Investment Case:
Virtus InfraCap U.S. Preferred Stock ETF

PFFA

Understanding PFFA

Virtus InfraCap U.S. Preferred Stock ETF (NYSE Arca: PFFA) is an actively managed strategy which strives to provide intelligent, diversified exposure to opportunities in the preferred securities market via a cost-efficient, transparent, and liquid ETF vehicle.

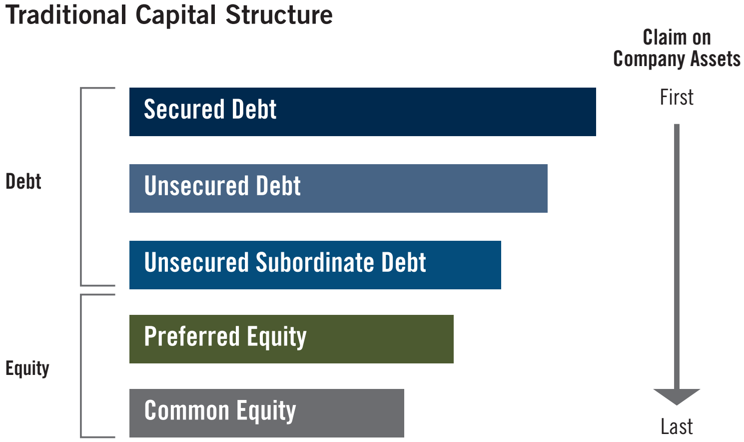
With a primary focus on income generation, PFFA offers the potential for attractive current yield, while also pursuing strong total-return results. In addition, because preferred securities have exhibited relatively low correlations to traditional stocks and bonds, the strategy may effectively complement other portfolio exposures and thereby enhance overall portfolio diversification.

PFFA is benchmarked to the S&P U.S. Preferred Stock Index, a broad measure of the U.S. preferred securities market, but the Fund is differentiated from the benchmark and from other preferred stock ETFs in how it seeks to manage risks and generate income.

Preferred Stock Basics

Preferred stocks are a class of capital equity that pays regular dividends at a specified rate and has priority over common stock, but not corporate debt, in the payment of dividends and in any liquidation of the corporation's assets (hence the term "preferred"). They are often described as "income hybrid" securities in that they exhibit characteristics of both stocks and bonds, potentially enabling them to play a powerful diversifying role vis a vis traditional balanced stock and bond portfolios.

Traditional Capital Structure



PFFA Aims to:

1. Minimize the concentration risk found in the preferred market universe
2. Manage the call risks seen in most passive preferred stock portfolios
3. Maximize the strategy's yield-to-call using modest amounts of prudent leverage

Key Takeaways

- **A distinct strategy**
  Provides thoughtful actively managed exposure to opportunities in the preferred securities market
- **A powerful diversifier**
  A complementary, non-traditional diversifier to help enhance overall portfolio diversification
- **Attractive yield potential**
  Monthly income distributions from a collection of dividend-paying preferred securities

Types of Preferred Stocks

- **Cumulative:** Unpaid dividends accrue and must be paid before dividends can be paid to common shareholders
- **Callable:** Securities are usually callable at par at a future date
- **Convertible:** Shares can be converted into common stock at a set ratio at the issuers option at a specified date in the future

The preferred securities market is largely focused on investment-grade issuers, whose cash flows are typically more stable and predictable than lower-rated issuers. Regulated entities such as banks, insurance companies, and utilities comprise roughly 75% of the market.

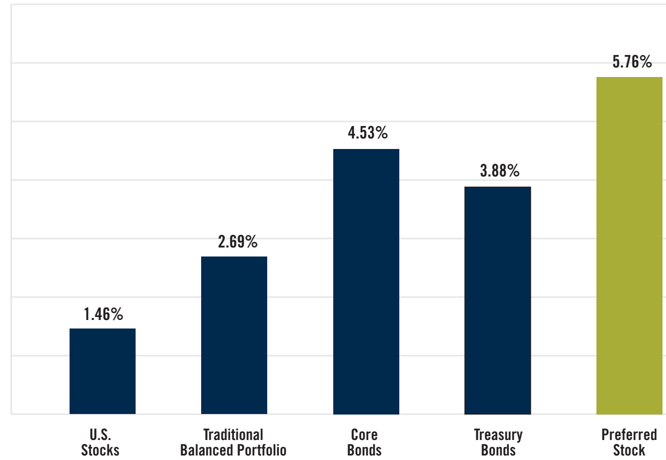
Like bonds, preferred securities have fixed par amounts, often carry ratings from credit rating agencies, and may be callable (i.e., redeemable by the issuer). Also similar to bonds, preferreds provide investors with a source of income at fixed and/or floating rates – but, like stocks, in the form of tax-advantaged dividends rather than interest payments. Fixed- to floating-rate preferreds are typically issued with a higher initial coupon payment (interest rate) and then, after a period of five to 10 years, convert to a floating-rate structure using the 3-Month Secured Overnight Financing Rate (SOFR) as a base rate, plus a spread. Another similarity to stocks is that preferreds typically have very long-dated terms and, in fact, are often perpetual in nature. In addition, preferreds issued to retail investors trade on stock exchanges.

Potential Benefits

Preferred stocks have tended to be overlooked and underutilized by many investors, despite their many potential benefits:

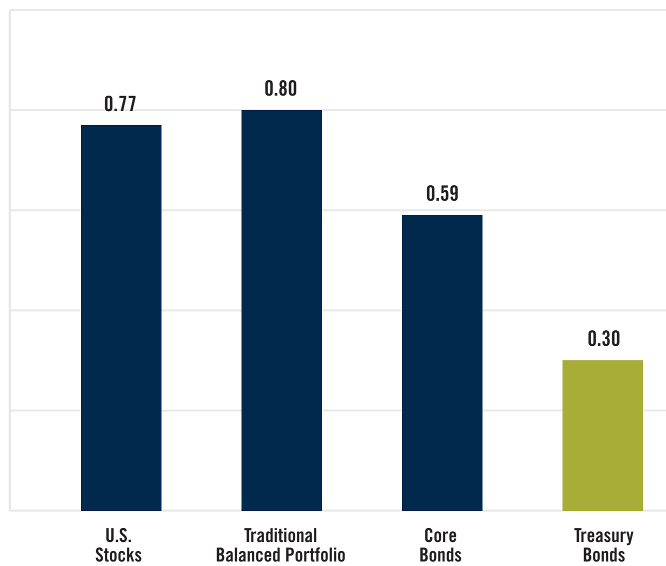
- **Yield advantage:** Historically, preferred stocks' dividend yield has been competitive with other income-oriented assets, including high yield bonds – and has usually been higher than the dividend yield on the issuer's common stock and the coupon payment on its bonds.
- **Payment priority:** Preferred stock shareholders have priority claim over common stock shareholders to the corporation's assets in the event of bankruptcy/liquidation. They also stand ahead of common stockholders for dividend payouts.
- **Limited rate risk:** Preferred stocks' yield advantage may help offset the negative price impact of rising interest rates. The fixed-to-floating coupon structure of many preferreds may also help mitigate rate risk by reducing their sensitivity to rate changes.
- **Tax-favored income:** Dividend payments are typically taxed at lower rates than other types of income for corporations and individuals, magnifying preferreds' after-tax returns.
- **Lower correlations:** Historically, preferreds have been only moderately correlated with traditional stocks and bonds and even less correlated with 10-year Treasuries, providing potential diversification benefits.

Attractive Yields Relative to Traditional Stocks and Bonds



Past performance is not indicative of future results.
Source: Morningstar Direct and Virtus Performance & Analytics. Chart shows yields as of 12/31/23.

Increased Diversification: 5-Year Correlations



Past performance is not indicative of future results.
Source: Morningstar Direct and Virtus Performance & Analytics. Chart shows 5-year correlations as of 12/31/23 of the S&P Preferred Stock Index to the following indexes: Stocks: S&P 500® Index, Traditional Balanced Portfolio: 60/40 S&P 500 Index/Bloomberg US Aggregate Bond Index, Bonds: Bloomberg US Aggregate Bond Index, Treasury Bonds: 10-Year US Treasury.

Indexes: U.S. Stocks: S&P 500® Index, Traditional Balanced Portfolio: 60/40 S&P 500 Index/Bloomberg US Aggregate Bond Index, Core Bonds: Bloomberg US Aggregate Bond Index, Treasury Bonds: 10-Year US Treasury, Preferred Stocks: S&P Preferred Stock Index.

Why Preferred Stocks Now?

Now may be an opportune time for investors to consider whether a portfolio allocation to preferred securities might be appropriate for their personal risk and return objectives. If so, investors may benefit from investing in preferred stocks via active management, particularly given that: (1) interest-rate sensitivities are of increased importance in today's "higher-for-longer" rate environment; (2) credit-driven considerations remain following the U.S. banking crisis in the first quarter of 2023; and (3) market dislocations persist, especially from differentiated sector allocation strategies.

Against this backdrop, an actively managed portfolio of preferred securities may be well equipped to navigate the market risks and identify the most compelling investable opportunities through careful security selection and diversification across issuers.

Imperfect Preferred Benchmarks

We believe the benchmark indexes for preferred securities are subject to structural flaws and inefficiencies that may present risks for investors, but which are exploitable by skilled active portfolio managers:

SECTOR CONCENTRATION RISK
The preferred stock universe is heavily dominated by issuers in the financial sector (close to 80% as of 1/31/23). The benchmark index is passively weighted.

UNMANAGED CALL RISK
Call provisions are standard with preferreds, and mispricing of securities on a yield-to-call basis is common. A significant portion of the listed preferred universe is priced with negative yield-to-call, meaning investor return at the current price will be negative if the security is called on the next call date. The benchmark index is indifferent to call risk.

NO CREDIT QUALITY SCREENS
Preferred shares are junior securities, potentially subject to loss of principal in the event of a bankruptcy or reorganization. The benchmark index is indifferent to credit quality.

SOME COMMON STOCK RISK
The benchmark index includes mandatory convertible preferred securities, which may trade similarly to common stocks.

LARGE TRACKING ERROR
This is a risk for large funds trying to rebalance. The preferred stock asset class is populated by small individual issues that have potential liquidity concerns.

Risks of Preferred Stocks

Call Risk

- Preferreds are often issued with a specified call date
- A substantial portion of the universe may trade at a negative yield-to-call, meaning that the security is callable at par but trading above par in the open market

Active management may minimize call risk and potentially avoid negative yield-to-call securities

Credit Risk

- Preferred issuers can suspend preferred payments in times of financial uncertainty
- Preferred issues can be offered without a rating

Active management can monitor financial positioning and trade in/out of securities to avoid risky issuers

Interest Rate Risk

- Like bonds, rising interest rates negatively impact the value of fixed-rate preferred securities

Active management can diversify preferred holdings across fixed and fixed-to-floating rate securities in an effort to manage interest rate risk

The Active Advantage in Preferreds

Active managers can manage and potentially even capitalize on these challenges. For example:

- **Call risk** can be reduced by an investment strategy that strives to maximize yield-to-call. Daily attention to prices of issues nearing or past call date can provide opportunities to capture profits and minimize principal loss.
- **Diversification benefits** can be gained by going beyond the sector limits of passive market cap weightings. Non-financial sectors may offer relatively higher yields than those found in the core of the benchmark.
- **Credit quality screens** can eliminate positions where the issuer's credit quality is deteriorating or financial stress is evident. The avoidance of distressed securities can support the sustainability of the income stream.
- **Mandatory convertible preferred stocks** can be excluded from an active fund and substitute strategies used to manage volatility and boost income. An upgrade in credit quality and an income pickup are possible.

Active management may offer additional benefits to investors seeking non-traditional income sources:

- **Preferred shares** are well suited for use with a modest amount of leverage because of the low-risk credit profile and historically low level of volatility. Index-based funds are unlevered.
- **Preferred stocks** may struggle during periods of market stress, but prices typically recover once stability returns. Active managers may earn excess returns by deploying capital at such times.

PFFA: A Differentiated Active Approach

Given the structural flaws and inefficiencies inherent in the benchmark indexes, PFFA takes a distinctive actively managed approach to preferred stock investing to create a diversified portfolio with the desired risk/reward profile:

- The disciplined investment process strives to generate an above-average level of income and capture small but recurring profit opportunities.
- The process is sharply focused on managing the concentration and call risks posed by the index and employs rigorous risk controls.
- Index constituents are screened for their credit quality and relative yield-to-call with the objective of maximizing the strategy's yield-to-call.
- Unlike the index, sector allocations are based on relative value rather than market cap, emphasizing cyclical issues in real estate, energy, industrials, and utilities.
- Overall, the Fund typically holds about one-third the number of portfolio holdings of the index (around 100 issuers versus 300 securities in the index).
- The Fund applies modest amounts of leverage to potentially optimize portfolio exposure, targeted in a range of 20%-30% of the portfolio's net asset value.
- PFFA's security selections and weightings are based on a variety of quantitative, qualitative, and relative valuation factors. The security selection process identifies and selects potential investments on a number of key variables, including the competitive market position of a company; the perceived ability of the company to earn a high return on capital; the historical and projected stability and reliability of the profits of the company; the anticipated ability of the company to generate cash in excess of its growth needs; and the access of the company to additional capital.

Bottom Line on PFFA

PFFA is an income hybrid that may help investors diversify their fixed income portfolios, achieve attractive income/total return, and manage interest-rate risk – all in all, a potentially valuable tool to have in a diversified strategic asset allocation.

VIRTUS ETFs

For more information, contact us at 1-800-243-4361 or visit www.virtus.com.

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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. **Preferred Stocks:** Preferred stocks may decline in price, fail to pay dividends, or be illiquid. **Leverage:** When the Fund leverages its portfolio, the Fund may be less liquid and/or may liquidate positions at an unfavorable time, and the value of the Fund's shares will be more volatile and sensitive to market movements. **Options:** Selling call options may limit the opportunity to profit from the increase in price of the underlying asset. Selling put options risks loss if the option is exercised while the price of the underlying asset is rising. Buying options risks loss of the premium paid for those options. **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. **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. 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.

GLOSSARY

Call Provision: A stipulation on the contract for a security that allows the issuer to repurchase and retire the security. **Correlation:** A measure that determines the degree to which two variables' movements are associated. The correlation will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation. **Mandatory Convertibles:** A type of security that has a required conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory security into the underlying common stock. **Preferred Stock:** This class of stock entitles the owners to a dollar value per share in liquidation, after bond holders are paid. It also has a fixed dividend and priority over common shares. Preferred shares usually have voting rights when dividend payments have been missed. They are generally considered income investments. **Yield-to-Call:** Refers to the return a bondholder receives if the security is held until the call date, before the debt instrument reaches maturity. **Tracking error** measures the difference between the performance of an asset or portfolio and that of its corresponding benchmark index**.**

INDEX DEFINITIONS

The **Bloomberg US Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The **S&P U.S. Preferred Stock Index** measures performance of the U.S. preferred stock market. Preferred stocks pay dividends at a specified rate and receive preference over common stocks in terms of dividend payments and liquidation of assets. The index is calculated on a total return basis with dividend reinvested.

All indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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 exdate). Market price returns do not represent the return you would receive if you traded at other times.

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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