

## Virtus KAR Small-Cap Value Fund

A: PQSAX (92828N684) | C: PQSCX (92828N676) | I: PXQSX (92828N668) | R6: VQSRX (92828N411)

### MARKET REVIEW

Stocks pulled back modestly in the third quarter with the S&P 500® Index declining 3.27%. Returns for large-cap growth (Russell 1000® Growth) and value stocks (Russell 1000® Value) were nearly identical, declining 3.13% and 3.16% in the quarter, respectively. Small-cap stocks (Russell 2000®) continued to underperform larger-cap stocks, declining 5.13% for the quarter. We believe the principal cause of the pullback in stock prices has been the backup in long-term interest rates. As long-duration assets, equities are sensitive to shifts in longer-term interest rates. We believe the recent strength in oil prices is one reason long-term yields are rising, which adds to longer-term concerns of where inflation will settle and makes it more difficult for the Federal Reserve (Fed) to reach its inflation goals. Another driver behind higher long-term yields is the U.S. economy's ongoing resilience. Due to these factors, the market has become more convinced that the Fed may have to hold interest rates higher for longer than previously expected.

### FUND PERFORMANCE

The Virtus KAR Small-Cap Value Fund returned -3.02% (Class I) in the quarter, in line with the Russell 2000® Value Index, which returned -2.96%. Stock selection, combined with underweight positions in the healthcare and information technology sectors, contributed positively to performance. An underweight position in the energy sector detracted from performance, as did stock selection in the consumer discretionary sector.

Construction Partners and Houlihan Lokey were the largest contributors to performance in the quarter.

- > Strong infrastructure spending across Construction Partners' six-state operation and market share growth via disciplined acquisitions helped the civil infrastructure company perform well during the quarter. Profitability also improved as most of the work completed in the quarter came from a higher margin post-inflationary backlog.
- > Global investment bank Houlihan Lokey's focus on smaller deals allowed it to experience more resilient deal volume despite declines from the prior year's level. The company also increased its financial restructuring services business, which further helped results.

Leslie's and Getty Realty were the largest detractors from performance in the quarter.

- > Leslie's, retailer of swimming pool supplies, provided guidance for full fiscal year's sales to be down. Poor weather at the beginning of the pool season along with customers' reduced need for restocking pool chemicals led to disappointing sales.
- > Getty Realty, which specializes in convenience, automotive, and other single-tenant retail real estate, underperformed along with the entire REIT sector as interest rates continue to move higher.

### PORTFOLIO CHANGES

During the quarter, there were no new purchases or complete sales from the portfolio.

### OUTLOOK

Despite the pullback in equities this quarter, we believe many stocks are attractively positioned for future growth at reasonable prices. Investors in the short run have continued to pour money into money market accounts yielding over 5%, but we believe this is likely to be a short-term opportunity as inflation eases over the next 12 months. Despite the slowing economy over the last two years, corporate earnings have been barely dented, even with COVID dislocations and dramatic interest rate increases. Therefore, we continue to believe the S&P 500 bottomed last October, which, in our view, should incentivize investors to stay put in these more uncertain and controversial times.

**Related Reading:** [Q3 KAR Market Review & Outlook](#)

**INVESTMENT ADVISER**

Virtus Investment Advisers, Inc.

**INVESTMENT SUBADVISER**

Kayne Anderson Rudnick Investment Management, LLC

**PORTFOLIO MANAGERS**



**Julie Kutasov**  
 Industry start date: 2001  
 Start date as Fund Portfolio Manager: 2008



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

**TOP TEN HOLDINGS**

	<b>% Fund</b>
Watsco Inc.	7.04
Houlihan Lokey Inc.	5.38
Thor Industries Inc.	4.36
EVERTEC Inc.	4.20
RBC Bearings Inc.	4.15
SiteOne Landscape Supply Inc.	4.06
Construction Partners Inc.	4.05
Landstar System Inc.	4.05
Primerica Inc.	3.96
Hillman Solutions Corp.	3.87

Holdings are subject to change.

**TOP CONTRIBUTORS**

	<b>% Contribution</b>
Construction Partners Inc.	0.57
Houlihan Lokey Inc.	0.46
Bank of Hawaii Corp.	0.42
RBC Bearings Inc.	0.29
WD-40 Co.	0.25

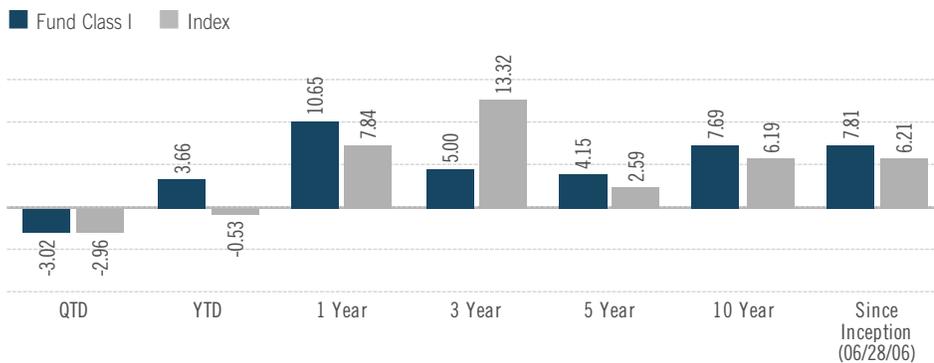
**TOP DETRACTORS**

	<b>% Contribution</b>
Leslie's Inc.	-1.02
Getty Realty Corp.	-0.54
The Scotts Miracle-Gro Co.	-0.39
The Cheesecake Factory Inc.	-0.38
Hillman Solutions Corp.	-0.35

Contribution: Absolute weighted contribution.

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

**AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23**



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 0.97%.

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 2000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the smallest 2,000 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 it 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. **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. **Sector Focused Investing:** Events negatively affecting a particular industry or market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **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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