

Virtus Reaves Utilities ETF

NYSE ARCA | NAV Symbol UTES.NV | IOPV Symbol UTES.IV | CUSIP 26923G806

MARKET OVERVIEW

Operationally, most utilities in the Fund had a successful year. Most companies grew earnings and dividends despite the extreme recession, highlighting the essential nature of their services. In fact, the utility sector will likely be just one of two sectors in the S&P 500® Index to achieve earnings growth in 2020, with technology being the other. The operational performance unfortunately had little influence on stock market performance as the S&P 500 Utility Index returned just 0.5% for the calendar year while the S&P 500 Index returned 18.4%. Massive monetary and fiscal stimulus encouraged greater risk taking, benefiting companies with the most to gain in an economic recovery. This disparity was particularly noticeable after the announcement of a successful vaccine in mid-November with the S&P 500 rising substantively while the Utility Index declined.

PERFORMANCE REVIEW

The Virtus Reaves Utilities ETF returned 7.44% in the fourth quarter, outperforming the S&P 500 Utilities Index return of 6.54%. Rallies in value-oriented utilities that benefited from the market's rotation from growth to value, plus continued strength in the Fund's biggest position, NextEra Energy, drove the outperformance.

Top contributors to performance included NextEra Energy, NextEra Energy Partners, Edison International, Chesapeake Utilities, and New Jersey Resources. The NextEra stocks rallied on optimism about the Biden administration's potential climate change plans while Edison, Chesapeake, and New Jersey were lagging utilities that benefited from the increased risk appetite amid news of the successful vaccines.

On the negative side, most of the detractors to performance in the quarter were winners in the first three quarters of the year but found themselves on the wrong side of the market's rotation. These four, WEC Energy, Ameren, XCEL Energy, and CMS Energy, are all well-managed utilities with higher-than-average growth potential, stemming from increased demand for renewable energy. Underperformance during the quarter seems to be a technical impact rather than a view about those companies' futures. The last detractor from performance, Southwest Gas, lagged as a result of a poor regulatory outcome in Arizona.

OUTLOOK

Utilities should be a beneficiary of the Biden administration's focus on climate change and carbon reduction. Potentially, this could mean more incentives to build renewable energy projects, better financing terms, and improved access to interstate wireless transmission. In December, Congress extended the timeline on tax credits for solar power, battery storage, and offshore wind, further incentivizing growth in the industry.

Investors mostly ignored this improving story in lieu of higher growth and more cyclical. While disappointing, we believe the setup heading into 2021 is attractive. Valuations relative to the broader market and interest rates are as compelling as they have been in some time, allowing for upside if conditions stay the same and downside protection if interest rates were to rise. The outlook for growth has improved because of the opportunity created by cost-effective renewable energy, and several utilities have updated long-term growth guidance as a result. Utility stocks are well positioned to benefit when the risk-on market environment cools down.

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PORTFOLIO MANAGEMENT

Reaves Asset Management

INVESTMENT PROFESSIONALS



John P. Bartlett, CFA
 President, Portfolio Manager, Research Analyst
 Industry start date: 1993
 Start date as Fund Portfolio Manager: 2015



Joseph 'Jay' Rhame, III, CFA
 Chief Executive Officer, Portfolio Manager, Research Analyst
 Industry start date: 2005
 Start date as Fund Portfolio Manager: 2015

TOP TEN HOLDINGS

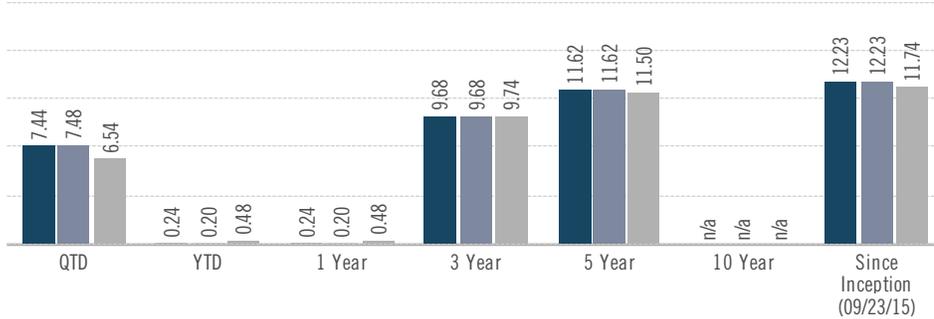
% Fund

NextEra Energy Inc.	23.64
Public Service Enterprise Group Inc.	5.61
American Water Works Co. Inc.	5.25
Sempra Energy	5.24
CMS Energy Corp.	4.79
Eversource Energy	4.78
Xcel Energy Inc.	4.58
Edison International	4.50
DTE Energy Co.	4.36
Alliant Energy Corp.	4.34

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/20

NAV Market Price Index



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.

Benchmark: The **S&P 500® Utilities Index** is a free-float market capitalization-weighted index comprised of companies included in the S&P 500® utilities sector. The index is calculated on a total return basis with dividends reinvested. 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.

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. **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. **Utilities Sector Concentration:** The fund's investments are concentrated in the utilities sector and may present more risks than if the fund were broadly diversified over numerous sectors of the economy. **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 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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