

## Virtus Seix Senior Loan ETF

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

### MARKET REVIEW

The U.S. economy remains strong, although supply chain constraints and persistent inflation could potentially slow growth near-term. The new issue calendar remains robust and continues to present potential opportunities, although few pass our rigorous credit selection process. We continue to find attractive potential opportunities in new leveraged buyouts, corporate spin-offs, mid-sized corporate finance, and regular leveraged finance refinancing.

As of October 21, 2021, JPMorgan's Leveraged Loan Index yields were 5.12% to maturity, 27 basis points (bps) wider over the past three months, and 50 bps wider than the 4.62% offered by JPMorgan's U.S. High Yield Index. According to JPMorgan on October 21, 2021, the average loan price was \$98.77 overall, \$99.55 for BB loans, \$99.49 for B loans, and \$90.92 for split B/CCC loans.

### PERFORMANCE

The Virtus Seix Senior Loan ETF returned 1.28% in 3Q 2021, which modestly outperformed its benchmark, the Credit Suisse Leveraged Loan Index, which returned 1.13%.

The ETF benefited from credit selection in services, housing, and cable/wireless video, which offset relative underperformance in retail, broadcasting, and metals/minerals. On a ratings basis, our credit selection benefited single-Bs and BBs, while credit selection within CCC/split-CCC and split-BBs were a drag. The top performing credits were Patrick Industries (gaming/leisure), Travelport (services), and Visual Comfort (housing) while credit detractors were Multiplan (healthcare), Carnival (gaming/leisure), and Jo-Ann Stores (retail).

### STRATEGY

We continue to expect credit ratings upgrades following an aggressive ratings downgrade cycle near the pandemic market bottom. Default rates remain low and capital market access is broad. Falling COVID cases globally support a constructive economic environment and potential upgrade candidates we identified. We employ our proprietary credit analysis to analyze investments and note value opportunities in the low-B rated category are driven by collateralized loan obligation (CLO) aversion. CLOs have limits on CCC rated credits and, therefore, have an aversion to credits that are rated near the Caa1/CCC+ rating (including B3/B- credits with negative outlooks, which are treated as Caa1/CCC+ by CLO metrics).

The loan market now offers 5.12% yield to maturity, which is 50 bps higher than the high yield market according to JPMorgan (October 21, 2021). The loan market remains healthy with robust new issuance continuing 1Q and 2Q 2021's momentum. Importantly, loans are primarily secured credit versus unsecured for high yield bonds. Loans have floating rates, which benefit from rising short-term rates and are not harmed by rising longer-term rates (as recently negatively impacted investment grade bonds and high-quality high yield bonds are). Additionally, leveraged loans' senior position in the capital structure can help mitigate risk should economic conditions falter. We believe the yield advantage, secured ranking, and the floating rate features of the leverage loan market continue to make it an attractive area for fixed income investors.

### OUTLOOK

Two years ago, COVID changed the world. Medical innovation, adaptation, and human resilience now allow us to live with the disease, and for the moment, the recent Delta surge appears to be waning. We continue watching for another variant to appear but are cautiously optimistic as we head into northern hemisphere winter. The restarting global economies create supply challenges and what seems like more than temporary inflation pressures. For the first time in at least a generation, inflation and stagflation have become common in news stories. Loan investors benefit from short-term rate increases, unlike fixed income bond investors. We like our position in the fixed income market given this uncertainty. Seix is a flexible, nimble, value-oriented leveraged loan manager focusing on downside protection, which you should expect from a credit manager.

**INVESTMENT ADVISER**

Virtus ETF Advisers LLC

**INVESTMENT SUBADVISER**

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

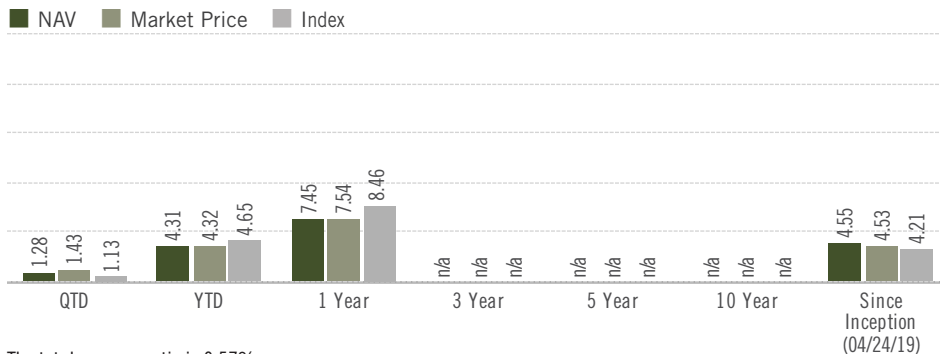
**TOP TEN HOLDINGS**

**% Fund**

TMS International Corp./DE, 6.2500% 04/15/2029	2.16
Directv Financing LLC, Closing Date Term Loan, 08/02/2027	1.99
Autokiniton US Holdings Inc., Closing Date Term B Loan, 04/06/2028	1.99
Travelport Finance Luxembourg Sarl, Term Loan Non-PIK, 02/28/2025	1.96
Grinding Media Inc., Term Loan B, 09/21/2028	1.87
Emergent BioSolutions Inc, 3.8750% 08/15/2028	1.57
AAdvantage Loyalty IP Ltd., Initial Term Loan, 04/20/2028	1.54
Nuvei Technologies Corp., Initial Term Loan, 09/29/2025	1.50
Allen Media LLC, 02/10/2027	1.49
Savage Enterprises LLC, Term Loan B, 09/17/2028	1.49

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 09/30/21**



The total 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](http://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.

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 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:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans are subject to credit and call risk, may be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **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:** 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.

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