

Virtus Reaves Utilities ETF

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

MARKET OVERVIEW

Utilities generally underperformed other sectors in the second quarter as investors focused on companies that benefit from working at home and economic recovery. The S&P 500® Index was up over 20% in the quarter, fueled by Federal Reserve efforts to increase liquidity, and in the case of technology stocks, the pulling forward of growth. However, utilities now sport an attractive valuation relative to both the S&P 500 Index and U.S. Government bonds. Utilities are trading at a discount to the S&P 500 Index on a price to earnings ratio basis for the first time in several years, while also having the highest yield relative to the U.S. 10-Year Treasury note in history. We estimate that dividend payouts will grow in the mid-single digits in 2020 and 2021, potentially delivering a growing income stream that will be needed with interest rates so low. Within the utilities space, large-cap and high yield utilities outperformed as investors opted for exposure to the biggest and most liquid companies in the sector. In other words, investors have not been focused on fundamental differences in growth potential.

PERFORMANCE REVIEW

The Virtus Reaves Utilities ETF returned +2.53%, in line with its benchmark. We made the decision to invest defensively in the best positioned utilities for an economic downturn. As it turned out, utilities with stretched balance sheets and cyclical economic exposure outperformed as the recovery trade stretched for the whole quarter. Despite this situation, stock selection had a positive contribution, but a slightly overweight cash position detracted from performance.

Top performers included NextEra Energy Partners, DTE Energy, and Public Service Enterprises. NextEra Energy Partners recovered from a precipitous decline in March while DTE Energy benefited from being a larger capitalization holding with a high yield.

Bottom performers were NiSource and Pacific Gas and Electric Company. NiSource was afflicted by a general concern about the future viability of natural gas. Several states and local municipalities have made proclamations to reduce or eliminate carbon emissions by 2050, putting natural gas in the crosshairs. We believe that the addition of renewable natural gas and hydrogen will allow consumers to comply with emissions rules, and thus the pipes will have ongoing value. We have selectively added to positions. Pacific Gas and Electric Company underperformed as a result of a large equity offering by the company, and while we had purchased shares early in the quarter, we sold a portion mid-June.

During the quarter, we sold positions in integrated utilities as well as South Jersey Industries. On the buy side, the Fund added to high-quality, higher-growth utilities like Eversource, CMS Energy, Alliant, American Water Works, and Atmos Energy.

OUTLOOK

Fundamentally, utilities are one of the best positioned sectors to deal with the pandemic-related economic slowdown. Management forecasts from an earnings perspective were largely unchanged from prior periods. As reports rolled out across earnings season, management was clearly confident that the companies would be able to absorb the impact from the slowdown and continue to hit growth targets. Many companies in the industry increased dividends in the last three months, highlighting the sector's stability at a time when many S&P 500 components were reducing payouts.

Utilities benefit from increasing residential usage. The margin companies earn on residential electric sales is two to four times greater than on commercial and industrial sales, so while overall power demand is down, the economic impact is manageable. Bad debt will go up as customers struggle to pay bills, but many states have programs in place that allows the utility to socialize those expenses across the entire customer base.

Growth prospects remain strong. The price of renewable power has fallen so drastically that many utilities will be able to replace coal and older natural gas plants with new wind and solar electricity while delivering savings to customers. Battery storage has become much more economic as well, increasing renewable reliability. Costs should continue to decline, creating an environment where replacing fossil fuel-based power with renewable energy in most parts of the U.S. could become economic. We believe this trend could sustain growth in the industry for at least the next several years.

Virtus Reaves Utilities ETF

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



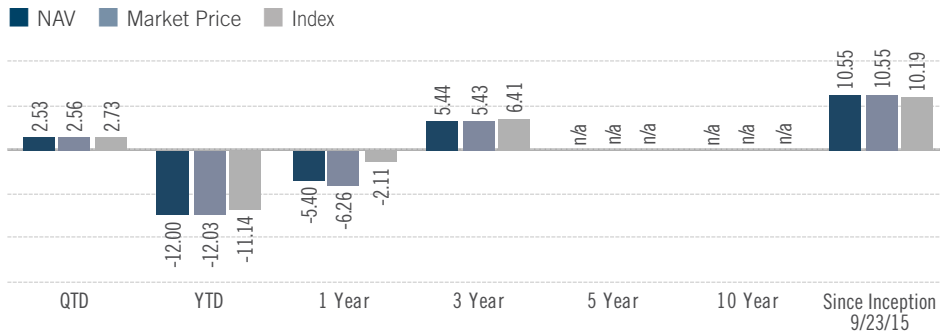
Joseph 'Jay' Rhame, III, CFA
 Chief Executive Officer, Portfolio Manager,
 Research Analyst
 Industry start date: 2005
 Start date as Fund Portfolio Manager: 2015

TOP TEN HOLDINGS

	% Fund
NextEra Energy Inc.	20.70
Sempra Energy	5.43
Public Service Enterprise Group Inc.	5.32
CMS Energy Corp.	5.23
Eversource Energy	5.17
Xcel Energy Inc.	4.98
American Water Works Co. Inc.	4.95
Atmos Energy Corp.	4.83
NiSource Inc.	4.57
Alliant Energy Corp.	4.53

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.

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 of owning the 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 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 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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TOP FIVE CONTRIBUTORS % Contribution

NextEra Energy Partners	0.74
DTE Energy	0.56
Public Service Enterprise	0.53
American Water Works	0.38
Sempra Energy	0.31

TOP FIVE DETRACTORS % Contribution

NiSource	-0.41
Pacific Gas and Electric Company	-0.15
FirstEnergy	-0.08
Edison International	-0.08
New Jersey Resources Corporation	-0.05

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.