

# Virtus ETF Trust II

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**VIRTUS ENHANCED SHORT U.S. EQUITY ETF**

**Unaudited Financial Statements**

**For the Period August 1, 2018 to November 27, 2018**

Virtus ETFs

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## Statements of Assets and Liabilities

November 27, 2018<sup>1</sup> (unaudited)

|   | <b>Virtus<br/>Enhanced<br/>Short U.S.<br/>Equity ETF</b> |
|---|--|
| <b>Assets:</b>  |  |
| Cash .....  | \$1,123,112  |
| Receivables:  |  |
| Dividends and interest receivable .....   | 380  |
| Prepaid expenses .....  | 52   |
| <b>Total Assets</b> .....   | <u>1,123,544</u>   |
| <b>Net Assets</b> .....   | <u><b>\$1,123,544</b></u>                                |
| <b>Net Assets Consist of:</b>   |  |
| Paid-in capital .....   | \$1,410,925  |
| Total distributable earnings (accumulated deficit) .....  | (287,381)  |
| <b>Net Assets</b> .....   | <u><b>\$1,123,544</b></u>                                |
| Shares outstanding (unlimited number of shares of beneficial interest authorized, no par value) ..... | 50,004   |
| Net asset value per share .....   | \$ 22.47   |
| 1. Last day of trading  |  |

*The accompanying notes are an integral part of these financial statements.*

## Statement of Operations

For the Period August 1, 2018 to November 27, 2018<sup>1</sup> (unaudited)

|   | <b>Virtus<br/>Enhanced<br/>Short U.S.<br/>Equity ETF</b> |
|---|--|
| <b>Investment Income:</b>   |  |
| Interest Income .....   | \$ 3,017   |
| <b>Total Investment Income</b> .....                              | <u>3,017</u>   |
| <b>Expenses:</b>  |  |
| Advisory fees .....   | 1,935  |
| Tax expense .....   | 57   |
| <b>Total Expenses</b> .....                                       | <u>1,992</u>   |
| <b>Net Investment Gain</b> .....                                  | <u><b>1,025</b></u>                                      |
| <b>Net Realized Gain on:</b>                                      |  |
| Futures .....   | 32,470   |
| <b>Total Net Realized Gain</b> .....                              | <u>32,470</u>  |
| <b>Change in Net Unrealized Appreciation on:</b>                  |  |
| Futures .....   | 9,782  |
| <b>Total Change in Net Unrealized Appreciation</b> .....          | <u>9,782</u>   |
| Net Realized and Change in Unrealized Gain .....                  | <u>42,252</u>  |
| <b>Net Increase in Net Assets Resulting from Operations</b> ..... | <u><b>\$43,277</b></u>                                   |

1. Last day of trading

*The accompanying notes are an integral part of these financial statements.*

## Statements of Changes in Net Assets

|  | <b>Virtus Enhanced Short U.S.<br/>Equity ETF</b>   |   |
|--|--|---|
|  | <b>For the Period<br/>August 1, 2018<br/>Through<br/>November 27, 2018<sup>1</sup><br/>(unaudited)</b> | <b>For the<br/>Year Ended<br/>July 31, 2018</b> |
| <b>Increase (Decrease) in Net Assets Resulting from Operations:</b>      |  |   |
| Net investment income (loss) .....                                       | \$ 1,025   | \$ (1,842)                                      |
| Net realized gain (loss) on investments and futures .....                | 32,470   | (316,458)                                       |
| Net change in unrealized appreciation on investments and futures .....   | 9,782  | 28,681  |
| Net increase (decrease) in net assets resulting from operations .....    | <u>43,277</u>  | <u>(289,619)</u>                                |
| Distributions to Shareholders from net investment income .....           | <u>—</u>   | <u>(2,035)</u>                                  |
| <b>Shareholder Transactions:</b>   |  |   |
| Cost of shares redeemed .....  | <u>—</u>   | <u>(1,089,138)</u>                              |
| Net decrease in net assets resulting from shareholder transactions ..... | <u>—</u>   | <u>(1,089,138)</u>                              |
| Increase (decrease) in net assets .....                                  | <u>43,277</u>  | <u>(1,380,792)</u>                              |
| <b>Net Assets:</b>   |  |   |
| Beginning of period .....  | <u>1,080,267</u>   | <u>2,461,059</u>                                |
| End of period <sup>2</sup> .....   | <u>\$1,123,544</u>   | <u>\$ 1,080,267</u>                             |
| <b>Changes in Shares Outstanding:</b>                                    |  |   |
| Shares outstanding, beginning of period .....                            | 50,004   | 100,004   |
| Shares redeemed .....  | <u>—</u>   | <u>(50,000)</u>                                 |
| Shares outstanding, end of period .....                                  | <u>50,004</u>  | <u>50,004</u>                                   |

1. Last day of trading

2. Includes undistributed net investment income of \$499 at July 31, 2018.

*The accompanying notes are an integral part of these financial statements.*

## **ORGANIZATION**

Virtus ETF Trust II (the “Trust”) was organized as a Delaware statutory trust on July 14, 2015 and is registered with the Securities and Exchange Commission (the “SEC”) as an open-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). Virtus Enhanced Short U.S. Equity ETF (the “Fund”), was a separate investment portfolio of the Trust.

On November 8, 2018 the Board of Trustees of the Trust approved the liquidation of the Fund. The last day of trading for the Fund was November 27, 2018.

## **1. SIGNIFICANT ACCOUNTING POLICIES**

The Fund was an investment company and accordingly followed the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standard Codification Topic 946 Financial Services — Investment Companies. The Fund prepared its financial statements in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and followed the significant accounting policies described below.

### **Use of Estimates**

Management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

### **Indemnification**

In the normal course of business, the Fund may have entered into contracts that contain a variety of representations which provide general indemnifications for certain liabilities. The Fund’s maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

### **Security Transactions**

Security transactions were accounted for on the trade date. Realized gains and losses on sales of investment securities were calculated using specific identification.

### **Investment Income and Expenses**

Dividend income was recognized on the ex-dividend date. Expenses and interest income were recognized on the accrual basis. Amortization of premium and accretion of discount on debt securities were included in interest income. The Fund amortized premiums and accretes discounts using the effective interest method.

The Fund paid all of its expenses not assumed by its Sub-Adviser, as defined in Note 3, or the Adviser. General Trust expenses that were allocated among and charged to the assets of the Funds and other series of the Trust were done so on a basis that the Board deemed fair and equitable, which may be on a basis of relative net assets of each Fund and other series of the Trust or the nature of the services performed and relative applicability to each Fund and other series of the Trust.

### **Cash**

Cash includes non-interest bearing non-restricted cash with one or more financial institutions.

## **INVESTMENT MANAGEMENT, RELATED PARTIES AND OTHER AGREEMENTS**

### **Investment Advisory Agreement**

The Trust has entered into Investment Advisory Agreements (collectively, “Advisory Agreement”) with the Adviser, a wholly-owned subsidiary of ETFis Holdings LLC, on behalf of the Fund. ETFis Holdings LLC is majority-owned by Virtus Investment Partners, Inc. (Ticker: VRTS) (together with its affiliates, “Virtus”). Pursuant to the Advisory Agreement, the Adviser had overall supervisory responsibility for the general management and investment of the Fund’s securities portfolios. The Adviser had agreed to pay all of the ordinary operating expenses of the Virtus Enhanced Short U.S. Equity ETF, except for the Fund’s management fee; payments under any 12b-1 plan; taxes and other governmental fees; brokerage fees, commissions and other transaction expenses; interest and other costs of borrowing; litigation or arbitration expenses; acquired fund fees and expenses; and extraordinary or other non-routine expenses of the Fund. The Adviser was entitled to receive a fee from the Fund based on the Fund’s average daily net assets, computed and accrued daily and payable monthly, at an annual rate of 0.55%.

**Sub-Advisory Agreement**

The Sub-Adviser provided investment advice and management services to the Fund. For services provided to the Fund, the Adviser paid to the Sub-Adviser a fee, payable monthly. The Sub-Adviser and sub-advisory fees for the Fund are listed below.

| Fund  | Sub-Advisers  | Sub-Advisory Fees                          |
|---|---|--|
| Virtus Enhanced Short U.S. Equity ETF . . . | Rampart Investment Management Company, LLC <sup>(1)</sup> | 50% of the Net Advisory Fee <sup>(2)</sup> |

(1) An indirect wholly-owned subsidiary of Virtus.

(2) Net Advisory Fee: The advisory fee paid by the Fund to the Adviser for investment advisory services under the Adviser’s investment advisory agreement with the Fund, after deducting the payment of all of the ordinary operating expenses of the Fund under the Adviser’s unified fee arrangement. In the event the Adviser waives all or a portion of its fee and/or assumes all or a portion of the expenses of the Fund, the Sub-Adviser will similarly waive its fee and/or pay a portion of the assumed expenses, in either case, in the same proportion as the Adviser by promptly paying to the Adviser (or its designee) 50% of the amount waived and/or assumed by the Adviser. If during the term of the Sub-Advisory Agreement the Adviser later recaptures some or all of fees waived or expenses reimbursed by the Adviser and the Sub-Adviser together, then the Adviser will pay to the Sub-Adviser 50% of the amount recaptured.

**Principal Underwriter**

Pursuant to the terms of a Distribution Agreement with the Trust, ETF Distributors LLC (the “Distributor”) served as the Fund’s principal underwriter. The Distributor received compensation from the Adviser for the statutory underwriting services it provided to the Fund. The Distributor did not distribute shares in less than Creation Units (as hereinafter defined), and did not maintain a secondary market in shares. The shares were traded in the secondary market. The Distributor is a wholly-owned subsidiary of Virtus.

**Distribution and Service (12b-1 Plan)**

The Board of Trustees has adopted a distribution and service plan under which the Fund is authorized to pay an amount up to 0.25% of its average daily net assets each year to finance activities primarily intended to result in the sale of Creation Units of the Fund or the provision of investor services. No 12b-1 fees were paid by the Fund.

**Operational Administrator**

Virtus ETF Solutions LLC (the “Administrator”) served as the Fund’s operational administrator. The Administrator supervised the overall administration of the Trust and the Fund including, among other responsibilities, the coordination and day-to-day oversight of the Fund’s operations, the service providers’ communications with the Fund and each other and assistance with Trust, Board and contractual matters related to the Fund and other series of the Trust. The Administrator also provided persons satisfactory to the Board to serve as officers of the Trust. The Administrator is a wholly-owned subsidiary of Virtus.

**Accounting Services Administrator, Custodian and Transfer Agent**

The Bank of New York Mellon (“BNY Mellon”) provided administrative, accounting, tax and financial reporting for the maintenance and operations of the Trust as the Fund’s accounting services administrator. BNY Mellon also served as the custodian for the Fund’s assets, and served as transfer agent and dividend paying agent for the Fund.

**3. SUBSEQUENT EVENTS**

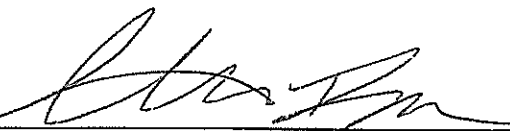
Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued and has determined that except as set forth below there are no subsequent events requiring recognition in these financial statements.

On December 4, 2018 the Fund paid \$1,123,514 to shareholders of record as of November 27, 2018. The Fund reserved \$30 to pay for anticipated franchise tax liability.

## Affirmation of the Commodity Pool Operator

To the best of my knowledge and belief, the information contained in these financial statements is accurate and complete.

Signature



Name: Matthew Brown

Authorized Signatory for Virtus ETF Advisers LLC

Commodity Pool Operator to Virtus Enhanced Short U.S. Equity ETF