

## Virtus KAR Small-Cap Growth Fund

A: PSGAX (92828N627) | C: PSGCX (92828N619) | I: PXSGX (92828N593) | R6: VRSGX (02828N247)

### MARKET REVIEW

Domestic equities continued to march ahead in the third quarter, with the S&P 500® Index gaining 7.71% and the Russell 2000® Index advancing 3.58%. Trade war concerns continued to mount during the quarter, which led to weakness in international stocks, both developed and emerging markets. The MSCI EAFE® Index managed a modest gain for the quarter, up 1.35%, while the MSCI Emerging Markets Index slipped 1.09%. Interest rates continued to rise modestly during the quarter, with the 10-year U.S. Treasury yield moving from 2.86% to 3.06%, but the spread between the 10-year and 2-year yields narrowed further.

### PERFORMANCE

The Fund (Class I) returned 2.15% for the quarter, underperforming the Russell 2000® Growth Index, which returned 5.52%. Performance was negatively affected by weak stock selection in the technology and financial services sectors. Strong stock selection in consumer discretionary and consumer staples helped trim some of the losses.

Fox Factory and Ollie's Bargain Outlet were the biggest contributors to performance in the quarter.

- > "Ride dynamics" manufacturer Fox Factory reported robust consolidated revenue growth, of nearly 30%, and an increase in operating earnings of about 28% in the quarter. The growth in revenue was fueled by an acquisition and organic growth in both the powered vehicle and bike operating segments. The company's business continues to be supported by a strong brand and aims to drive ongoing growth through the market segment, seeking premium and higher performance products.
- > The value proposition of the Ollie's chain of retail stores is focused around a "treasure hunt" shopping experience and has provided substantial growth to the business. As a result, the company was able to increase its store count and increase both its consolidated and comparable store sales in the quarter. These developments were positive for the stock's performance.

Autohome and Interactive Brokers Group detracted the most from performance during the quarter.

- > Escalating trade friction between China and the U.S., and the potential impact the conflicts could have on China's economy, have weighed on China car sales website company Autohome's stock. In addition, new car sales have been weak in China following the demise of many peer-to-peer lending platforms.
- > In a quarter of subdued market volatility, shares of electronic brokerage firm Interactive Brokers reversed gains from the first half of the year where higher market volatility pushed up average client trading activity. However, long-term underlying growth metrics unrelated to the periodic volatility of markets remained strong, with client accounts growing by more than 20%, and client equity growing 29% year over year. We believe Interactive Brokers will continue to take share in the brokerage industry as the low-cost operator.

### PURCHASES AND SALES

No new purchases or complete sales were made in the portfolio during the quarter.

### OUTLOOK

A flat Treasury yield curve continues to concern investors, the U.S. and China are locked in an ongoing trade spat, and troubles in emerging markets persist. Circumstances may change but uncertainty and volatility in markets are to be expected. While we pay attention to such factors causing concern, we also remain focused on the economic and business fundamentals. The U.S. appears to be one of the pillars of strength in the global economy today, with third-quarter GDP growth projected to be strong and various sectors continuing to expand. As always, we are committed to investing in high-quality businesses that have a sustainable competitive edge. In our view, this approach is the best long-term strategy in today's environment of heightened market and geopolitical uncertainty.

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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 with Fund: 2009



**Todd Bailey, CFA**  
Industry start date: 1999  
Start date with Fund: 2008

### TOP TEN HOLDINGS

% Fund

Autohome, Inc. Sponsored ADR Class A	9.56
Auto Trader Group PLC	5.82
Fox Factory Holding Corp.	4.90
Old Dominion Freight Line, Inc.	4.64
Rightmove PLC	4.42
Aspen Technology, Inc.	4.35
HEICO Corp. Class A	4.18
Interactive Brokers Group, Inc. Class A	3.91
Ollie's Bargain Outlet Holdings Inc.	3.62
Copart, Inc.	3.57

Holdings are subject to change.

### AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 6/28/2006
Fund Class I	2.15	23.32	32.34	32.40	19.41	16.31	12.36
Index	5.52	15.76	21.06	17.98	12.14	12.65	10.42

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.

The fund class gross expense ratio is 1.21% 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 1.17%.

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).

Index: The **Russell 2000® Growth Index** is a market capitalization-weighted index of growth-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 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. **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.

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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