

Virtus KAR International Small-Mid Cap Fund

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

MARKET REVIEW

The benchmark MSCI All Country World ex USA Small Mid Cap Index advanced 9.91% in the fourth quarter of 2023 and 15.79% for the full year. Inflation and interest rate expectations have been the primary drivers of equity and bond market performance over the last two years. After surprisingly high and persistent inflation in 2022, inflation came down in 2023, leading to a broad rebound in most asset classes.

Virtually all equity markets advanced during the fourth quarter, with China being a notable exception. Investors have fled the Chinese market as a host of issues have plagued the economy and market sentiment, including a challenged property market, geopolitical uncertainty, and unfavorable demographic trends.

Most sectors had strong gains during the quarter, led by information technology and real estate. Energy was the one exception, as lower oil prices provided a headwind for that sector.

FUND PERFORMANCE

The Virtus KAR International Small-Mid Cap Fund returned 13.97% for the quarter and 22.36% for the year (Class I), outperforming the benchmark in both periods. During 2022, our investment style and geographic exposure were headwinds to performance. In 2023, quality stocks fared relatively well, and our largest relative exposures in Europe and the United Kingdom outperformed.

Baltic Classifieds and Mortgage Advice Bureau were the largest contributors to performance in the quarter.

> Listed in London, Baltic Classifieds operates several online classified portals across the Baltic states of Lithuania, Latvia, and Estonia. The company's shares declined sharply in 2022 following the Russian invasion of Ukraine. Since that time, Baltic Classifieds has continued to generate strong growth in revenues and earnings, and its shares have reacted positively.

> Mortgage Advice Bureau is one of the leading networks for mortgage brokers in the UK. Shares in the company suffered in 2022 as rising interest rates led to significantly lower mortgage activity. During the fourth quarter, interest rates declined materially, which we believe should lead to better prospects for Mortgage Advice Bureau in the coming months.

Mercari and New Work were the largest detractors from performance in the quarter.

> Mercari operates the leading consumer-to-consumer marketplace app in Japan, as well as a digital payments platform. While Mercari's reported results have been strong, the stock suffered as investors feared that costs involved with a new product launch will negatively impact margins in coming quarters.

> Listed in Germany, New Work operates the largest professional social networking website in the German-speaking region of Germany, Austria, and Switzerland. The company is currently navigating a weak macroeconomic environment, which has negatively impacted demand for its recruiting services.

PORTFOLIO CHANGES

During the quarter, we purchased UK-based building products manufacturers Ibstock and Forterra for the portfolio. We sold Japanese outsourcing services provider Benefit One and dental equipment business Nakanishi.

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 as Fund Portfolio Manager: 2012



Hyung Kim
Industry start date: 2004
Start date as Fund Portfolio Manager: 2018

TOP TEN HOLDINGS

	% Fund
Baltic Classifieds Group PLC	8.62
Rightmove PLC	5.32
Corp. Moctezuma SAB de CV	4.64
Auto Trader Group PLC	4.32
Haw Par Corp. Ltd.	3.99
Mortgage Advice Bureau Holdings Ltd.	3.60
Gruppo MutuiOnline SpA	3.54
AJ Bell PLC	3.47
Howden Joinery Group PLC	3.38
FinecoBank Banca Fineco SpA	3.22

Holdings are subject to change.

TOP FIVE CONTRIBUTORS

	% Contribution
Baltic Classifieds Group PLC	2.09
Mortgage Advice Bureau Holdings Ltd.	1.58
Gruppo MutuiOnline SpA	1.00
Auto Trader Group PLC	0.99
Corp. Moctezuma SAB de CV	0.80

TOP FIVE DETRACTORS

	% Contribution
Mercari Inc.	-0.28
New Work SE	-0.26
FDM Group Holdings PLC	-0.24
CAE Inc.	-0.23
Enento Group Oyj	-0.13

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (09/05/12)
Fund Class I	13.97	22.36	22.36	-5.33	6.13	6.49	8.76
Index	9.91	15.79	15.79	0.89	7.07	4.38	6.31

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 1.17%.

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.

The **MSCI AC World Ex USA Small Mid Cap Index (net)** is a free float-adjusted market capitalization-weighted index that measures mid- and small-cap performance across 22 of 23 Developed Market countries (excluding the U.S.) and 24 Emerging Markets countries. 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, medium, or large-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market 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.

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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