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 1.99% at NAV, which was moderately below our benchmark, the Credit Suisse Leveraged Loan Index, which returned 2.52% in 1Q 2024. As of March 31, 2024, J. P. Morgan's Leveraged Loan Index yields 8.81% to maturity, 12 basis points (bps) tighter over the past three months, and 98 bps wider than the 7.83% offered by J. P. Morgan's U.S. High Yield Index. Also according to J. P. Morgan, on March 31,2024, the average loan price was $97.02 overall, $99.87 for BB loans, $98.70 for B loans, and $81.10 for Split B/CCC loans. Over the last three months, the average loan price improved $0.61, driven primarily by increases in Split B/CCC and B ratings, and modestly by BB ratings.

PERFORMANCE

We are disappointed with our 71 bps underperformance in 1Q in another volatile quarter. Most of our portfolio performed well, but that was overwhelmed by a few credits with differing challenges. There were three detractors that drove much of the underperformance and are worth summarizing. Numericable, a telecommunications company, dropped after the company's plans to apply asset sales for debt reduction surprisingly became confrontational. Heubach, a European chemical company merger and LBO had the unfortunate timing to leverage up in front of rising European energy prices caused by the Ukrainian war and falling European demand. Real estate company Altisource services troubled mortgages and was disrupted when COVID consumer support measures reduced problem mortgages to nearly zero. Mortgage delinquencies are picking up, which is a positive for Altisource, but cases remain less than half the pre-COVID levels. Credit events regularly occur in leveraged finance. We believe the number of credit events we experienced was due to unfortunate timing. Our portfolio reviews focus on potential credit stresses including tightening consumer discretionary spending, ongoing global conflicts, sustained higher interest rates, demand slowdowns, and fluctuating energy and commodity prices.

In 1Q 2024, the portfolio benefited from sector performance in information technology, gaming & leisure, and land transportation, offset by underperformance in chemicals, telecommunications, and diversified media. On a ratings basis, the portfolio benefited from issue selection in BB and B, and allocation to Split BBB, offset by issue selection in CCC/Split CCC, Split BB, and Not Rated. The top performing credits were CenturyLink (telecommunications), Draslovka (chemicals), and Citrix (information technology). The top detractors were Numericable (telecommunications), Heubach (chemicals), and Altisource (financials).

According to J. P. Morgan, 1Q 2024 loan funds flows were negative $1.3 billion for actively managed funds and positive $3.7 billion for loan ETFs. Collateralized loan obligation (CLO) activity, an important loan market demand component, improved with 181 U.S. CLOs pricing $80.7 billion, up from $47.1 billion in 4Q 2023. In 1Q 2024, CLO issuance excluding refinancing was $32.2 billion, up from $29.6 billion in 4Q 2023. According to J. P. Morgan, new issue loan activity in 1Q 2024 totaled a robust $317.7 billion, up from $110.8 billion in 4Q 2023. We anticipate that the recent refinancing wave we experienced in 1Q 2024 will continue this year, but at a slower pace.

The loan market default rate reached a cycle low at 0.65% in 2021, rose to 1.63% in 2022, worsened to 3.15% in 4Q 2023, and reached 3.52% in 1Q 2024. We believe 1Q 2024 is the peak default rate for this cycle. According to J. P. Morgan, the long-term average default rate for leveraged loans is 3.1% and 3.2% for high yield bonds. In 2024, J.P. Morgan projects loan default rates at 3.25%, near the current 3.15% level. Credit markets improved meaningfully from November 2023 through March 2024. Continuing refinancing activity likely relieves refinancing risk for mid-to-higher quality credits.

OUTLOOK

Leverage loans again demonstrated "through-the-cycle" appeal in 1Q 2024 returning 2.65% for the J.P. Morgan Leveraged Loan Index, moderately ahead of the 1.62% for the J. P. Morgan U.S. High Yield Index and the 1.40% for the J. P. Morgan Investment Grade Index. Importantly, loans are primarily secured credit versus the primarily unsecured high yield market. Loans should continue to benefit from high short-term rates as well as a stable-to-improving economy.

We remain a flexible, nimble, value-oriented high yield manager who focuses on downside protection, which you should expect from a credit manager. In 1Q, we expect another volatile earnings season with sectors including telecom, chemicals, retail, consumer discretionary, TV, and radio likely to remain under pressure, while healthcare, home building, industrials, and automotive could benefit from the stable-to-improving economy. We remain constructive on the U.S. economy and expect moderating inflation trends will precede Federal Reserve interest rate cuts that likely begin this summer.

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 remains moderately cheap. The new issue calendar remains solid, providing opportunities to take new positions in attractive businesses or exit credits that are no longer cheap. Ongoing market uncertainty including the continuing Ukraine war, Israel/Palestine war, China's atypical economic sluggishness, persistent inflation, and the interest rate impact on housing and automotive 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
Managing Director, Head of Leveraged Finance, and Senior Portfolio Manager
Industry start date: 1987
Start date as Fund Portfolio Manager: 2019

Vincent Flanagan
Portfolio Manager, Senior Leveraged Finance 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

TOP TEN HOLDINGS	% Fund
New Fortress Energy Inc. Initial Term Loan, 10/30/2028	1.63
Waterbridge Midstream Operating LLC Initial Term Loan, 06/22/2026	1.61
Oscar AcquisitionCo LLC Term B Loan, 04/29/2029	1.57
Numericable U.S. LLC (Usd) B14 Term Loan, 08/15/2028	1.38
American Airlines Inc Initial Term Loan, 04/20/2028	1.37
Rand Parent LLC Term B Loan, 03/18/2030	1.29
Zacapa Sarl Initial Term Loans 2022, 03/22/2029	1.28
GIP III Stetson I LP Initial Term Loan, 10/31/2028	1.24
Station Casinos LLC Term B Facility Loans, 03/14/2031	1.22
Cloud Software Group Inc Third Amendment Term Loan, 03/24/2031	1.21

Holdings are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 3/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (04/24/19)
NAV	1.99	1.99	11.37	5.49	n/a	n/a	4.97
Market Price	1.81	1.81	11.31	5.44	n/a	n/a	4.96
Index	2.52	2.52	12.40	5.82	n/a	n/a	5.08

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 fund class gross expense ratio is 0.63%. The net expense ratio is 0.62%, which reflects a contractual expense waiver in effect through 11/28/2024.

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 Adviser has agreed to waive a portion of the management fee equal to 0.01% through at least November 28, 2024, which will have the effect of reducing the Fund's total expenses to 0.62%, excluding certain expenses as discussed above.

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 **J.P. Morgan Investment Grade Index (JULI)** provides performance comparisons and valuation metrics across a carefully defined universe of investment grade corporate bonds, tracking individual issuers, sectors and sub-sectors by their various ratings and maturities.

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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