

InfraCap MLP ETF

NYSE ARCA | NAV Symbol AMZA.NV | IOPV Symbol AMZA.IV | CUSIP 26923G772

MARKET OVERVIEW

Returns in the midstream master limited partnership (MLP) sector outperformed the broader stock market in the first quarter of 2024. During the quarter, the Fund was up 18.45%, the Alerian MLP Infrastructure Index (Benchmark Index) was up 14.74%, and the S&P 500® Index was up 10.55%. Additionally, energy commodities were higher compared to the broader market, with West Texas Intermediate (WTI) crude prices rising 16.08%, natural gas liquids (NGLs) rising 8.88%, and natural gas 12-month average forward prices rising 0.67%.

The predominant market considerations continue to be inflation and the Federal Reserve's (Fed's) upcoming decisions on short-term interest rates. The Fed has acknowledged meaningful progress on inflation, and we anticipate upcoming data releases to confirm that inflation has moderated. Importantly, midstream companies typically benefit from pipeline contracts linked to inflation, so they are naturally hedged against a higher-inflation scenario. Therefore, midstream can perform well in both a soft landing/low inflation scenario and a longer-term higher inflation environment.

Over the past few years, midstream companies successfully transitioned to positive free cash flow, sustainable dividends, and reasonable leverage levels. Historically low earnings in the MLP space are now substantially positive, with companies trading at reasonable price-to-earnings (PE) ratios of less than 12x. Additionally, debt to EBITDA, a measure of leverage, has fallen from an average of 4.5x to 3.6x. These developments have supported durable earnings and consistent distributions in the midstream energy space. Over the past few years, companies have shifted to modest distribution growth while financing capital expenditures entirely from free cash flow.

HOW THE FUND PERFORMED

During the first quarter, the Fund had a net return of 18.45%. This compares to a net return of 14.74% for the Fund's Benchmark Index.

The Fund paid a monthly dividend of \$0.26 per share for the last three distributions, while NAV per share at quarter-end was \$40.93 and the Fund's 30-day SEC yield¹ was 8.32%.

TOP CONTRIBUTORS

- **Western Midstream (WES)** outperformed after a surprise 52% increase in its distribution.
- **Plains All American (PAA)** provided 2024 EBITDA guidance that was in line with consensus estimates.
- **Energy Transfer (ET)** reported better-than-forecasted results in its NGL and refined product segments.
- **MPLX (MPLX)** acquired additional gathering assets in Utica from Summit Midstream.
- **NuStar Energy (NS)** announced that it will be acquired by Sunoco in a \$7.3 billion transaction.

BOTTOM CONTRIBUTORS

- **New Fortress Energy (NFE)** lowered its 2024 EBITDA goal from \$2.4 billion to \$2.0 billion.
- **Cheniere Energy (LNG)** was impacted by seasonally lower global natural gas prices.

- **Genesis Energy (GEL)** provided 2024 guidance below consensus expectations.
- **Global Partners (GLP)** was recently added to the Alerian MLP Index.
- **Suburban Propane (SPH)** was recently added to the Alerian MLP Index.

PORTFOLIO CHANGES

During the quarter, we used proceeds to reallocate towards higher conviction names and to take advantage of positive relative performance. We increased our positions in NS and USAC, while we decreased our positions in MPC and KMI. We seek to position the Fund to benefit from current market conditions while maintaining appropriate diversification.

Add: NuStar (NS) was trading at a more than 7% discount to its implied takeout price in the Sunoco transaction. We added NS as a means to own Sunoco after the transaction.

Add: USA Compression (USAC) was recently added to the Benchmark Index due to changes in index methodology. We added to reduce the Fund's underweight position relative to the Index.

Reduce: Marathon Petroleum (MPC) screens as fair-valued after outperforming by more than 25% over the trailing twelve months.

Reduce: Kinder Morgan (KMI) has struggled to achieve its earnings targets and is negatively impacted by refinancing at higher interest rates.

OUTLOOK

We continue to monitor rising geopolitical tensions, OPEC+ (Organization of the Petroleum Exporting Countries)-induced supply changes and disciplined domestic earnings and profits (E&P) budgets. With limited domestic capital expenditures in oil production and continued demand growth from China and India, we believe the supply of crude oil is in a structural deficit. We are forecasting \$75–\$95 crude oil in both 2024 and 2025. We expect general upward price pressure due to OPEC supply cuts, and we believe that U.S. producers will not disrupt the cartel by increasing production.

Midstream companies have implemented measures over the previous few years to protect their balance sheets with cost-saving initiatives and cancellations of growth and capital spending. In 2024/2025, we expect midstream companies to continue transitioning to share buybacks and modest distribution growth. We continue to survey the industry for opportunities that provide a superior risk-adjusted combination of yield and growth.

We forecast that eurozone inflation will approach the European Central Bank's 2% target by May and that core personal consumption expenditures (PCE) will decline to 2.5% by the end of June. We forecast that the Fed will not cut rates until July, and we estimate only a 20% probability of a cut in June vs. over 70% priced into the Fed Funds futures market. We believe a June cut will only occur if the labor market weakens significantly over the next three months. The February employment report did, however, keep a June cut on the table with an enormous revision to last month's too-hot 353,000 print versus consensus of only 229,000. The headline number was in the Goldilocks range of 275,000 with the unemployment rate going up to 3.9% and wages only going up 0.1% for February. The solid employment growth number supports our no-landing scenario, with our forecast for gross domestic product (GDP) growth in the 2% range for 2024.

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: 2014



Edward Ryan
Chief Operating Officer
Industry start date: 1980
Start date as Fund Portfolio Manager: 2014



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

TOP TEN HOLDINGS

	% Fund
Energy Transfer LP	17.11
Mplx LP	17.07
Enterprise Products Partners LP	16.71
Plains All American Pipeline LP	16.56
NuStar Energy LP	16.05
Western Midstream Partners LP	13.83
EnLink Midstream LLC	8.85
Cheniere Energy Partners LP	5.76
ONEOK Inc.	4.86
Hess Midstream LP	4.42

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (10/01/14)
NAV	18.45	18.45	39.84	31.14	5.05	n/a	-4.16
Market Price	18.66	18.66	40.00	31.16	5.06	n/a	-4.16
Index	14.74	14.74	37.32	29.22	10.37	n/a	1.38

TOP FIVE CONTRIBUTORS

	% Contribution
Western Midstream Partners LP	3.07
Plains All American Pipeline LP	3.04
Energy Transfer LP	2.82
MPLX LP	2.76
NuStar Energy LP	2.47

BOTTOM FIVE CONTRIBUTORS

	% Contribution
New Fortress Energy Inc.	-0.29
Cheniere Energy Inc.	-0.11
Genesis Energy LP	-0.08
Global Partners LP/MA	-0.03
Suburban Propane Partners LP	0.00

% Contribution: Absolute weighted contribution.

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

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 2.18%.

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's accrued deferred tax liability, if any, is included in the Total Annual Fund Operating Expenses and is reflected each day in the Fund's NAV.

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 **Alerian MLP Infrastructure Index** is a composite of energy infrastructure Master Limited Partnerships (MLPs), whose constituents earn the majority of their cash flow from the transportation, storage, and processing of energy commodities. The index is calculated using a float-adjusted, capitalization-weighted methodology on a total-return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

S&P 500® Index: A free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested.

The index is calculated using a float-adjusted, capitalization-weighted methodology on a total-return basis. 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.

The Fund's distribution rate includes a return of capital. Please refer to periodic Section 19a-1 shareholder notices for estimated amounts and sources of distributions, and please see the Fund's annual report for other financial details, including the Fund's distribution coverage ratio, for the most recent fiscal year.

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. **Master Limited Partnerships:** Investments in MLPs may be adversely impacted by interest rates, tax law changes, regulation, or factors affecting underlying assets. **Energy Industry Concentration:** The portfolio's investments are concentrated in the energy industry and presents greater risks than if the portfolio was broadly diversified over numerous sectors of the economy. **Leverage:** When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **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. **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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