

Virtus KAR Mid-Cap Core Fund

A: VMACX (92828N114) | C: VMCCX (92828N122) | I: VIMCX (92828N130) | R6: VRMCX (92828N262)

MARKET REVIEW

The fourth quarter capped off a year of extraordinary returns for equity investors. Following a very weak fourth quarter in 2018, stocks recovered all those losses and more in 2019. For the year, U.S. large-cap stocks returned 31.49% (S&P 500® Index), U.S. small-cap stocks returned 25.52% (Russell 2000® Index), and international developed markets were up 22.01% (MSCI EAFE®). Emerging market stocks, despite a trade dispute, still managed a robust return of 18.42% (MSCI Emerging Markets Index). Growth stocks continued to outperform value stocks despite the threat of potential regulatory changes for large technology companies in 2019.

PERFORMANCE

During the fourth quarter, the Fund returned 7.40% (Class I), slightly outperforming the Russell Midcap® Index, which returned 7.06% (Class I). Performance was driven by an underweight position in utilities and strong stock selection in consumer staples. Poor stock selection in the technology and materials & processing sectors detracted from performance.

The biggest contributors to performance were SiteOne Landscape Supply and Globus Medical.

- > With strong, organic daily sales growth this quarter, landscape company SiteOne is on track to deliver mid-single digit full-year growth, despite poor weather at the start of 2019. Its barcode initiative has been successful in the pilot branches and will be rolled out to remaining branches in the first half of 2020. In addition, management noted that branches located in markets where they have a full product line tend to be higher performers and with higher margins.
- > Globus Medical, manufacturer of musculoskeletal devices, saw its shares rise in the quarter due to a pick-up in revenue growth, spurred by increased sales representative hiring and robotic sales pull-through. The company has a strong balance sheet with a solid margin profile.

The weakest contributors to performance were Autohome and Verisk Analytics.

- > Online automotive business Autohome's profitability suffered in the third quarter after the company increased its promotional spending in an effort to support new car sales activity in China. Also, management announced it will not raise the price of its dealer subscription product in 2020 after several years of consistent increases. Moreover, aggressive product development activities and geographic expansion have created uncertainty about the company's future profitability profile.

- > Verisk Analytics slightly declined during the fourth quarter after the data analytics and risk assessment firm reported a high single-digit organic sales growth rate that did not exceed the high expectations of market participants. The slight stock decline created relative underperformance compared to the remainder of the portfolio, which saw broad appreciation in the fourth quarter.

PURCHASES AND SALES

We sold our position in International Flavors & Fragrances after the company announced a deal to conduct a reverse merger with DuPont's Nutrition and Biosciences unit. We believe that the company's management has taken an overly aggressive approach to growth that takes away from our core investment philosophy. No purchases were made for the portfolio during the quarter.

OUTLOOK

On the surface, 2020 appears to present fewer concerns than 2019 did at its start. The stock market attained numerous new highs in December, reflecting this outlook. Despite a reduction in uncertainty, it is not a heroic assumption to expect returns in 2020 to not be as good as they were in 2019. We believe corporate profits should improve in 2020 with 5-10% growth even as overall GDP growth slows, likely in the 1-1.5% range. Modest economic growth coupled with stronger growth overseas could lead to continued improving corporate profitability. The Federal Reserve will likely hold interest rates steady if this kind of environment unfolds. Rhetoric surrounding the presidential election is sure to create some volatility in 2020, but it is premature to handicap any outcomes.

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INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Kayne Anderson Rudnick Investment Management, LLC

PORTFOLIO MANAGERS



Jon Christensen, CFA
Industry start date: 1995
Start date as Fund Portfolio Manager: 2009



Craig Stone
Industry start date: 1989
Start date as Fund Portfolio Manager: 2009

TOP TEN HOLDINGS

	% Fund
AMETEK Inc	5.66
Globus Medical Inc.	5.28
Aspen Technology Inc.	4.66
Brooks Automation Inc.	4.38
SiteOne Landscape Supply Inc.	4.19
Amphenol Corp.	4.16
West Pharmaceutical Services Inc.	4.00
Ross Stores Inc.	3.97
Broadridge Financial Solutions Inc.	3.74
Zebra Technologies Corp.	3.60

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

SiteOne Landscape Supply Inc.	0.83
Globus Medical Inc.	0.75
Zebra Technologies Corp.	0.74
Lamb Weston Holdings Inc.	0.60
Brooks Automation Inc.	0.59

TOP FIVE DETRACTORS % Contribution

Autohome Inc.	-0.17
Verisk Analytics Inc.	-0.15
Aspen Technology Inc.	-0.09
International Flavors & Fragrances Inc.	-0.03
Exponent Inc.	-0.03

% Contribution: Absolute weighted contribution.

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 06/22/2009
Fund Class I	7.40	30.93	30.93	16.17	12.31	14.11	15.20
Index	7.06	30.54	30.54	12.06	9.33	13.19	15.58

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 1.14%. The net expense ratio is 0.95%, which reflects a contractual expense reimbursement in effect through 1/31/2020.

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.

Index: 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 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. **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. **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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