trajectories. In KAR's view, a portfolio of quality businesses with solid fundamental characteristics (Figure 6) can lead to strong relative performance in both good and bad markets.

FIGURE 6: QUALITY CHARACTERISTICS

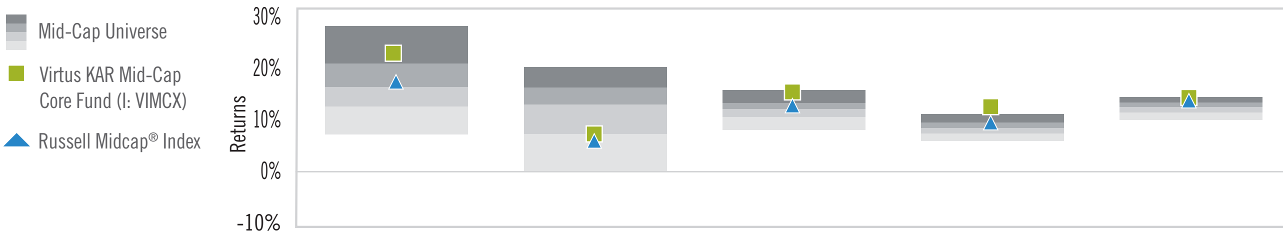


Past performance is no guarantee of future results. Data as of 12/31/23, obtained from Frank Russell Company and FactSet, and assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. For investment term definitions, please see page 5.

Why Active Over Passive

Figure 7 supports active mid-cap investing. It compares passive mid-cap investing, represented by the Russell Midcap Index, to active mid-cap investing, represented by the Morningstar mid-cap fund universe, with return breakdowns by quartile. For all periods shown, the top quartiles of active mid-cap strategies, including the Virtus KAR Mid-Cap Core Fund, outpaced the Index. In our view, this illustrates the value that active management—and more particularly, KAR's quality-driven approach—can offer over passive market participation.

FIGURE 7: MID-CAP UNIVERSE COMPARISON – ACTIVE VS. PASSIVE (ANNUALIZED RETURNS)



	Average Annual Total Returns (%)				
	1 Year	3 Years	5 Years	10 Years	Since Inception
Peer Group Median	16.48	5.81	12.13	8.50	12.52
Virtus KAR Mid-Cap Core Fund (I: VIMCX)	22.68	7.24	15.28	12.46	14.22
Russell Midcap Index	17.23	5.92	12.68	9.42	13.62
# of Funds	1379	1324	1274	1107	1000

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 1.06%. The net expense ratio is 0.95%, which reflects a contractual expense reimbursement in effect through 1/31/2025.

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.

Quartile rankings as of 12/31/23, obtained from Morningstar Direct, and assumed to be reliable. Virtus KAR Mid-Cap Core Fund (Class I) ranked against a broad Mid-Cap Universe consisting of the combined Morningstar Mid-Cap Blend, Mid-Cap Growth, and Mid-Cap Value categories, based on annualized returns.

In Conclusion

Based on historical data, an actively managed mid-cap strategy offers the potential to add value compared to a passive, index-driven approach. In our view, the question is not whether to add mid-caps, but how best to achieve mid-cap exposure. The time-tested Virtus KAR Mid-Cap Core Fund is an active mid-cap strategy with strong quality characteristics and performance results that investors may wish to consider.

About Kayne Anderson Rudnick

High quality at a reasonable price is the guiding principle at Kayne Anderson Rudnick (KAR). The firm manages investment solutions for individuals and institutions, with a focus on companies across market caps that are characterized by market dominance, excellent management, financial strength, and consistent growth. Founded in 1984, and affiliated with Virtus Investment Partners since 2001, Los Angeles-based KAR has $59.6 billion in assets under management, as of December 31, 2023.

About Virtus Investment Partners

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process, and individual brand.

VIRTUS FUNDS

To learn more about the Virtus KAR Mid-Cap Core Fund and other quality equity strategies managed by KAR, visit virtus.com or call us at 800-243-4361.

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, medium, or large-sized companies may enhance that risk. **Industrial Concentration:** Because the portfolio is presently heavily weighted in the industrial 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. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

INVESTMENT TERMS

Capital Generation indicates how quickly a firm can grow without changing its financing and dividend policies. The retention ratio is calculated as one minus the dividend payout ratio. Capital generation illustrates the importance of profitability (return on equity) and a firm's dividend policy on a company's growth. **Dividend-per-Share Growth** measures the trailing dividends/share growth of a portfolio's holdings. **Earnings-per-Share (EPS) Growth (Past 5 Years)** indicates the earnings available to each common share. Earnings-per-share growth is the growth rate of these earnings per share. On a portfolio level, this statistic measures the trailing earnings per share growth of a portfolio's holdings. **Earnings Variability (Past 10 Years)** measures the volatility of the annual earnings per share over the past 10 years. On a portfolio level, a high earnings variance means the portfolio is heavily invested in companies with volatile earnings. Unlike earnings growth, this statistic looks at the companies' earnings patterns. Newer companies and smaller companies tend to have highly variable earnings. **Market Capitalization** is calculated by multiplying a company's outstanding shares by its stock price. As generally defined, the market cap range for small caps is $300 million to $2 billion, $2 billion to $10 billion for mid-caps, and $10 billion to $200 billion for large caps. **Return on Equity (ROE) (Past 5 Years)** relates to how well a company is using the money invested in it over the past 5 years so that it can bring a return to its investors. A high portfolio ROE indicates that the portfolio is invested in historically profitable companies. **Standard Deviation** measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Total Debt/EBITDA** is calculated by dividing total debt by earnings before interest, taxes, depreciation, and amortization. It is a measure of a company's ability to pay off its incurred debt.

INDEX DEFINITIONS

The **Russell Midcap® Index** is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **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. The index is calculated on a total return basis with dividends reinvested. The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is 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 they are not available for direct investment.

The commentary is the opinion of Kayne Anderson Rudnick. 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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