

## Virtus Terranova U.S. Quality Momentum ETF

NYSE ARCA | NAV Symbol JOET.NV | IOPV Symbol JOET.IV | CUSIP 92790A504

### FUND OVERVIEW

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

### INDEX COMPOSITION

The Terranova U.S. Quality Momentum Index filters securities based on positive technical momentum, and then ranks them by measures of fundamental quality. This results in an equally weighted portfolio of 125 well-established U.S. securities. The Index is rebalanced and reconstituted quarterly, based on technical factors.

### MARKET AND INDEX OVERVIEW

The third quarter of 2021 began with a continuation of the positive trend for multiple asset classes. While the S&P 500® Index experienced a brief post-earnings selloff in mid-July, it quickly reverted to the prevailing bull trend. That bull trend remained in place through August and was characterized by all-time high corporate profit margins at 11.27% and an overall better-than-expected earnings season.

During the quarter, mega-cap U.S. equities returned to favor. New regulatory actions in China led to outflows of global capital seeking the safety of the largest companies. This was also fueled by the rise of the Delta variant of COVID-19, which served to moderate economic growth and illuminate the comparative economic recovery in the U.S.

The appeal of U.S. risk assets and the rise of the market continued into Labor Day. On September 2, the S&P 500® Index recorded an all-time intraday high of 4,545.85. However, as we headed into the historically weak seasonal period of September into October, the market began to climb a wall of worry. The concerns were based on policy challenges that included the debt ceiling gamesmanship, the inability to pass an infrastructure bill, and continued negotiations over the \$3.5 trillion spending bill.

Rising Treasury yields made the wall of worry higher. During the first half of the quarter, the 10-year Treasury began trading slightly above 1.45%. It went down to challenge 1.12% on two occasions, the last in early August. And from there, it reached a high of 1.56% on September 28.

Despite weakness early on, the S&P 500 Index was basically unchanged for the quarter, with a return of less than 1%. On a sector basis, the leading performers for the quarter were financials, health care, and information technology. Those are the three largest sectors, and they compose close to 60% of the overall Terranova U.S. Quality Momentum Index. Materials, industrials, and energy were the worst-performing sectors, largely due to the challenges to global economic growth posed by the Delta variant.

As the quarter ended, the most significant concern was the rise in oil prices. From a level of \$61.74 on August 23, the West Texas Intermediate crude futures index closed out the quarter at \$75 per barrel.

This led to a renewed conversation about the transitory nature of inflation, with higher oil prices contributing to the belief that inflation would last longer. The expectation that the Federal Reserve would begin tapering monetary support by year-end, as well as a blackout in corporate buybacks, presented additional challenges to the market heading into October.

### HOW THE FUND PERFORMED

Performance was in line with the Terranova U.S. Quality Momentum Index throughout the quarter, with nominal tracking error. For the quarter, JOET posted a total return of 1.59% versus the Index's return of 1.68%. For comparative purposes, the S&P 500® Index returned 0.58%.

#### Quarterly performance: 06/30/21–09/30/21

Terranova U.S. Quality Momentum Index	1.68%
MSCI USA Momentum Index	1.41%
MSCI USA Quality Index	-0.16%
Virtus Terranova U.S. Quality Momentum ETF	1.59%
S&P 500® Index	0.58%
Nasdaq Composite® Index	-0.23%

### SECTOR ALLOCATION EFFECT

- › Top contributors included an overweight to financials, health care, and information technology and an underweight to consumer staples.
- › Top detractors included an overweight to industrials, communication services, and real estate, an underweight to utilities, and a small cash drag.

### STOCK ATTRIBUTION

- › The largest contributors to performance from allocation and selection effect were Blackstone, Inc., Amazon.com, Inc. Fortinet, Inc., West Pharmaceutical Services, Inc., and SVP Financial Group, Inc.
- › The largest detractors from allocation and selection effect were Zoom Video Communications, Inc., Roku, Inc., Peloton Interactive, Inc., Microsoft Corporation, and Apple, Inc. It should be noted that tech detractors—namely Microsoft and Apple—were due to the equal weight strategy, as these names provided returns in excess of the Index in the quarter.

**“While the market may correct at some point, current conditions don't support the expectation of a full-fledged bear market.”**

– Joe Terranova, Chief Market Strategist, Virtus Investment Partners

**ADVISER**

Virtus ETF Advisers LLC

**INVESTMENT PROFESSIONALS**



**Seth Kadushin**  
 Portfolio Manager  
 Industry start date: 1988  
 Start date as Fund Portfolio Manager: 2020



**Matthew B. Brown**  
 Chief Operating Officer  
 and Portfolio Manager  
 Industry start date: 1999  
 Start date as Fund Portfolio Manager: 2020

**TOP TEN HOLDINGS**

**% Fund**

Moderna Inc.	0.96
Tesla Inc.	0.95
SVB Financial Group	0.92
West Pharmaceutical Services Inc.	0.92
Yandex NV	0.92
Ares Management Corp.	0.91
Old Dominion Freight Line Inc.	0.91
Bio-Rad Laboratories Inc.	0.91
Advanced Micro Devices Inc.	0.91
Alphabet, Inc.- Cl A.	0.91

Holdings are subject to change. To view the full list of holdings, please visit [virtus.com](http://virtus.com).

**TOP FIVE PERFORMERS**

**% Contribution**

Blackstone, Inc.	0.17
Amazon.com, Inc.	0.17
Fortinet, Inc.	0.16
West Pharmaceutical Services, Inc.	0.13
SVB Financial Group	0.13

**BOTTOM FIVE PERFORMERS**

**% Contribution**

Zoom Video Communications, Inc. Class A	-0.23
Roku, Inc. Class A	-0.19
Peloton Interactive, Inc. Class A	-0.18
Microsoft Corp.	-0.18
Apple Inc.	-0.15

% Contribution: Absolute weighted contribution.

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

**AVERAGE ANNUAL TOTAL RETURNS (%)** as of 09/30/21

■ NAV ■ Market Price ■ Index



Returns for periods of less than one year are cumulative total returns.

**Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so your shares, when redeemed, may be worth more or less than their original cost. Please visit [virtus.com](http://virtus.com) for performance data current to the most recent month end.**

The fund class gross expense ratio is 0.29%.

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 **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 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.

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. **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 portfolio may suffer. **Passive Strategy/Index Risk:** A passive investment strategy seeking to track the performance of the underlying Index may result in the portfolio holding securities regardless of market conditions or their current or projected performance. This could cause the portfolio's returns to be lower than if the portfolio 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 portfolio and its index may vary due to factors such as flows, transaction costs, whether the portfolio obtains every security in the index, and timing differences associated with additions to and deletions from the index. **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 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](http://virtus.com) for a prospectus or summary prospectus. Read it carefully before investing.**

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