

Virtus LifeSci Biotech Clinical Trials ETF

NYSE ARCA | NAV Symbol BBC.NV | IOPV Symbol BBC.IV | CUSIP 26923G301

Virtus LifeSci Biotech Products ETF

NYSE ARCA | NAV Symbol BBP.NV | IOPV Symbol BBP.IV | CUSIP 26923G202

PERFORMANCE REVIEW

Following the global indiscriminate and dramatic selloff of global equities in March, biotechnology stocks rebounded dramatically in the second quarter. In the second quarter, BBC increased 47.4% and BBP increased 26.6%. As a whole, the stocks in BBP and BBC are more resilient to the new economic pressures presented by COVID-19, and some directly benefit as they are developing vaccines and therapeutics, which may play a role in treating this new disease.

IMPACT OF COVID-19 TO THE BIOTECHNOLOGY SECTOR

By our analysis, approximately 50% of biotechnology companies have reported delays to their clinical trials as recruiting volunteers for studies has become more difficult, and scheduling hospital site-visits for existing trial participants has become problematic. In addition, the pace of basically laboratory research has slowed somewhat as staff had to deal with shelter-in-place mandates in certain regions, including the biotech-rich San Francisco area, which was among the very first in the U.S. to adopt these rules, and staggered scheduling of employees. For companies selling drugs with a discretionary nature (e.g., certain topical dermatology products for acne or pain products that are used when people are very active), we are expecting some temporary slowdown of sales.

For the most part, however, biotechnology has been extremely resilient. A handful of companies in BBP and BBC are at the forefront of developing experimental vaccines and therapeutics to battle the novel COVID-19 virus, including Gilead Sciences, Inc. and Regeneron Pharmaceuticals, Inc. in the BBP fund and Moderna, Inc. and BioCryst Pharmaceuticals, Inc., in the BBC fund. There are now more than 1,000 clinical trials relating to COVID as the entire biopharma industry and governments have marshalled unprecedented financial and human resources into tackling the pandemic.

SECTOR UPDATE

Strong performance for biotechnology stocks in the second quarter was largely driven by a bounce from the March selloff combined with excitement over several clinical trials particularly in the cancer space. Standout performers in BBC include MacroGenics, Inc. (+379%) on its gastroesophageal cancer trial results, Sorrento Therapeutics, Inc. (+241%) on its COVID-19 antibody treatment and Myovant Sciences (+173%) on a positive

uterine fibroid Phase 3 study. Standout performers in BBP include Portola Pharmaceuticals (+151%), which was acquired by Alexion Pharmaceuticals, Stemline Therapeutics, Inc. (+144%), which was acquired by Menarini Group, and Ultragenyx Pharmaceutical, Inc. (+56%), which received an approval for an additional rare disease drug.

Laggards in BBC included NextCure Inc. (-42%) based on disappointing results in its Phase 2 cancer trial, Orchard Therapeutics PLC (-20%) on increasing competition among its gene therapy rare disease products, and Arvinas, Inc. (-17%) as some of the luster of its degrader technology faded. The weakest performers in BBP included Intercept Pharmaceuticals, Inc. (-24%) with increasing competition in the NASH field, Biogen, Inc. (-15%) with some disappointing data in its Alzheimer's program, and Theravance Biopharma, Inc. (-9%), which experienced a large forced seller from a fund liquidation.

One high note for the sector in Q2 was the success of IPOs in the space. During the quarter, 12 IPOs priced, with 10 trading up through the end of the quarter and the average IPO increasing 87.5%. Also notable is that biotechnology IPOs were the first to price after the market bottomed, with Zentalis Pharmaceuticals, Inc. pricing on April 2 (+167% since IPO) and Keros Therapeutics, Inc. on April 7 (+134% since IPO).

MARKET OUTLOOK

Moving forward, we believe the backdrop for the sector remains very strong with strong scientific advancements, strong sources of institutional capital, and a very positive legislative and regulatory environment for the drug sector.

One of the longer lasting positives for biotechnology companies is that the typical election year drug pricing rhetoric that we hear has been blunted and muted. We now expect one of the most benign election years for the drug industry as people increasingly recognize the value of having a strong biotechnology industry with robust pricing as it can move quickly to battle existing and future pandemics.

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PORTFOLIO MANAGEMENT

LifeSci Index Partners, LLC

INVESTMENT PROFESSIONALS

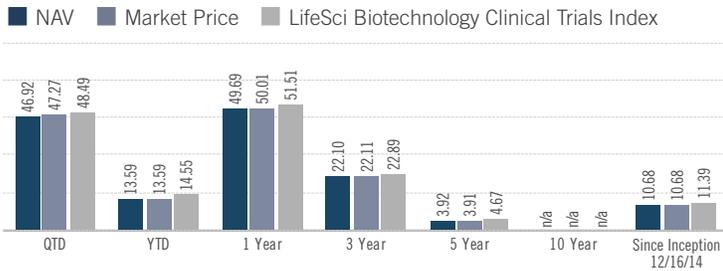


Matthew B. Brown
 Chief Operating Officer and
 Portfolio Manager
 Industry start date: 1999
 Start date as Fund Portfolio
 Manager: 2017

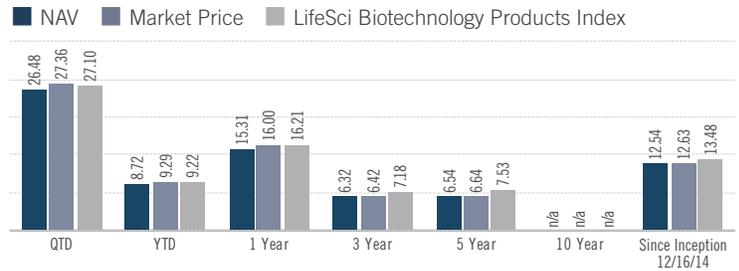


Seth Kadushin
 Portfolio Manager
 Industry start date: 1988
 Start date as Fund Portfolio
 Manager: 2017

BBC Performance—Total Returns (%) as of 6/30/20



BBP Performance—Total Returns (%) as of 6/30/20



Returns for periods of less than one year are cumulative total returns.

Performance data quoted represents past results. Past performance is not a guarantee of future results. Current performance may be higher or lower than performance quoted. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit www.virtus.com for performance data current to the most recent month-end.

BBC/BBP Expense Ratio: 0.79%

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.

BBC TOP FIVE CONTRIBUTORS

Contributor	% Contribution
Moderna, Inc.	2.73
MacroGenics, Inc.	2.10
Adverum Biotechnologies Inc	1.36
Immunomedics, Inc.	1.34
BioCryst Pharmaceuticals, Inc.	1.28

BBC TOP FIVE DETRACTORS

Contributor	% Contribution
NextCure, Inc.	-0.31
Revolution Medicines, Inc.	-0.14
Applied Therapeutics, Inc.	-0.13
Phathom Pharmaceuticals, Inc.	-0.13
Arcus Biosciences, Inc.	-0.13

BBP TOP FIVE CONTRIBUTORS

Contributor	% Contribution
Ultragenyx Pharmaceutical, Inc.	1.98
Stemline Therapeutics, Inc.	1.68
Insmed Incorporated	1.30
Seattle Genetics, Inc.	1.20
Sarepta Therapeutics, Inc.	1.19

BBP TOP FIVE DETRACTORS

Contributor	% Contribution
Intercept Pharmaceutical, Inc.	-0.56
Epizyme, Inc.	-0.35
Biogen, Inc.	-0.34
Theravance Biopharma, Inc.	-0.14
Karyopharm Therapeutics, Inc.	-0.09

% Contribution: Absolute weighted contribution.

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

Each 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.

BBC Benchmark: The Fund's benchmark is the **LifeSci Biotechnology Clinical Trials Index**, which is designed to track the performance of U.S.-listed biotechnology stocks with a lead drug in the clinical trial stage of development, typically a Phase 1, Phase 2, or Phase 3 trial, but prior to receiving marketing approval.

BBP Benchmark: The Fund's benchmark is the **LifeSci Biotechnology Products Index**, which is designed to track the performance of U.S.-listed biotechnology stocks with at least one drug therapy approved by the U.S. Food and Drug Administration for marketing.

The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

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. **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. **Industry/ Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Passive Strategy/Index Risk:** A passive investment strategy seeking to track the performance of the underlying Index may result in the fund holding securities regardless of market conditions or their current or projected performance. This could cause the fund's returns to be lower than if the fund employed an active strategy. **Correlation to Index:** The performance of the fund and its index may vary somewhat due to factors such as fund flows, transaction costs, and timing differences associated with additions to and deletions from its 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:** Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the fund and its investments, including hampering the ability of the fund's portfolio manager(s) to invest the fund's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadvisor. 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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