

## Virtus KAR International Small-Cap Fund

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

### MARKET REVIEW

The international small-cap market, as measured by the MSCI All Country World ex. U.S. Small Cap Index (ACWI ex U.S. Small Cap), declined 14.39% in the fourth quarter of 2018, bringing the decline for the year to 18.20%. Equity markets around the world experienced a dramatic change in sentiment in the second half of 2018. In 2017 and early 2018, investors were enamored with the so-called synchronized global growth story, upon which equity markets rallied strongly. In the latter part of 2018, greed turned to fear as investors began to focus on slowing global economic growth, increasing trade tensions, and tightening monetary conditions. The result was a significant correction in global equity markets.

The fourth-quarter selloff was broad-based with substantial declines in virtually all major markets and sectors. Brazil was a notable exception as stocks in that country benefited from an economy that is starting to recover from a major financial and political crisis. The election of an administration viewed as more business-friendly also helped the country's stock market performance. After a period of recent underperformance, emerging markets overall substantially outperformed developed markets during the fourth quarter.

### PERFORMANCE

During the quarter, the Fund (Class I) returned -10.47%, outperforming the benchmark MSCI ACWI ex U.S. Small Cap Index, which returned -14.43% for the period. The Fund (Class I) also significantly outperformed over the one-year period, returning -6.79% versus the benchmark's -18.20%. Given the more defensive nature of our holdings, we typically expect the portfolio to outperform the benchmark in volatile or down markets.

The top three performance contributors in 2018 were all in the online classifieds space: Autohome, Auto Trader, and Scout 24.

- > Autohome operates the largest online automotive information destination in China. The stock has been our top contributor to performance over the last two years as the company has posted consistently strong results. For the first nine months of 2018, revenues, operating income, and earnings per share all grew more than 30%.
- > Auto Trader operates the largest online automotive classifieds marketplace in the United Kingdom. The stock was one of our largest detractors in 2017 as investors were concerned about the negative impact of declining car sales on the business. As the company has demonstrated the ability to grow steadily despite the difficult macro environment, investors have responded favorably, and its stock valuation has rebounded.

- > Scout 24 operates Germany's leading online real estate portal. The company's shares rallied in the fourth quarter due to excellent earnings results and reports that the company is exploring a sale to a private equity investor.

The three largest detractors from performance in 2018 were Sina, JOST Werke, and WABCO.

- > Our largest detractor from performance in 2018 was Chinese technology company Sina. Sina's largest asset by far is its controlling stake in Weibo, one of the largest social media platforms in China. Sentiment on Sina has turned quite negative recently due to concerns over the negative impact on advertising spending from a slowing Chinese economy. In addition, Weibo is facing increased competition from newer platforms such as the short video app Douyin. We believe that Weibo will continue to be an indispensable social media destination for users and advertisers and that the current stock valuation is attractive.
- > Two other detractors for 2018 are both industrial companies that sell parts to the commercial truck industry. Germany-listed JOST Werke is the largest maker of fifth wheels and landing gears globally. WABCO, listed in the U.S., is a leading provider of electronic braking, stability, and suspension equipment. As concerns began to mount about the prospects for global growth, investors were less inclined to own economically sensitive stocks, and the shares of both companies declined. As long-term investors, we do not try to time market cycles. Instead, we focus on the competitive positions of the companies we own and their long-term prospects. JOST Werke and WABCO have maintained their leading positions in their markets, and we expect them to continue to grow over time.

### PORTFOLIO CHANGES

During the quarter, the Fund sold Money Forward (Japan), an accounting software company, and purchased a number of holdings: cafe24 (South Korea), a global e-commerce platform; credit rating agency CARE Ratings (India); Carsales.com (Australia), an online marketplace specializing in automotive, motorcycle, and marine classifieds; CTS Eventim (Germany), an event marketer and ticket sales provider; DVx (Japan), a manufacturer of medical devices for heart arrhythmia and ischemia therapy; GoCompare.com (UK), a financial products comparison website; Haitian International Holdings (China), which manufactures plastic injection molding machines; Moneysupermarket.com (UK), a financial and travel online marketplace; Mortgage Advice Bureau (UK), a mortgage service provider; and Sinmag Equipment (China), manufacturer of bakery and food service equipment.

## Virtus KAR International Small-Cap Fund

### INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

### INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

### PORTFOLIO MANAGERS



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



**Hyung Kim**  
Industry start date: 2004  
Start date with Fund: 2018

### TOP TEN HOLDINGS

% Fund

Vostok New Ventures Ltd Shs Swedish Depository Receipts	4.89
Rightmove PLC	4.60
Scout24 AG	4.09
Auto Trader Group PLC	3.57
Haw Par Corporation Ltd.	3.56
WABCO Holdings Inc.	3.50
SINA Corp.	3.14
Sabre Insurance Group PLC	3.08
Alten SA	2.83
Autohome, Inc. Sponsored ADR Class A	2.79

Holdings are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 9/5/2012
Fund Class I	-10.47	-6.79	-6.79	13.17	6.85	n/a	10.89
Index	-14.43	-18.20	-18.20	3.82	1.96	n/a	6.17

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](http://virtus.com) for performance data current to the most recent month-end.

The fund class gross expense ratio is 1.31% 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 1.29%.

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](http://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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