

## Virtus Private Credit Strategy ETF

NYSE ARCA | NAV Symbol VPC.NV | IOPV Symbol VPC.IV | CUSIP 26923G798

### FUND OVERVIEW

VPC is a passively managed exchange-traded fund (ETF) seeking to track the Indxx Private Credit Index. The Fund seeks to provide easy access, diversification, and higher yields through exposure to companies involved in lending to non-investment grade, small- to mid-sized U.S. companies. VPC invests in a rules-based portfolio of approximately 60 exchange-traded instruments focused on private credit markets, namely business development companies (BDCs) and select closed-end funds (CEFs).

BDCs provide financing solutions to smaller, growing companies, as well as financially distressed firms. They were created by Congress in 1980 to provide an opportunity for individual non-accredited investors to participate in private placements. Many BDC holdings are managed by renowned private credit teams from firms such as Blackstone, BlackRock, Apollo, Ares, Goldman Sachs, KKR, etc. Additionally, many of the CEFs are managed by well-known asset management firms, including Eaton Vance, First Trust, Nuveen, and Invesco.

VPC may appeal to investors looking to broaden and diversify their search for yield in a low interest rate environment. Private credit has historically offered an attractive and complementary income opportunity, particularly when considering the correlation to traditional fixed income. Historically, higher yields are a result of lower credit quality (middle market debt) and lower relative liquidity (direct lending).

### HOW THE FUND PERFORMED

Performance was in line with the Indxx Private Credit Index throughout the quarter, with nominal tracking error. For the quarter, VPC posted a total return of 15.98% versus the Index's return of 16.46%.

VPC paid a quarterly dividend of \$0.37 in March, while NAV at quarter-end was \$23.26. As of 3/31/21, VPC had a 30-day SEC yield<sup>1</sup> of 8.07%.

The BDC portion of the portfolio substantively outperformed the CEF portion of the portfolio in the quarter. BDCs comprised approximately 60% of the portfolio, while CEFs accounted for the other 40%. As a reminder, holdings are weighted based on dividend yield with a single security cap of 5% and a floor of 0.3%. With a roughly 60/40% split, the portfolio, by design, seeks to provide more diversification and better liquidity than a BDC only portfolio.

BDCs continued to rally from what oversold conditions last year, outperforming the broader equity market in the first quarter as investors continued to position themselves risk-on with the continued economic recovery the result of successful vaccine rollouts. BDCs also heartily outperformed the high yield bond market, despite similar credit attributes, and performed in line with the S&P financials sector. BDCs continue to provide attractive above average yields relative to most traditional stock and bond asset classes.

While CEFs' performance was roughly half of what the BDC portion of the portfolio put up, they contributed attractive absolute returns in the

quarter nonetheless. The CEFs in the portfolio are largely leveraged loan portfolios, or bank loans, focused on the non-investment grade, taxable bond market, which outperformed the broader high yield markets. Bank loans have seen healthy demand across retail institutional investors as interest rates ticked higher over the quarter.

Largest relative contributors to performance included Oxford Square Capital Corp., Prospect Capital Corp., Apollo Investment Corporation, Eagle Point Credit Co., Inc., and TCG BDC, Inc. Largest detractors, but still positive contributors, included SLR Senior Investment Corp., First Trust Senior Floating Rate 2022 Target Term Fund, Voya Prime Rate Trust, Goldman Sachs BDC Inc., and Eaton Vance Senior Income Trust.

### PRIVATE CREDIT OUTLOOK

Private credit has historically been an attractive investment, filling a void as regulation and consolidation continue to prevent banks from lending to small- and mid-sized businesses. We are optimistic that capital will continue to flow into this space, particularly since BDC valuations are still trading below historical averages. The space is experiencing a wave of attention as interest rates tanked to near-zero levels last year. After experiencing a choppy year in 2020, we believe the private credit space is well positioned for 2021. We base this on three observations: NAVs continue to trend higher off 2020 lows, credit conditions continue to improve, and stable projected dividends and dividend growth.

While credit spreads for the Indxx Private Credit Index over 10-year Treasuries peaked in March of 2020 and have narrowed considerably, they are still attractive. It is worth noting that defaults for non-investment grade loans have fallen to their lowest level since last April and down considerably from the peak in September of last year.

While most BDCs are leveraged vehicles, they are significantly less leveraged than banks, which are said to be leveraged 9:1 on average. BDCs cannot exceed 2:1 by law.

While it was reasonable to expect downward revisions to book value in the depths of 2020, the magnitude of the discounts BDCs reached indicated severe economic stress that was not observable in other risk assets such as high yield corporate bond or bank loan indices. The industry continues to trade below book value, even after credit- and spread-based impairments, causing relative valuations to look attractive. It's worth noting that most loans held by BDCs are first lien loans, roughly 65%, with unsecured loans only about 6% of the market.

We've been in a persistently low rate environment for quite some time. With regard to traditional stock and bond investments, income oriented investors are still challenged to find meaningful levels of income. It's our view that investors should consider a broader opportunity set of investments, including non-traditional sources of income. With an awareness of the risk/return trade-offs, they may find benefits in more attractive income streams and historically lower correlations to traditional asset classes.

<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**

Indxx, LLC

**INVESTMENT PROFESSIONALS**



**Matthew B. Brown**  
 Chief Operating Officer  
 and Portfolio Manager  
 Industry start date: 1999  
 Start date as Fund Portfolio Manager: 2019



**Seth Kadushin**  
 Portfolio Manager  
 Industry start date: 1988  
 Start date as Fund Portfolio Manager: 2019

**AVERAGE ANNUAL TOTAL RETURNS (%)** as of 03/31/21

■ NAV ■ Market Price ■ Index



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](http://virtus.com) for performance data current to the most recent month end.**

The fund class gross expense ratio is 5.53% and reflects the direct and indirect expenses paid by the Fund.

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 Expense Ratio minus the indirect expenses incurred by the underlying funds in which the Fund invests (acquired fund fees) is 0.75%. Expenses paid by the Fund include 4.78% in Acquired Fund Fees and Expenses (AFFE), indirect expenses which VPC is required to itemize in its fee table because it primarily holds BDCs and CEFs—themselves funds with management fees. AFFE are implicitly reflected in the prices of the BDCs and CEFs in the portfolio and are not paid directly from the Fund's net assets.

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 **Indxx Private Credit Index** is an index of listed business development companies ("BDCs") and closed end funds ("CEFs") with a private credit focus. The Index is designed to serve as a broad-based benchmark for long-only investments in private credit. The Index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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. **Private Credit Funds:** Private credit funds that invest in closed-end funds and business development companies bear the risks of these underlying assets, including liquidity, industry, currency, valuation and credit risks. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Non-Diversified:** The portfolio 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 portfolio's assets. **Credit & Interest:** Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Fund of Funds:** Because the fund can invest in other funds, it bears its proportionate share of the operating expenses and management fees of, and may be adversely affected by, the underlying fund(s). **Passive Strategy/Index Risk:** A passive investment strategy seeking to track the performance of the underlying Index may result in the portfolio holding securities regardless of market conditions or their current or projected performance. This could cause the portfolio's returns to be lower than if the portfolio employed an active strategy. **Correlation to Index:** The performance of the portfolio and its index may vary due to factors such as flows, transaction costs, whether the portfolio obtains every security in the index, and timing differences associated with additions to and deletions from the index. **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. **Closed-End Funds:** Closed-end funds may trade at a discount or premium from their net asset values, which may affect whether an investor will realize gains or losses. They may also employ leverage, which may increase volatility. **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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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**TOP TEN HOLDINGS**

**% Fund**

Oxford Lane Capital Corp.	4.16
Eagle Point Credit Co. Inc.	3.37
FS KKR Capital Corp.	3.29
Nuveen Credit Strategies Income Fund	2.86
TCG BDC Inc.	2.79
Barings BDC Inc.	2.48
Apollo Investment Corp.	2.39
BlackRock TCP Capital Corp.	2.37
Fidus Investment Corp.	2.26
PennantPark Investment Corp.	2.25

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

**TOP FIVE CONTRIBUTORS** **% Contribution**

Oxford Lane Capital Corp.	1.20
Prospect Capital Corporation	1.00
Apollo Investment Corporation	0.92
Eagle Point Credit Co., Inc.	0.92
TCG BDC, Inc.	0.81

**TOP FIVE DETRACTORS** **% Contribution**

SLR Senior Investment Corp.	0.04
First Trust Senior Floating Rate 2022 Target Term Fund	0.04
Voya Prime Rate Trust	0.05
Goldman Sachs BDC, Inc.	0.06
Eaton Vance Senior Income Trust	0.06

% Contribution: Absolute weighted contribution.

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