MARKET OVERVIEW

Returns in the midstream MLP sector lagged returns in the broad stock market in both the fourth quarter of 2019 and for the full calendar year. During the quarter, the Alerian MLP Infrastructure Index was down 4.56% while the S&P 500® was up 9.07%. For the year, the midstream benchmark was up 6.68% while the S&P 500® returned 31.49%.

While midstream MLP stocks struggled, the fundamental picture continued to improve. Balance sheets are strong. Free cash flow generation permits internal funding of capital projects. Share buybacks, distribution increases, and further debt reduction continue as companies deploy free cash flow from operations.

HOW THE FUND PERFORMED

For the quarter, the Fund had a net loss of -4.11% at NAV, outperforming the Alerian MLP Infrastructure Index, which had a loss of -4.56%. For calendar year 2019, the Fund returned 4.95%. This compares to a return of 6.68% for the benchmark.

After the close of the quarter, the Fund reset the monthly distribution amount, reducing the scheduled payments to $0.06 per share ($0.72 per year) from $0.08 ($0.96 per year). The objective is to reduce distributions of net principal that occur when the distribution is not fully covered by distributable cash flow (DCF), which is investment income less expenses. As a reminder, income is a variable profit stream that is impacted by market volatility and portfolio positioning. There was a shortfall in 2019, so the dividend was not fully covered.

The strongest contributors to returns were:

- Noble Midstream Partners, LP simplified its organizational structure by eliminating its incentive distribution rights (IDRs), benefiting the limited partners.
- Tallgrass Energy, LP went private in a deal with a Blackstone unit.
- BP Midstream Partners, LP may benefit from asset dropdowns and elimination of the IDRs. Distributions have been growing at a mid-teens rate.
- DCP Midstream, LP eliminated its IDRs and neared completion of projects coming into service in 2020.
- Phillips 66 Partners, LP announced an ambitious growth strategy that can be internally financed.

The largest detractors to performance were:

- Plains All American Pipeline, LP is facing reduced profits from its supply and logistics unit, but its Permian asset base is the most important driver. Finances are strong and IDRs are gone.
- MPLX LP has emerged from a series of very large M&A transactions with a simplified structure and a substantial asset base in the emerging NGL market hub in the northeastern U.S.
- Enlink Midstream, LLC faces a headwind with low natural gas prices leading to reduced capital spending by producers, especially impacting Oklahoma.
- NuStar Energy, LP has a simplified MLP structure, strong finances, and is well-positioned to benefit from transportation of growing U.S. crude oil exports.

PORTFOLIO CHANGES

During the quarter, the Fund weightings in DCP Midstream and NuStar Energy were increased. DCP simplified its organizational structure by eliminating its IDRs, a move that benefits the limited partners. NuStar is well positioned in the Permian Basin of Texas, with pipelines that feed the crude oil export market.

The Fund reduced its positions in two stocks subject to fixed priced takeover offers. Tallgrass Energy sold itself to a Blackstone unit and Buckeye Partners was acquired by an Australian infrastructure fund.

OUTLOOK

Export opportunities are continuing to increase for crude oil, NGLs, and natural gas that will fuel growth in the coming years. Midstream companies that provide pipeline, storage, and export facilities offering access to overseas markets will be the primary beneficiaries. At the end of 2019, the U.S. became a net exporter of crude oil.

Global economic growth is likely to drive strong demand growth for crude oil, natural gas, and refined products in 2020. Monetary policy is almost uniformly accommodative around the world, with 14 of the 15 largest economies easing monetary policy. Over the last year, midstream companies have reduced leverage, increased distribution coverage, and, in many cases, are buying back stock. The companies are significantly undervalued relative to past levels and private market values. We expect that the stocks will perform well in 2020 as the global economy recovers and companies continue to buy back stock or, in some cases, go private or merge.
InfraCap MLP 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: 2014

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/19

<table>
<thead>
<tr>
<th>Return</th>
<th>QTD</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV</td>
<td>-4.11</td>
<td>4.95</td>
<td>4.95</td>
<td>-9.77</td>
<td>-13.11</td>
<td>n/a</td>
<td>-14.04</td>
</tr>
<tr>
<td>Market Price</td>
<td>-4.67</td>
<td>4.76</td>
<td>4.76</td>
<td>-10.09</td>
<td>-13.33</td>
<td>n/a</td>
<td>-14.12</td>
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<tr>
<td>Benchmark</td>
<td>-4.56</td>
<td>6.68</td>
<td>6.68</td>
<td>-5.03</td>
<td>-7.04</td>
<td>n/a</td>
<td>-8.37</td>
</tr>
</tbody>
</table>

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'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.

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 of owning the ETF may exceed the cost of investing directly in the underlying securities. MLPs: Investments in Master Limited Partnerships may be adversely impacted by tax law changes, regulation, or factors affecting underlying assets. Energy Sector Concentration: The fund’s investments are concentrated in the energy sector and may present more risks than if the fund were broadly diversified over numerous sectors of the economy. Leverage: When a fund leverages its portfolio, the value of its shares 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. 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.

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