

VIRTUS KAR INTERNATIONAL SMALL-CAP FUND



The Virtus KAR International Small-Cap Fund utilizes a rigorous bottom-up fundamental research approach, seeking to identify the highest-quality small-cap companies around the globe.

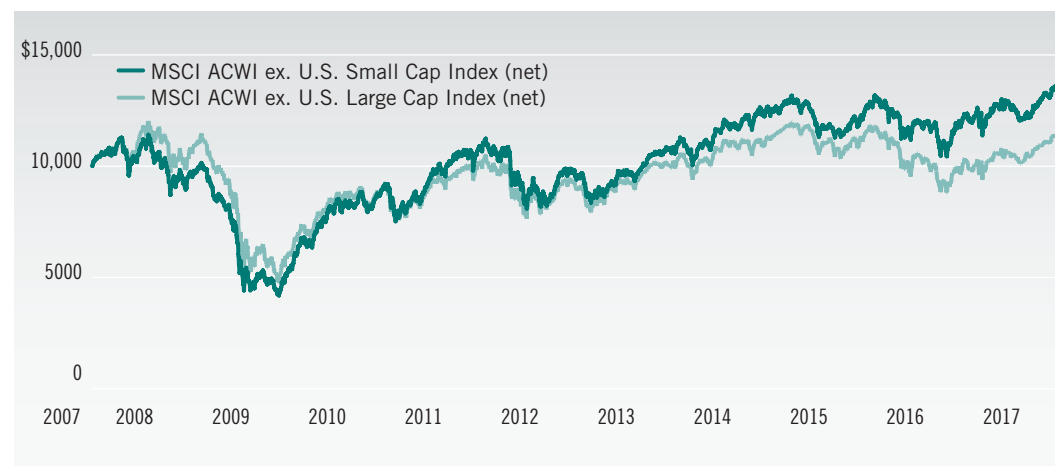
The potential benefits of international investing are widely known. However, investors have tended to gravitate toward large, recognizable companies to achieve their international exposure. This large-cap bias has meant that investors have largely ignored a substantial segment of the global investment opportunity set—international small cap.

Bigger Isn't Always Better

Smaller stocks typically have stronger growth potential, are generally under-recognized, and may offer greater opportunity for pricing inefficiencies, which may translate to upside return potential. International small-cap stocks are no different than domestic small caps in this regard. In fact, given the markets in which they operate, they may offer even more attractive opportunities than domestic markets.

Cumulative Returns

March 31, 2007–March 31, 2017



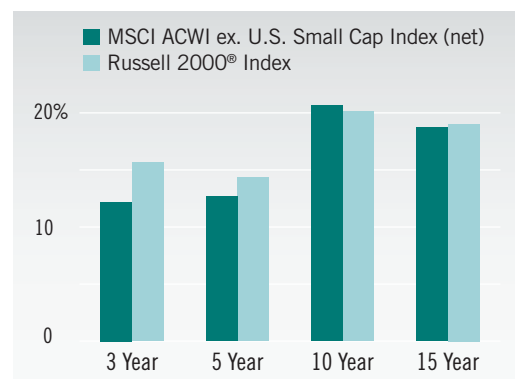
Data is obtained from FactSet Research Systems and is assumed to be reliable. **Past performance is no guarantee of future results.**

Over the last 10 years, the returns of international small-cap stocks have been compelling, compared to both large caps and domestic small caps. They have grown earnings at a 7.0% annualized rate compared to 6.5% for domestic small-cap stocks, while selling at a discount to the domestic small-cap market.

And, it is interesting to point out that these strong results have been achieved with a risk level, as measured by standard deviation, that is comparable to the domestic small-cap market.

Annualized Standard Deviation

Periods ending March 31, 2017



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Kayne Anderson Rudnick
A VIRTUS INVESTMENT PARTNER

Over the last 10 years, international small caps have grown faster than domestic small caps with a comparable risk level.

The Virtus KAR International Small-Cap Fund applies a consistent, concentrated approach to international small-cap investing.

Maximizing a Large and Less Efficient Opportunity Set

The international small-cap asset class is fertile territory for investors looking to add value through bottom-up fundamental analysis. With an investable universe of over 17,000 companies, as compared to the domestic small-cap universe which includes approximately 3,000 companies, this is an opportune setting for skilled investment managers to add value. In fact, research by S&P Dow Jones indicates that approximately 45% of active international small-cap managers have beaten their benchmark over the last five years ending June 30, 2016. This is compared to only 40% of active international managers and 2% of domestic small-cap core managers over the same time period.¹

Lower Correlation Leads to Increased Diversification

As suggested by modern portfolio theory, the addition of various asset classes that exhibit low correlation to one another is important to maximizing risk-adjusted returns. The correlation matrix below illustrates that international small-cap stocks exhibit lower correlation to both domestic large-cap and small-cap stocks, further demonstrating the potential benefit of adding the asset class to a diversified portfolio. However, diversification does not ensure a profit or protect against losses.

Correlation Matrix Ten years ending March 31, 2017

	MSCI ACWI ex. U.S. Small Cap Index (net)	MSCI ACWI ex. U.S. Large Cap Index (net)	Russell 2000® Index	S&P 500® Index
MSCI ACWI ex. U.S. Small Cap Index (net)	1.00	0.97	0.77	0.84
MSCI ACWI ex. U.S. Large Cap Index (net)	0.97	1.00	0.79	0.89
Russell 2000® Index	0.77	0.79	1.00	0.92
S&P 500® Index	0.84	0.89	0.92	1.00

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A High Quality Approach to International Small-Cap Investing

- Kayne Anderson Rudnick (KAR), subadviser to the Virtus KAR International Small-Cap Fund, seeks to invest in well-run companies that dominate their markets and offer a competitive advantage. These businesses have strong balance sheets with low to no debt, strong and predictable earnings growth, and high cash flow.
- KAR applies a consistent approach to quality small-cap investing across the spectrum of value, core, and growth, both domestically and internationally.
- All KAR small-cap portfolios are concentrated with low annual turnover (25%-30%). As shown in the table below, the Virtus KAR International Small-Cap Fund exhibits strong portfolio characteristics when compared with both its benchmark and the domestic small-cap index.

Portfolio Characteristics As of March 31, 2017

	Virtus KAR International Small-Cap Fund	MSCI ACWI ex. U.S. Small Cap Index (net)	Russell 2000® Index
10 Year Earnings Per Share Growth	12.4%	7.0%	6.5%
5 Year Return on Equity	25.7%	10.7%	10.4%
10 Year Dividend Per Share Growth	11.5%	6.0%	3.8%
Debt/Capital	19.8%	31.9%	44.0%
P/E - Trailing 12 Months	17.6x	20.7x	39.1x

Data is obtained from a major consulting firm and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. **Past performance is no guarantee of future results.**

¹Source: Dow Jones Indices, S&P Indices versus Active Funds (SPIVA®) Scorecard, Mid-Year 2016.

To learn about the Virtus KAR International Small-Cap Fund

A: VISAX, C: VCISX, I: VIISX

contact us at 1-800-243-4361 or Virtus.com.

Effective May 8, 2017 this Fund changed its name from the Virtus International Small-Cap Fund.

The **MSCI ACWI ex. U.S. Large Cap Index (net)** captures large representation across 22 of 23 Developed Markets (DM) countries (excluding the U.S.) and 21 Emerging Markets (EM) countries. With 895 constituents, the index covers approximately 70% of the global equity opportunity set outside the U.S. 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 indexes are calculated on a total return basis with net dividends reinvested. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

Standard Deviation: measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk. **Earnings/Share Growth:** indicates the earnings available to each common share. Earnings/share growth is the growth rate of these earnings per share. On a portfolio level, this statistic measures the trailing earnings per share growth of a portfolio's holdings. **Return on Equity:** relates how well the company is using the money invested in it so that it can bring a return to its investors. A high portfolio ROE indicates that the portfolio is invested in historically profitable companies. **Dividend/Share Growth:** on a portfolio level, this statistic measures the trailing dividends/share growth of a portfolio's holdings. **Debt-to-Capital Ratio:** a measurement of a company's financial leverage, calculated as the company's debt divided by its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest, and net debt. **P/E Ratio - Trailing 12 Months:** the P/E (price-earnings) ratio is calculated by dividing the company's stock price divided by its earnings per share times 100. The higher the P/E ratio, the more an investor pays for the company's earnings. A low P/E generally indicates a better value, while a high P/E denotes an expensive stock with earnings that investors expect will grow rapidly. A negative P/E is generally indicative of companies with losses or negative earnings.

IMPORTANT RISK CONSIDERATIONS

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.

Please carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 1-800-243-4361, or visit Virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not all products or marketing materials are available at all firms.

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