

## Virtus KAR International Small-Mid Cap Fund

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

### MARKET REVIEW

Global financial markets in 2022 were largely driven by inflation expectations and global central bank tightening in response to elevated inflation. We began the year with record low interest rates and relatively high stock market valuations. Over the first three quarters, we saw inflation expectations shift from “transitory” to “higher for longer.” This reset in expectations unsurprisingly led to a selloff in global stocks and bonds. In the fourth quarter, we began to see some relief in terms of inflation expectations, which led to a rally in equities. International investments also benefited from a weaker U.S. dollar during the quarter, as the Federal Reserve began to telegraph a less aggressive policy outlook.

### FUND PERFORMANCE

The Virtus KAR International Small-Mid Cap Fund returned 18.76% (Class I) in the fourth quarter, outperforming the MSCI All Country World Ex USA Small Mid Cap Index, which returned 13.85%. However, the Fund underperformed for the year, returning -34.42% versus -19.49% for the benchmark.

Geographic allocation was a significant factor during the quarter and year. The Fund’s largest overweights relative to the benchmark are the U.K. and Europe while Japan is the largest underweight. During the first three quarters of 2022, the U.K. and Europe were the worst performing regions while Japan outperformed. This reversed in the fourth quarter, with Europe and the U.K. posting strong returns while Japan underperformed.

MTU Aero Engines and Mercari were the top contributors to performance in the quarter.

- > Located in Germany, MTU Aero Engines is a global leader in aircraft engine manufacturing. The company reported strong earnings results and held a capital markets day that offered an optimistic long-term outlook.
- > Mercari operates an e-commerce marketplace that allows users to buy and sell used goods in Japan. After a strong surge in activity during the pandemic, its user growth and sales growth slowed as consumers returned to more normal activity. During the fourth quarter, the company reported an acceleration in both user and sales growth as well as better-than-expected profitability.

Mortgage Advice Bureau and Corporacion Moctezuma were the largest detractors from performance in the quarter.

- > Mortgage Advice Bureau operates one of the largest networks for independent mortgage brokers in the U.K. Rapidly rising interest rates caused a significant decline in both refinance and purchase mortgages in the U.K., which created near-term headwinds for Mortgage Advice Bureau’s business. We continue to believe in the long-term prospects for the business as the company continues to gain market share, putting it in a strong position to benefit when mortgage volumes eventually rebound.
- > Corporacion Moctezuma is one of the largest cement producers in Mexico. Shares in the company tend to be relatively stable in the absence of significant news, which was the case in the fourth quarter. Strong returns in the rest of the portfolio during the quarter led the stock to be one of the Fund’s smallest contributors to performance.

### PORTFOLIO CHANGES

There were no purchases or sales in the portfolio during the quarter.

**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	5.20
Haw Par Corp. Ltd.	4.73
Auto Trader Group PLC	4.67
Rightmove PLC	4.53
Alten SA	3.70
FinecoBank Banca Fineco SpA	3.65
S-1 Corp.	3.48
MTU Aero Engines AG	3.42
Heineken Malaysia Bhd	3.21
Corp Moctezuma SAB de CV	3.18

Holdings are subject to change.

**TOP FIVE CONTRIBUTORS % Contribution**

MTU Aero Engines AG	1.46
Mercari Inc.	1.36
Haitian International Holdings Ltd.	1.28
FinecoBank Banca Fineco SpA	1.10
Gruppo MutuiOnline SpA	1.03

**TOP FIVE DETRACTORS % Contribution**

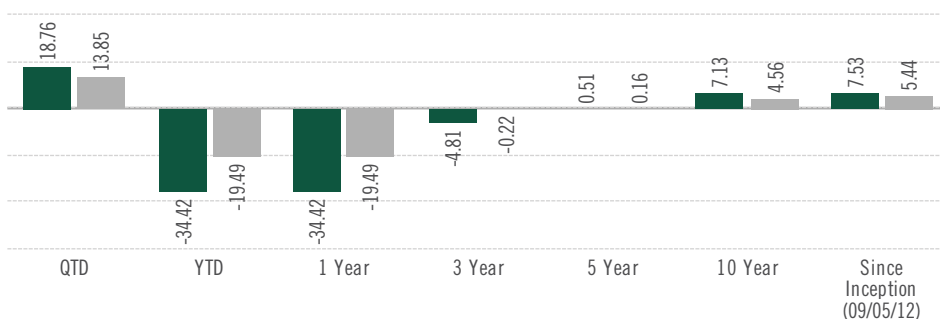
Mortgage Advice Bureau Holdings Ltd.	-0.22
Corp Moctezuma SAB de CV	-0.18
Numis Corp. PLC	-0.03
Euroz Hartleys Group Ltd.	-0.01
VNV Global AB	0.00

% Contribution: Absolute weighted contribution.

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

**AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/30/22**

■ Fund Class I ■ Index



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](http://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](http://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 or medium-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. 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. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's 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.

**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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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