Investment Case:
Virtus Newfleet ABS/MBS ETF

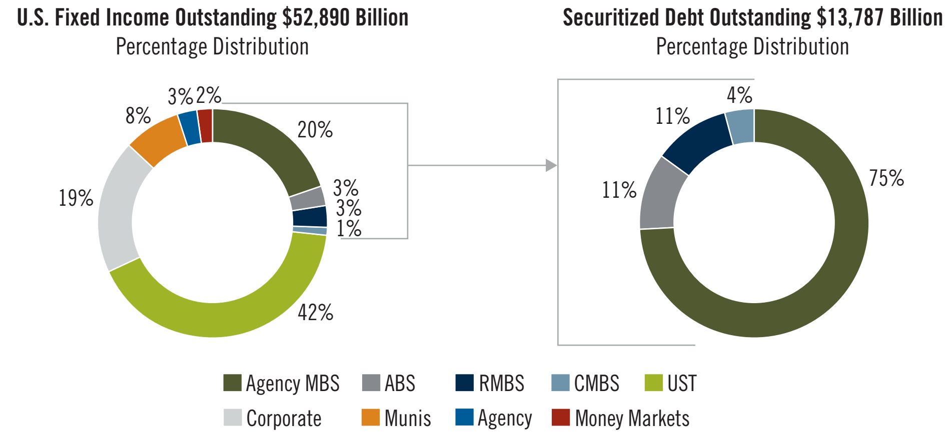
VABS

Understanding VABS

The Virtus Newfleet ABS/MBS ETF seeks to generate income by investing primarily in short duration, investment grade securitized debt across asset-backed securities (ABS) and mortgage-backed securities (MBS), including commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS). A disciplined, time-tested investment process and rigorous risk management approach seek to target ABS and MBS with competitive yield and current income across undervalued areas of securitized credit markets.

Opportunity

> Securitized products represent a large and differentiated asset class of debt securities backed by a broad array of collateral types. In the $52.9 trillion U.S. fixed income universe, outstanding securitized products represent $13.8 trillion.



Data as of 4Q21. Source: SIFMA, MBA

> ABS (e.g., auto loans, equipment leases, credit card receivables, student loans) and MBS (pools of mortgages – both residential/commercial and agency/non agency) provide a wide investment opportunity set and diversification relative to traditional fixed income. The Bloomberg U.S. Aggregate Bond Index (Bloomberg Agg), consisting mostly of agency MBS, does not include a large portion of non-traditional securitized assets, suggesting that the latter are underrepresented in the more index-oriented institutional investors' portfolios.

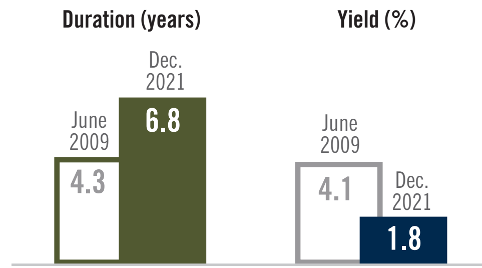
> Nearly 46% of securitized debt, or approximately $6.3 trillion of the $13.8 trillion of securitized debt outstanding within the Bloomberg Agg, is out-of-index, which is where the investment team focuses. This expanded investment opportunity set provides attractive yield alternatives and access to smaller niche markets that the investment team strives to exploit for inefficiencies.

> Within the short part of the curve (less than three years), ABS securities historically – and today – have offered a yield advantage relative to comparably rated corporate bonds. A lack of homogeneity among ABS transactions versus the more uniform structure of corporate bonds is one of the main reasons why securitized product offers better relative yield.

> The case for short duration is compelling, given that yields on the 10-year U.S. Treasury are near historical lows. There is limited upside to long duration assets unless one believes that rates will go negative.

> The traditional core bond portfolio, represented by the Bloomberg Agg, has grown less attractive since the financial crisis of 2008 – interest rate risk has risen while yield and total return potential have fallen.[1]

> Overall, investing in securitized assets is a diversification play away from corporates with direct exposure to the U.S. consumer who accounts for 70% of all economic activity. The U.S. consumer remains strong, as evidenced by record-low consumer debt service ratios and a strong housing market.



Investment Process

Evaluating the attractiveness of securitized products requires an understanding of both deal structure and underlying collateral, particularly for ABS and RMBS.

TOP-DOWN SECTOR ALLOCATION

– Continuous evaluation of the investable universe
– Sector evaluation
– Sector comparison
– Sector allocation

IDENTIFY RELATIVE VALUE OPPORTUNITIES

– Quantitative and qualitative initial screens establish universe
– Understanding and reviewing underlying asset
– Assessing originator/management teams
– Analyzing deal structures

BOTTOM-UP SECURITY SELECTION

PORTFOLIO MANAGEMENT

Sector/security investment recommendations debated	Sector targets determined on relative value assessment	Security-level implementation and positioning decided	Ongoing stress testing	Risk management	Trading reviews

[1]**Past performance is not indicative of future results.** Current duration and yield as of 12/31/2021. Duration represents the interest rate sensitivity of a fixed income fund. For example, if a fund's duration is five years, a 1% increase in interest rates would result in a 5% decline in the fund's price. Similarly, a 1% decline in interest rates would result in a 5% gain in the fund's price. Yield shown represents yield-to-worst (YTW), which is the lowest yield generated, given the potential stated calls prior to maturity.

Competitive Advantage

Size, industry relationships, multi-sector relative value approach, and hands-on trading

Newfleet Asset Management is well positioned to take advantage of opportunities in the securitized products market, particularly in smaller deals or newer products that can have a measurable impact on performance.

SIZE

Newfleet's assets under management, specifically for the securitized product sectors ($4.6 billion, as of 12/31/21), are large enough to maintain strong relationships with Wall Street, but small enough to be agile in trades to participate in a wide range of opportunities. Non-traditional ABS issues, for example, tend to be smaller in size and beyond the practical interest of larger investors. For example, the exhibit below shows that 97 of the non-traditional ABS transactions were less than $300 million.

CHARACTERISTICS OF ABS ISSUANCE

2021	Subsectors	Issuance	# of Issuers*	# of Transactions	Average Transaction Size	Transactions < $300 MM
Non-Traditional ABS	32	$201 B	186	326	$616 M	97
Traditional ABS	2	$68 B	30	60	$1,132 M	3
Total	34	$269 B	205	386	$696 M	100

*Some issuers are active in both traditional & non-traditional subsectors.
As of 12/31/21. Source: J.P. Morgan, Bloomberg Finance L.P., Newfleet Asset Management.
Traditional ABS – defined as prime auto and bank credit cards; Non-traditional ABS – all others.

INDUSTRY RELATIONSHIPS

With decades of experience in the asset class and well-established Wall Street relationships, Newfleet has been a first investor in many areas of the securitized product market and a "first call" on new deals including how to structure them.

MULTI-SECTOR RELATIVE VALUE APPROACH

The securitized team operates within Newfleet's multi-sector organizational structure in which cross-fertilization of ideas enhances the ability to identify best opportunities within and across sectors. Newfleet's configuration promotes a highly contextual view of the market that sharpens assessment of valuation levels.

HANDS-ON TRADING

The members of the securitized team do their own trading, allowing for greater proximity to their investments on a real-time basis. This is critical for managing liquidity, particularly in more esoteric or one-off situations.

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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. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the non-repayment of underlying collateral, including losses to the fund. **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. **Variable Distribution Risk:** Periodic distributions by investments of variable or floating interest rates vary with fluctuations in market interest rates. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Sector Focused Investing:** Events negatively affecting a particular market sector in which the fund focuses its investments may cause the value of the fund's shares to decrease. **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. **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. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. 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 Funds are exchange-traded funds ("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 a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial representative, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

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