

## Virtus KAR Small-Mid Cap Growth Fund

A: VAKSX (92836N817) | C: VCKSX (92836N791) | I: VIKSX (92836N783) | R6: VRKSX (92836N775)

### 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-Mid Cap Growth Fund returned -2.55% (Class I) in the quarter, outperforming the Russell 2500™ Growth Index, which returned -6.84%. Stock selection in industrials and information technology contributed positively to performance. An underweight position in the energy sector and stock selection in the consumer staples sector detracted from performance.

Ollie's Bargain Outlet and HealthEquity were the largest contributors to the portfolio in the quarter.

- > Ollie's Bargain Outlet reported sales growth and profit margin expansion during the quarter. The discount retailer's sales benefited from customers trading down to bargain concepts, while margins improved due to supply chain headwinds easing.
- > HealthEquity's health savings account (HSA) business benefited from increasing interest rates and improved execution as it digests its previous acquisition of WageWorks. HSA growth for the industry remains healthy, and we believe the company continues to benefit from its scale and breadth of offerings and ability to bundle products. Additionally, the company purchased the HSA portfolio from a top 10 HSA provider. In our view, further consolidation continues to enable sustainable earnings growth for HealthEquity.

Silk Road Medical and Lamb Weston were the largest detractors from performance in the quarter.

- > Silk Road Medical reported decent results this quarter, demonstrating clear uptake among trained surgeons using its new minimally invasive TCAR technology for the treatment of carotid artery disease. Pricing remains firm and profitability is improving; however, investors remain concerned by the Centers for Medicare & Medicaid Services' recent proposal to reimburse a competing technology (TFCAS) at parity with SilkRoad's procedure.
- > In the most recent quarter, potato processing company Lamb Weston experienced more pronounced volume declines than expected due to a slowdown in restaurant traffic and some customer inventory destocking. Additionally, market participants were concerned about possible margin reversion, particularly as the company adds sizeable processing capacity in a softer market environment. Given high expectations after several quarters of strong execution, the shares underperformed.

### PORTFOLIO CHANGES

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

### 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 Biel, CFA**  
 Industry start date: 2004  
 Start date as Fund Portfolio Manager: 2020



**Chris Wright, CFA**  
 Industry start date: 2012  
 Start date as Fund Portfolio Manager: 2022

**TOP TEN HOLDINGS**

**% Fund**

West Pharmaceutical Services Inc.	5.63
Ryan Specialty Holdings Inc.	5.43
Fair Isaac Corp.	5.24
Bentley Systems Inc.	4.78
HEICO Corp.	4.41
nCino Inc.	4.37
Copart Inc.	4.26
HealthEquity Inc.	4.08
Rightmove PLC	3.95
Saia Inc.	3.78

Holdings are subject to change.

**TOP FIVE CONTRIBUTORS % Contribution**

Ollie's Bargain Outlet Holdings Inc.	0.76
HealthEquity Inc.	0.53
Saia Inc.	0.52
Clearwater Analytics Holdings Inc.	0.51
Ryan Specialty Holdings Inc.	0.38

**TOP FIVE DETRACTORS % Contribution**

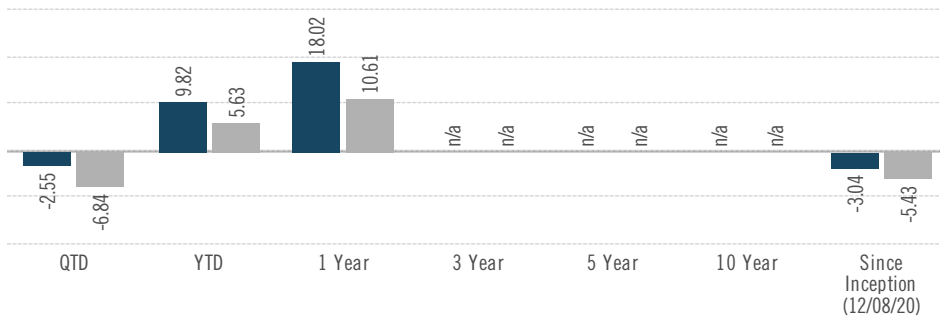
Silk Road Medical Inc.	-1.69
Lamb Weston Holdings Inc.	-0.76
Atrion Corp.	-0.66
MarketAxess Holdings Inc.	-0.45
Certara Inc.	-0.44

% 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**

■ 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 2.57%. The net expense ratio is 1.05%, which reflects a contractual expense reimbursement in effect through 1/31/2024.

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 2500™ Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 2,500 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.

**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. **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. 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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