Investment Case:
Virtus Stone Harbor Emerging Markets High Yield Bond ETF

VEMY

Understanding VEMY

The Fund seeks current income and, secondarily, capital appreciation, actively allocating opportunistically across a diversified portfolio of emerging markets (EM) high yield debt securities, both sovereign and corporate.

Investment Process

INVESTMENT POLICY

Establish a medium- and long-term global investment outlook with base case and subsequent economic scenarios.

FUNDAMENTAL ANALYSIS

Combines fundamental credit research with country-level macro analysis in a highly disciplined way to determine the ability and willingness of each issuer to repay its debt.

VALUATION ANALYSIS

Formulate base case of returns for country and corporate credits. Determine likely distribution of potential outcomes and identify securities that may generate excess returns.

PORTFOLIO CONSTRUCTION

Beta, tracking error, and shortfall analysis, sensitivity analysis vs. external and internal factors.

RISK MANAGEMENT

Monitor movements/triggers for a formal review across changes in ratings, return, and beta sensitivity.

The Fund's Benchmark

The Fund's benchmark is the **J.P. Morgan Hard Currency Credit 50-50 (EMBIG Diversified and CEMBI Broad Diversified) High Yield Index**, which tracks liquid, US-dollar emerging market fixed- and floating-rate debt instruments issued by corporate, sovereign, and quasi-sovereign entities. The index tracks instruments that are classified as high yield in the established J.P. Morgan EMBI Global Diversified and J.P. Morgan CEMBI Broad Diversified indices and combines them with an equal weight (50-50). The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

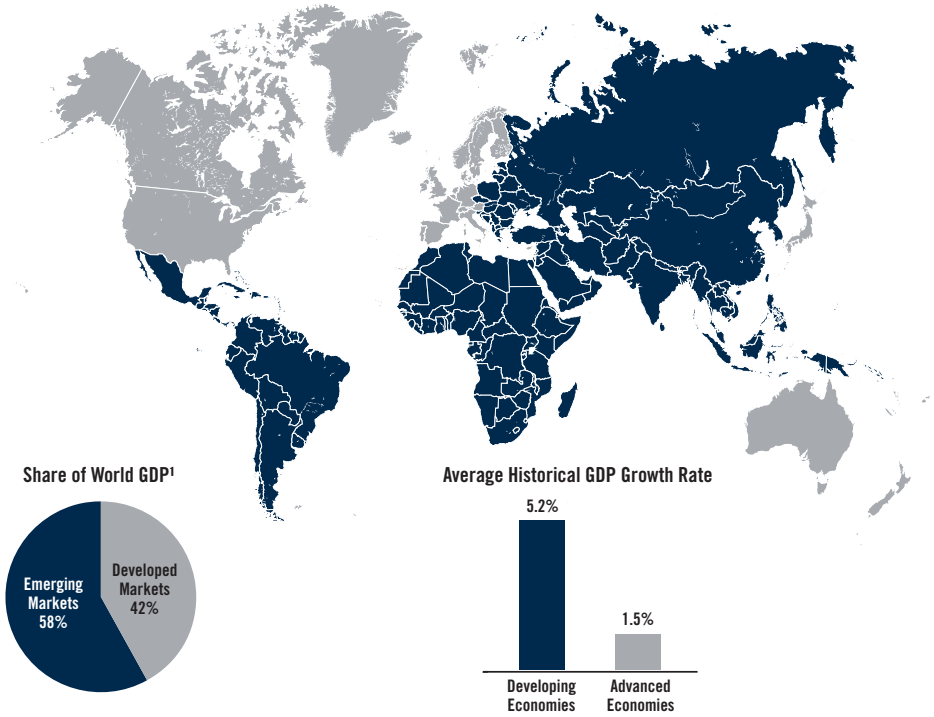
The Investment Case for Emerging Markets High Yield Debt

We believe a strategy focusing on the highest yielding portion of the U.S. dollar (USD)- denominated EM bond market offers an attractive alternative for traditional income-oriented investors. From a long-term, strategic perspective, investing in EM high yield bonds offers investors exposure to the various economic cycles of many EM countries. And while EM growth has slowed along with the global economy, EM countries continue to exhibit higher growth rates than developed markets given their well-documented demographic and urbanization trends. For income-seeking investors, adding EM debt can provide the opportunity for a significantly attractive yield pickup, even when compared to U.S. high yield fixed income, where many investors have recently sought out incremental yield.

EMERGING MARKETS

155 emerging markets countries. Largest share of global GDP and the global growth engine of the world.

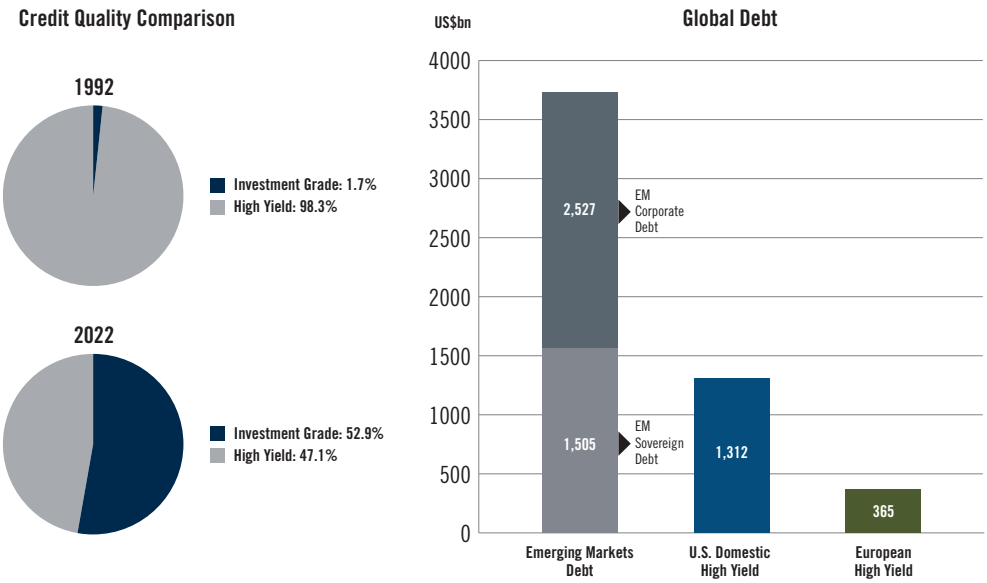
From a tactical perspective, we project a faster economic recovery and prolonged growth coming from EM. In our view, the underperformance of the high yield sector of EM relative to other USD fixed income assets have provided for exceptionally low valuations, ones rarely seen before given that sovereign bond prices are at lower levels than any time in the past 20 years, including the 2007-2009 Global Financial Crisis. Despite the current backdrop of a strong dollar, higher inflation, and tighter central bank policy, general financial conditions have remained resilient. We are still seeing solid fundamentals, including reasonable levels of leverage when compared to history. Not that we are suggesting that emerging markets don't face challenges, but we are seeing encouraging signs that make these high yielding securities worthy of investment consideration for long-term, income-seeking investors who can weather additional volatility.



Sources: J.P. Morgan, Haver, IMF WEO, Stone Harbor Investment Partners LLC. As of 12/31/23. For illustrative purposes only.

A HISTORY OF IMPROVING CREDIT QUALITY

EM credit quality improved dramatically since the early 1990s as the investible universe is more than double the size of developed HY



EMD is Now a Strategic Allocation as Compared to a Tactical Allocation for Global Investors

Source: J.P. Morgan, ICE BofAML, Stone Harbor Investment Partners. Credit rating allocation based on the J.P. Morgan EMBI Global Diversified Index. As of 12/31/23.

Risks and Opportunities

Many of the risks associated with any developed high yield bond market would be the same in the EM space. In fact, correlation of EM high yield is 0.83 to U.S. high yield over the last 20 years. Below investment grade issues are often more highly levered businesses and have a greater risk of default than their investment grade brethren. EM high yield is only 0.34 correlated to traditional investment grade bonds. However, in the current environment characterized by high commodity prices, improved trade balances, and foreign exchange reserves, we see opportunity for many EMs, which are generally more levered to commodities. To be sure, there are specific risks to EM debt such as uncertainties around governance and in some cases rule of law. And while capital has left EM in recent years, the asset class is under owned given emerging markets' share of global GDP vs. their share of global market capitalization in the broader indices. We believe a more diverse opportunity set, positive fundamental drivers, and persistent market inefficiencies make the investment case hard to ignore for discriminating active managers.

Is Emerging Markets Debt just a Proxy for China?

Although China is a large economy that has global impact, we believe we have seen a considerable decrease to "contagion risk" trading in EM debt. Many countries have adopted developed monetary and fiscal policies that allow them to be valued on their own merits. Each country's economic cycle (there are 85 different EM countries) is very diverse based on independent central banks that decide interest rates and each country's ability and willingness to pay its debt which impacts their growth trajectories.

	MSCI EM Index		J.P. Morgan EMBI Global Diversified Index
China	30%	**Mexico**	5%
India	15%	**Indonesia**	5%
Taiwan	15%	**Saudi Arabia**	5%
South Korea	12%	**China**	5%
Brazil	5%	**Turkey**	5%
Other	23%	**Other**	76%

Source: Stone Harbor Investment Partners as of 12/31/23.

As for investment diversification, the table to the right lays out the country impact represented by weights of the broad emerging markets equity index and the narrower EM high yield debt index. Clearly the greater diversification aspects of emerging markets high yield debt should be noted.

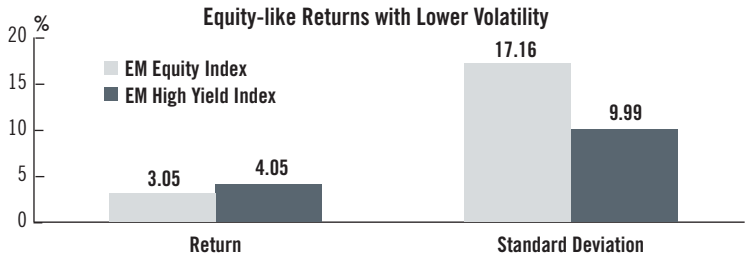
Drawdowns in Emerging Markets High Yield Debt

While the EM high yield index only goes back to January of 2009, the largest monthly drawdown took place in March of 2020. The high yield index experienced a -18.5% drawdown versus the broader (both investment grade and high yield) EM bond index's -13.8% drawdown. However, the high yield index returned 26.1% in the twelve months following, while the broad EM bond index returned 16%. Certainly, a larger drawdown, but a much more pronounced rebound as one would expect based on history.

The second and third worst drawdowns for the high yield index were -7.3% and -7.1% versus -4.4 and -6.2%, respectively, for the broader index which took place in September of 2011 and June of 2022. And for the worst five drawdowns in the high yield index since its inception, they averaged -8.8% versus -7.5% for the broader index. For investors who can handle the ride, higher returns, albeit with higher risk, defines the potential opportunity.

Comparing Emerging Markets Fixed Income to Equity

When we look back at the last 10-years, we see that EM fixed income has the potential to provide better risk-adjusted returns than EM equities over a full market cycle. EM HY debt captured 133% of the returns with only 58% of the volatility, making the case for better, and more efficient, risk-adjusted performance.



Source: JP Morgan, Stone Harbor Investment Partners. As of 12/31/23.

What Countries will be Excluded from the Investible Universe?

Countries that are investment grade, and countries where we are barred from trading (Russia, Cuba, North Korea, among others). We will likely not own issues in every country in the index and may also invest in countries or corporations outside the index.

Key Features—VEMY

1 Alternative Liquid Income

Offers exposure to the higher growth and diversified economic cycles Emerging Markets provide while focusing on the highest yielding sovereign and corporate debt sectors denominated in U.S. dollars.

2 Rigorous Fundamental Research and Active Risk Management

Intensive fundamental credit research within a top-down country macro analysis framework, along with a proprietary risk analytics platform that enables continuous monitoring of real-time portfolio risk in reaction to changing market conditions, underpins Stone Harbor's investment process.

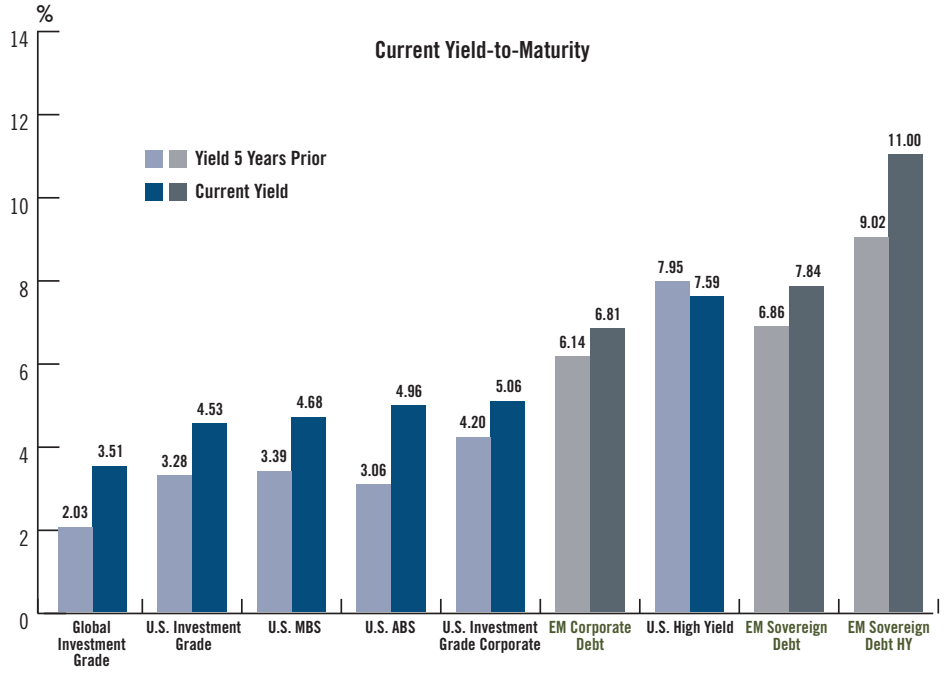
3 Depth of Experience in EMD

Stone Harbor's demonstrated ability in managing emerging markets debt is rooted in teamwork with a 30-year history, a disciplined research and investment process, and the experience to make sound investment decisions.

The Takeaway

We believe a strategy focusing on the highest yielding portion within the dollar denominated emerging markets bond market is an attractive alternative to many income-oriented investors as well as traditional institutional fixed income investors. We also believe EMD is positioned to outperform over the next cycle.

EM YIELDS ARE HIGHER NOW THAN WHERE THEY WERE 5 YEARS AGO



Source: Stone Harbor Investment Partners. As of 12/31/23. Global Investment Grade: Bloomberg Global Aggregate Index, U.S. Investment Grade: Bloomberg U.S. Aggregate Bond Index, U.S. MBS: Bloomberg U.S. MBS Index, U.S. Investment Grade Corporate: Bloomberg U.S. Aggregate Corporate Credit Index, U.S. ABS: Bloomberg U.S. ABS Index, EM Corporate Debt: J.P. Morgan CEMBI BD Index, EM Sovereign Debt: J.P. Morgan EMBI GD Index, U.S. High Yield: Bloomberg U.S. Corporate High Yield Index, EM Sovereign Debt HY, J.P. Morgan EMBI GD HY Index. Indexes are calculated on a total return basis. Indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. For illustrative purposes only.

ABOUT STONE HARBOR INVESTMENT PARTNERS

Stone Harbor Investment Partners ("Stone Harbor") is a boutique fixed income manager, specializing in emerging markets debt strategies. With three decades of informed experience allocating risk in complex areas of the fixed income markets, Stone Harbor manages global credit portfolios for institutional and retail clients around the world.

Stone Harbor's investment team – portfolio managers, credit analysts, economists, quantitative analysts, and risk management professionals – engages in disciplined and regular collaboration to carefully construct their global macroeconomic outlook and strategic allocation framework. Stone Harbor is a research-driven firm, drilling deeply into the fundamentals to determine the attractiveness of individual credits, currencies, interest rates, and yield curves.

Stone Harbor's investment teams and strategies were originally formed in the 1990s at Stone Harbor's predecessor firm(s) – Salomon Brothers/Citigroup Asset Management. In 2006, founding members of the Stone Harbor investment team spun out of Citigroup and founded Stone Harbor as an independent fixed income investment manager.

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.

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 portfolio of owning shares of an ETF may exceed the cost of investing directly in the underlying securities. **Emerging Markets Investing**: Emerging markets securities may be more volatile, or more greatly affected by negative conditions, than those of their counterparts in more established foreign markets. **High Yield Fixed Income Securities**: There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **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. **Income**: Income received from the portfolio may vary widely over the short- and long-term and/or be less than anticipated if the proceeds from maturing securities in the portfolio are reinvested in lower-yielding securities. **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. **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. **Currency Rate**: Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the fund's shares. **Counterparty Risk**: There is risk that a party upon whom the fund relies to complete a transaction will default. **Non-Diversified**: The portfolio is not diversified and may be more susceptible to factors negatively impacting its holdings to the extent the portfolio invests more of its assets in the securities of fewer issuers than would a diversified portfolio. **Liquidity**: Certain instruments may be difficult or impossible to sell at a time and price beneficial to the portfolio. **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 (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) 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's manager(s) to invest the portfolio's assets as intended. **Prospectus**: For additional information on risks, please see the fund's prospectus.

INDEX DEFINITIONS

The **Bloomberg U.S. Asset-Backed Securities Index** covers three subsectors of asset-backed securities market in the Bloomberg U.S. Aggregate Bond index including credit and credit cards, autos, and utilities. The **Bloomberg U.S. Aggregate Bond Index** is made up of the Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Bloomberg Global Aggregate Bond Index** covers global investment grade debt from a multitude of local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. The **Bloomberg U.S. Corporate High Yield Bond Index** covers USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The **Bloomberg U.S. Mortgage-Backed Securities (MBS) Index** covers the mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. The MBS is formed by grouping the universe of over 1,000,000 individual fixed rate MBS pools into approx. 5,500 generic aggregates. Each aggregate is a proxy for the outstanding pools for a given agency, program, issue year, and coupon. The index maturity and liquidity criteria are then applied to these aggregates to determine which qualify for inclusion in the index. The **Bloomberg U.S. Aggregate Corporate Credit Index** covers publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. Qualifying bonds must be SEC-registered. The **J.P. Morgan CEMBI Broad Diversified Index** tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in emerging market countries and consists of an investable universe of corporate bonds. The minimum amount outstanding required is $350 mm for the CEMBI Broad Diversified. The index limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding. The **J.P. Morgan EMBI Global (EMBIG) Index** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. The index limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The **J.P. Morgan GBI-EM Global Diversified Index** consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index. Indexes are calculated on a total return basis. Indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

GLOSSARY

Beta: A quantitative measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Correlation Coefficient:** A measure that determines the degree to which two variables' movements are associated. The correlation coefficient will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation. **Maximum Drawdown:** The peak-to-trough decline during a specific record period of an investment, fund, or commodity. A drawdown is usually quoted as the percentage between the peak and the trough. **Sharpe Ratio:** A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Standard Deviation:** Measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

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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