

Virtus InfraCap U.S. Preferred Stock ETF

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

MARKET OVERVIEW

In the second quarter of 2024, preferred stocks underperformed the broader equities market. Continued strength in artificial intelligence (AI) tech-related stocks and an overall broadening of strong performance in equities contributed. The portfolio returned 2.83% during the quarter. The effect of selection contributed 2.64% to the return, allocation added 1.82%, and leverage- and interest-related expenses contributed -1.63%.

The portfolio's underweight to bank preferreds was the largest sector contribution to the portfolio, while the REIT sector was a detractor in the quarter. We continue to believe there are attractive opportunities in fixed-to-floating preferreds, even as rate increases moderate, due to the fact that they will still reset at higher yields than their current fixed rates.

In the preferred marketplace, we believe active managers can outperform by 1) favoring preferred stocks that have been on their watchlist in sectors and/or companies that become oversold, 2) harvesting gains in securities that are higher credit quality but lower yielding, 3) purchasing higher yielding non-investment grade issuers that the manager believes have durable asset coverage, and 4) managing position and concentration size. Additionally, we seek to add value for shareholders by add fixed-to-floating exposure when conversion dates are in the near future, and when the floating rate adjustment is expected to be higher than the fixed rate.

Investors in preferred stocks with a floating-rate coupon are generally positioned to benefit from an incline in interest rates, credit spreads (i.e., risk premiums), or both. However, because preferred stocks are typically callable and perpetual, redemption timing is uncertain. Active managers in the preferred stock space will act opportunistically to add value, accordingly.

HOW THE FUND PERFORMED

For the quarter, the Fund returned 2.97% on NAV, while the Fund's benchmark, the S&P U.S. Preferred Stock Index (Benchmark Index), returned -0.65%.

The Fund paid a monthly dividend of \$0.1675 per share for each month of the quarter, while NAV at quarter-end was \$20.87 and the Fund had a 30-day SEC yield¹ of 9.68%. This annualized figure reflects the distributions and dividends received during the period, after the deduction of Fund expenses.

The Fund maintained a large overweight position in the real estate sector relative to the Benchmark Index. Our view is that the yield and credit profiles of this sector are more attractive to hold through this market cycle than financials. At the end of the quarter, the real estate allocation was 23.97%, compared to 6.76% for the Benchmark Index. The Fund's underweight to financials is substantial, with a weighting of 17.96% versus 35.43% for the Benchmark Index. We believe the real estate and industrials sectors have better risk-adjusted total return opportunities. The Fund ended the quarter with leverage of 26.69% of net asset value, slightly above the trailing 12-month average of 26.21%. The Fund had a 50.4% weighting in fixed-to-floating-rate preferred shares.

The Fund's strategy of maximizing yield-to-call generated substantial optimization profits during the quarter. The use of leverage also contributed to the amount of income available for distribution.

TOP CONTRIBUTORS

- › **Algonquin Power & Utilities** owns a diverse portfolio of renewable power generation and sustainable infrastructure assets across North America.
- › **UGI Corp.** is a global distributor of propane and also offers natural gas and electricity products and services in the U.S.
- › **NextEra Energy** provides sustainable energy generation and distribution services, generating electricity through wind, solar, and natural gas.

BOTTOM CONTRIBUTORS

- › **Diversified Healthcare Trust** is a healthcare REIT that owns and leases properties related to medical offices, senior living communities, and biotechnology laboratories.
- › **Prospect Capital Corp.** is a closed-end investment fund that provides capital to middle-market companies and private equity sponsors.
- › **Edison International** is a major power provider in California that also owns and operates electric power generation facilities worldwide.

PORTFOLIO DISCUSSION

During the quarter, we maintained our overweight positions in real estate and energy preferreds due to favorable fundamentals. Mortgage rates are beginning to come down from their peaks and energy fundamentals remain strong.

OUTLOOK

Rate cuts from the Bank of Canada and European Central Bank kicked off the global wave of rate cuts, putting pressure on other central banks. Currency moves are likely to reduce the growth of countries slow to cut rates. We project that there will be a \$2 trillion injection of liquidity into the global money supply during 2024. We forecast that the U.S. Federal Reserve will cut rates in September, but should cut rates in July due to a weakening economy.

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

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 Operating Officer
Industry start date: 1980
Start date as Fund Portfolio Manager: 2018



Andrew Meleney, CFA
Portfolio Manager and Director of Research
Industry start date: 2015
Start date as fund Portfolio Manager: 2024

TOP TEN HOLDINGS

	% Fund
SCE Trust III	3.50
SLM Corp.	3.47
Citizens Financial Group Inc.	3.11
Energy Transfer LP	2.89
Ftai Aviation Ltd.	2.69
RLJ Lodging Trust cv pfd 1.95%	2.67
DigitalBridge Group Inc.	2.63
Global Net Lease Inc.	2.59
New York Mortgage Trust Inc.	2.55
US Bancorp	2.48

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (05/15/18)
NAV	2.97	7.25	17.66	3.24	5.62	n/a	6.60
Market Price	2.61	6.53	18.20	3.41	5.57	n/a	6.67
Index	-0.65	4.90	10.86	-1.21	3.07	n/a	3.71

TOP FIVE CONTRIBUTORS

	% Contribution
AQNCN 7 3/4	1.84
UGI 7 1/4	1.28
NEE 6.926	0.33
TDS 6 PERP	0.29
BW 8 1/8	0.23

BOTTOM FIVE CONTRIBUTORS

	% Contribution
DHC 5 5/8	-0.11
PSEC 5.35 PERP	-0.09
EIX 5 PERP	-0.08
SLG 6 1/2 PERP	-0.07
BFS 6 PERP	-0.07

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

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 for performance data current to the most recent month end.

The fund class gross expense ratio is 2.52%.

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 portfolio 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 the Fund leverages its portfolio, the Fund may be less liquid and/or may liquidate positions at an unfavorable time, and the value of the Fund's shares will be more volatile and sensitive to market movements. **Non-Diversified:** The portfolio is not diversified and may be more susceptible to factors negatively impacting its holdings to the extent the portfolio invests more of its assets in the securities of fewer issuers than would a diversified portfolio. **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:** 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.

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.

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