

# 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 underperformed returns in the broader stock market in the fourth quarter of 2023. During the quarter, the portfolio was up 3.52%, the Alerian MLP Infrastructure Index (Benchmark Index) was up 3.00%, and the S&P 500® Index was up 11.69%. Additionally, energy commodities lagged the broader market with WTI crude prices falling 21.08%, natural gas prices falling 14.17%, and natural gas liquids falling 5.59%.

The predominant market risk remains the impact of the Federal Reserve's (Fed) termination of its asset purchase program (liquidity) and subsequently whether it sticks to its targeted rate hike plan in the face of disinflation (impact on valuation and liquidity). Our real-time CPI Index, CPI-R, shows that as of October, inflation is 2.11% over the trailing twelve months. There has been a dramatic shift downward in global market implied policy rates since the Fed's last meeting, which supports lower borrowing costs and higher stock prices. The Fed has acknowledged meaningful progress on inflation and we expect upcoming data releases to confirm inflation has moderated.

Over the past few years, midstream companies successfully transitioned to having positive free cash flow, sustainable dividends, and reasonable leverage levels. Earnings, which historically were low in the MLP space, are now substantially positive and companies trade at reasonable price to earnings ratios of less than 12x. Additionally, debt to EBITDA, a measure for leverage, has fallen from an average of 4.5x to 3.6x. We expect these developments to generate durable earnings and consistent distributions in the midstream energy space.

## HOW THE FUND PERFORMED

During the fourth quarter, the Fund had a net return of 3.52%. This compares to a net return of 3.00% for the Fund's Benchmark Index, the Alerian MLP Infrastructure Index.

The Fund paid a monthly dividend of \$0.24 per share for the last three distributions, while NAV per share at quarter-end was \$35.26 and the Fund's 30-day SEC yield<sup>1</sup> was 9.06%.

## TOP CONTRIBUTORS

- › **Western Midstream Partners LP (WES)** outperformed after targeting the high end of earnings guidance.
- › **MPLX LP (MPLX)** performed in line with the Benchmark Index.
- › **NuStar Energy LP (NS)** benefited from the Fed's pivot on Fed Funds and inflation.
- › **ONEOK Inc. (OKE)** has continued to beat estimates and raise guidance.
- › **Hess Midstream LP (HESM)** did not issue equity as it had done in the previous quarters.

## BOTTOM CONTRIBUTORS

- › **Cheniere Energy Partners LP (CQP)** fell after missing earnings due to fewer LNG loadings in the quarter.
- › **Enterprise Products Partners LP (EPD)** performed in line with the Benchmark Index.

- › **Holly Energy Partners LP (HEP)** was negatively impacted by its parent refinery trading lower.
- › **Crestwood Equity Partners LP (CEQP)** performed in line with the Benchmark Index.
- › **Marathon Petroleum Corp. (MPC)** underperformed due to large refined product inventory builds.

## PORTFOLIO CHANGES

During the quarter, we utilized proceeds to reallocate towards higher conviction names and take advantage of positive relative performance. We increased our position in MPLX and SUN, while we decreased our position in PAA and OKE. We seek to position the portfolio to benefit from current market conditions while maintaining appropriate diversification.

**MPLX** has been a slight underperformer and represents a lower volatility MLP to replace CEQP and HEP.

**SUN** was recently added to the Benchmark Index due to changes in index methodology. We added SUN to reduce the Fund's underweight position relative to the Index.

**PAA** screens as fair valued after outperforming by 25% over the trailing twelve months.

**OKE** represents a large overweight and after a period of outperformance, we reduced the size.

## OUTLOOK

While we continue to monitor rising geopolitical tensions, OPEC+ induced supply changes, and disciplined domestic E&P budgets, we believe that inflation and recession risks are currently leading indicators for market behavior. While we model crude supply as being in a structural deficit, due to lower PMI data from China and weaker U.S. demand, we are now forecasting \$80–100 crude oil in both 2024 and 2025. We still 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.

A new consideration for the next 12 months is the ongoing conflict between Israel and Hamas. While this is not our base case, the evolving conditions risk disrupting both the production and distribution of crude oil and natural gas.

Companies with pipeline and storage facilities with connectivity to export facilities for natural gas liquids, refined products, and crude will benefit as the U.S. transitions to more exports. Companies with integrated footprints spanning from producing regions to exporting facilities are best positioned with a natural hedge against these upstream and downstream fluctuations.

Importantly, many midstream companies implemented measures during previous quarters to protect their balance sheets with cost saving initiatives and cancellations of growth and capital spending. In 2024, we expect midstream companies to continue transitioning to share buybacks and modest distribution growth. We continue to look to position the portfolio to take advantage of M&A activity that we consider likely to occur in the near future.

<sup>1</sup> 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

## TOP TEN HOLDINGS

	% Fund
MPLX LP	19.13
Energy Transfer LP	17.87
Enterprise Products Partners LP	17.45
Plains All American Pipeline LP	16.75
Western Midstream Partners LP	13.08
EnLink Midstream LLC	9.10
NuStar Energy LP	7.35
Cheniere Energy Partners LP	6.67
ONEOK Inc.	4.62
Hess Midstream LP	4.08

Holdings are subject to change. To view the full list of holdings, please visit [virtus.com](http://virtus.com).

## AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (10/01/14)
NAV	3.52	23.47	23.47	35.45	5.54	n/a	-6.01
Market Price	3.20	23.24	23.24	35.49	5.59	n/a	-6.02
Index	3.00	23.76	23.76	31.84	10.87	n/a	-0.08

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.

The fund class gross expense ratio is 1.64%.

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.

**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](http://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.

2261 1-24 © 2024 Virtus Exchange-Traded Funds. All Rights Reserved.