

# **VIRTUS KAR SMALL-CAP GROWTH FUND**

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December 31, 2023

# 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, medium, or large-sized companies may enhance that risk.

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## **Foreign Investing**

Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk.

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## **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.

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## **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.

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## **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.

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## **Prospectus**

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

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# VIRTUS INVESTMENT PARTNERS

MULTI-ASSET MANAGER



## KEY FACTS

\$172.3

Billion in  
AUM

38

Funds Rated  
4 or 5 Stars<sup>1</sup>



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

As of 12/31/23. <sup>1</sup>Based on INST class or I shares. Please see page 19 for additional Morningstar disclosure. Strong ratings are not indicative of positive fund performance. <sup>2</sup>Newfleet Asset Management, Seix Investment Advisors, and Stone Harbor Investment Partners are divisions of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser. Virtus has a majority or minority interest in the managers shown, with exception of Voya Investment Management.

### At a Glance

- Year Founded: 1984
- Headquarters:  
Los Angeles, CA
- AUM: \$59.6 billion\*
- Number of Investment Professionals: 21
- Average Investment Experience: 16 Years
- A wholly owned, independent subsidiary of Virtus Investment Partners

- 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

### Investment Philosophy

Kayne Anderson Rudnick believes that purchasing high-quality businesses with competitive protections 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 Russell 2000® Growth Index
- Achieve this return objective with a portfolio that exhibits lower overall risk characteristics than the benchmark\*\*\*

Source: Kayne Anderson Rudnick

\*AUM as of December 31, 2023. Figures in USD.

\*\*See slide 6 to refer to the “Tenets of Quality: Our Quality Business Assessment” for KAR’s definition of high-quality businesses.

\*\*\*There is no guarantee that the portfolio will meet its objective.

# KAR SMALL-CAP SUSTAINABLE GROWTH TEAM



Portfolio Manager/Analyst	Responsibility	Sector Coverage	Research Start Date	KAR Start Date
Todd Beiley, CFA	Portfolio Manager and Senior Research Analyst	Financials (Insurance)	1999	2002
Jon Christensen, CFA	Portfolio Manager and Senior Research Analyst	Health Care Industrials	1995	2001
Julie Biel, CFA	Senior Research Analyst	Information Technology Health Care	2004	2013
Julie Kutasov	Senior Research Analyst	Materials Industrials Utilities	2001	2001
Craig Stone	Senior Research Analyst	Real Estate Consumer Discretionary	1990	2000
Chris Wright, CFA	Senior Research Analyst	Financials Information Technology Energy Industrials	2012	2012
Adam Xiao, CFA	Senior Research Analyst	Financials Communication Services Consumer Discretionary Information Technology	2013	2018
Sean Dixon	Research Analyst	Consumer Discretionary Industrials	2008	2018
Luke Longinotti	ESG Research Analyst		2020	2023
Arthur Su, CFA	Research Analyst	Information Technology Industrials Consumer Staples	2015	2022
Clarissa Ali	Associate Research Analyst		2023	2018
Jason Pomatto	Managing Director – Senior Client Portfolio Manager		1994	2021
Ben Falcone, CFA	Managing Director – Client Portfolio Manager		1996	2023
James May, CFA	Managing Director – Client Portfolio Manager		1989	2019
Ben Corser	Portfolio Specialist		2006	2018

### Competitive Protection

- Brand/Reputation
- Network Effect
- Scale/Cost Advantage
- Benchmarking Standard
- High Customer Switching Costs
- Barriers to Entry/Unique Asset
- Low Obsolescence Risk

### Owner-Oriented Management

- Cultivates Competitive Advantage
- Rational Capital Allocation
- Considers Stakeholder Interests



### KAR HIGH-QUALITY BUSINESS

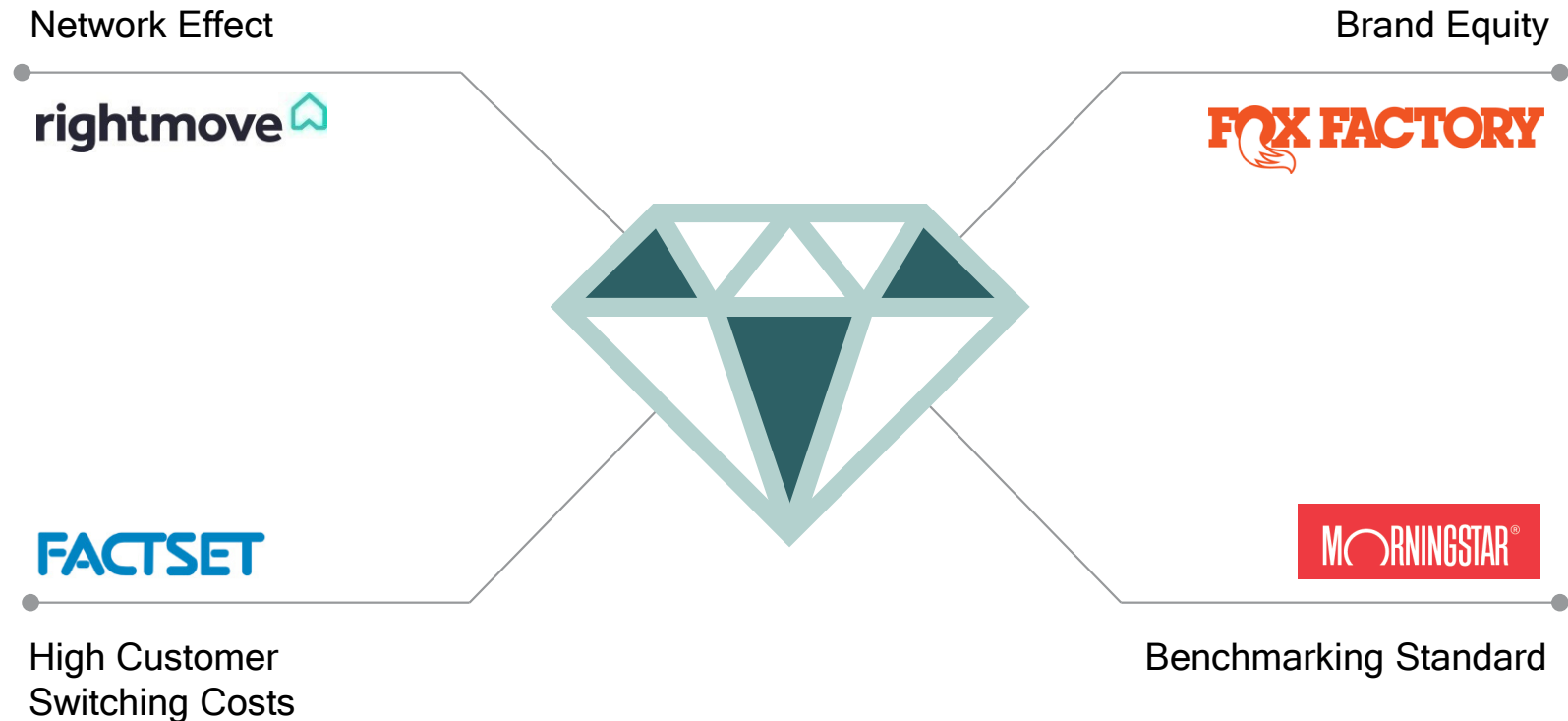
- Protect and Grow Market Share
- High Economic Return on Capital
- Business Returns → Shareholder Returns

Source: Kayne Anderson Rudnick

The commentary is the opinion of Kayne Anderson Rudnick. 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.

# KAYNE ANDERSON RUDNICK SOURCES OF QUALITY

EXAMPLES OF HIGH-QUALITY BUSINESS MODELS



Source: Kayne Anderson Rudnick

The trademarks shown are the property of their respective owners. Percent of Virtus KAR Small-Cap Growth Fund as of 12/31/23: Rightmove PLC: 5.3%; FactSet Research Systems: 3.1%; Morningstar Inc.: 7.0%; Fox Factory Holding Corp.: 4.4%.

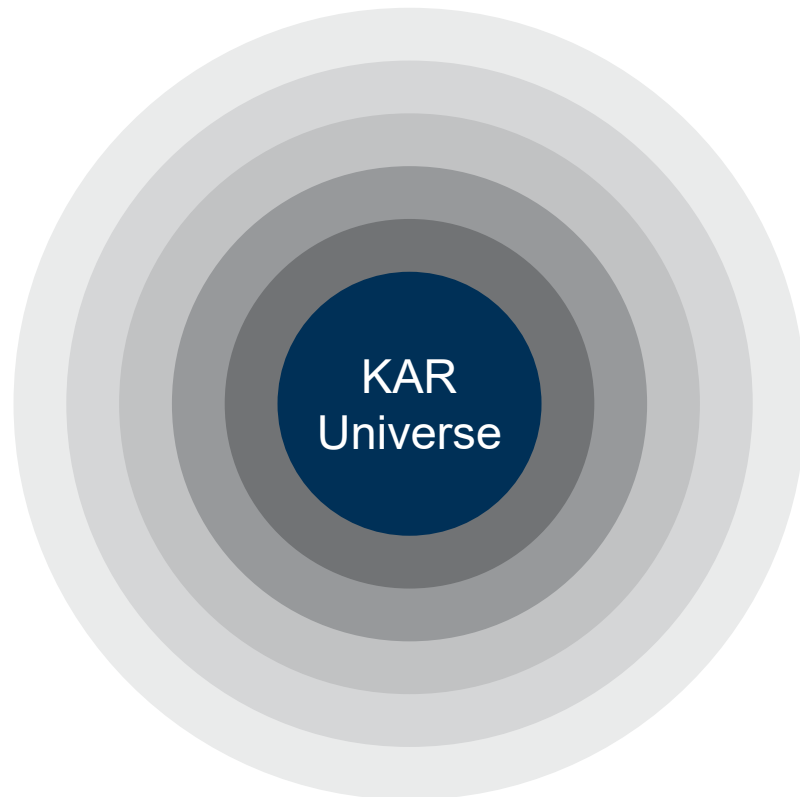
The securities presented on this page are chosen based upon objective criteria. Companies are chosen to exemplify diversification. KAR typically selects companies that operate in large, vast industries, but have overwhelming market share for their particular niches. All information is provided for informational 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.

# KAYNE ANDERSON RUDNICK DEVELOPMENT OF HIGH-QUALITY UNIVERSE

KAR SOURCES ITS 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
- Minimal debt
- Strong free cash flow

## Other Resources

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



KAR 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
- In KAR’s view, mispricing can be created by: Underfollowed company, investors’ overreaction to short-term challenges, improved competitive position not yet recognized

## ESG Analysis\*

**Purpose:** Evaluate financially material environmental, social, and/or governance factors to determine if they may impact an investment outcome

- Utilize a proprietary ratings framework identifying five key issues for each sector
- ESG research integrated into research process by each member of the investment team
- Ratings updated annually

Source: Kayne Anderson Rudnick

\*Where material to a particular investment opportunity and consistent with KAR’s investment strategy, KAR seeks to consider environmental, social, and/or governance (ESG) factors that KAR believes may influence risks and rewards as an element of its investment research and decision-making processes. However, such ESG factors are not by themselves determinative to an investment decision.

### Policy

KAR believes that responsible investment practices which incorporate the consideration of environmental, social, and governance (ESG) topics add sustainable value for its investors and are consistent with its fiduciary duty.

### Philosophy

KARs investment strategy is driven by the belief that:

- Long-term sustainable and successful businesses incorporate and manage all relevant factors whether they be economic, financial, operational, environmental, social, or governance related.
- Where material to a particular investment opportunity and consistent with a strategy's investment goals and objectives, KAR seeks to consider environmental, social, and/or governance factors that KAR believes may influence risks and rewards as an element of KAR's investment research and decision-making processes.
- However, such environmental, social, and/or governance factors are not by themselves determinative to an investment decision.

### Experience

- Natural alignment with KAR's quality-focused investment approach
- PRI Signatory since 2019
- \$3.7 billion in mandates with client-specific ESG objectives\*

\* As of December 31, 2023

Where material to a particular investment opportunity and consistent with KAR's investment strategy, KAR seeks to consider environmental, social, and/or governance (ESG) factors that KAR believes may influence risks and rewards as an element of its investment research and decision-making processes. However, such ESG factors are not by themselves determinative to an investment decision.

KAR uses a proprietary ESG ratings framework to generate ESG scores for businesses in its portfolios as well as portfolio scores.

- ESG research is conducted by each member of the investment team
- Five key issues identified that KAR believes are the most material and financially relevant for each sector
- These five key issues are largely informed by SASB

KAR analyzes each of these key issues and assign each one an A, B, or C rating

- ✓ A Rating - Demonstrates leadership within ESG
- ✓ B Rating - Demonstrates neither leading the charge nor doing something egregious
- ✓ C Rating - Demonstrates one or more ESG issues of significant concern

- The rating on the key issues informs the overall company rating
- Rating updated annually or more frequently if a material event should occur

Where material to a particular investment opportunity and consistent with KAR's investment strategy, KAR seeks to consider environmental, social, and/or governance (ESG) factors that KAR believes may influence risks and rewards as an element of its investment research and decision-making processes. However, such ESG factors are not by themselves determinative to an investment decision.

## Investment Guidelines

### **Position Weights**

- 20-40 holdings
- Maximum initial position is 5% (at cost)
- Maximum position size is 10% (at market)

### **Sector Tolerances**

- Seek broad diversification, but no sector constraints

### **Non-U.S. Holdings**

- Up to 20%

### **Holding Period**

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

### **Cash Levels**

- Typically will not exceed 10% once a portfolio is fully invested; review by CIO triggered if over 10%

## Sell Discipline

### **Extended Valuation**

- Significant premium to intrinsic value
- Expected annual return insufficient

### **Portfolio Upgrade**

- Better business
- Better price

### **Acquisition Activity**

- Holding acquired at an attractive premium
- Holding acquires a company diminishing its business or value

### **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

### **Investment Philosophy**

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

### **Portfolio Level Controls**

- Broad sector diversification
- 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

## Portfolio Monitoring

### **CIO/PM Meetings**

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

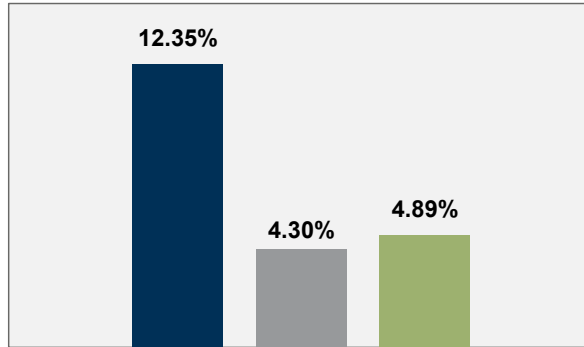
### **Research Meetings**

- Formal meetings to discuss and evaluate portfolio holdings and overall industry trends

# HIGH-QUALITY CHARACTERISTICS



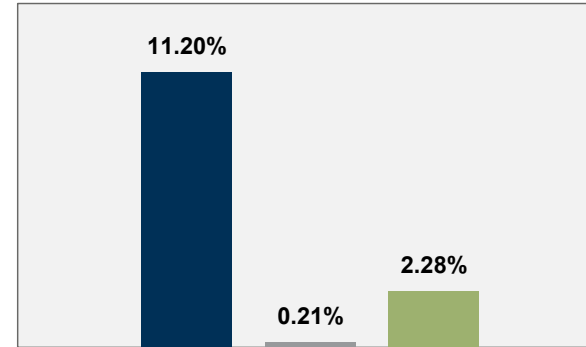
NET MARGIN\*



Percentile Rank in Category (%)

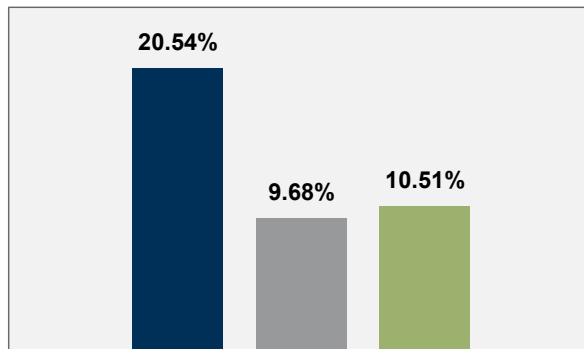
7

ROA\*



1

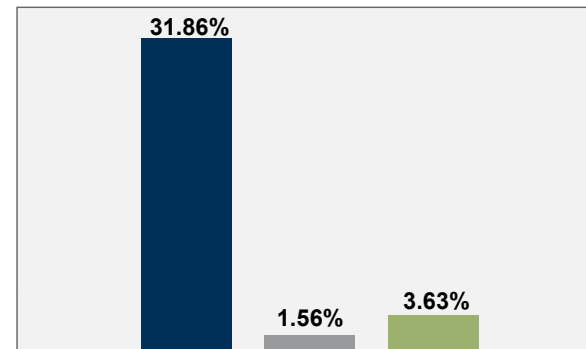
ROE\*



Percentile Rank in Category (%)

3

ROIC\*



1

■ Virtus KAR Small-Cap Growth Fund (PXSGX)

■ Russell 2000® Growth Index

■ Combined Morningstar Small Blend, Small Growth, and Small Value Categories

(based on total return; number of funds ranked: Net Margin 590; ROA 590; ROE 590; ROIC 590)

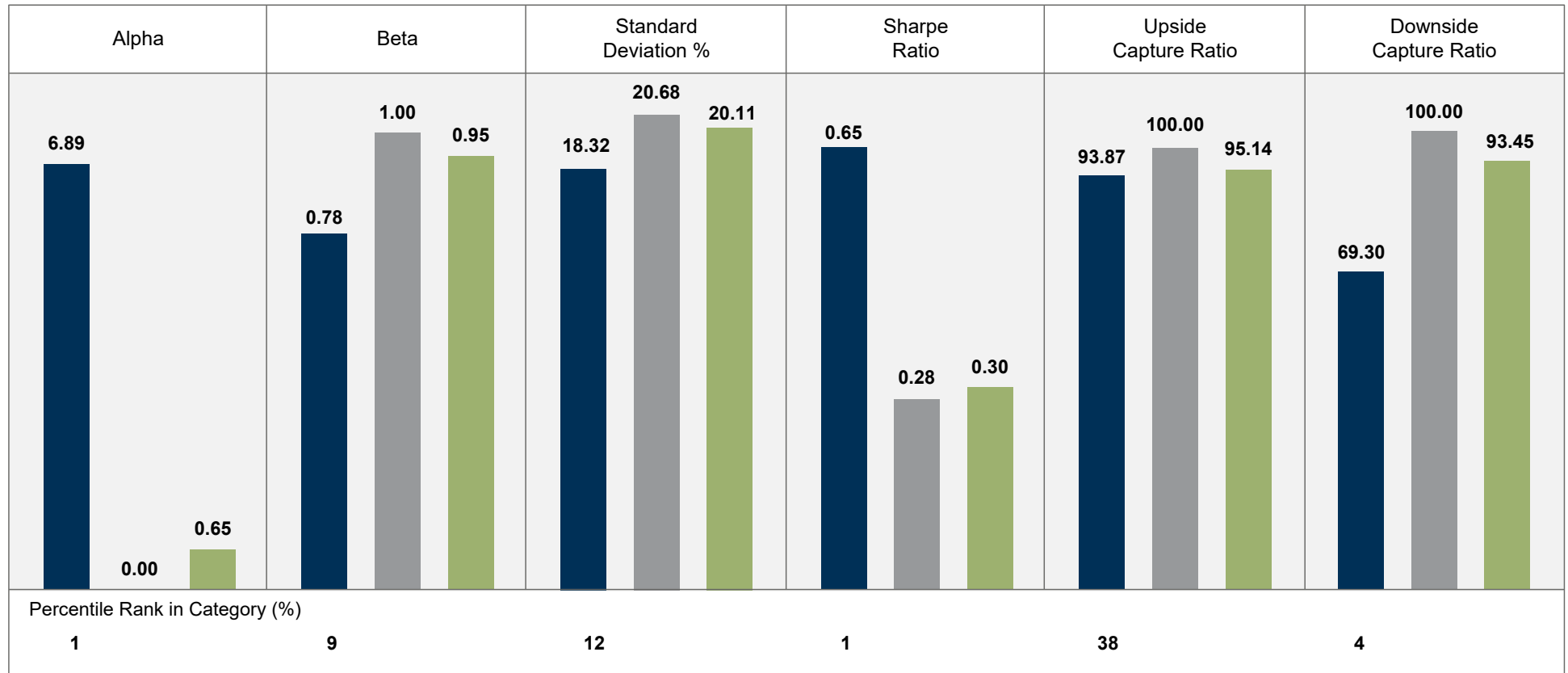
**Past performance is not indicative of future results.** \*Trailing 12 months.

As of 9/30/2023, the most recent quarter for which these data are available. Class I shares. 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® 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 is not available for direct investment. Characteristics are defined on page 21.

# CHARACTERISTICS

10 YEARS



- Virtus KAR Small-Cap Growth Fund (PXSGX)
- Russell 2000® Growth Index
- Combined Morningstar Small Blend, Small Growth, and Small Value Categories (based on total return; number of funds ranked: 1,136)

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

As of 12/31/23. Class I shares. 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.

Characteristics are defined on page 21.

# PORTFOLIO CHARACTERISTICS



	Virtus KAR Small-Cap Growth Fund	Russell 2000® Growth Index	Description†
<b>Quality</b>			
Return on Equity—Past 5 Years	19.2%	10.6%	In a market of average businesses, KAR seeks to own protected proprietary businesses that have generated exceptional returns on shareholders' capital without employing significant debt.
Total Debt/EBITDA*	0.8 x	1.5 x	
Earnings Variability—Past 10 Years	27.8%	75.8%	
<b>Growth</b>			
Earnings Per Share Growth—Past 10 Years	16.9%	11.8%	In a market of cyclical businesses requiring growth capital from fickle markets, KAR seeks to own companies producing self-funded, strong, consistent growth sustainable into the future.
Capital Generation—{ROE x (1-Payout)}	15.4%	9.4%	
<b>Value</b>			
P/E Ratio—Trailing 12 Months	43.8 x	83.5 x	And KAR has been able to achieve this high quality and strong growth at a discount valuation to the market.
Free Cash Flow Yield**	4.6%	2.1%	
<b>Market Characteristics</b>			
\$ Weighted Average Market Cap—3 Year Average (by Issue)	\$6.6 B	\$3.5 B	
Largest Market Cap—3 Year Average (by Issue)	\$20.3 B	\$13.2 B	
Annualized Standard Deviation—Since Inception***	18.7%	21.0%	

## Past performance is no guarantee of future results.

As of 12/31/23.

\* KAR utilizes the interquartile method when calculating Debt/EBITDA. The interquartile method excludes outliers from an aggregate statistic such as weighted average. The interquartile method does not assume that data from the top or bottom of the distribution are outliers—only the extreme ends are excluded—and that it can be applied consistently as a quantitative method for most fundamental characteristics. Debt/EBITDA utilizes net debt for the calculation.

\*\* Free cash flow data is as of September 30, 2023. Prices are as of December 31, 2023. Excludes financials.

\*\*\* June 28, 2006. 7/1/06 used for calculation purposes of quarterly data. Net of fees.

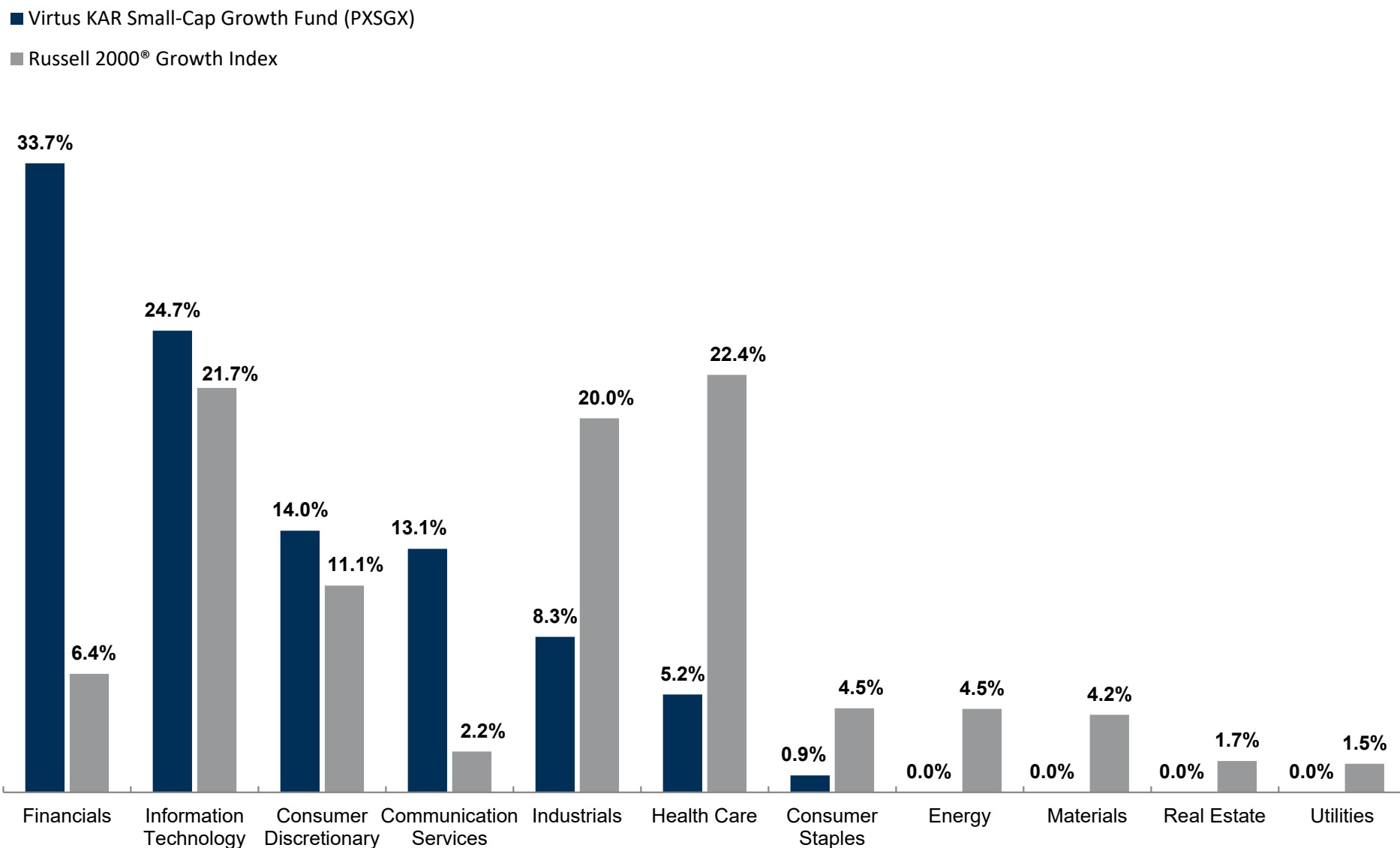
†Description reflects past results and is not an indicator of future performance results. Description is relative to the Fund's primary benchmark.

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 21 for definitions of characteristics shown.



# SECTOR ALLOCATIONS



# PORTFOLIO ATTRIBUTES

## VIRTUS KAR SMALL-CAP GROWTH FUND



Top Ten Holdings	Sector	% of Portfolio
Ryan Specialty Holdings Inc.	Financials	7.9
Morningstar Inc.	Financials	7.0
AAON Inc.	Industrials	6.5
Auto Trader Group PLC	Communication Services	6.3
Rightmove PLC	Communication Services	5.3
ServisFirst Bancshares Inc.	Financials	4.6
Endava PLC	Information Technology	4.6
Interactive Brokers Group Inc.	Financials	4.5
Fox Factory Holding Corp.	Consumer Discretionary	4.4
nCino Inc.	Information Technology	4.0
<b>Total</b>		<b>55.1</b>

	Virtus KAR Small-Cap Growth Fund	Russell 2000® Growth Index
Number of Holdings	30	1,074
Average Position Size (%)	3.33	0.09
Weight of Top 10 Holdings (%)	55.14	6.54
Active Share (%)	97.31	—

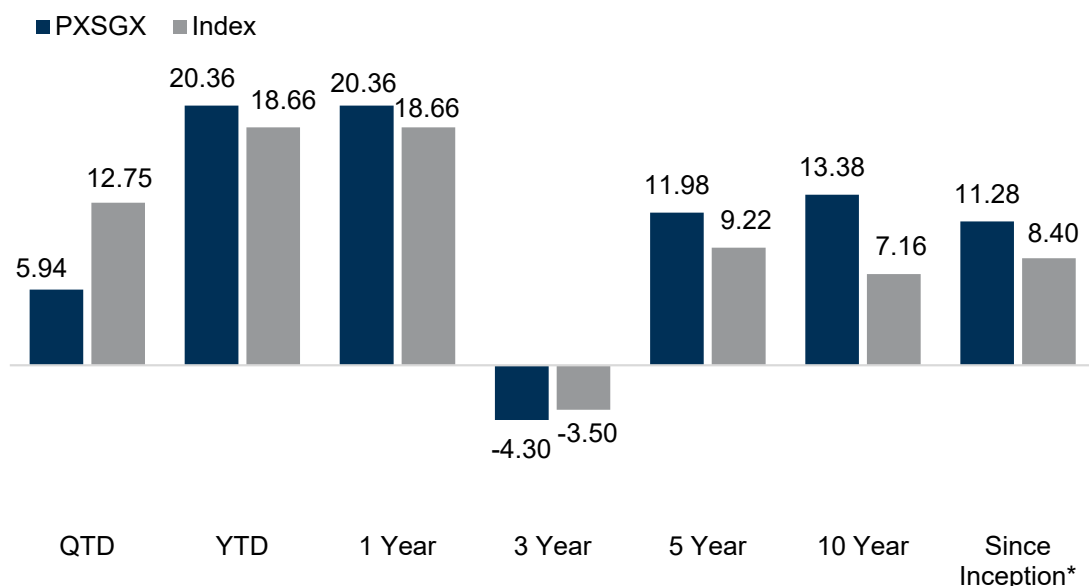
As of 12/31/23.

Source: Virtus Performance and Analytics.

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

# PERFORMANCE REVIEW

DECEMBER 31, 2023 (%)



\*Inception: Class I: 6/28/06.

**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.**

Class I: The fund class gross expense ratio is 1.09%.

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.

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 is not available for direct investment.

## MORNINGSTAR RATINGS™

I Share	Small Growth
Time Period	# of Stars # of Funds
Overall	★★★★★ 563
3 Year	★★★★ 563
5 Year	★★★★★ 528
10 Year	★★★★★★ 405

Morningstar ratings are based on risk-adjusted returns. Strong ratings are not indicative of positive fund performance.

The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads.

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# VIRTUS KAR HIGH-QUALITY EQUITY FUNDS



## Quality-Driven Strategies Across Market Caps and Borders

Kayne Anderson Rudnick's investment philosophy is rooted in quality, with a focus on wealth preservation. Decades of management experience has yielded a rigorous definition of quality, which guides where the firm invests, across market caps and geographic regions.

U.S.										INTERNATIONAL/EMERGING MARKETS			GLOBAL		ALTERNATIVE	SPECIALTY
SMALL-CAP			SMALL-MID-CAP			MID-CAP		LARGE-CAP		SMALL-CAP	SMALL-MID-CAP	ALL-CAP	SMALL-CAP	ALL-CAP	LONG/SHORT	HEALTH
VIRTUS KAR SMALL-CAP VALUE FUND	VIRTUS KAR SMALL-CAP CORE FUND*	VIRTUS KAR SMALL-CAP GROWTH FUND	VIRTUS KAR SMALL-MID CAP CORE FUND	VIRTUS KAR SMALL-MID CAP GROWTH FUND	VIRTUS KAR SMALL-MID CAP VALUE FUND	VIRTUS KAR MID-CAP CORE FUND	VIRTUS KAR MID-CAP GROWTH FUND	VIRTUS KAR EQUITY INCOME FUND	VIRTUS KAR CAPITAL GROWTH FUND	VIRTUS KAR EMERGING MARKETS SMALL-CAP FUND	VIRTUS KAR INTERNATIONAL SMALL-MID CAP FUND	VIRTUS KAR DEVELOPING MARKETS FUND	VIRTUS KAR GLOBAL SMALL-CAP FUND	VIRTUS KAR GLOBAL QUALITY DIVIDEND FUND	VIRTUS KAR LONG/SHORT EQUITY FUND	VIRTUS KAR HEALTH SCIENCES FUND
SYMBOL																
A: PQSAX	A: PKSAX	A: PSGAX	A: VKSAX	A: VAKSX	A: VKSDX	A: VMACX	A: PHSKX	A: PDIAX	A: PSTAX	A: VAESX	A: VISAX	A: VDMAX	A: RGSAX	A: PPTAX	A: VLSAX	A: RAGHX
C: PQSCX	C: PKSCX	C: PSGCX	C: VKSCX	C: VCKSX	C: VKSEX	C: VMCCX	C: PSKCX	C: PGICX	C: SSTFX	C: VCESX	C: VCISX	C: VDMCX	C: RGSCX	C: PPTCX	C: VLSCX	C: RCGHX
I: PXQSX	I: PKSFX	I: PXSGX	I: VKSIX	I: VIKSX	I: VKSFX	I: VIMCX	I: PICMX	I: PXIIX	I: PLXGX	I: VIESX	I: VIISX	I: VIDMX	I: DGSCX	I: PIPTX	I: VLSIX	I: HLHIX
R6: VQSRX	R6: VSCRX	R6: VRSGX	R6: VKSRX	R6: VRKSX	R6: VKSGX	R6: VRMCX	R6: VRMGX	R6: VECRX	R6: VCGRX	R6: VRESX	R6: VRISX	R6: VDMRX	P: ARSPX	R6: VGQRX	R6: VLSRX	P: AAAEX
NUMBER OF HOLDINGS																
20-35	20-40	20-40	25-35	20-35	25-35	25-35	25-50	25-50	25-50	30-60	30-60	30-60	40-50	25-50	Long: 20-30 Short: 20-30	40-50
BENCHMARK																
Russell 2000® Value Index	Russell 2000® Index	Russell 2000® Growth Index	Russell 2500™ Index	Russell 2500™ Growth Index	Russell 2500™ Value Index	Russell Midcap® Index	Russell Midcap® Growth Index	MSCI USA High Dividend Yield Index (net)	Russell 1000® Growth Index	MSCI Emerging Markets Small Cap Index (net)	MSCI AC World Ex USA Small Mid Cap Index (net)	MSCI Emerging Markets Index	MSCI World Small Cap Index	Russell Developed Large Cap Index (net)	Russell 3000® Index	MSCI World Health Care Index
INVESTMENT OPPORTUNITY																

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.

**For more information about Kayne Anderson Rudnick's  
high-conviction, high-quality equity strategies,  
visit [virtus.com](http://virtus.com) or call 800-243-4361.**

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

## 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 Variability - 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.

**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.

**Free Cash Flow Yield**—An overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. Free cash flow yield is similar in nature to the earnings yield metric, which is usually meant to measure GAAP earnings per share divided by share price. Generally, the lower the ratio, the less attractive the investment is and vice versa. The logic behind this is that investors would like to pay as little price as possible for as many earnings as possible. Some investors regard free cash flow (which takes into account capital expenditures and other ongoing costs a business incurs to keep itself running) as a more accurate representation of the returns shareholders receive from owning a business, and thus prefer to free cash flow yield as a valuation metric over earnings yield.

## MARKET CHARACTERISTICS

**\$ Weighted Average Market Cap - 3 Year Average**—The sum of each security's weight within the fund (or index) multiplied by the security's market capitalization.

**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.

**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.

**Up/Down Capture Ratio** – A measure of how well a manager was able to replicate or improve on phases of positive benchmark returns and how badly the manager was impacted by phases of negative benchmark returns.

**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.

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 **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 **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 **Russell 2500™ Index** is a market capitalization-weighted index 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 **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 **Russell 2500™ Value Index** is a market capitalization-weighted index of value-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.

The **Russell Midcap® Index** is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested.

The **Russell Midcap® Growth Index** is a market capitalization-weighted index of medium-capitalization, growth-oriented stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest 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 **MSCI USA High Dividend Yield Index** is based on the MSCI USA Index, its parent index, and includes large and mid cap stocks. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends. The index is calculated on a total return basis with net dividends reinvested.

The **Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest 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.

The **MSCI Emerging Markets Small Cap Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure small cap equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested.

The **MSCI AC World Ex USA Small Mid Cap Index (net)** is a free float-adjusted market capitalization-weighted index that measures mid- and small-cap performance across 22 of 23 Developed Market countries (excluding the U.S.) and 24 Emerging Markets countries. The index is calculated on a total return basis with net dividends reinvested.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with gross dividends reinvested.

The **MSCI World Small Cap Index (net)** is a free float-adjusted market capitalization-weighted index that measures small cap equity performance of developed markets. The index is calculated on a total return basis with gross dividends reinvested.

The **Russell Developed Large Cap Index** is a free-float market capitalization-weighted index constructed to provide a comprehensive and unbiased barometer for the large-cap segment in the developed world, calculated on a total return basis with net dividends reinvested.

The **Russell 3000® Index** is a market capitalization-weighted index that measures the performance of the 3,000 largest U.S. companies. The index is 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.

The **MSCI World Health Care Index (net)** is designed to capture the large and mid-cap segments of developed markets. All securities in the index are classified in the Health Care sector as per the Global Industry Classification Standard. The index is calculated on a total return basis with gross dividends reinvested.



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