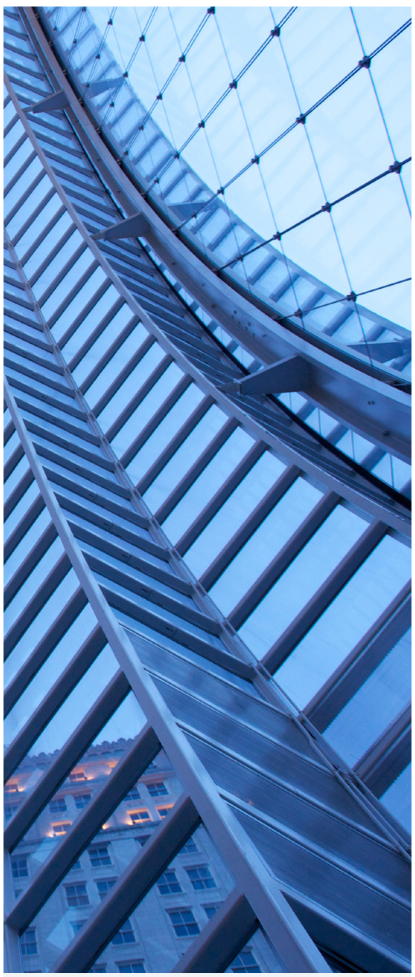
VIRTUS ETFs

Virtus WMC International Dividend ETF (VWID)

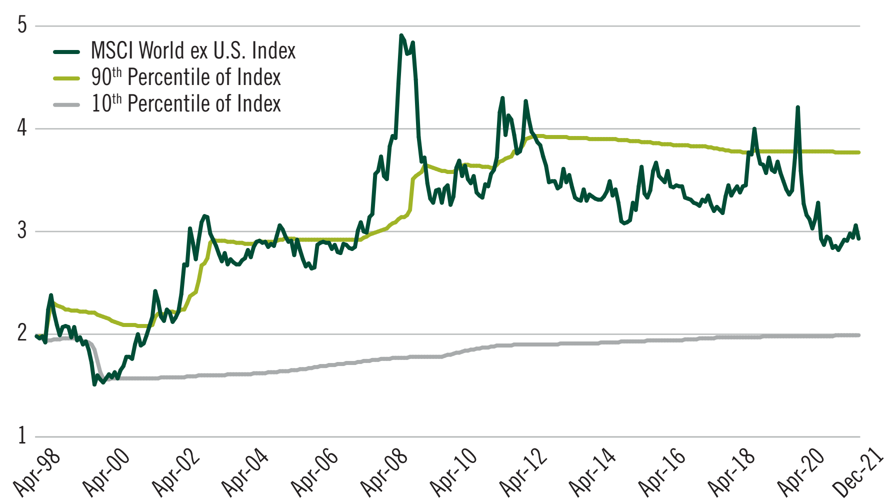
Is it time to be all-in on income?



Dividend levels are at lows we have not seen since before the Global Finance Crisis after the number of dividend cuts and non-payers rose in 2020 (Chart 1). This has been driven by a combination of factors:

1. focus on maintaining operations (not returning capital to shareholders) amid lockdowns during the pandemic;
2. mandated dividend cuts in some regions in 2020 (e.g., banks in Europe);
3. the run-up in equity markets over the past two years; and
4. market participant focus on growth over income.

CHART 1: MSCI WORLD EX US INDEX DIVIDEND YIELD (%)



Past performance is no guarantee of future results. Source: Wellington, MSCI, FactSet. The universe is MSCI World ex USA Index. As of 12/31/21.

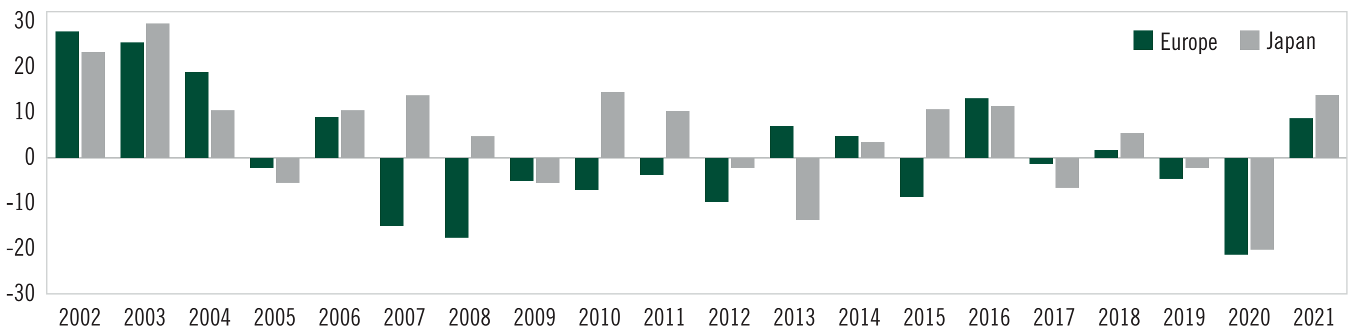
AUTHORED BY:

WELLINGTON MANAGEMENT®

Is now the time to start buying high dividend yield stocks?

Our contrarian instinct led us to examine the highest-yielding stocks across multiple regions, including Europe and Japan. As illustrated in Chart 2, in 2020 these stocks saw their worst performance since the inception of our proprietary factor library (2002) during a synchronized developed market drawdown for the factor. We think this poor performance was driven by the combination of several effects that all hit at once. First, the regulatory scrutiny on dividend payers in parts of the market caused extreme negative sentiment. Second, we saw "going concern" questions about many dividend payers and whether dividends would have to be suspended to preserve cash flow for operations. Third and finally, there was style and sector impact as the market favored growth while higher payers tend to be later stage companies with lower growth, more leverage, and higher capex intensity. In the end, most investors were not looking to buy companies in highly regulated industries with cash flow commitments to a high payout and sector/style characteristics that were in the crosshairs of COVID economic and policy developments.

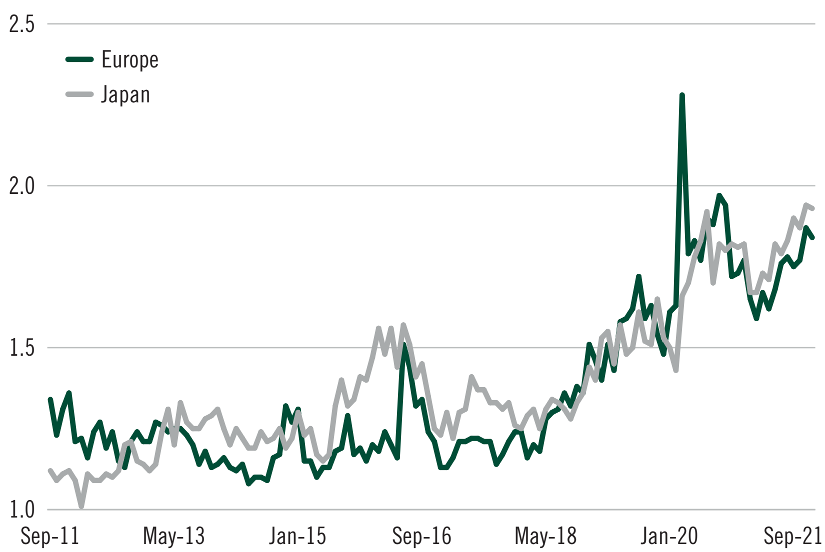
CHART 2: DIVIDEND YIELD FACTOR EXCESS RETURN (%)



Past performance is no guarantee of future results. Source: Wellington, MSCI, Factset. Dividend Yield is a proprietary factor representing the top decile of names, with respect to dividend yield, in the MSCI Europe and MSCI Japan indexes. Bars indicate excess returns for the factor, relative to its respective benchmark.

Most everything that went wrong for high-yielding stocks in 2020 was driven by the unique macro circumstances of the year, suggesting that performance has dislocated and should mean revert. We started to see this trend reverse in 2021, as the percentage of non-payers and cutters decreased, but not yet back down to pre-pandemic levels, suggesting more runway for this opportunity. We are even more positive on high yield looking forward given the strong current valuation support relative to history (Chart 3).

CHART 3: RELATIVE EARNINGS YIELD OF DIVIDEND YIELD FACTOR (%)



Past performance is no guarantee of future results. Source: Wellington, MSCI, FactSet. As of 12/31/21. Dividend Yield is a proprietary factor representing the top decile of names, with respect to dividend yield, in the MSCI Europe and MSCI Japan indices. Data represents the relative earnings yield (%) for the factor in each region over time.

The broader fundamentals for these stocks look attractive in historical context as well. While dividend payouts haven't yet returned to previous levels, companies are flush with cash and have improving earnings. This is unlike what we have seen after prior downturns when fundamentals have been weak – where these types of companies have had to deplete cash and take on leverage to sustain themselves through a recession and took a while to recover. The global economic recession caused by the COVID-19 pandemic was short and recovery was quick, suggesting that we should be poised for dividend payment reacceleration.

How do we capture income in VWID?

There are two kinds of equity income ETFs available to investors: passive funds that tend to focus only on buying the highest dividend payers and active funds that use discretionary portfolio management techniques to help investors achieve their goals. The Virtus WMC International Dividend ETF (VWID) is one such active fund. In it, we use an active investment approach that is designed to diversify risks and generate attractive income relative to core equity markets.

We believe active investment is a better option over passive alternatives for investors looking for yield in their equity portfolio. Why? Because passive strategies are subject to lurking risks for which active strategies seek to solve. For example, focusing solely on the highest dividend payers opens passive strategies up to the risk that the allocation will fail to meet its objectives. This is because the highest dividend payers often have solvency issues that place them at a higher risk of either cutting their dividends or not paying them at all. Active investment strategies, like VWID, are able to use techniques that seek to mitigate this risk and ultimately, look to help investors better meet their investment goals.

One technique we use in VWID, which we believe offers an edge in managing the Fund, is that we systematically incorporate insights from Wellington Management's broad investment platform. We work with a variety of stock selectors at Wellington Management, each with different styles and processes. We regularly "walk the halls" of the firm to speak with our colleagues about their portfolios and debate markets. Through both formal and informal forums, we are able to better understand how they manage risks like insolvency in their portfolios and how we can incorporate those findings to build potentially stronger systematic equity portfolios like VWID. This work has led us to believe that the pitfalls of passive equity income investing can be mitigated by taking into consideration the ability of companies to maintain their dividend, rather than solely focusing on the overall dividend yield. In VWID, we have incorporated these fundamental insights into our investment process by explicitly emphasizing exposure to companies with three key characteristics:

1. A historical track record of maintaining dividend commitments.
2. The "ability to pay" based on cash flows generated by the company.
3. A lower expected likelihood that leverage may present a risk to the business and its future dividend payments.

By incorporating fundamental insights into the construction and ongoing management of VWID, we believe we are able to create a well-diversified equity income option that strives to find yield across sectors, regions, and market capitalizations (Charts 5-7). We believe this more diversified, active option may help meet investors' needs through a variety of market environments.

CHART 5: SECTOR WEIGHT

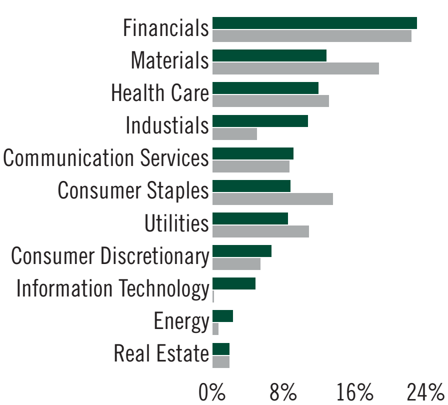


CHART 6: REGION WEIGHT

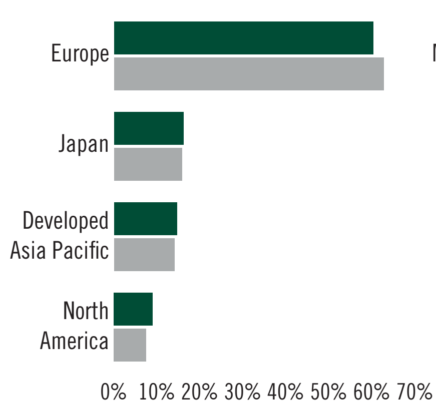
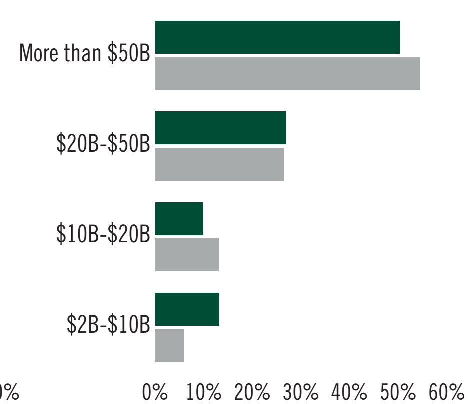


CHART 7: CAPITALIZATION WEIGHT



VWID Benchmark

Past performance is no guarantee of future results. Source: Wellington, MSCI. Charts as of 12/31/21. The benchmark shown in the MSCI World ex United States High Dividend Yield Index. The data shown is of a representative account, is for informational purposes only.

Wellington Management

With over $1 trillion in client assets under management, Wellington Management serves as an investment adviser to more than 2,150 institutions located in over 65 countries. Wellington's expertise is investments — from global equities and fixed income to currencies and commodities. The firm's most distinctive strength is its proprietary, independent research, which is shared across all areas of the organization and used only for managing client portfolios. Wellington Management Company LLP was founded in 1928 and is based in Boston, Massachusetts with additional offices in Radnor, Pennsylvania, San Francisco, California, Marlborough, Massachusetts, and Chicago, Illinois.

About Virtus Investment Partners

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process, and individual brand.

VIRTUS ETFs

To learn more visit virtus.com or call us at 800-243-4361.

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The **MSCI World ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK) excluding the United States. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK). With 429 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market. With 260 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. The **MSCI World Ex USA High Dividend Yield Index (net)** is based on the MSCI World Index, its parent index, and includes large and mid-cap stocks across 48 Developed Markets (DM) and Emerging Market (EM) countries. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends. The indexes are calculated on a total return basis with net dividends reinvested; they are unmanaged; their returns do not reflect any fees, expenses or sales charges; and are not available for direct investment.

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 portfolio 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. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Dividend Paying Securities:** Issuers that have paid regular dividends or distributions may not continue to do so in the future and can fall out of favor with the market, which may cause the portfolio to underperform. Securities with higher dividend yields can be sensitive to interest rate movements: when interest rates rise, the prices of these securities may fall. **Geographic Concentration:** A portfolio that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting that location. **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:** 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. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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