

Virtus Terranova U.S. Quality Momentum ETF

NASDAQ | NAV Symbol JOET.NV | IOPV Symbol JOET.IV | CUSIP 92790A504

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 REVIEW

In the early weeks of the fourth quarter, the S&P 500® Index (SPX) continued its retreat from the July 27, 2023, intraday high of 4607.07. On October 27, 2023, the three-month 9%+ SPX correction traced out its trough with an intraday low at 4103.78.

Early evidence from CQ3 2023 SPX earnings suggested the earnings recession in place for the past nine months was about to end, supporting the corrections end. By the end of the CQ3 2023 earnings reporting season, a 4.7% EPS growth confirmed the earnings recession end.

Additionally, the six-month speculative advance for U.S Treasury Yields peaked on October 23, 2023, with a 10-year U.S. Treasury pricing at 5.01%. On November 1, the U.S. Treasury Department offered further relief for treasury yields with a quarterly refunding announcement that was less than consensus estimates. Subsequent pricing witnessed the U.S. 10-year Treasury yield decline sharply toward 3.87% by the end of December.

Collectively, the above conditions set the foundation for an aggressive year-end consistent with the overall bullish trend for 2023. However, the rally in the final two months of the fourth quarter was led by the previous ten months' laggards. Dispersion and a broadening effect highlighted the November-December rally with the Russell 2000® Index advancing 21%, the Nasdaq 100 Index 14%, and the SPX 12%. The CBOE Volatility Index (VIX) closed the fourth quarter below 13%, its lowest level since the first quarter of 2020.

Lastly, the Federal Reserve held rates steady at its December 13 meeting, while signaling for three rate cuts in 2024, confirming investors should no longer view their policy actions as adversarial.

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 11.44% at NAV versus the Fund Index's return of 11.64%. For comparative purposes, the S&P 500 Index returned 11.69%. For the one-year period, JOET posted a total return of 16.12% at NAV versus the Index's return of 16.58%. For comparative purposes, the S&P 500 Index returned 26.29%.

	4Q23	1-Year
Terranova U.S. Quality Momentum Index	11.64%	16.58%
MSCI USA Momentum Index	12.66%	8.98%
MSCI USA Quality Index	11.90%	35.70%
Virtus Terranova U.S. Quality Momentum ETF	11.44%	16.12%
S&P 500 Index	11.69%	26.29%
S&P 500 Equal Weight Index	11.87%	13.87%
Nasdaq Composite® Index	13.79%	44.64%

SECTOR ALLOCATION EFFECT

- › Sector allocation was a detractor to performance over the quarter relative to the broader market as measured by the S&P 500 Index.
- › Top absolute contributors from a sector standpoint were the information technology, consumer discretionary, and industrial sectors. The only sector that provided negative performance was the energy sector, while the utilities and communication services sectors marginally provided positive returns yet proved to be among the bottom performers.
- › On a relative basis, top contributors included the consumer staples, health care, and industrials sectors, while energy, information technology, and financials sectors were among the largest detractors relative to the broader market as measured by the S&P 500 Index.

STOCK ATTRIBUTION

- › Stock selection was accretive to performance over the quarter relative to the broader market as measured by the S&P 500 Index.
- › The largest individual contributors to performance were Expedia Group, Inc., Burlington Stores, Inc., D.R. Horton, Inc., Monolithic Power Systems, Inc., and Gartner, Inc., while the largest detractors were Albemarle Corp., Tesla, Inc., Exxon Mobil Corp., Chevron Corp., and ON Semiconductor Corp.

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
Burlington Stores Inc.	1.14
Expedia Group Inc.	1.11
Monolithic Power Systems Inc.	1.06
DR Horton Inc.	1.03
Lennar Corp.	0.98
United Rentals Inc.	0.97
Celanese Corp.	0.95
MercadoLibre Inc.	0.92
Prologis Inc.	0.92
Rollins Inc.	0.91

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 12/31/23

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (11/17/20)
NAV	11.44	16.12	16.12	6.51	n/a	n/a	7.94
Market Price	11.49	16.16	16.16	6.50	n/a	n/a	7.94
Index	11.64	16.58	16.58	6.92	n/a	n/a	8.35

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 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 index is calculated on a total return basis with dividends reinvested. **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 MSCI USA Momentum Index is designed to capture the performance of an equity momentum strategy by emphasizing stocks with high price momentum. **The S&P 500® Equal Weight Index** includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% of the index total at each quarterly rebalance. **The MSCI USA Quality Index** is designed to capture the performance of quality growth stocks by identifying stocks with high quality scores based on high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage. **The CBOE Volatility Index**, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. **Nasdaq-100® Index** is a basket of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. **The Nasdaq Composite® Index** is a market capitalization-weighted index that tracks all securities listed on the Nasdaq stock exchange. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **The Russell 2000® Index** is a market capitalization-weighted index of growth-oriented stocks of the smallest 2,000 companies in the Russell Universe, which comprises the 3,000 largest U.S. companies.

Tracking Error is the divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark.

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, 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 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:** 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 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 for a prospectus or summary prospectus. Read it carefully before investing.

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TOP FIVE CONTRIBUTORS

	% Contribution
Expedia Group, Inc.	0.48
Burlington Stores, Inc.	0.40
D.R. Horton, Inc.	0.36
Monolithic Power Systems, Inc.	0.34
Gartner, Inc.	0.29

TOP FIVE DETRACTORS

	% Contribution
Albemarle Corp.	-0.19
Tesla, Inc.	-0.18
Exxon Mobil Corp.	-0.15
Chevron Corp.	-0.12
ON Semiconductor Corp.	-0.11

% Contribution: Absolute weighted contribution.

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