

Virtus InfraCap U.S. Preferred Stock ETF

NYSE ARCA | NAV Symbol PFFA.NV | IOPV Symbol PFFA.IV | CUSIP 26923G822

MARKET OVERVIEW

The market for all fixed income securities, including preferred stock, continued to stabilize during the third quarter due to both Federal Reserve action and a gradual return to normal business operations after the shutdown. While volatility has persisted into the third quarter, we have seen central banks from the world's largest economies continue to provide stimulus and monetary relief to offset the magnitude and duration of the effects of COVID-19. Additionally, the Federal Reserve recently reiterated its decision to keep short-term interest rates anchored near zero and its intent to hold rates low until inflation increases. We expect growth to continue into the fourth quarter of the year and the first quarter of next year as the country reopens and treatment, testing, and vaccines continue to advance.

HOW THE FUND PERFORMED

For the quarter, the Fund returned 10.24% at NAV, outperforming the S&P U.S. Preferred Stock Index, which returned 7.11%. For calendar year 2020, the Fund returned -21.48%. This compares to a return of 0.97% for the benchmark.

The Fund maintained large overweight positions in the real estate and industrial sectors relative to the benchmark. Our view is that the yield and credit profiles of these sectors are more attractive than the financial sector. At the end of the quarter, the real estate allocation was 31.93%, compared to 7.59% for the benchmark, and the allocation to the industrial sector was 12.49% versus 2.31% for the benchmark. The Fund's underweight to the financial sector is substantial, with a weighting of 11.20% compared to 46.10% for the benchmark. The Fund ended the quarter with leverage of 25.87% of net asset value, slightly higher than the trailing twelve months average. The Fund has a 51.09% weighting in fixed-to-floating-rate preferred shares.

PFFA paid a monthly dividend of \$0.15 per share for each month of the quarter, while NAV at quarter-end was \$19.11. As of 9/30/20, the Fund had a 30-Day SEC Yield¹ of 10.23%. The Fund seeks to provide sufficient discounted cash flow to cover the managed distribution. The Fund's strategy of maximizing yield-to-call along with the use of leverage and option premium strategies contributed to the amount of income distributed over the quarter.

The top contributors to performance were:

- › **Colony Capital** is a leading global real estate and investment management firm. The company recently entered into an agreement to sell six of its hospitality portfolios and continues to focus on digital infrastructure assets.
- › **Braemar Hotels & Resorts** is a real estate investment trust focused on luxury hotels and resorts. The company is conservatively financed and does not have any significant debt maturities in 2020 or 2021.
- › **RLJ Lodging Trust** is a real estate investment trust focused on owning premium-branded, focused-service hotels from leading franchisors like Courtyard by Marriot, Hilton Garden Inn, and Embassy Suites. The company has worked on cost containment initiatives and maintaining balance sheet flexibility.
- › **NuStar Energy** is a midstream energy company. The company has noted that it hopes to reduce its expenditures on capital projects by

60% in 2020 compared to 2019 and has noted a recovery in the refined products market.

- › **Ford Motor Company** designs, manufacturers, and services automobiles. The company has a strong balance sheet and has increased focus on capital efficiency.

The largest detractors to performance were:

- › **Ashford Hospitality Trust** is a hotel-focused real estate investment trust that utilizes significant leverage. The company recently made efforts to address liquidity concerns and pursue recapitalization.
- › **Energy Transfer** is a midstream energy company. The company worked to reduce leverage and is targeting positive free cash flow in 2021.
- › **GasLog Partners** is an owner, operator, and manager of liquid natural gas carriers. The company continued to focus on fleet utilization and refinancing their 2021 debt maturities.
- › **AG Mortgage Investment Trust** is a real estate investment trust that acquires and manages residential mortgage assets. The company recently issued common stock, which contributed to the company's strong cash position.
- › **Two Harbors Investment Corporation** is a mortgage real estate investment trust that focuses on residential mortgages. The company recently completed its transition to self-management and has maintained a strong liquidity position.

Our view is that these securities offer attractive return prospects in the coming months.

PORTFOLIO CHANGES

During the quarter, the Fund increased its allocation to preferred share issues of Triton International, building a substantial overweighting relative to the benchmark. Triton International is a logistics and supply chain company that leases containers used to transport freight by ship, rail, or truck. The company is in a strong cash position due to reduced 2019 expenditures and preferred issuances and has a well-structured, long-term lease portfolio.

OUTLOOK

We believe that preferred stocks will continue to trade higher as the economy gradually improves throughout the remainder of the year and the stock market stabilizes.

Investors seeking alternate sources of income in this low-yield environment may be pleased with dividend yields of more than 8%. Modest sensitivity to Treasury bond yields is another attractive aspect of investing in preferred stocks. Uncertainty over the magnitude and duration of the effects of the COVID-19 pandemic has led central banks from the world's largest economies to provide stimulus and monetary relief packages to help offset the economic impact. We believe that the historically expansive monetary policy implemented by the Federal Reserve has helped to quell liquidity concerns in the near-term. We continue to believe that the fundamental credit characteristics are strong and that the market will reflect this as the economy recovers.

¹ 30-day SEC Yield is a standardized yield calculated according to a formula set by the SEC and is subject to change.

Virtus InfraCap U.S. Preferred Stock ETF

PORTFOLIO MANAGEMENT

Infrastructure Capital Advisors, LLC (ICA)

INVESTMENT PROFESSIONALS



Jay D. Hatfield
Chief Investment Officer
Industry start date: 2000
Start date as Fund Portfolio Manager: 2018



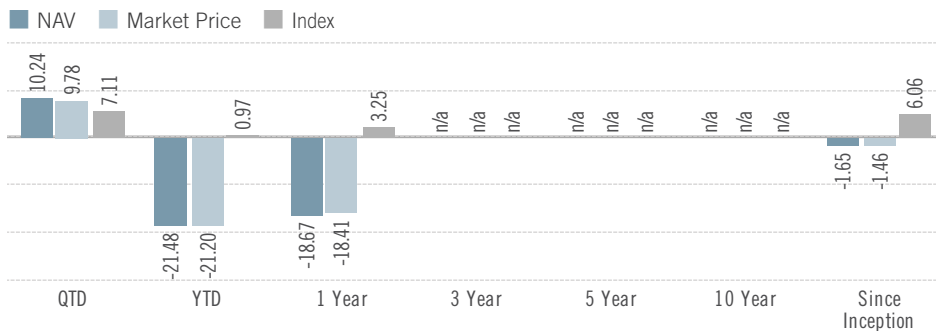
Edward Ryan
Chief Investment Officer
Industry start date: 1980
Start date as Fund Portfolio Manager: 2018

TOP TEN HOLDINGS

	% Fund
American Finance Trust Inc.	6.14
Braemar Hotels & Resorts Inc., 5.5000%	4.13
DCP Midstream LP	4.07
CenterPoint Energy Inc., 7.0000% 09/01/2021	4.01
RLJ Lodging Trust cv pfd 1.95%	3.47
Colony Capital Inc.	3.42
SCE Trust VI	3.10
NuStar Energy LP	2.90
Ford Motor Co.	2.88
GMAC Capital Trust I	2.81

Holdings are subject to change. To view the full list of holdings, please visit virtus.com.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 9/30/20



Returns for periods of less than one year are cumulative total returns.

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 for performance data current to the most recent month-end.

The Total Expense Ratio represents the Fund's Total Annual Fund Operating Expenses, which includes the management fee and other expenses where applicable, except for certain payments that are paid directly by the Fund, as described in the Prospectus.

The Fund is an exchange-traded fund ("ETF"). The "net asset value" (NAV) of the Fund is determined at the close of each business day, and represents the dollar value of one share of the Fund; it is calculated by taking the total assets of the Fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV of the Fund is not necessarily the same as its intraday trading value. Fund investors should not expect to buy or sell shares at NAV because shares of ETFs such as the Fund are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Thus, shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. NAV returns are calculated using the Fund's daily 4:00 pm NAV, and include the reinvestment of all dividends and other distributions (reinvested at the Fund's NAV on distribution ex-date). Market price returns are calculated using the 4:00 pm midpoint between the bid and offer, and include the reinvestment of all dividends and other distributions (reinvested at the 4:00 pm bid/offer midpoint on distribution ex-date). Market price returns do not represent the return you would receive if you traded at other times.

Benchmark: The **S&P U.S. Preferred Stock Index** measures performance of the U.S. preferred stock market. Preferred stocks pay dividends at a specified rate and receive preference over common stocks in terms of dividend payments and liquidation of assets. The index is calculated on a total return basis with dividend reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

The Fund is an actively managed exchange-traded fund and does not seek to replicate the performance of a specified index. The Fund may have a higher portfolio turnover than funds that seek to replicate the performance of an index.

IOPV, or Indicative Optimized Portfolio Value, is a calculation disseminated by the stock exchange that approximates the Fund's NAV every fifteen seconds throughout the trading day.

Notes on Risk: Exchange-Traded Funds (ETF): The value of an ETF may be more volatile than the underlying portfolio of securities it is designed to track. The costs to the fund of owning shares of an ETF may exceed the cost of investing directly in the underlying securities. **Preferred Stocks:** Preferred stocks may decline in price, fail to pay dividends, or be illiquid. **Leverage:** When a fund leverages its portfolio, the fund may be less liquid, may liquidate positions at an unfavorable time, and the volatility of the fund's value may increase. **Options:** Selling call options may limit the opportunity to profit from the increase in price of the underlying asset. Selling put options risks loss if the option is exercised while the price of the underlying asset is rising. Buying options risks loss of the premium paid for those options. **Non-Diversified:** The fund is non-diversified and may be more susceptible to factors negatively impacting its holdings to the extent that each security represents a larger portion of the fund's assets. **Market Price/NAV:** At the time of purchase and/or sale, an investor's shares may have a market price that is above or below the fund's NAV, which may increase the investor's risk of loss. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's 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.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

ETFs distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.

TOP FIVE CONTRIBUTORS % Contribution

Colony Capital Inc.	23.376
Braemar Hotels & Resorts Inc.	13.159
RLJ Lodging Trust	8.218
Nustar Energy LP	7.134
Ford Motor Co.	5.960

TOP FIVE DETRACTORS % Contribution

Ashford Hospitality Trust	-21.54
Energy Transfer Operating LP	-2.490
Gaslog Partners LP	-1.853
AG Mortgage Investment Trust	-1.566
Two Harbors Investment Corp	-1.103

% Contribution: Absolute weighted contribution.

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