



# VIRTUS KAR SMALL-CAP CORE FUND

March 31, 2019

# IMPORTANT RISK CONSIDERATIONS

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## **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.

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## **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.

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## **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.

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## **Prospectus**

For additional information on risks, please see the fund's prospectus.

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**Virtus (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers, singularly committed to the long-term success of individual and institutional investors.**

## **Key Facts:**

- AUM of \$101.7 billion managed in a multi-boutique structure
- 9 affiliates

**Disciplined, institutional-quality money management through wholly owned subsidiaries and select subadvisers, each with a distinct investment philosophy and style.**

- We are not constrained by a single investment approach; rather, we provide access to independent, specialized investment philosophies through our multi-discipline, multi-strategy approach.
- We have the flexibility, agility, and responsiveness of a boutique asset management firm with similar product breadth and investment talent of our larger peers.
- We are committed to thoughtfully providing investment solutions, adhering to the highest standards of product quality, operational excellence, and fiduciary responsibility.

# INVESTMENT OFFERINGS

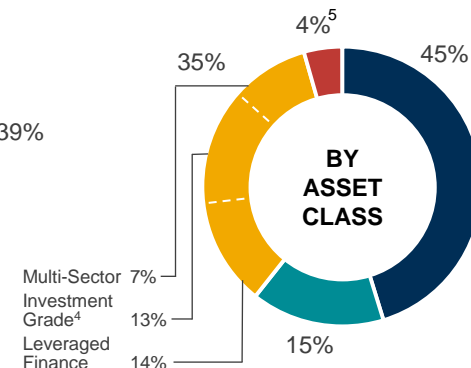
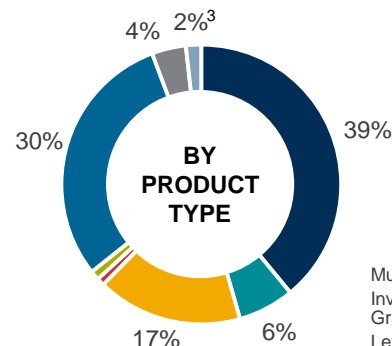
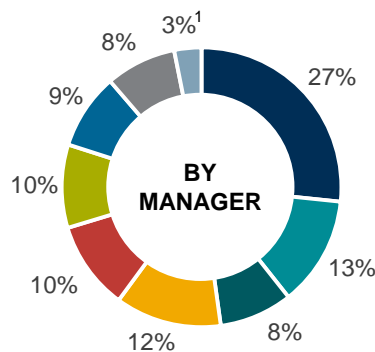


We have offerings in various asset classes, across all market capitalizations, in different styles, and with diverse investment approaches.

Investment products include:

- Open-end mutual funds
- Variable insurance funds
- Closed-end funds
- Retail separate accounts
- Institutional accounts
- Exchange-traded funds
- UCITS
- Structured products
- Collective investment trusts

ASSETS UNDER MANAGEMENT in Billions as of 3/31/19



#### Affiliated Managers

■ Kayne Anderson Rudnick	\$27.1
■ Seix (Lev. Fin)	12.9
■ Seix (IG)	8.6
■ SGA	12.5
■ Newfleet	10.4
■ Duff & Phelps	9.8
■ Ceredex	8.9
■ Silvant	0.8
■ Rampart and Other <sup>2</sup>	<u>1.4</u>
	\$92.4

#### Subadvisers

■ Vontobel	\$8.3
■ Other Subadvisers	<u>1.0</u>
	\$9.3

#### Funds

■ Open-End	\$39.7
■ Closed-End	6.6
■ Variable Insurance	0.9
■ ETFs	<u>1.1</u>
	\$48.3

#### Separate Accounts

■ Institutional Accounts	\$30.5
■ Retail Separate Accounts	17.1
■ Structured Products	4.0
■ Liquidity <sup>3</sup>	<u>1.8</u>
	\$53.4

#### Domestic Equity

■ Large-Cap	\$19.0
■ Small-Cap	19.0
■ Mid-Cap	<u>8.0</u>
	\$46.0

#### International Equity

■ Developed Market	\$8.8
■ Emerging Market	<u>6.9</u>
	\$15.7

#### Fixed Income & Liquidity

■ Leveraged Finance	\$14.5
■ Investment Grade <sup>4</sup>	13.7
■ Multi-Sector	<u>7.3</u>
	\$35.5

#### Alternative & Other

■ Alternative	\$4.3
■ Other <sup>5</sup>	<u>0.2</u>
	\$4.5

\$ billions as of March 31, 2019; totals may not add due to rounding.

<sup>1</sup>Includes Silvant, Rampart, asset allocation and other subadvised strategies.

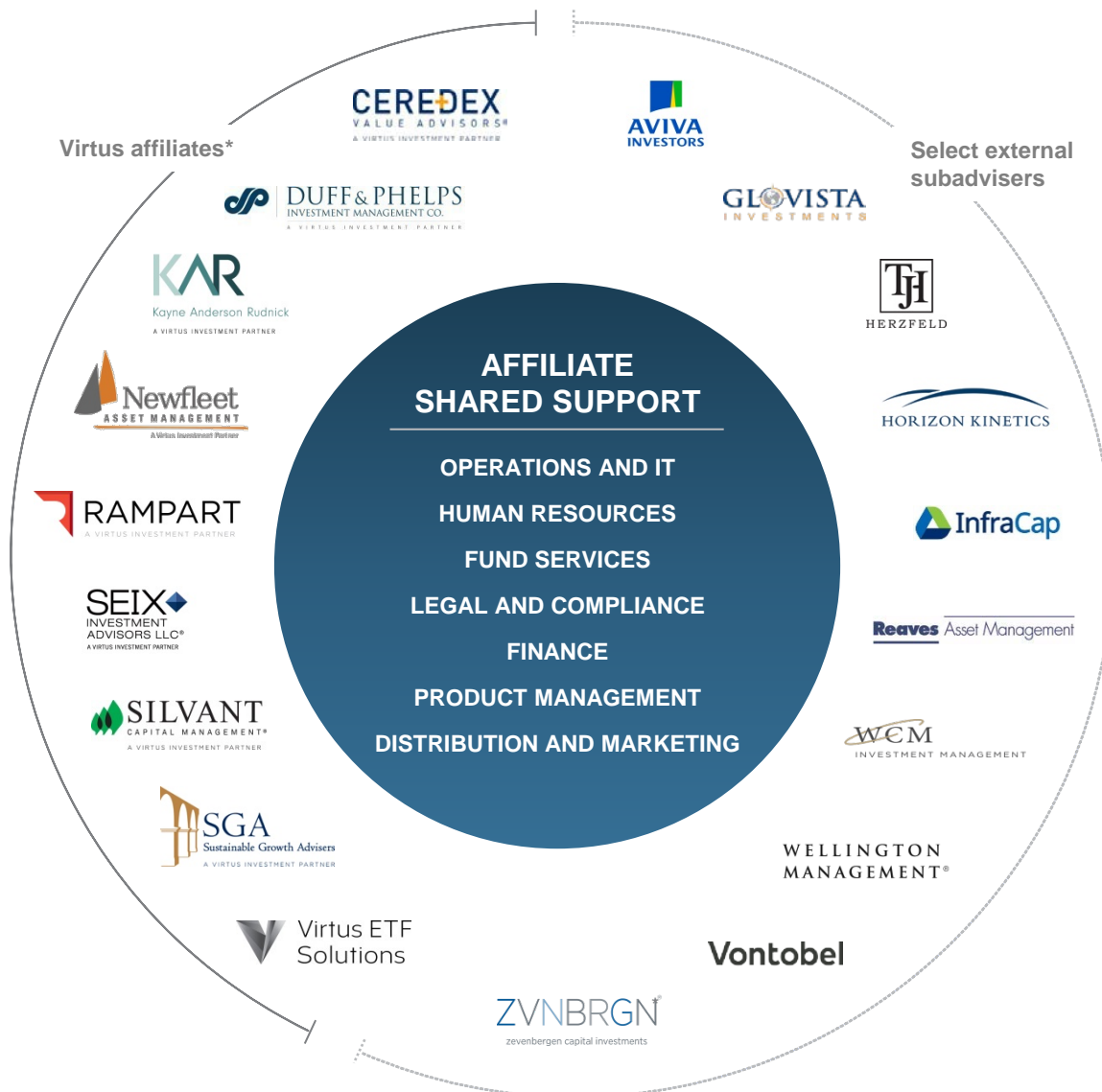
<sup>2</sup>Primarily includes assets managed by investment professionals from Rampart.

<sup>3</sup>Includes ultra short bond strategies.

<sup>4</sup>Includes liquidity strategies.

<sup>5</sup>Option strategies

# MULTI-BOUTIQUE, MULTI-STRATEGY MODEL



\*Virtus has an ownership interest in the firm.

## Profile

- Originally established to manage founder capital
- Over three decades of experience
- A differentiated “business analyst” investment approach focusing on high-quality businesses
- A disciplined and repeatable investment process that produces high-conviction portfolios
- A wholly-owned, independent subsidiary of Virtus Investment Partners

### At a Glance

Year Founded	1984
Headquarters	Los Angeles, CA
AUM	\$27.1 billion
Number of Investment Professionals	16
Average Investment Experience	15 Years

# SMALL-CAP TEAM



Portfolio Manager/Analyst	Responsibility	Sector Coverage	Research Experience	Years with KAR
Douglas S. Foreman, CFA	Chief Investment Officer Portfolio Manager, Virtus KAR Mid-Cap Growth Fund		33 Years	8 Years
Todd Beiley, CFA	Senior Research Analyst Portfolio Manager, Virtus KAR Small-Cap Core Fund Portfolio Manager, Virtus KAR Small-Cap Growth Fund	Energy Consumer Discretionary	20 Years	17 Years
Jon Christensen, CFA	Senior Research Analyst Portfolio Manager, Virtus KAR Small-Cap Core Fund Portfolio Manager, Virtus KAR Small-Cap Growth Fund Portfolio Manager, Virtus KAR Small-Mid Cap Core Fund Portfolio Manager, Virtus KAR Mid-Cap Core Fund	Health Care	24 Years	18 Years
Julie Kutasov	Senior Research Analyst Portfolio Manager, Virtus KAR Small-Cap Value Fund Portfolio Manager, Virtus KAR Small-Mid Cap Core Fund	Materials and Processing	18 Years	18 Years
Craig Stone	Senior Research Analyst Portfolio Manager, Virtus KAR Small-Cap Value Fund Portfolio Manager, Virtus KAR Small-Mid Cap Core Fund Portfolio Manager, Virtus KAR Mid-Cap Core Fund	Producer Durables	30 Years	19 Years
Chris Wright, CFA	Senior Research Analyst	Financials	7 Years	7 Years
Julie Biel, CFA	Senior Research Analyst	Technology	11 Years	6 Years
Sean Dixon	Research Analyst	Consumer Discretionary Producer Durables	10 Years	1 Year
Adam Xiao, CFA	Research Analyst	Consumer Staples Financials Producer Durables	4 Years	1 Year
Jordan Greenhouse	Managing Director – Senior Portfolio Specialist & Relationship Manager		22 Years*	3 Years
James B. May, CFA	Managing Director – Portfolio Specialist		31 Years*	<1 Year

\*Represents years of industry experience.



# DISCIPLINED INVESTMENT APPROACH

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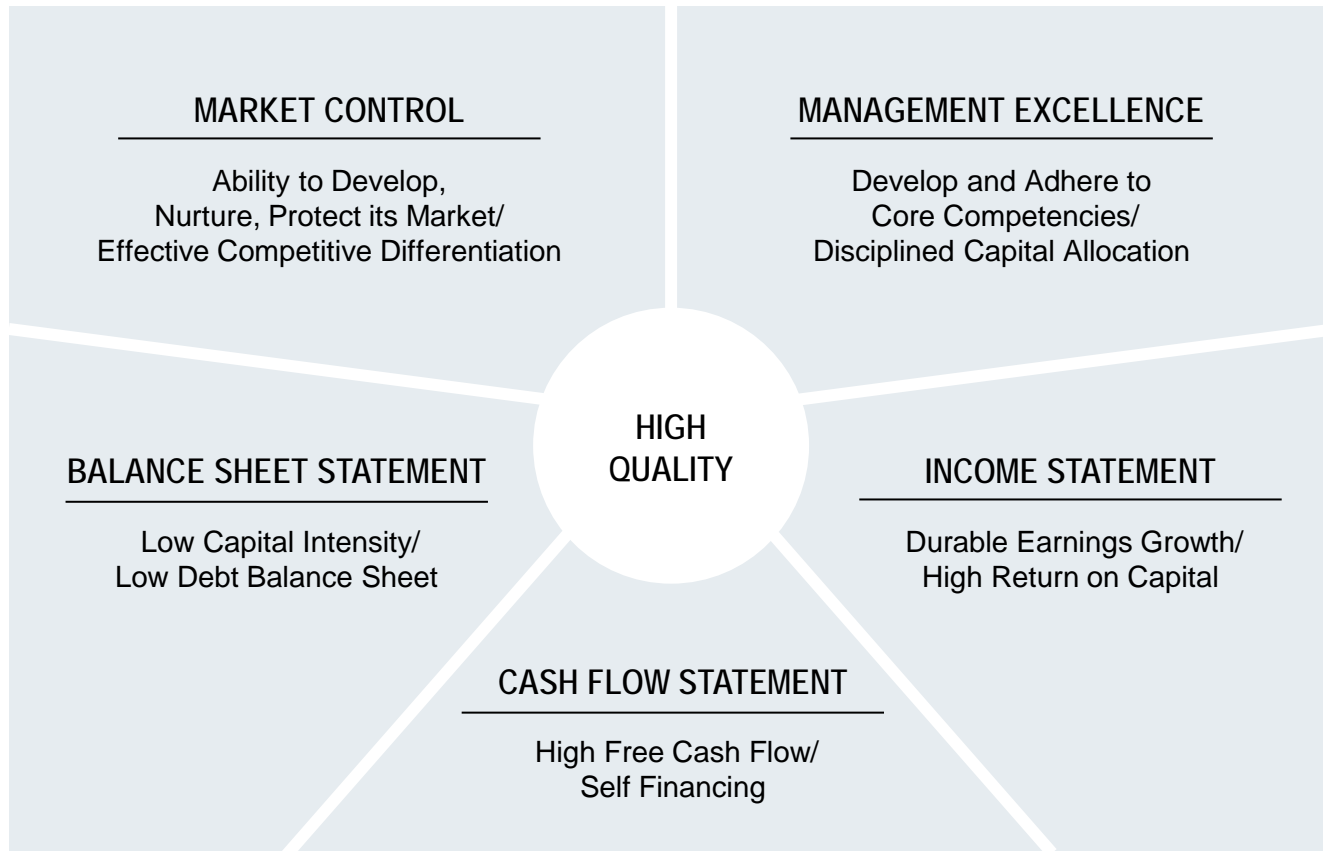
## Investment Philosophy

- We believe that purchasing high-quality businesses with competitive advantages at attractive valuations may lead to the achievement of excess returns over a complete market cycle

## Strives to

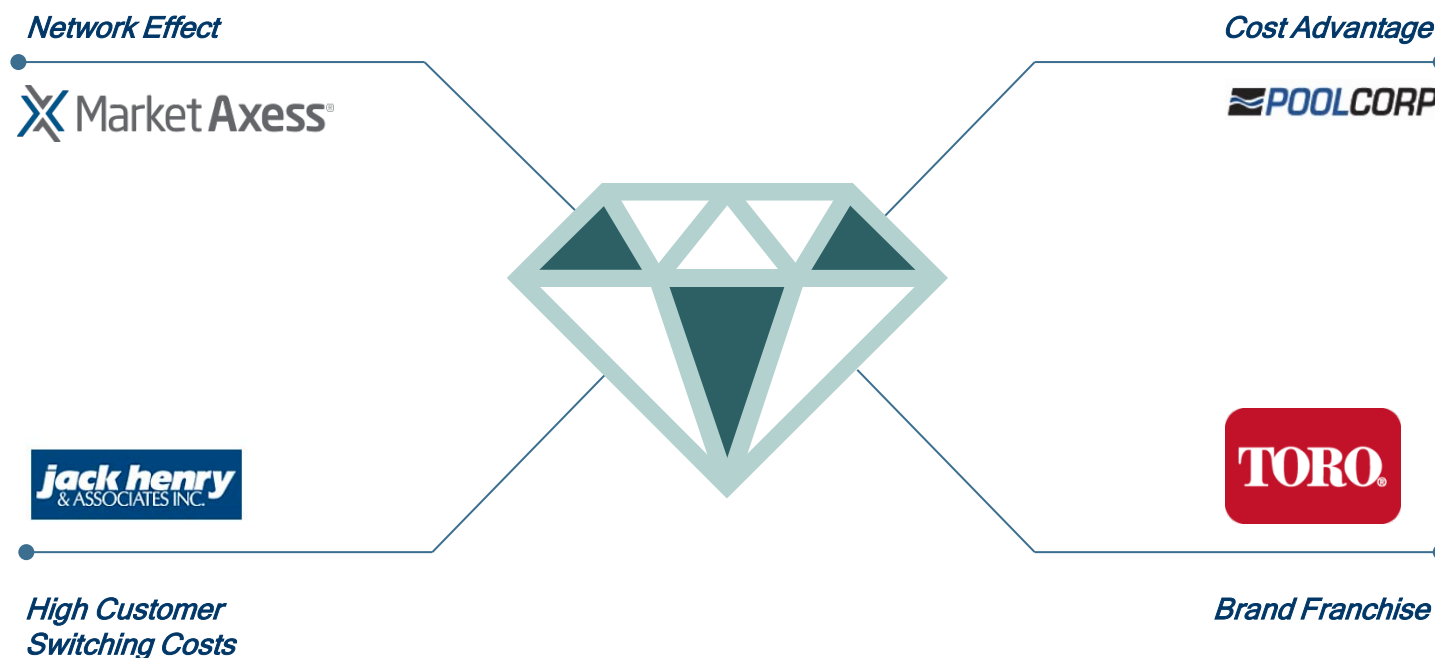
- Achieve a return meaningfully above that of the benchmark
- Achieve this return objective with a portfolio that exhibits lower overall risk characteristics than the benchmark

# TENETS OF QUALITY



# SOURCES OF QUALITY

## *Examples of High-Quality Business Models*



The trademarks shown are the property of their respective owners. Percent of Virtus KAR Small-Cap Core Fund as of 3/31/19: MarketAxess: 3.3%; Jack Henry & Associates: 2.3%; Pool Corp: 3.6%; Toro: 2.6%.

The securities presented on this page are chosen based upon objective criteria. Companies are chosen to exemplify diversification. We typically select companies that operate in large, vast industries, but have overwhelming market share for their particular niches. All information is provided for informational purposes only and should not be deemed as a recommendation to purchase the securities mentioned. It should not be assumed that securities recommended in the future will be profitable. Holdings are subject to change.

# A BUSINESS ANALYST APPROACH

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- 1** High-Quality Universe Development
- 2** Proprietary Fundamental Research
- 3** Portfolio Construction & Sell Discipline
- 4** Portfolio Monitoring & Risk Management

# HIGH-QUALITY UNIVERSE DEVELOPMENT

## We Source Our Investment Universe in a Number of Ways

### SMALL CAP UNIVERSE

#### Quantitative Screens

- High return on capital over a full economic cycle
- Long and resilient earnings history
- High return on net operating assets
- Minimal debt

#### Other Resources

- Research on existing portfolio holdings
- Meetings with companies
- Industry reviews
- Investment conferences
- Third-party research

### KAYNE ANDERSON RUDNICK UNIVERSE

## Research Analysts and Portfolio Managers Work Together to Develop In-depth Business Knowledge

### Qualitative Analysis

**Purpose:** Determine if competitive advantage exists and evaluate its strength.

- Review regulatory filings, company materials, industry data, and third party research
- Conduct comprehensive interviews with management; contact other relevant parties
- Understand basis of competition within industry
- Assess competitive threats and obsolescence risk: What protects the business?

Understand  
link between  
business  
character and  
financial  
character

### Financial Analysis

**Purpose:** Evaluate source, level, and sustainability of economic profitability.

- Seek:
  - High and resilient return on capital
  - Persistent earning power
  - Abundant discretionary cash flow
  - Under-levered balance sheet
- Assess management's capital allocation practices; favor high insider ownership

### Valuation Analysis

**Purpose:** Estimate total return over several year period; compare to other opportunities considering varying levels of certainty

- Consider economic earning power in relation to enterprise value
- Mispricing can be created by: underfollowed company, investors' over-reaction to short-term challenges, improved competitive position not yet recognized

# PORTFOLIO CONSTRUCTION

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## Investment Guidelines

### Position Weights

- 20-40 holdings
  - Typically 3-4%
  - Maximum weight 10% (at market)
- 

### Sector Tolerances

- Typically +/- 10% of the sector weights of the benchmark, utilizing Russell sector classifications
- 

### Holding Period

- Typically 3-to-5 years, but is often longer
  - Portfolio turnover typically 25% to 35%
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### Cash Levels

- Typically will not exceed 10% once a portfolio is fully invested
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# SELL DISCIPLINE

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## Extended Valuation

- Significant premium to intrinsic value
  - Expected annual return insufficient
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## Portfolio Upgrade

- Better business
  - Better price
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## Diversification Requirements

- Rebalance within sector parameters
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## Acquisition Activity

- Our holding acquired at an attractive premium
  - Our holding acquires a company diminishing its business or value
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## Negative Company or Industry Changes

- Position review research report written for any of the following conditions:
    - Stock price declines 20% or more in a short time period, absent a broad market decline
    - Validity deteriorates for one or more of the reasons for purchase
    - Credit-quality profile deteriorates
  - Quality parameters reviewed by the Chief Investment Officer with the Portfolio Managers
-



# RISK MANAGEMENT AND PORTFOLIO MONITORING



## Risk Management

### Investment Philosophy

- Focus on “high-quality” companies
- Company’s “business risk” is primary risk control factor

### Portfolio Level Controls

- Economic sector weights managed to typically within a maximum 10% variance to benchmark
- Individual security weights initiated at 1% to 5% of portfolio

### Position Reviews

- “Position Review” report when a portfolio holding declines 20% absent a broad market decline
- Re-validate reasons for original purchase or sell position

### Trading Guidelines

- Guidelines provided by Portfolio Managers when entering and exiting portfolio holdings
- Limit on trading activities as a percentage of daily trading volume, typically no more than 20%

## Portfolio Monitoring

### Risk and Compliance Committee

- Meets quarterly to independently evaluate portfolio risk exposures with findings presented to the Chief Investment Officer

### CIO/PM Meetings

- Provides a forum for the Chief Investment Officer and the Portfolio Managers to review, discuss, and explain each strategy’s portfolio positioning and its performance

### Research Meetings

- Provides a forum to discuss and evaluate portfolio holdings and overall industry trends

### Performance Analytics and Portfolio Attribution

- Allows Portfolio Managers to quantify investment decisions and understand drivers of return and risk characteristics

# HIGH-QUALITY CHARACTERISTICS



	Return on Equity %*	Return on Assets %*	Return on Invested Capital %*	Net Margin %*
Virtus KAR Small-Cap Core Fund (PKSFX)	38.03	17.99	59.52	19.63
Russell 2000® Index	7.33	0.72	-0.66	8.33
Peer Group <sup>1</sup>	10.92	3.47	6.62	9.49
Percentile	1	1	1	1

**Past performance is not indicative of future results.**

\*Trailing 12 months as of 3/31/19.

<sup>1</sup>Peer Group: The fund (Class I) is ranked against a broad universe of 1,938 (1,914 for ROIC) small-cap funds consisting of the combined Morningstar Small Blend, Small Growth, and Small Value categories.

Source: Morningstar Direct. The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst. Rankings shown are for the I share. Rankings for other share classes may vary.

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 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. Please see page 28 for definitions of characteristics shown.

# RISK CHARACTERISTICS



1-YEAR	Average Annual Return %	Standard Deviation %	Sharpe Ratio	Downside Capture %
Virtus KAR Small-Cap Core Fund (PKSFX)	12.35	21.83	0.54	72.41
Russell 2000® Index	2.05	22.96	0.10	100.00
Peer Group <sup>1</sup>	1.27	22.95	0.06	96.73
<b>Percentile</b>	<b>8</b>	<b>38</b>	<b>7</b>	<b>4</b>

5-YEAR	Average Annual Return %	Standard Deviation %	Sharpe Ratio	Downside Capture %
Virtus KAR Small-Cap Core Fund (PKSFX)	15.87	14.07	1.07	55.80
Russell 2000® Index	7.05	16.15	0.45	100.00
Peer Group <sup>1</sup>	6.42	15.82	0.43	92.99
<b>Percentile</b>	<b>1</b>	<b>12</b>	<b>1</b>	<b>1</b>

10-YEAR	Average Annual Return %	Standard Deviation %	Sharpe Ratio	Downside Capture %
Virtus KAR Small-Cap Core Fund (PKSFX)	19.25	14.54	1.26	60.58
Russell 2000® Index	15.36	17.71	0.87	100.00
Peer Group <sup>1</sup>	15.22	17.58	0.88	93.08
<b>Percentile</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>1</b>

**Past performance is not indicative of future results.**

As of 3/31/19.

<sup>1</sup>Peer Group: The fund (Class I) is ranked against a broad universe of small-cap funds consisting of the combined Morningstar Small Blend, Small Growth, and Small Value categories: 1-year: 1,856; 5-year: 1,389; 10-year: 1,015.

Source: Morningstar Direct. The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst. Rankings shown are for the I share. Rankings for other share classes may vary.

Please see page 28 for definitions of characteristics shown.

# PORTFOLIO CHARACTERISTICS



Quality	Virtus KAR Small-Cap Core Fund	Russell 2000® Index	Description†
Return on Equity—Past 5 Years	29.0%	9.9%	In a market of average businesses, we seek to own protected proprietary businesses that have generated exceptional returns on shareholders' capital without employing significant debt.
Total Debt/EBITDA	1.2x	4.5x	
Earnings Variance—Past 10 Years	26.8%	75.6%	
<b>Growth</b>			
Earnings Per Share Growth—Past 5 Years	16.3%	9.6%	In a market of cyclical businesses requiring growth capital from fickle markets, we seek to own companies that have produced self-funded strong, consistent growth sustainable into the future.
Earnings Per Share Growth—Past 10 Years	14.4%	8.4%	
Dividend Per Share Growth—Past 5 Years	15.0%	8.5%	
Dividend Per Share Growth—Past 10 Years	16.1%	6.2%	
Capital Generation—{ROE x (1-Payout)}	21.6%	7.6%	
<b>Value</b>			
P/E Ratio—Trailing 12 Months	26.7x	32.7x	And we have been able to achieve this high quality and strong growth at a discount valuation to the market.
<b>Market Characteristics</b>			
\$ Weighted Average Market Cap—3 Year Average	\$7.8 B	\$2.4 B	
Largest Market Cap—3 Year. Average	\$10.6 B	\$8.9 B	
Annualized Standard Deviation—Since Inception*	16.0%	19.6%	

## Past performance is no guarantee of future results.

As of 3/31/19.

\*October 18, 1996. 11/1/96 used for calculation purposes of quarterly data. Gross of fees.

†Description reflects past results and is not an indicator of future performance results. Description is relative to the Fund's primary benchmark.

Data is obtained from the Frank Russell Company and FactSet 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.

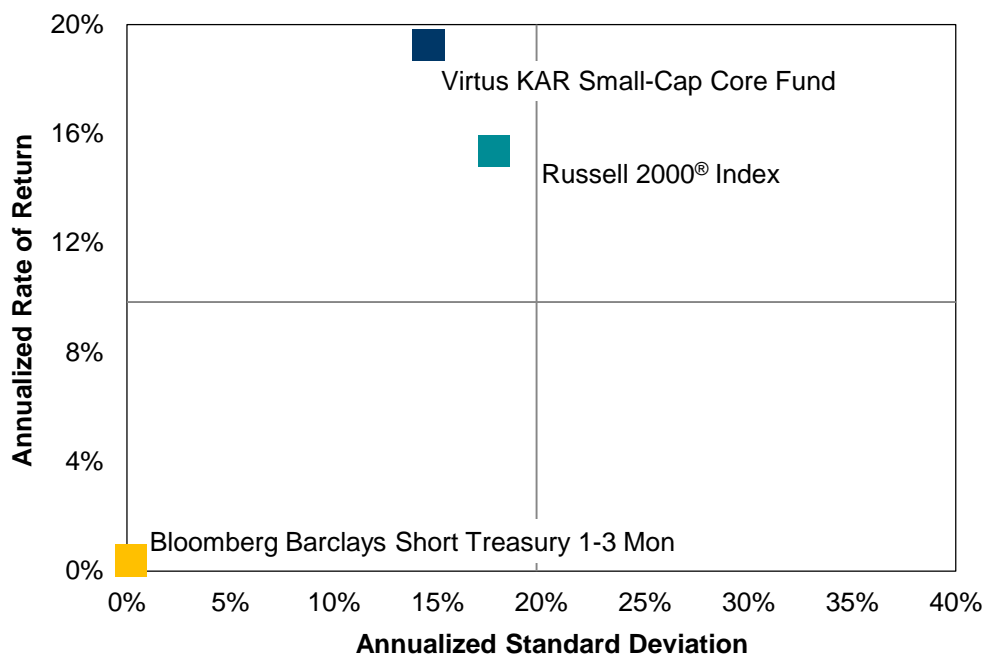
Please see page 27 for definitions of characteristics shown.

# PERFORMANCE STATISTICS



## 10 Years Ended 3/31/19

### Meaningful Excess Return with Lower Volatility



### Strong Risk-Adjusted Performance Metrics

Summary Statistics	Virtus KAR Small-Cap Core Fund	Russell 2000® Index
Alpha	6.66	0.00
Sharpe Ratio	1.26	0.87
Standard Deviation	14.54	17.71
Beta	0.75	1.00

### Past performance is no guarantee of future results.

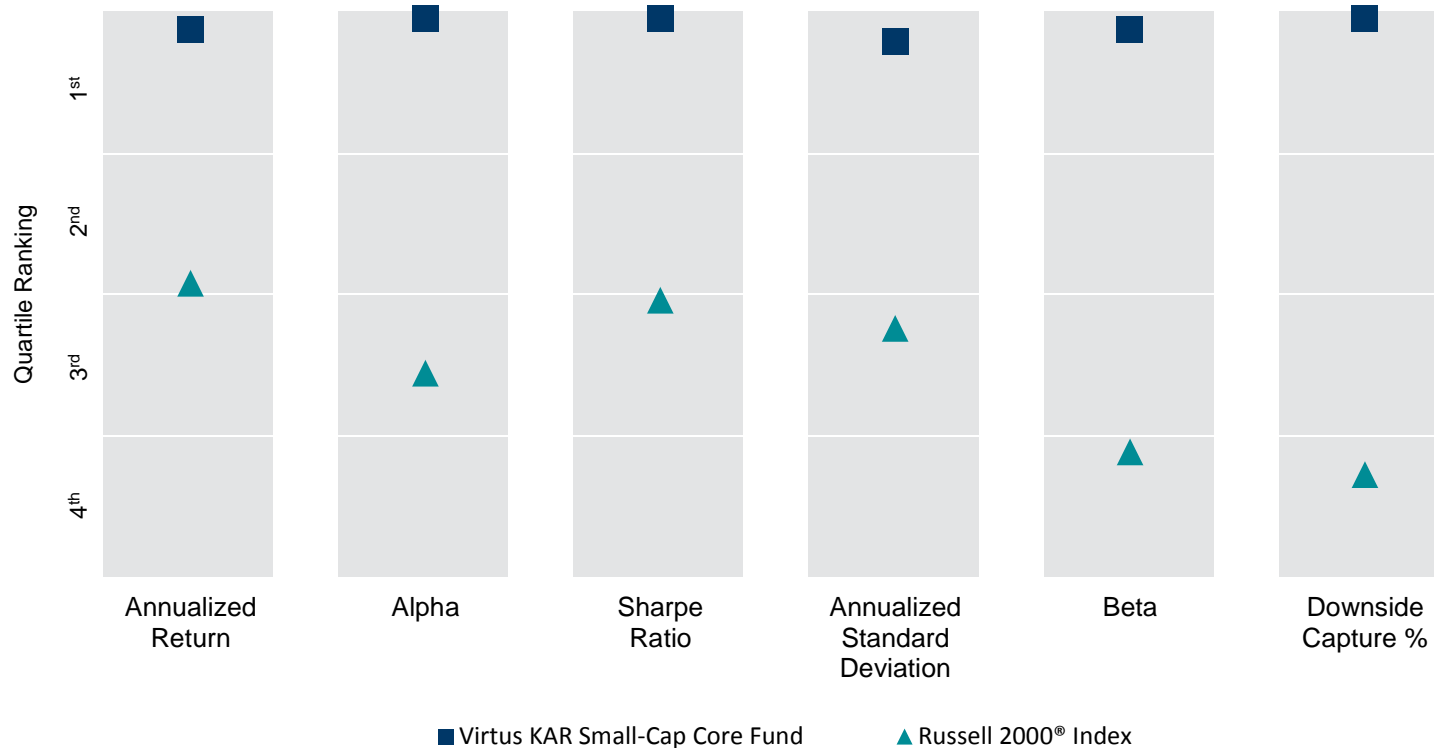
Source: Morningstar Direct. Statistics are defined on page 28.

The Bloomberg Barclays U.S. Treasury Bill 1-3 Month Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

# PEER COMPARISON



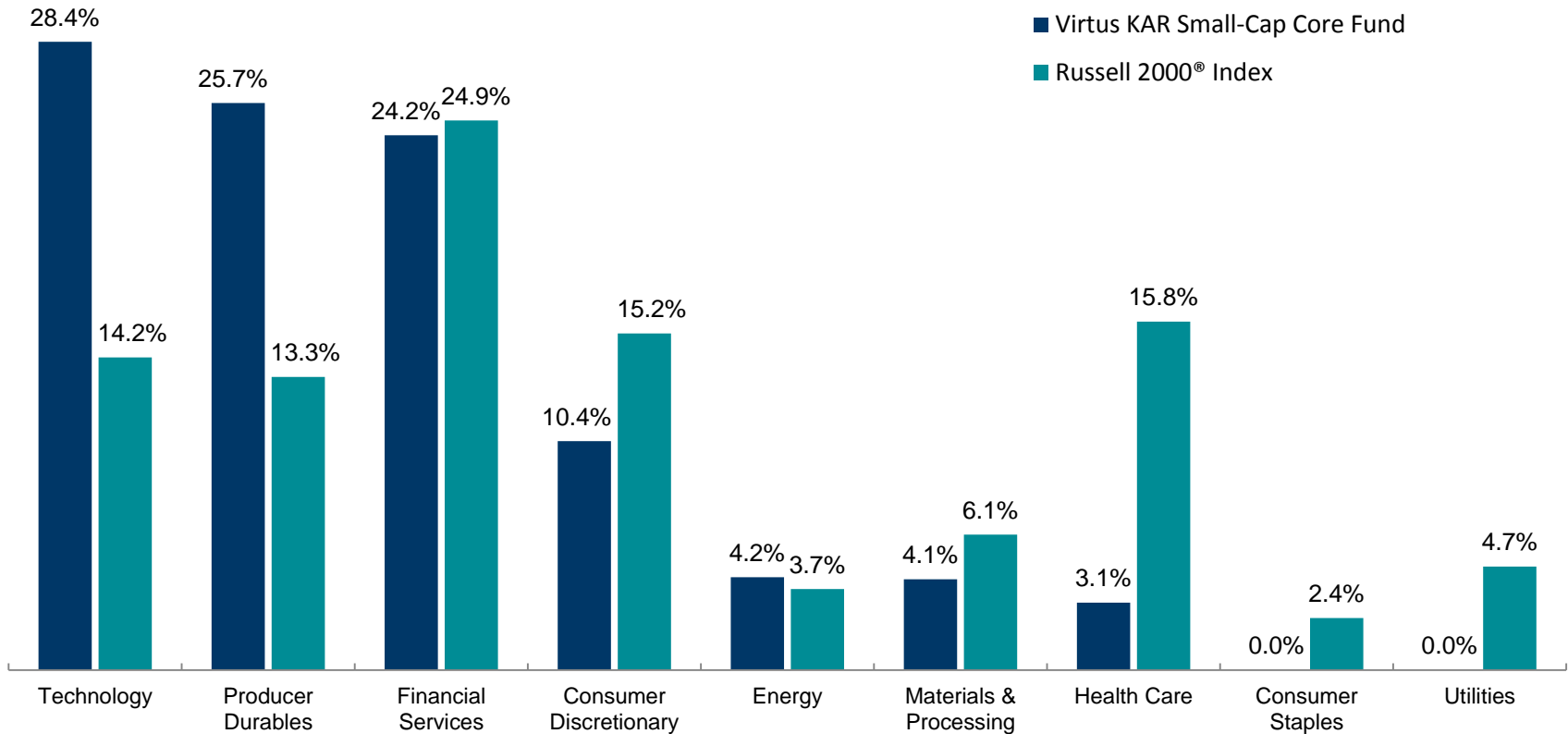
## 10 Years Ended 3/31/19



**Past performance is no guarantee of future results.**

Peer Group: The fund (Class I) is ranked against a broad universe of 1,015 small-cap funds consisting of the combined Morningstar Small Blend, Small Growth, and Small Value categories. Statistics are defined on page 28. Source: Morningstar Direct.

# SECTOR ALLOCATIONS



# TOP HOLDINGS



Top Ten Holdings	Sector	% of Portfolio
Autohome, Inc.	Technology	10.1
Primerica, Inc.	Financial Services	6.0
Teledyne Technologies Incorporated	Producer Durables	5.9
CDW Corp.	Technology	5.7
Rightmove PLC	Technology	5.7
Copart, Inc.	Producer Durables	5.6
Aspen Technology, Inc.	Technology	5.2
Old Dominion Freight Line, Inc.	Producer Durables	4.8
WABCO Holdings Inc.	Consumer Discretionary	4.5
Graco Inc.	Producer Durables	4.5
<b>Total</b>		<b>57.7</b>

	Virtus KAR Small-Cap Core Fund	Russell 2000® Index
Number of Holdings	27	1,999
Average Position Size (%)	3.7	0.1
Weight of Top 10 Holdings (%)	57.7	3.0
Active Share (%)	99.0	—

As of 3/31/19.

Source: Virtus Performance and Analytics.

Holdings and weightings are subject to change. The sector information represented above is based on Russell sector classifications.



# PERFORMANCE REVIEW



	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*
PKSFX	21.42	21.42	12.35	22.41	15.87	19.25	10.47
Russell 2000® Index	14.58	14.58	2.05	12.92	7.05	15.36	8.28

\*Inception: Class I: 10/18/96, Index: 8/30/02.

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.

Class I: The fund class gross expense ratio is 1.03% 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 1.01%.

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).

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 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.

# VIRTUS KAR EQUITY FUNDS



**KAR believes that superior risk-adjusted returns can be achieved by investing in high-quality companies with market dominance, excellent management, financial strength, and consistent growth, purchased at reasonable prices.**

U.S. SMALL-CAP			INTERNATIONAL SMALL-CAP		U.S. SMALL-MID-CAP	U.S. MID-CAP		GLOBAL LARGE-CAP		ALTERNATIVE
Virtus KAR Small-Cap Value Fund	Virtus KAR Small-Cap Core Fund*	Virtus KAR Small-Cap Growth Fund**	Virtus KAR International Small-Cap Fund	Virtus KAR Emerging Markets Small-Cap Fund	Virtus KAR Small-Mid Cap Core Fund	Virtus KAR Mid-Cap Core Fund	Virtus KAR Mid-Cap Growth Fund	Virtus KAR Global Quality Dividend Fund	Virtus KAR Capital Growth Fund	Virtus KAR Long/Short Equity Fund
<b>SYMBOL</b>										
A: PQSAX C: PQSCX I: PXQSX R6: VQSRX	A: PKSAX C: PKSCX I: PKSFX R6: VSCRX	A: PSGAX C: PSGCX I: PXSGX R6: VRSGX	A: VISAX C: VCISX I: VIISX R6: VRISX	A: VAESX C: VCESX I: VIESX	A: VKSAX C: VKSCX I: VKSIX R6: VKSRX	A: VMACX C: VMCCX I: VIMCX R6: VRMCX	A: PHSKX C: PSKCX I: PICMX R6: VRMGX	A: PPTAX C: PPTCX I: PIPTX	A: PSTAX C: SSTFX I: PLXGX R6: VCGRX	A: VLSAX C: VLSCX I: VLSIX R6: VLSRX
<b>NUMBER OF HOLDINGS</b>										
25–35	25–35	25–35	30–60	30–60	25–35	25–35	25–50	25–50	25–50	Long: 20-30 Short: 20-30
<b>BENCHMARK</b>										
Russell 2000® Value Index	Russell 2000® Index	Russell 2000® Growth Index	MSCI ACWI ex U.S. Small Cap Index (net)	MSCI Emerging Markets Small Cap Index (net)	Russell 2500™ Index	Russell Midcap® Index	Russell Midcap® Growth Index	Russell Developed Large Cap Index (net)	Russell 1000® Growth Index	Russell 3000® Index

\*Effective July 31, 2018, this Fund is closed to new investors. Please see the prospectus for exceptions.

\*\*Effective September 28, 2018, this Fund is closed to new investors. Please see the prospectus for exceptions.

# DEFINITIONS



## QUALITY

**Return on Equity - Past 5 Years**—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.

**Total Debt/EBITDA**—is calculated by dividing total debt by earnings before interest, taxes, depreciation, and amortization. It is a measure of a company's ability to pay off its incurred debt.

**Earnings Variance - Past 10 Years**—measures the volatility of the annual earnings per share over the past 10 years. On a portfolio level, a high EPS variability means the portfolio is heavily invested in companies with volatile earnings. Unlike earnings growth, this statistic looks at the companies' earnings patterns. Newer companies and smaller companies tend to have highly variable earnings.

## GROWTH

**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.

**Dividend/Share Growth**—on a portfolio level, this statistic measures the trailing dividends/share growth of a portfolio's holdings.

**Cap. Generation - {ROE x (1-Payout)}**—indicates how quickly the firm can grow without changing its financing and dividend policies. The retention ratio is calculated as one minus the dividend payout ratio. Capital generation illustrates the importance of profitability (return on equity) and the firm's dividend policy on the company's growth.

## VALUE

**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.

## MARKET CHARACTERISTICS

**\$ Weighted Average Market Cap - 3 Year Average**—is the average of the market capitalizations (price times the number of common shares outstanding) of the companies in the portfolio weighted by the size of each company's position within the portfolio.

**Largest Market Cap - 3 Year Average**—provides information about the range of the market capitalization held in the portfolio.

**Annualized Standard Deviation - Since Inception**—is a statistical measure of the dispersion about an average over a certain period and measures the volatility (risk) of a portfolio's returns.

# DEFINITIONS

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**Active Share** – A measure of the percentage of stock holdings in a manager’s portfolio that differ from the benchmark index.

**Alpha** – A measure of performance on a risk-adjusted basis.

**Beta** – A quantitative measure of the volatility of a given portfolio relative to the overall market. Higher beta suggests higher volatility. Beta can also refer to relative volatility to a portfolio’s stated benchmark.

**Downside Capture Ratio** – A measure of a manager’s ability to retain capital as the market declines. A value below 100 indicates that a manager was able to outperform in down markets.

**Net Margin** – The ratio of net profits to revenues for a company or business segment that shows how much of each dollar earned by the company is translated into profits.

**ROA (Return on Assets)** – An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

**ROE (Return on Equity)** – The amount of net income returned as a percentage of shareholders’ equity. Return on equity measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

**ROIC (Return on Invested Capital)** – A calculation used to assess a company’s efficiency at allocating the capital under its control to profitable investments. The return on invested capital measure gives a sense of how well a company is using its money to generate returns.

**Sharpe Ratio** – A statistic that measures the efficiency, or excess return per unit of risk, of a manager’s returns. The greater the Sharpe Ratio, the better the portfolio’s risk adjusted return.

**Standard Deviation** – Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.



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