VIRTUS ETFs

Virtus Duff & Phelps Global Clean Energy ETF

NYSE ARCA | **NAV Symbol VCLN** | IOPV Symbol VCLN.IV | CUSIP 92790A702

MARKET REVIEW

The global clean-energy sector remained rangebound but ultimately gave way to supply-chain concerns that plagued both the sector and broader markets. The S&P Global Clean Energy Index declined -7.32% for the quarter.

Government policy continued to play an important role, especially in the U.S. Although the final details of the infrastructure bill and budget reconciliation have yet to be released, our conversations with companies, regulators, and other clean-energy stakeholders indicated a high degree of confidence in the announcement of specific clean-energy incentives. These include the potential extension of wind and solar tax credits for 10 years, stand-alone battery-storage tax credits, and tax credits for hydrogen production. From a global perspective, all eyes will be on further policy announcements at the COP26 conference to be held in Glasgow in early November.

PORTFOLIO REVIEW

The Virtus Duff & Phelps Global Clean Energy ETF launched on 8/3/21 so didn't clock in a full quarter of performance. However, it finished ahead of the S&P Global Clean Energy Index by 170 basis points at NAV since inception. Stock selection and sector allocation both contributed to the relative outperformance. Stock selection was positive across all sectors except materials. Sector allocation had a slightly positive effect on performance primarily due to an overweight position in materials and an underweight in technology. An overweight position in industrials had a slightly negative effect.

The best-performing names from a bottom-up attribution perspective were Aker Carbon Capture and China Longyuan Power Group. Aker Carbon Capture (ACC) is an out-of-benchmark 'pure-play' carbon-capture company, delivering ready-to-use capture facilities that enable customers to nearly eliminate CO2 emissions. While operations are currently focused on Europe, where ACC has an incumbent position, in our view, substantial end-market opportunities remain. Carbon capture is integral to reaching the goals of the Paris Agreement as it allows the removal of otherwise 'hard-to-abate' industries. ACC currently serves the following segments: cement (7% of global CO2 alone), waste-to-energy, steel, oil & gas, power generation, blue hydrogen, and other industrial. ACC's carbon-capture costs are expected to continue to trend lower, leading to costs below the EU market carbon price, the key economic catalyst absent any other carbon mechanisms (taxes, country-specific prices, etc.).

China Longyuan (HK: 916) is a leading wind power generation company in China, primarily engaged in the design, development, construction, management, and operation of wind farms. Our overweight position stands to benefit from China's goal of achieving net-zero carbon emissions by 2060. The country's policy also calls for the proportion of non-fossil energy to total energy consumption to reach ~25% by 2030. This supportive policy backdrop is expected to generate annual mid-teens EPS growth for China Longyuan over the next several years.

The two largest relative detractors from a bottom-up attribution perspective were Vestas Wind Systems A/S (VWS) and TPI Composites (TPIC). Notably, these companies serve the onshore and offshore wind markets. Supply-chain disruption weighed on both companies as higher costs affected their near-term margin outlooks. Higher costs were seen across the supply chain, ranging from epoxy resin used in wind-blade manufacturing to steel for wind-tower construction to freight delivery delays of wind turbines and other equipment. Despite the margin headwinds, the long-term demand outlook for onshore and offshore wind remains favorable in our view. This is supported by the International Energy Agency (IEA), which forecasts wind to be the single largest generator of electricity by 2050, making up 35% of total generation with over 8,000 GW installed (compared to ~740 GW in 2020). On the path to zero, the IEA expects that by 2030, 390 GW of wind will be installed annually, or about 4x more than the record set in 2020.

INVESTMENT OUTLOOK

As noted earlier, the sector faced headwinds during the quarter. First, the bounce in global interest rates could weigh on equity markets. Second, the global economy continues to experience cost inflation and supply-chain pressures. Third, Europe is witnessing a dramatic rise in natural-gas prices, which feed through to higher power prices, which in turn increase household electric bills. European nations have taken a pragmatic approach thus far; however, Spain surprisingly decided on an interventionist move by imposing a clawback tax on incumbent utilities. Unfortunately, these incumbent utilities are also the world's largest renewable power generators and the main facilitators of the energy transition in Spain. If the coming winter is particularly cold and energy supplies remain tight, there could be a short-term period of further political/populist intervention.

The pace of clean-energy innovations and partnerships continued to permeate various sectors of the economy. For example, Orsted A/S signed a memorandum of understanding with Williams, one of the U.S.'s largest natural-gas transportation companies, to co-develop green hydrogen capabilities. Additionally, Aker Carbon Capture formed a new unit to export its expertise around the world, targeting 'hard-to-abate' sectors such as cement production. AES announced the IPO of their Fluence battery-storage subsidiary. Utilities such as Public Service Enterprise Group are discussing development of regional offshore transmission grids with regulators. These are just a few recent examples of the advancements in the production, technology, and distribution of clean energy. We expect further proliferation across the value chain and geographies.

The Strategy's objective remains to invest in companies that are leaders in their respective fields, have strong balance sheets, have scalable but scarce businesses, and exhibit pricing power. We believe companies with these qualities are best positioned to weather the near-term headwinds noted above. The long-term attraction of clean energy and the overall energy transition remains intact. We continue see this as a global, long-term capital replacement cycle with decades of growth ahead.

INVESTMENT ADVISER

Virtus ETF Advisers LLC

INVESTMENT SUBADVISER

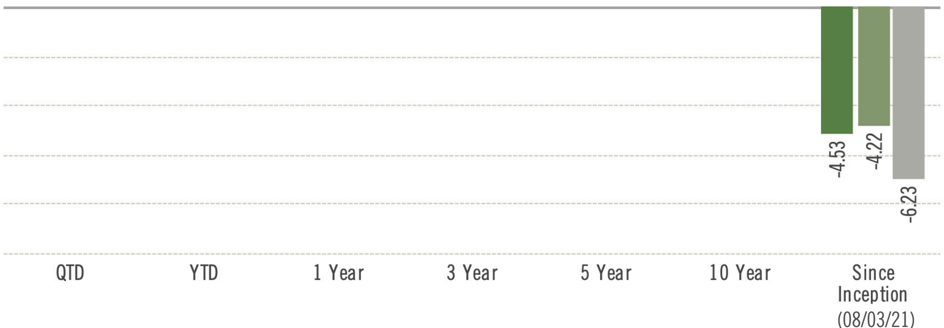
Duff & Phelps Investment Management Co.

INVESTMENT PROFESSIONALS

Benjamin Bielawski, CFA
Industry start date: 1995
Start date as Fund Portfolio Manager: 2021

Eric Fogarty, CFA
Industry start date: 1997
Start date as Fund Portfolio Manager: 2021

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



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 fund class gross expense ratio is 0.66%. The net expense ratio is 0.59%, which reflects a contractual expense reimbursement in effect through 7/19/2022.

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 management fee is structured as a 'unified fee', out of which the Fund's adviser pays all of the ordinary operating expenses of the Fund, except for the following expenses, each of which is paid by the Fund: the Fund's management fee; payments under any 12b-1 plan; and other fees as described in the prospectus. The Adviser has agreed to waive a portion of the management fee equal to 0.10% through at least July 19, 2022, which will have the effect of reducing the Fund's total expenses to 0.59%, excluding certain expenses as discussed above.

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.

TOP TEN HOLDINGS

TOP TEN HOLDINGS	% Fund
Vestas Wind Systems A/S	6.27
Enphase Energy Inc.	6.02
Orsted AS	5.47
China Longyuan Power Group, Corp., Ltd.	4.86
SolarEdge Technologies Inc.	4.17
NextEra Energy Inc.	3.91
Xinyi Solar Holdings Ltd.	3.70
Iberdrola SA	3.70
Enel SpA	3.68
Plug Power Inc.	3.60

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

TOP FIVE CONTRIBUTORS

TOP FIVE CONTRIBUTORS	% Contribution
Aker Carbon Capture ASA	0.68
China Longyuan Power Group -H	0.68
Clearway Energy Inc. -C	0.18
ITM Power Plc	0.18
Array Technologies Inc.	0.17

TOP FIVE DETRACTORS

TOP FIVE DETRACTORS	% Contribution
PG&E Corp.	-0.32
Vestas Wind Systems A/S	-0.21
CIA Energetica De-Spon Adr	-0.14
TPI Composites Inc.	-0.12
Drax Group Plc	-0.12

% Contribution: Absolute weighted contribution.

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

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.

The **S&P Global Clean Energy Index (net)** is designed to measure the performance of companies in global clean energy-related businesses from both developed and emerging markets, with a target constituent count of 100, calculated on a total return basis with net dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is 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. **Clean Energy Industry:** Developments in the clean energy segment could adversely affect the price and valuations of portfolio holdings. These developments include swift price and supply fluctuations caused by events relating to international politics, the success of project development and tax and other governmental regulatory policies. There could also be weak demand for clean energy company products or services, the obsolescence of existing technology or short product cycles, and falling prices and profits due to the supply of, and demand for, oil and gas along with competition from new market entrants. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Non-Diversified:** The portfolio is non-diversified and may be more susceptible to factors negatively impacting its holdings to the extent that each security represents a larger portion of the portfolio's assets. **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 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.

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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