

## Virtus Real Asset Income ETF

NYSE ARCA | NAV Symbol VRAI.NV | IOPV Symbol VRAI.IV | CUSIP 26923G780

### FUND OVERVIEW

VRAI is a passively managed exchange-traded fund (ETF) that seeks to track the Indxx Real Asset Income Index. It consists of a diversified portfolio of approximately 90 equal-weighted securities across **three sleeves of real assets**:

1. **Real estate** (real estate development and real estate investment trusts (REIT))
2. **Infrastructure** (utilities, telecoms, and master limited partnerships (MLP))
3. **Natural resources** (oil, metals, farmland, and forestry)

Importantly, security selection within each sleeve screens for quality, with the top 30 names in each sleeve ranked by dividend growth, which are then equally weighted. Real assets are tangible assets that have an intrinsic value. Over time, they have historically provided diversification to traditional stock and bond portfolios because of their lower correlations, yet are positively correlated to inflation, which helps preserve purchasing power. Equity securities in real asset categories have historically produced higher levels of income than traditional stocks. Within VRAI, two-thirds of the portfolio—notably the real estate and infrastructure sleeves—are driven by income received from long-term rental/lease agreements and long-term regulated contracts, while natural resources derive income primarily from the sales of harvested or extracted goods, lease payments, or subsidy payments.

### HOW THE FUND PERFORMED

Performance was in line with the Indxx Real Asset Income Index throughout the quarter, with nominal tracking error. For the fourth quarter, VRAI posted a total return of 9.03% versus its benchmark's return of 9.33%.

VRAI paid a quarterly dividend of \$0.37 in December, while NAV at quarter-end was \$23.76. As of 12/31/22, VRAI had an SEC yield<sup>1</sup> of 5.61%.

All three sleeves were positive for the quarter. The **natural resources** sleeve turned out the best relative performance and was responsible for the majority of the positive return for the quarter. This was followed by the **infrastructure** sleeve, and lastly **real estate**. We view this as a good reason to diversify across and within real asset markets.

- **Natural resources**—26 of the 29 securities in the natural resources sleeve provided positive absolute returns. The best performers were concentrated in commodities, and in particular, metals. Steel producers provided significant positive returns regardless of geography, with companies from Asia and South America as leading contributors.

- **Infrastructure**—20 of 27 securities in the infrastructure sleeve provided positive absolute returns. The best performer was electric utilities companies, which gained all their performance in December, reflective of the broad energy rally at the end of the year.
- **Real estate**—16 of 30 securities in the real estate sleeve provided positive absolute returns. The largest contributor to performance was a REIT that invests in free-standing, single-tenant commercial properties in the United States, Spain, and the United Kingdom. The largest detractor was a U.S. REIT focused on logistics.

### OUTLOOK

It is likely that both higher inflation and interest rates will persist through the first part of the year, as the U.S. Federal Reserve has shown a determination to continue the fight against inflation using its last effective tool, the overnight rate. This may create an environment where there is both demand for real assets, as well as an opportunity for real assets to capture both an increase in income and total return. Real assets historically have a positive correlation to inflation—they have the potential to capture inflation through greater income growth due to higher rent growth, occupancy, and increased demand for underlying goods such as electricity and commodities.

It is important to note that VRAI's index focuses on companies with above-average dividend growth rates, providing exposure to the quality factor. Over time, this may provide a degree of risk mitigation in addition to the cash flow generated from long-term contractual rents, leases, and contracts. In most cases, dividend yields are very attractive relative to other investment alternatives.

The real estate market has an established historical record in moderate to high inflationary environments. Infrastructure offers a good mix of protection and a reasonable hedge in inflationary periods. Infrastructure securities should benefit from the potential of the renewed focus on infrastructure spending, as one of the few places that bipartisan support domestically seems possible. Finally, natural resources stand to benefit from continued momentum it found in the fourth quarter, with demand for energy globally remaining high due to geopolitical uncertainties.

With interest rates likely to continue to trend ever higher, income-oriented investors with traditional stock and bond investments are still challenged to find meaningful levels of income. It is 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 from diverse income streams and investments offering 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.

**INDEX PROVIDER**

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

**TOP TEN HOLDINGS**

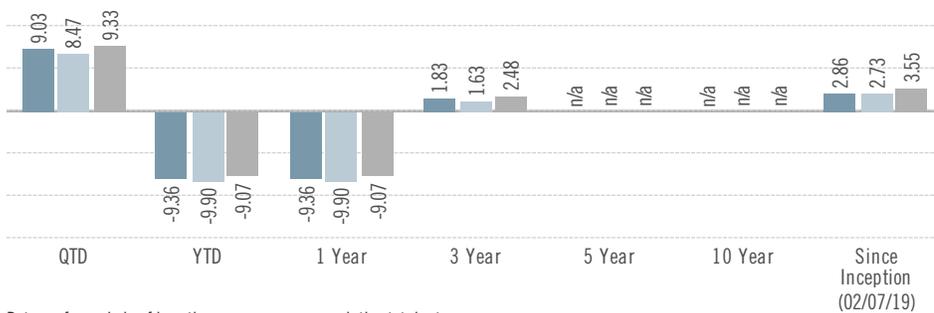
**% Fund**

AngloGold Ashanti Ltd.	1.67
Alamos Gold Inc.	1.60
DRDGOLD Ltd.	1.57
Steel Dynamics Inc.	1.52
Gold Fields Ltd.	1.52
Southern Copper Corp.	1.49
POSCO Holdings Inc.	1.46
Yamana Gold Inc.	1.45
Agnico Eagle Mines Ltd.	1.42
Wheaton Precious Metals Corp.	1.40

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 12/31/22

■ 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 0.55%.

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 **Indxx Real Asset Income Index** the performance of US-listed securities in the Real Asset space (Real Estate, Natural Resources and Infrastructure) emphasizing dividend growth. 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.

**TOP FIVE CONTRIBUTORS** % Contribution

POSCO Holdings Inc. Sponsored ADR	0.51
Steel Dynamics, Inc.	0.47
AngloGold Ashanti Limited Sponsored ADR	0.46
North American Construction Group Ltd.	0.46
Alamos Gold Inc.	0.43

**TOP FIVE DETRACTORS** % Contribution

Industrial Logistics Properties Trust	-0.36
Algonquin Power & Utilities Corp.	-0.35
SL Green Realty Corp.	-0.14
Nutrien Ltd.	-0.14
AvalonBay Communities, Inc.	-0.14

% Contribution: Absolute weighted contribution. To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

**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. **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. **Equity REITs:** The portfolio may be negatively affected by factors specific to the real estate market, such as interest rates, leverage, property, and management; and factors specific to investing in a pooled vehicle such as poor management and concentration risk. **Infrastructure:** A portfolio that focuses its investments in infrastructure-related companies will be more sensitive to conditions affecting their business or operations such as local economic and political conditions, regulatory changes, and environmental issues. **Master Limited Partnerships:** Investments in MLPs may be adversely impacted by interest rates, tax law changes, regulation, or factors affecting underlying assets. **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. **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. Price changes may be short- or long-term. Local, regional, or global events such as war or military conflict (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's 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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