VIRTUS ETFs

Virtus Seix Senior Loan ETF

NYSE ARCA | NAV Symbol SEIX.NV | IOPV Symbol SEIX.IV | CUSIP 92790A405

MARKET REVIEW

The Virtus Seix Senior Loan ETF (Fund) returned 3.20%, which was moderately below our benchmark, the CSFB Leveraged Loans Index, which returned 3.37% in 3Q 2023. As of September 30, 2023, J.P. Morgan's Leverage Loan index yields 9.58% to maturity, 6 basis points (bps) wider over the past three months, and 61 bps wider than the 8.71% offered by J.P. Morgan's U.S. High Yield index. In 2Q 2023, the loan index was 81 bps wider than the high yield index. According to J.P. Morgan on September 30, 2023, the average loan price was \$95.89 overall, \$99.14 for BB loans, \$97.09 for B loans, and \$79.96 for Split B/CCC loans. Over the last three months, the average loan price improved \$0.92, driven by increases in each ratings category with increasing gains in lower quality.

We are slightly disappointed with our underperformance in another volatile quarter. Lower quality credit selection and allocation drove our results. We continue to position defensively in anticipation of a mild recession in 2024. Our portfolio reviews focus on potential credit stresses including unionized strike activity, on-going global conflicts, sustained higher-for-longer interest rates, demand slowdowns, and fluctuating energy and commodity prices.

PERFORMANCE

The portfolio benefited from sector performance in land transportation, service, and aerospace, which more than offset underperformance in information technology, diversified media, and cable & wireless. On a ratings basis, the portfolio benefited from credit selection in B, allocation in CC/C/Default, and credit selection in Split B, partially offset by credit selection in Split BB, sector allocation in CCC/Split CCC, and sector allocation in BBB. The top performing credits were LaserShip (land transportation), Sabre Global (information technology), and Napa Management (healthcare). The top detractors were Digital Media (diversified media), Emergent BioSolutions (healthcare), and CenturyLink (telecommunications).

According to J.P. Morgan, 3Q 2023 loan funds flows were negative \$0.9B for actively managed funds and positive \$1.0B for loan ETFs. Collateralized loan obligation (CLO) activity, an important loan market demand component, improved with 84 U.S. CLOs pricing \$35.8B, up from \$21.7B in 2Q 2023. Historically, BB loan pricing near \$99.25, with B near \$97.00, provides moderately attractive CLO equity returns, which in turn bolsters loan secondary market demand. In 3Q 2023, CLO issuance excluding refinancing was \$30.7B.

According to J.P. Morgan, new issue loan activity in 3Q 2023 totaled a robust \$122.5B, up from 2Q 2023's \$66.5B, and 1Q 2023's \$70.3B. Improving market sentiment for risk assets in 3Q 2023 continue to encourage issuers and investors.

The loan market default rate reached a cycle low at 0.65% in 2021, and rose to 1.63% in 2022 and 2.66% in 3Q 2023, down moderately from 2.93% in 2Q 2023. According to J.P. Morgan, the long-term average default rate for leveraged loans is 3.1% and 3.2% for high yield bonds. Tightening credit markets typically lead to higher default rates. Rising interest rates, high but easing inflationary pressures, and still lingering recessionary concerns continue to weigh on credit markets. Improving new issue markets in 2023 continue to provide relief to leveraged credit. Surprisingly robust labor markets support consumer spending, although slowing corporate spending, advertising, and discretionary capital expenditures weigh on certain sectors.

OUTLOOK

Leverage loans again demonstrated “through-the-cycle” appeal with 9 months year-to-date 2023 returning 10.09% for the J.P. Morgan Leverage Loan Index, besting the 6.42% J.P. Morgan U.S. High Yield Index, 0.48% J.P. Morgan Investment Grade Index, and 2.54% for the Russell 2000® Index. During a difficult 2022, leveraged loans lost only 1.06% according to the CSFB Leveraged Loans Index, while rising interest rates negatively impact other fixed income peers: Treasuries, investment grade bonds, and high yield bonds. Importantly, loans are primarily secured credit versus the primarily unsecured high yield market. We believe security provides a critical level of protection that makes the loan market especially attractive in this phase of the investment cycle.

We remain a flexible, nimble value-oriented high yield manager who focuses on downside protection, which you should expect from a credit manager. We expect another volatile earnings season with sectors including consumer discretionary, chemicals, and retailers likely to remain under pressure, while rising rates could offset supply chain improvements for machinery, industrials, and automotive. Strike activity continues to increase and will likely pressure margins and sales over the next few quarters. However, surprising consumer resilience has again pushed out recession concerns to perhaps late 2024 or even a soft landing. The U.S. Federal Reserve is near the end of its rate hiking cycle, which is typically constructive for risk assets including leveraged loans. We expect rates to remain elevated, which benefits leveraged loans.

We believe our portfolio is positioned to limit downside in periods of market dislocation and provide attractive upside when credit markets improve. Current loan pricing is moderately cheap. On-going market uncertainty including the Ukraine war, Israel/Palestine conflict, autoworker strikes, and student loan payment resumption could create price volatility and allow us to add higher quality positions at attractive prices.

INVESTMENT ADVISER

Virtus ETF Advisers LLC

INVESTMENT SUBADVISER

Seix Investment Advisors

INVESTMENT PROFESSIONALS

George Goudelias
Senior Portfolio Manager, Managing Director, Head of Leveraged Finance
Industry start date: 1987
Start date as Fund Portfolio Manager: 2019

Vincent Flanagan
Portfolio Manager, Senior High Yield Research Analyst
Industry start date: 1997
Start date as Fund Portfolio Manager: 2019

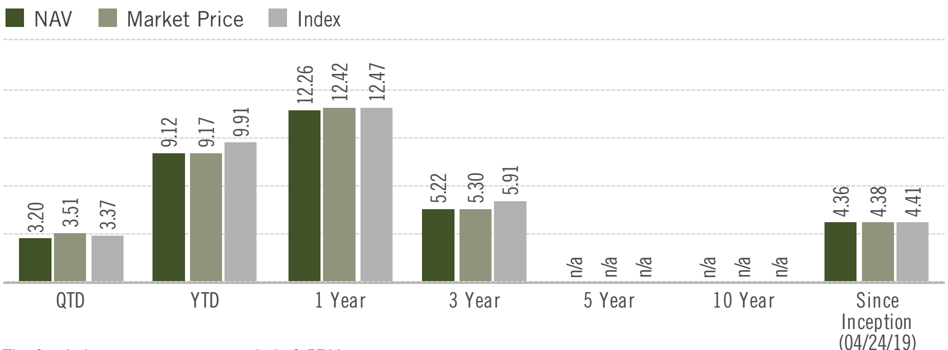
Eric Guevara
Head of Leveraged Loan Trading and Portfolio Manager
Industry start date: 2000
Start date as Fund Portfolio Manager: 2019

TOP TEN HOLDINGS

	% Fund
American Airlines Inc. Initial Term Loan, 04/20/2028	1.99
Cloud Software Group Inc. Term A Loan, 09/29/2028	1.89
Domtar Corporation Initial Term Loan, 11/30/2028	1.80
Citadel Securities LP Term Loan B, 07/29/2030	1.69
Playa Hotels & Resorts B.V. Term Loan, 01/05/2029	1.68
Smyrna Ready Mix Concrete LLC Initial Term Loan, 04/02/2029	1.68
Waterbridge Midstream Operating LLC Initial Term Loan, 06/22/2026	1.67
Rand Parent LLC Term B Loan, 03/18/2030	1.63
Mileage Plus Holdings, LLC Initial Term Loan, 06/21/2027	1.57
Intelsat Jackson Holdings SA Term B Loan, 02/01/2029	1.54

Holdings are subject to change. To view the full list of holdings, please visit virtus.com.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23



The fund class gross expense ratio is 0.57%.
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 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 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.

Index: The **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The **J.P. Morgan U.S. High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market. The indexes are calculated on a total return basis. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. dollar institutional leveraged loans, including U.S. and international borrowers.

The indexes are calculated 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.

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.

Seix Investment Advisors is a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser.

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. **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. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **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 for a prospectus or summary prospectus. Read it carefully before investing.

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