VIRTUS ETFs

Virtus Seix Senior Loan ETF

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

MARKET OVERVIEW

Every Sector Contributed

For the second quarter of 2020, the J.P. Morgan Leveraged Loan Index (Index) showed a return of 9.8%. That was a fairly substantial snapback from the first-quarter decline, but it still left year-to-date (YTD) loans down about 4.5%. For the quarter, notable contributors by industry were energy, which was up about 25.9% (after being oversold in Q1); metals and mining, up 17.9%; and retail, up 12.1%. No sector detracted from the quarterly performance, but more defensive industries like cable and satellite saw a 3.8% contribution, and telecom contributed about 6.6%. On a ratings basis, BBs gained 6.6% for the quarter, Bs jumped 11.5%, and the B/CCC segment advanced 13.7%. As of the end of the quarter, the yield to a three-year takeout was 7.1%, which contracted 334 basis points (bps) for the quarter.

Looking at the inverse of that, the price on the Index was approximately 91.4, up from 83.7 at the end of Q1. On the supply and demand side, Q2 issuance gross volume was a modest $46.6 billion. YTD, net issuance has been low overall at only $77.2 billion, down 25% year over year. On the demand side, Q2 retail fund flows continued to be negative, but outflows were less negative for each month of the quarter. June's outflow was $640 million, May's was $1.4 billion, and April's was $2.9 billion.

In terms of collateralized loan obligations (CLO), U.S. issuance picked up in June with 21 deals priced for $8.2 billion (though refinancing activity had yet to resume), following May's volume of $6.0 billion and April's volume of $3.9 billion. On a YTD basis, 132 CLOs priced in the U.S. market for a total of $59.3 billion, down about 34% year over year.

The takeaway: retail outflows continued while abating; CLO formation provided modest support; index pricing rebounded off the low point in March; and the London Inter-Bank Offered Rate (LIBOR) levels remained low with three-month LIBOR at approximately 30 bps at the end of the quarter. We would note that most new issuance feature LIBOR floors.

Defaults

The default rate ended Q2 at 3.9%, up 209 bps for the quarter. Including distressed exchanges, the loan default rate was 4.2%, led by the energy, retail, and consumer sectors.

YTD, the retail sector suffered 14 defaults, the most by far from an issue account basis, followed by eight defaults in services, six in energy, six in media, four in telecom, four in food, four in metals and mining, and three in healthcare. The stress points were not just the direct result of COVID-19; some sectors experienced a spillover effect.

Each of the defaults seemed bespoke, which is to say, tailored to companies' particular circumstances. For instance, when Brooks Brothers filed for bankruptcy on July 8, it already had debtor-in-possession financing lined up, and on July 10, there were reports of two potential buyers, one of which was willing to offer a substantial loan at zero percent interest.

A lot of other defaults happened to companies that even had liquidity, as if it to say, "Let's just rip the Band-Aid off and restructure, because the capital structure is unsustainable in the long run."

HOW THE FUND PERFORMED

The Virtus Seix Senior Loan ETF increased 9.81% (on a net basis) in Q2, which was 290 bps worse than the benchmark, the Credit Suisse Leveraged Loan Index. For the second quarter, our allocation to non-distressed loans was a primary drag on performance, while our overall credit selection was slightly negative. During this unusually strong quarter, holding 4.1% cash accounted for nearly a third of the quarter's underperformance, and our defensive overweight in cable, wireless, and telecommunications cost us about almost half of the quarter's underperformance. In Q2, overweight positioning in utilities and chemicals, diversified media, and services all had above-sector and above-index returns that benefited the portfolio.

On a YTD basis, the ETF declined 1.96%, which outperformed the benchmark by 280 bps. From a peer perspective, the ETF placed in the 1st percentile in both Morningstar and Lipper YTD. Outperformance was mostly attributable to our allocation tilts YTD, driven by an underweight to energy and an overweight to cable/wireless video, which was slightly offset by an underweight to healthcare. By sector, overall positive contributors of energy, cable/wireless video, and gaming/leisure overwhelmed overall negative contributors of utilities, information technology, and chemicals.

CURRENT STRATEGY

We remain flexible, adaptable and value-oriented in our investment approach. We continue to adjust to the new COVID-19 normal and are hopeful, but cautious. We are hopeful that the COVID-19 virus could mutate to a more benign form as the Spanish flu did in 1918 did, that a successful vaccine is possible near-term owing to global efforts, or that people learn to live with the virus perhaps by wearing masks and continuing social distancing. We remain cautious owing to concerns of a second COVID-19 wave (the Spanish flu had three waves), and material near-term fundamental weakness owing to economic shutdown and social distancing impacts (airlines, cruise lines, hotels, restaurants, retail, etc.). We expect continued central bank and federal support to cushion near-term economic weakness.

The loan market is a first lien market that provides downside protection versus unsecured markets like high yield. While we are seeing higher defaults in both the high yield and leveraged loan markets, especially in COVID-19 impacted sectors, we believe the nascent economic recovery combined with subdued new issuance and ample company liquidity, will likely mean this default activity subsides near term.

OUTLOOK

We believe the loan market is attractive and underappreciated as the average price of the market sits at $89.47, while spreads remain elevated at 700 bps. At the same time, we expect the technical for secondary loans to remain well supported this summer as we anticipate both negative net new issuance (more existing loans paying off versus new issues) in the market and a healthy level of new CLO issuance.

Virtus Seix Senior Loan ETF

PORTFOLIO MANAGEMENT

Seix Investment Advisors LLC

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

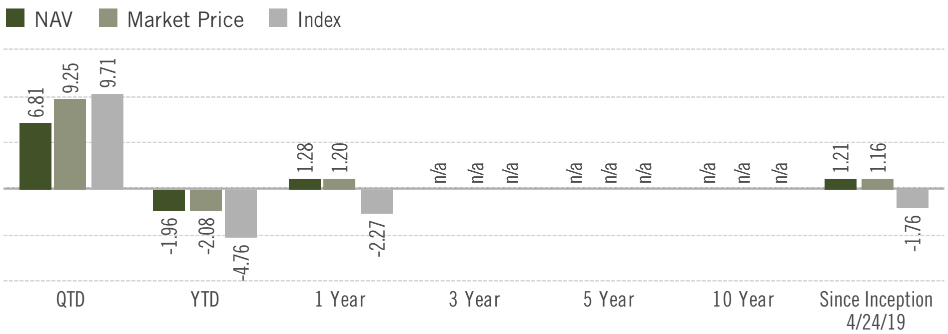
Eric Guevara
Head of Leveraged Loan Trading and Portfolio Manager
Industry start date: 2000
Start date as Fund Portfolio Manager: 2019

TOP TEN HOLDINGS

	% Fund
T-Mobile USA Inc., Term Loan, 04/01/2027	4.88
LCPR Loan Financing LLC, Initial Term Loan, 10/15/2026	3.47
Nielsen Finance LLC, Dollar Term B-5 Loan, 06/04/2025	3.46
Cincinnati Bell Inc., Tranche B Term Loan, 10/02/2024	3.43
Brookfield WEC Holdings Inc, Refinancing Term Loan, 08/01/2025	3.36
Dell International LLC, Refinancing Term B-1 Loan, 09/19/2025	3.36
Reynolds Group Holdings Inc., Incremental U.S. Term Loan, 02/06/2023	3.33
Xperi Holding Corp, Initial Term B Loan, 06/01/2025	3.31
INEOS Enterprises Holdings US Finco LLC, Term Loan B, 08/28/2026	2.96
WaterBridge Midstream Operating LLC, Initial Term Loan, 06/22/2026	2.86

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/20



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.

Expenses are based on estimated amounts for the current fiscal year. 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 **Credit Suisse Leveraged Loan Index** is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is 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.

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. **Credit & Interest:** Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans can carry significant credit and call risk, can be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, 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:** 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 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.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

ETFs distributed by **VP Distributors, LLC,** member FINRA and subsidiary of Virtus Investment Partners, Inc.