

Investment Case: Virtus Terranova U.S. Quality Momentum ETF

JOET

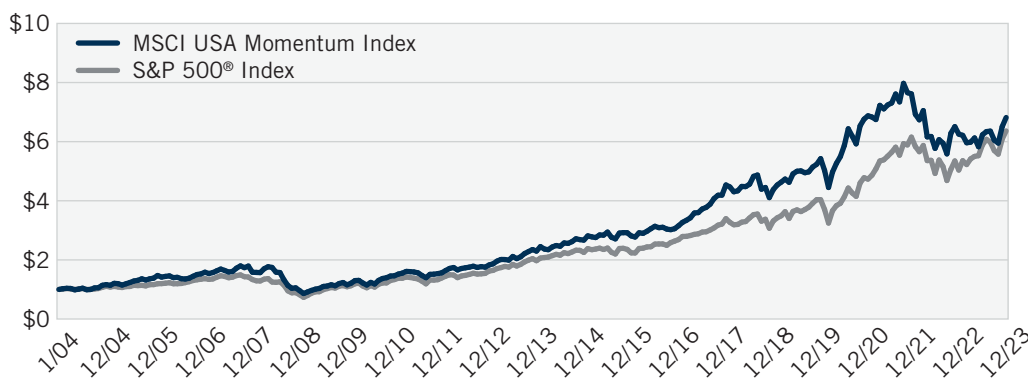
Understanding JOET

The Virtus Terranova U.S. Quality Momentum ETF (NASDAQ: JOET) strives to deliver exposure to U.S.-listed large-cap companies that combine strong quality fundamentals with positive technical momentum trends. The Fund seeks investment results that correspond, before fees and expenses, to the performance of the Terranova U.S. Quality Momentum Index.

The Case for Momentum

The momentum factor and momentum strategies are based on the idea that the rate of acceleration of a security's price persists over a length of time. In other words, winners tend to continue to perform well in the near term, while losers tend to continue their downward trend. **Momentum has historically produced long-term excess returns**, documented in several academic and empirical research studies first identified by UCLA scholars Narasimhan Jagadeesh and Sheridan Titman in their seminal paper, "Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency" published in the Journal of Finance in 1993. However, just like any investment strategy, there are risks and considerations that come with momentum strategies. They tend to be more volatile over shorter periods of time and have been plagued by reversals and corrections. And while many tactical investors welcome the cyclical nature of momentum, **strategic buy and hold investors have a much harder time holding on to these strategies over a cycle.**

EXCESS RETURNS FOR MOMENTUM FACTOR OVER 20 YEARS



Past Performance is not indicative of future results. As of 12/31/23. Source: Morningstar Direct.

Quality Momentum: Building on a Proven Concept

With the increased participation of quantitatively based investment strategies and algorithmic models in modern markets, it has become more important for investors to identify longer-term trends. Equity returns have become increasingly bifurcated, with an ever-widening gap between top- and bottom-performing companies. Witness

Investment Methodology

Joseph M. Terranova, Senior Managing Director and Chief Market Strategist for Virtus Investment Partners, created and developed the Terranova U.S. Quality Momentum Index. The Index methodology seeks to provide rules-based, systematic exposure to domestic large-cap stocks exhibiting both quality (fundamental strength) and momentum (positive technical trend) characteristics. The methodology reflects the investment philosophy Terranova has utilized throughout his 30+ year career on Wall Street as a professional investor, risk manager, and trader. Terranova is a CNBC ensemble member, appearing regularly on the *Halftime Report* and *Squawk Box*. His investment philosophy centers on identifying high-conviction investment opportunities based on fundamental and technical confidence. His investing principles and strategies are detailed in his 2012 book, "Buy High, Sell Higher" (Grand Central Publishing, a division of Hachette Book Group), which provides a modern investment strategy aimed at maximizing gains and minimizing losses in all market conditions.

the well-documented performance strategy gap among the more popular value, growth, momentum, quality, volatility, and size factors. Attempting to market time these single-factor strategies, or implement more complex multi-factor strategies, has proven difficult to implement.

“Quality Momentum” is a modern index strategy that offers an intuitive investment balance of both **offense and defense**, capturing changing market dynamics and different investment cycles through a combination of **fundamental** (quality) and **technical** (momentum) measures. Optimizing exposure to securities with positively trending relative momentum that are also exhibiting fundamental strength – and rebalancing on a quarterly basis – **creates the potential for a more consistent investment experience over time.**

Index Security Selection

Index construction starts with a universe of the largest 500 U.S. securities, filtered to 250 securities based on positive technical momentum, which are then ranked by measures of fundamental quality. This results in an equally weighted portfolio of 125 securities.

- > Momentum is defined by a stock’s last 12 months’ total return.
- > Quality is defined by securities exhibiting the strongest combination of return on equity, debt to equity, and annualized sales growth over the prior three years.
- > The Index employs a quarterly reconstitution and rebalancing schedule.

INDEX INVESTMENT PROCESS



Return on Equity and **Debt to Equity** are industry standard measures of quality. Incorporating **Annualized Sales Growth** differentiates the strategy, providing a key metric for evaluating the health of a growing business.

125 holdings provides for adequate diversification while keeping the selection process streamlined and efficient.

THE BENEFITS OF EQUAL WEIGHTING

The equal weighting approach of the Index allows, at the time of quarterly Index rebalance, for each security's performance to affect the Index equally, regardless of the size of the company. **Equal stock weightings help ensure balance and diversification**, while also attempting to reduce over-concentration, single-stock event risk, and limitations relative to traditional cap-weighted strategies.

THE IMPORTANCE OF QUARTERLY REBALANCING

The Index is rebalanced quarterly, recalibrating exposure to those securities with positive relative performance, as measured by momentum. It also ensures exposure to securities with the highest-quality fundamental characteristics. **Importantly, quarterly rebalancing also enforces a level of discipline, maximizing winners, liquidating losers, while maintaining alignment with the original exposure objectives on a consistent and systematic basis.** Additionally, while traditional trend-following and momentum strategies have tended to exhibit high turnover and taxable gains for investors, the ETF creation/redemption mechanism may provide for a greater level of tax efficiency.

IMPLEMENTING QUALITY MOMENTUM IN A PORTFOLIO

The Virtus Terranova U.S. Quality Momentum ETF (JOET) seeks to provide targeted exposure to well-established U.S. securities. Its inclusion in a diversified portfolio may provide investors a solid foundational core equity holding. Whether an investor is seeking long-term performance, reduced volatility, or increased diversification, this ETF may be a cost effective complement or replacement to traditional passive or actively managed large core/blend strategies. **Given its fundamental quality ballast, JOET may provide for a more evergreen holding, making for a less volatile replacement for more traditional trend-following/momentum strategies that exhibit higher levels of cyclicity and volatility.**

JOET Key Features

1 Core Equity Holding

Strives to provide exposure to the best performing U.S. large-cap companies with the highest quality fundamental characteristics, resulting in a distinct portfolio built for long-term growth.

2 Introducing Quality Momentum

Systematically seeks to identify and capture the returns of high-conviction investment opportunities characterized by fundamental (quality) and technical (momentum) attributes.

3 Equal Weighted

Equal stock weightings, at the time of quarterly Index rebalance, help ensure balance and diversification, while also attempting to reduce over-concentration, single event stock risk, and limitations relative to traditional cap-weighted strategies.



For more information, contact us at 1-800-243-4361 or visit www.virtus.com.

IMPORTANT RISK CONSIDERATIONS

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, medium, or large-sized companies may enhance that risk. **Momentum Factor Investing:** Momentum investing is subject to the risk that the securities may be more volatile than the market as a whole. There may be periods when the momentum style of investing is out of favor and therefore, the investment performance of the Fund may suffer. **Passive Strategy/Index Risk:** A passive investment strategy seeking to track the performance of the underlying Index may result in the fund holding securities regardless of market conditions or their current or projected performance. This could cause the fund's returns to be lower than if the fund employed an active strategy. **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. **Correlation to Index:** The performance of the fund and its index may vary due to factors such as fund flows, transaction costs, whether the fund obtains every security in the index, and timing differences associated with additions to and deletions from its index. **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 **Terranova U.S. Quality Momentum Index** is an equally weighted index designed to provide diversified exposure to quality momentum large-cap equities listed in the United States. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The **MSCI USA Momentum Index** is designed to capture the performance of an equity momentum strategy by emphasizing stocks with high price momentum. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

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.

Please consider the Fund's objectives, risks, charges, and expenses before investing. Contact us at 1.800.243.4361 or visit www.virtus.com for a prospectus, which contains this and other information about the Fund. Read the prospectus carefully before investing.

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