

Virtus KAR International Small-Cap Fund

A: VISAX (92828W841) | C: VCISX (92828W833) | I: VIISX (92828W825) | R6: VRISX (92828W551)

MARKET REVIEW

For three consecutive quarters, global equity markets have increased substantially with international performance benefiting from a decline in the U.S. dollar. During the third quarter, the MSCI All Country World ex-U.S. Small Cap Index rose 6.90% and has returned 23.54% year to date. Positive economic momentum in Europe continued, leading to particularly strong performance in European equities. In addition, emerging markets have outpaced developed markets year to date, led by Brazil which has rebounded strongly following the recent financial and political crises. Overall, economically sensitive sectors, such as technology and industrials, outperformed more defensive areas like healthcare and consumer staples.

PERFORMANCE

The Fund's return of 4.83% (Class I) in the quarter underperformed the 6.90% return of the MSCI All Country World ex-U.S. Small Cap Index. Given the strong broad performance, and the tendency of our companies to be more defensive in nature, this result is not surprising.

Autohome and WIN-Partners were the top contributors to portfolio returns.

> Autohome, which operates the leading online automotive information destination in China, was once again our strongest performer. Over the last few quarters, Autohome's shares have increased dramatically as recent cost reductions in unprofitable business lines has led to dramatic margin improvement and has highlighted the strength of Autohome's core media and lead generation business. Recently, the company announced the president and chief financial officer would be leaving the company. While this development was a surprise, after several conversations with parties inside and outside of the company, we believe our long-term thesis remains unchanged and that the departures were not due to any fundamental concerns about the company.

> WIN-Partners, a medical device distributor in Japan, reported strong earnings results with double-digit growth in operating income and earnings per share.

Sarine Technologies and Oyj Tikkurila were the weakest stock performers.

> Our largest detractor from performance was Sarine Technologies, the global leader in diamond processing equipment. Sarine's results have been negatively impacted recently by brazen technology infringement in their largest market, India. Sarine has taken legal actions to protect their patents, but the uncertainty relating to this issue has put negative pressure on the shares.

> Oyj Tikkurila, the leading paint manufacturer in Finland, underperformed due to worse-than-expected earnings results. We believe the issues are cyclical in nature and do not represent any structural change to our investment thesis for owning the stock.

PORTFOLIO CHANGES

During the quarter, the Fund bought Union de Cervecerias Peruanas Backus y Johnston (Backus), the largest brewery in Peru, and JOST Werke, a German truck trailer manufacturing company.

The Fund sold Premier Marketing, a Thailand-based company engaged in the distribution of consumer food and household products, DVx, a Japan-based company mainly engaged in the sale of medical equipment for the treatment of circulatory diseases, and Victrex, a UK-based supplier of high performance polymer solutions.

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INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

INVESTMENT PROFESSIONALS



Craig Stone
Industry start date: 1989
Start date with the Fund: 2012



Craig Thrasher, CFA
Industry start date: 2003
Start date with the Fund: 2012

TOP TEN HOLDINGS

% Fund

Auto Trader Group plc	5.52
Rightmove plc	5.07
Scout24 AG	4.91
Howden Joinery Group plc	3.57
Euler Hermes Group S.A.	3.53
Autohome, Inc.	3.15
Alten SA	3.01
Fabryka Farb i Lakierow Sniezka S.A.	2.85
WIN-Partners Co., Ltd.	2.68
Asiakastieto Group Oyj	2.60

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS as of 9/30/17 in percent

I Share	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 9/5/2012
NAV	4.83	24.33	27.73	11.80	14.60	n/a	14.61
Index	6.90	23.54	19.19	8.14	9.68	n/a	10.71

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.

The fund class gross expense ratio is 1.61%. The net expense ratio is 1.35%, which reflects a contractual expense reimbursement in effect through 4/30/2018.

Average annual total returns reflect the change in share price and the reinvestment of all dividends and capital gains. Class I shares have no sales charge and therefore their returns do not reflect the deduction of a sales charge, which if applied, would reduce the performance quoted. Fees and expenses vary among share classes and other share classes do carry sales charges. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required and may not be available to all investors. For Fund Performance on other share classes, please visit www.virtus.com.

Index: The MSCI ACWI ex U.S. Small Cap Index (net) is a free float-adjusted market capitalization-weighted index that measures small-cap equity performance of developed and emerging markets, excluding the U.S. The index is calculated on a total return basis with net 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. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market 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.

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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