

# Virtus ETF Trust II

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**VIRTUS NEWFLEET DYNAMIC CREDIT ETF**

Virtus ETFs

**SEMI-ANNUAL REPORT**

January 31, 2017

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Shareholder Letter (unaudited)

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January 31, 2017

Dear Shareholder:

On behalf of Virtus ETF Advisers LLC (the “Adviser”), I am pleased to present the shareholder report for the Virtus ETF Trust II (the “Trust”) for the semiannual fiscal period ended January 31, 2017.

The Adviser is part of Virtus Investment Partners, a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors.

The report provides financial statements and portfolio information for the series in the Trust. As of January 31, 2017, the Trust comprises the Virtus Newfleet Dynamic Credit ETF (BLHY), an actively-managed fund that allocates between high yield corporate bonds and floating rate bank loans. The fund is subadvised by Newfleet Asset Management, LLC, a subsidiary of Virtus Investment Partners with longstanding experience managing multi-sector fixed income portfolios.

Thank you for your investment. If you have questions, please contact your financial adviser, or call 1-888-383-0553. For more information about the fund and the other ETFs we offer, we invite you to visit our website, [www.virtusetfs.com](http://www.virtusetfs.com).

Sincerely,

William Smalley  
President  
Virtus ETF Trust II

**This material must be accompanied or preceded by the prospectus.**

## Shareholder Expense Examples (unaudited)

As a shareholder of the Fund, you incur ongoing costs, including advisory fees and other fund expenses, if any. The following example is intended to help you understand your ongoing costs (in dollars and cents) of investing in the Fund and to compare these costs with the ongoing costs of investing in other funds. The actual example is based on an investment of \$1,000 invested at the beginning of the period and held throughout the entire period from December 5, 2016 (commencement of operations) to January 31, 2017. The hypothetical example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period (August 1, 2016 to January 31, 2017).

### Actual expenses

The first line under the Fund in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line for your Fund under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

### Hypothetical example for comparison purposes

The second line under the Fund in the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as brokerage commissions paid on purchases and sales of Fund shares. Therefore, the second line under the Fund in the table is useful in comparing ongoing Fund costs only and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<u>Beginning Account Value</u>	<u>Ending Account Value (1/31/17)</u>	<u>Annualized Expense Ratios for the Period<sup>(2)</sup></u>	<u>Expenses Paid During Period</u>
<b>Virtus Newfleet Dynamic Credit ETF</b>				
Actual . . . . .	\$1,000	\$1,003.00	0.68%	\$1.06 <sup>(3)</sup>
Hypothetical <sup>(1)</sup> . . . . .	\$1,000	\$1,021.78	0.68%	\$3.47 <sup>(4)</sup>

(1) Assuming 5% return before expenses.

(2) Annualized expense ratios reflect expenses net of waived fees or reimbursed expenses, if applicable.

(3) Actual expenses are calculated using the Fund’s annualized expense ratio, multiplied by the average account value for the period, multiplied by 57/365 (to reflect the period December 5, 2016 to January 31, 2017).

(4) Hypothetical expenses are calculated using the Fund’s annualized expense ratio, multiplied by the average account value for the period, multiplied by 184/365 (to reflect the six-month period).

# Schedule of Investments — Virtus Newfleet Dynamic Credit ETF

January 31, 2017 (unaudited)

Investments	Principal	Value
<b>U.S. TREASURY NOTES — 59.0%</b>		
U.S. Treasury Bill, 0.00%, 03/23/17	\$13,000,000	\$ 12,991,836
U.S. Treasury Bill, 0.00%, 04/27/17	20,000,000	19,976,620
U.S. Treasury Bill, 0.00%, 06/22/17	30,000,000	29,938,620
U.S. Treasury Bill, 0.00%, 07/27/17	20,000,000	19,939,620
<b>Total U.S. Treasury Notes</b> (Cost \$82,836,040)		<b>82,846,696</b>
<b>TERM LOANS — 17.6%</b>		
<b>Consumer Discretionary — 4.8%</b>		
Advantage Sales & Marketing Inc., 7.50%, 07/25/22 <sup>(1)</sup>	210,000	204,881
BJ's Wholesale Club, Inc., 4.75%, 01/26/24 <sup>(1)</sup>	90,000	89,944
Caesars Entertainment Operating Company, Inc. (fka Harrah's Operating Company, Inc.), 1.50%, 03/01/17 <sup>(1)</sup>	125,000	139,156
Federal-Mogul Corporation, 4.75%, 04/15/21 <sup>(1)</sup>	773,721	769,452
Gates Global LLC, 4.25%, 07/05/21 <sup>(1)</sup>	710,000	708,914
Laureate Education, Inc., 8.51%, 03/17/21 <sup>(1)</sup>	573,718	580,634
Penn National Gaming, Inc., 3.25%, 01/12/24 <sup>(1)</sup>	145,000	146,389
PetSmart, Inc., 4.00%, 03/11/22 <sup>(1)</sup>	565,000	560,731
Sinclair Television Group, Inc., 3.03%, 12/20/23 <sup>(1)</sup>	200,000	200,708
Station Casinos LLC, 3.75%, 06/08/23 <sup>(1)</sup>	310,000	311,720
UFC Holdings, L.L.C., 4.00%, 08/18/23 <sup>(1)</sup>	1,095,000	1,103,213
Ziggo Secured Finance Partnership, 2.50%, 04/25/25 <sup>(1)</sup>	1,905,000	1,912,839
<b>Total Consumer Discretionary</b>		<b>6,728,581</b>
<b>Consumer Staples — 1.0%</b>		
JBS USA LUX S.A., 3.28%, 10/30/22 <sup>(1)</sup>	765,000	768,504
Pinnacle Foods Finance LLC, 2.00%, 01/27/24 <sup>(1)</sup>	255,000	255,798
Prestige Brands, Inc., 3.52%, 01/19/24 <sup>(1)</sup>	180,000	182,044
TKC Holdings, Inc., 4.75%, 01/13/23 <sup>(1)</sup>	160,000	159,200
<b>Total Consumer Staples</b>		<b>1,365,546</b>
<b>Energy — 0.7%</b>		
Fieldwood Energy LLC, 8.00%, 08/31/20 <sup>(1)</sup>	295,000	286,150
Seadrill Operating LP (Seadrill Partners Finco LLC), 4.00%, 02/21/21 <sup>(1)</sup>	925,000	686,618
<b>Total Energy</b>		<b>972,768</b>
<b>Financials — 1.6%</b>		
Asurion, LLC (fka Asurion Corporation), 8.50%, 03/03/21 <sup>(1)</sup>	295,000	299,763
Asurion, LLC (fka Asurion Corporation), 4.25%, 08/04/22 <sup>(1)</sup>	375,000	379,611
Asurion, LLC (fka Asurion Corporation), 4.75%, 11/03/23 <sup>(1)</sup>	185,000	187,216
Avolon TLB Borrower 1 (Luxembourg) S.a r.l., 0.00%, 01/19/22 <sup>(1)(3)</sup>	30,000	30,415
Lightstone Holdco LLC, 6.50%, 12/15/23 <sup>(1)</sup>	10,435	10,582
Lightstone Holdco LLC, 6.50%, 12/15/23 <sup>(1)</sup>	109,565	111,106
VF Holding Corp., 4.25%, 06/30/23 <sup>(1)</sup>	498,750	502,937
Walter Investment Management, 4.75%, 12/18/20 <sup>(1)</sup>	735,000	708,242
<b>Total Financials</b>		<b>2,229,872</b>

Investments	Principal	Value
<b>TERM LOANS (continued)</b>		
<b>Health Care — 2.0%</b>		
CHS / Community Health Systems, Inc., 4.00%, 01/27/21 <sup>(1)</sup>	\$ 248,000	\$ 235,212
Grifols Worldwide Operations USA, Inc., 2.25%, 01/19/25 <sup>(1)</sup>	185,000	186,250
Ortho-Clinical Diagnostics, Inc., 3.75%, 06/30/21 <sup>(1)</sup>	508,696	506,152
Team Health, Inc., 3.75%, 12/15/23 <sup>(1)</sup>	670,968	670,129
U.S. Renal Care, Inc., 4.25%, 12/30/22 <sup>(1)</sup>	523,678	495,268
Valeant Pharmaceuticals International, Inc., 0.00%, 08/05/20 <sup>(1)(3)</sup>	750,000	752,917
<b>Total Health Care</b>		<b>2,845,928</b>
<b>Industrials — 2.2%</b>		
Accudyne Industries Borrower S.C.A. / Accudyne Industries, LLC (fka Silver II US Holdings, LLC), 4.00%, 12/13/19 <sup>(1)</sup>	430,000	408,835
Apex Tool Group, LLC, 4.50%, 01/31/20 <sup>(1)</sup>	420,000	413,700
Brand Energy & Infrastructure Services, Inc. (fka FR Brand Acquisition Corp), 4.75%, 11/26/20	485,000	484,879
Columbus McKinnon Corporation, 4.00%, 01/20/24 <sup>(1)</sup>	115,000	116,006
Gardner Denver, Inc., 4.25%, 07/30/20 <sup>(1)</sup>	764,446	757,214
Spin Holdco Inc., 4.25%, 11/14/19 <sup>(1)</sup>	249,364	248,808
Transdigm Inc., 3.75%, 06/09/23 <sup>(1)</sup>	700,000	699,444
<b>Total Industrials</b>		<b>3,128,886</b>
<b>Information Technology — 1.8%</b>		
Avaya Inc., 6.25%, 05/29/20 <sup>(1)</sup>	168,960	140,565
BMC Software Finance Inc., 5.00%, 09/10/20 <sup>(1)</sup>	498,667	498,124
Infor (US), Inc. (fka Lawson Software Inc.), 3.75%, 06/03/20 <sup>(1)</sup>	975,000	976,672
Radiate Holdco, LLC (aka RCN Grande), 3.75%, 12/09/23 <sup>(1)</sup>	266,667	269,209
Veritas US, Inc., 6.63%, 01/27/23 <sup>(1)</sup>	739,146	703,345
<b>Total Information Technology</b>		<b>2,587,915</b>
<b>Materials — 2.0%</b>		
Atotech B.V., 4.00%, 01/25/24 <sup>(1)</sup>	175,000	176,531
Berry Plastics Corporation, 3.29%, 01/12/24 <sup>(1)</sup>	385,000	388,336
CPI Acquisition, Inc., 5.83%, 08/17/22 <sup>(1)</sup>	590,638	538,709
Kraton Polymers LLC, 5.00%, 01/06/22 <sup>(1)</sup>	500,000	506,720
Univar USA Inc., 3.52%, 07/01/22 (Argentina) <sup>(1)</sup>	1,150,000	1,149,730
<b>Total Materials</b>		<b>2,760,026</b>
<b>Telecommunication Services — 1.2%</b>		
SBA Senior Finance II LLC, 3.25%, 03/24/21 <sup>(1)</sup>	765,000	768,615
Sprint Communications, Inc., 3.25%, 02/29/24 <sup>(1)</sup>	540,000	540,000
Virgin Media Bristol LLC, 3.52%, 01/31/25 <sup>(1)</sup>	415,000	418,048
<b>Total Telecommunication Services</b>		<b>1,726,663</b>

The accompanying notes are an integral part of these financial statements.

Schedule of Investments — Virtus Newfleet Dynamic Credit ETF (continued)

January 31, 2017 (unaudited)

Investments	Principal	Value	Investments	Principal	Value
<b>TERM LOANS (continued)</b>			<b>CORPORATE BONDS (continued)</b>		
<b>Utilities — 0.3%</b>			<b>Financials — 0.9%</b>		
Dynegy Inc., 4.25%, 06/27/23 <sup>(1)</sup> .....	\$ 220,000	\$ 221,925	General Motors Financial Co., Inc., 3.45%, 01/14/22 .....	\$ 685,000	\$ 685,074
Vistra Operations Co. LLC (fka Tex Operations Co. LLC), 4.02%, 12/14/23 <sup>(1)</sup> ...	132,000	133,595	Hexion 2 US Finance Corp., 13.75%, 02/01/22 <sup>(2)</sup> .....	160,000	162,000
Total Utilities .....		355,520	Hexion 2 US Finance Corp., 10.38%, 02/01/22 <sup>(2)</sup> .....	215,000	220,375
<b>Total Term Loans</b> (Cost \$24,619,260) .....		<b>24,701,705</b>	Icahn Enterprises LP / Icahn Enterprises Finance Corp., 6.25%, 02/01/22 <sup>(2)</sup> .....	175,000	176,750
<b>CORPORATE BONDS — 15.3%</b>			Starwood Property Trust, Inc., 5.00%, 12/15/21 <sup>(2)</sup> .....	90,000	91,687
<b>Consumer Discretionary — 3.2%</b>			Total Financials .....		1,335,886
Cablevision Systems Corp., 5.88%, 09/15/22 ..	400,000	403,000	<b>Health Care — 4.2%</b>		
Caesars Growth Properties Holdings LLC / Caesars Growth Properties Finance, Inc., 9.38%, 05/01/22 .....	455,000	492,537	Alere, Inc., 6.50%, 06/15/20 .....	280,000	280,812
Cooper-Standard Automotive, Inc., 5.63%, 11/15/26 <sup>(2)</sup> .....	440,000	443,573	CHS / Community Health Systems, Inc., 5.13%, 08/15/18 .....	150,000	150,484
CSC Holdings LLC, 6.75%, 11/15/21 .....	285,000	310,222	CHS / Community Health Systems, Inc., 5.13%, 08/01/21 .....	270,000	255,150
DISH DBS Corp., 5.00%, 03/15/23 .....	420,000	414,704	CHS / Community Health Systems, Inc., 6.88%, 02/01/22 .....	180,000	132,300
DISH DBS Corp., 7.75%, 07/01/26 .....	310,000	347,104	Davita, Inc., 5.13%, 07/15/24 .....	280,000	277,900
Ferrellgas LP / Ferrellgas Finance Corp., 8.63%, 06/15/20 <sup>(2)</sup> .....	105,000	104,475	Envision Healthcare Corp., 6.25%, 12/01/24 <sup>(2)</sup> .....	130,000	137,150
iHeartCommunications, Inc., 9.00%, 12/15/19 .....	545,000	458,141	HCA, Inc., 5.38%, 02/01/25 .....	605,000	617,856
Landry's, Inc., 6.75%, 10/15/24 <sup>(2)</sup> .....	60,000	61,950	HCA, Inc., 5.25%, 06/15/26 .....	405,000	423,225
Pinnacle Entertainment, Inc., 5.63%, 05/01/24 <sup>(2)</sup> .....	250,000	254,233	Iasis Healthcare LLC / Iasis Capital Corp., 8.38%, 05/15/19 .....	230,000	221,375
Scientific Games International, Inc., 6.63%, 05/15/21 .....	140,000	129,500	MPH Acquisition Holdings LLC, 7.13%, 06/01/24 <sup>(2)</sup> .....	395,000	420,181
Tenneco, Inc., 5.00%, 07/15/26 .....	280,000	280,336	Sterigenics-Nordion Holdings LLC, 6.50%, 05/15/23 <sup>(2)</sup> .....	275,000	279,813
Univision Communications, Inc., 5.13%, 05/15/23 <sup>(2)</sup> .....	270,000	269,155	Surgery Center Holdings, Inc., 8.88%, 04/15/21 <sup>(2)</sup> .....	255,000	276,675
William Lyon Homes, Inc., 5.88%, 01/31/25 <sup>(2)</sup> .....	480,000	478,200	Tenet Healthcare Corp., 6.00%, 10/01/20 .....	460,000	486,450
Total Consumer Discretionary .....		4,447,130	Tenet Healthcare Corp., 8.13%, 04/01/22 .....	540,000	548,100
<b>Consumer Staples — 0.2%</b>			Tennessee Merger Sub, Inc., 6.38%, 02/01/25 <sup>(2)</sup> .....	700,000	686,000
Advancepierre Foods Holdings, Inc., 5.50%, 12/15/24 <sup>(2)</sup> .....	225,000	230,063	Valeant Pharmaceuticals International, Inc., 6.75%, 08/15/18 <sup>(2)</sup> .....	700,000	693,875
<b>Energy — 1.7%</b>			Total Health Care .....		5,887,346
American Midstream Partners LP / American Midstream Finance Corp., 8.50%, 12/15/21 <sup>(2)</sup> .....	195,000	197,437	<b>Industrials — 1.0%</b>		
Cheniere Corpus Christi Holdings LLC, 5.88%, 03/31/25 <sup>(2)</sup> .....	390,000	413,887	Navistar International Corp., 8.25%, 11/01/21 .....	270,000	274,050
Diamondback Energy, Inc., 5.38%, 05/31/25 <sup>(2)</sup> .....	210,000	217,350	NCI Building Systems, Inc., 8.25%, 01/15/23 <sup>(2)</sup> .....	385,000	421,575
Ep Energy LLC / Everest Acquisition Finance, Inc., 9.38%, 05/01/20 .....	500,000	511,250	Transdigm, Inc., 6.50%, 05/15/25 .....	700,000	706,125
Matador Resources Co., 6.88%, 04/15/23 <sup>(2)</sup> ...	255,000	270,300	Total Industrials .....		1,401,750
Oasis Petroleum, Inc., 6.88%, 01/15/23 .....	325,000	334,344	<b>Information Technology — 2.3%</b>		
QEP Resources, Inc., 5.25%, 05/01/23 .....	133,000	132,668	Blackboard, Inc., 9.75%, 10/15/21 <sup>(2)</sup> .....	135,000	138,712
Rsp Permian, Inc., 5.25%, 01/15/25 <sup>(2)</sup> .....	270,000	276,750	BMC Software Finance, Inc., 8.13%, 07/15/21 <sup>(2)</sup> .....	145,000	140,650
Total Energy .....		2,353,986	Broadcom Corp. / Broadcom Cayman Finance Ltd., 3.00%, 01/15/22 <sup>(2)</sup> .....	185,000	184,379
			Broadcom Corp. / Broadcom Cayman Finance Ltd., 3.63%, 01/15/24 <sup>(2)</sup> .....	340,000	339,684

The accompanying notes are an integral part of these financial statements.

Schedule of Investments — Virtus Newfleet Dynamic Credit ETF (continued)

January 31, 2017 (unaudited)

Investments	Principal	Value	Investments	Principal	Value
<b>CORPORATE BONDS (continued)</b>			<b>FOREIGN BONDS — 5.7%</b>		
<b>Information Technology (continued)</b>			<b>Consumer Discretionary — 1.3%</b>		
Cdw LLC / Cdw Finance Corp., 5.00%, 09/01/23	\$ 340,000	\$ 347,650	Altice Luxembourg SA, 7.75%, 05/15/22 (Luxembourg) <sup>(2)</sup>	\$ 325,000	\$ 345,719
Diamond 1 Finance Corp. / Diamond 2 Finance Corp., 5.45%, 06/15/23 <sup>(2)</sup>	235,000	252,713	Intelsat Jackson Holdings SA, 8.00%, 02/15/24 (Luxembourg) <sup>(2)</sup>	200,000	208,000
Diamond 1 Finance Corp. / Diamond 2 Finance Corp., 5.45%, 06/15/23	130,000	139,799	International Game Technology PLC, 6.25%, 02/15/22 (United Kingdom) <sup>(2)</sup>	280,000	299,773
Diamond 1 Finance Corp. / Diamond 2 Finance Corp., 6.02%, 06/15/26 <sup>(2)</sup>	100,000	108,152	Upcb Finance IV Ltd., 5.38%, 01/15/25 (Cayman Islands) <sup>(2)</sup>	200,000	204,000
First Data Corp., 7.00%, 12/01/23 <sup>(2)</sup>	500,000	531,250	Vtr Finance BV, 6.88%, 01/15/24 (Chile) <sup>(2)</sup>	400,000	421,000
Inception Merger Sub, Inc. / Rackspace Hosting, Inc., 8.63%, 11/15/24 <sup>(2)</sup>	405,000	421,200	Ziggo Secured Finance BV, 5.50%, 01/15/27 (Netherlands) <sup>(2)</sup>	415,000	413,444
Radiate Holdco LLC / Radiate Finance, Inc., 6.63%, 02/15/25 <sup>(2)</sup>	650,000	650,000	Total Consumer Discretionary		1,891,936
Total Information Technology		3,254,189	<b>Energy — 0.8%</b>		
<b>Materials — 0.2%</b>			MEG Energy Corp., 6.50%, 01/15/25 (Canada) <sup>(2)</sup>	350,000	354,375
Flex Acquisition Co., Inc., 6.88%, 01/15/25 <sup>(2)</sup>	185,000	188,422	Noble Holding International Ltd., 7.75%, 01/15/24 (United Kingdom)	350,000	348,688
Scotts Miracle-GRO Co. (The), 5.25%, 12/15/26 <sup>(2)</sup>	30,000	30,281	Petrobras Global Finance BV, 8.38%, 05/23/21 (Brazil)	250,000	278,700
WR Grace & Co.-Conn, 5.13%, 10/01/21 <sup>(2)</sup>	50,000	52,563	Petrobras Global Finance BV, 6.13%, 01/17/22 (Brazil)	9,000	9,324
Total Materials		271,266	Petrobras Global Finance BV, 8.75%, 05/23/26 (Brazil)	125,000	141,250
<b>Real Estate — 0.2%</b>			Petrobras Global Finance BV, 7.38%, 01/17/27 (Brazil)	60,000	62,592
Communications Sales & Leasing, Inc. / CSL Capital LLC, 7.13%, 12/15/24 <sup>(2)</sup>	230,000	234,600	Total Energy		1,194,929
<b>Telecommunication Services — 1.3%</b>			<b>Government — 1.0%</b>		
Frontier Communications Corp., 10.50%, 09/15/22	750,000	787,031	Argentine Republic Government International Bond, 5.63%, 01/26/22 (Argentina) <sup>(2)</sup>	690,000	692,588
Sprint Corp., 7.88%, 09/15/23	1,000,000	1,095,600	Argentine Republic Government International Bond, 6.88%, 01/26/27 (Argentina) <sup>(2)</sup>	705,000	698,126
Zayo Group LLC / Zayo Capital, Inc., 5.75%, 01/15/27 <sup>(2)</sup>	25,000	25,625	Total Government		1,390,714
Total Telecommunication Services		1,908,256	<b>Industrials — 1.2%</b>		
<b>Utilities — 0.1%</b>			Bombardier, Inc., 4.75%, 04/15/19 (Canada) <sup>(2)</sup>	225,000	230,485
Amerigas Partners LP / Amerigas Finance Corp., 5.50%, 05/20/25	140,000	144,025	Bombardier, Inc., 8.75%, 12/01/21 (Canada) <sup>(2)</sup>	280,000	303,450
<b>Total Corporate Bonds</b>			Cemex Finance LLC, 6.00%, 04/01/24 (Mexico) <sup>(2)</sup>	690,000	711,355
(Cost \$21,374,144)		21,468,497	Embraer Netherlands Finance BV, 5.40%, 02/01/27 (Brazil)	120,000	120,690
			Park Aerospace Holdings Ltd., 5.25%, 08/15/22 (Ireland) <sup>(2)</sup>	50,000	51,313
			Park Aerospace Holdings Ltd., 5.50%, 02/15/24 (Ireland) <sup>(2)</sup>	240,000	246,900
			Total Industrials		1,664,193

The accompanying notes are an integral part of these financial statements.

Schedule of Investments — Virtus Newfleet Dynamic Credit ETF (continued)

January 31, 2017 (unaudited)

Investments	<u>Principal</u>	<u>Value</u>	Portfolio Composition
<b>FOREIGN BONDS (continued)</b>			January 31, 2017 (unaudited)
<b>Materials — 0.8%</b>			Asset Allocation as of 01/31/2017 (based on net assets)
Alpha 3 BV / Alpha US Bidco, Inc., 6.25%, 02/01/25 (United Kingdom) <sup>(2)</sup> . . . . .	\$ 105,000	\$ 105,262	Government . . . . . 60.0%
Mercer International, Inc., 6.50%, 02/01/24 (Canada) <sup>(2)</sup> . . . . .	50,000	50,000	Money Market Fund . . . . . 19.4
Rusal Capital Dac, 5.13%, 02/02/22 (Russia) <sup>(2)</sup> . . . . .	420,000	417,367	Consumer Discretionary . . . . . 9.3
Vedanta Resources PLC, 6.38%, 07/30/22 (United Kingdom) <sup>(2)</sup> . . . . .	495,000	496,980	Health Care . . . . . 6.2
Total Materials . . . . .		<u>1,069,609</u>	Industrials . . . . . 4.4
<b>Telecommunication Services — 0.6%</b>			Information Technology . . . . . 4.1
Altice Financing SA, 6.63%, 02/15/23 (Luxembourg) <sup>(2)</sup> . . . . .	600,000	628,125	Energy . . . . . 3.2
Intelsat Jackson Holdings SA, 7.25%, 04/01/19 (Luxembourg) . . . . .	245,000	211,772	Telecommunication Services . . . . . 3.1
Total Telecommunication Services . . . . .		<u>839,897</u>	Materials . . . . . 3.0
<b>Total Foreign Bonds</b> (Cost \$8,012,401) . . . . .		<u><b>8,051,278</b></u>	Financials . . . . . 2.5
	<u>Shares</u>		Consumer Staples . . . . . 1.2
<b>MONEY MARKET FUND — 19.4%</b>			Utilities . . . . . 0.4
JP Morgan U.S. Government Money Market Institutional Shares, 0.43% <sup>(4)</sup> . . . . .	27,229,745	\$ 27,229,745	Real Estate . . . . . 0.2
(Cost \$27,229,745) . . . . .			Liabilities in Excess of Other Assets . . . . . <u>(17.0)</u>
<b>TOTAL INVESTMENTS — 117.0%</b>			<u>100.0%</u>
(Cost \$164,071,590) . . . . .		<u>164,297,921</u>	
Liabilities in Excess of Other Assets — (17.0)% . . . . .		<u>(23,812,686)</u>	
<b>Net Assets — 100.0%</b> . . . . .		<u><b>\$140,485,235</b></u>	

(1) Variable rate instrument. The interest rate shown reflects the rate in effect at January 31, 2017.

(2) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may not be resold subject to that rule except to qualified institutional buyers. Unless otherwise noted, 144A securities are deemed to be liquid. At January 31, 2017, the aggregate value of these securities was \$16,959,947, or 12.07% of net assets.

(3) The loan will settle after January 31, 2017 at which the interest will be determined.

(4) The rate shown reflects the seven day yield as of January 31, 2017.

The accompanying notes are an integral part of these financial statements.



# Statement of Assets and Liabilities

January 31, 2017 (unaudited)

	<b>Virtus Newfleet Dynamic Credit ETF</b>
<b>Assets:</b>	
Investments, at cost .....	\$164,071,590
Investments, at value .....	164,297,921
Cash .....	640,208
Receivables:	
Investment securities sold .....	4,556,021
Interest receivable .....	398,166
<b>Total Assets</b> .....	<b>169,892,316</b>
<b>Liabilities:</b>	
Payables:	
Investment securities purchased .....	29,326,580
Advisory fees .....	52,554
Accounting and Administration fees .....	7,499
Insurance fees .....	937
Transfer Agent fees .....	3,475
Custody fees .....	1,601
Professional fees .....	7,212
Pricing fees .....	937
Report to Shareholder fees .....	1,484
Trustee fees .....	1,249
Distribution fees .....	1,601
Exchange listing fees .....	1,952
<b>Total Liabilities</b> .....	<b>29,407,081</b>
<b>Net Assets</b> .....	<b>\$140,485,235</b>
<b>Net Assets Consist of:</b>	
Paid-in capital .....	\$140,214,336
Undistributed net investment income .....	39,098
Undistributed net realized gain on investments .....	5,470
Net unrealized appreciation on investments .....	226,331
<b>Net Assets</b> .....	<b>\$140,485,235</b>
Shares outstanding (unlimited number of shares of beneficial interest authorized, no par value) .....	5,604,000
Net asset value per share .....	\$ 25.07

*The accompanying notes are an integral part of these financial statements.*

## Statement of Operations

For the Period Ended January 31, 2017<sup>(1)</sup> (unaudited)

	<b>Virtus Newfleet Dynamic Credit ETF</b>
<b>Investment Income:</b>	
Interest Income .....	\$181,654
<b>Expenses:</b>	
Advisory fees .....	88,059
Accounting and administration fees .....	8,005
Professional fees .....	7,212
Transfer agent fees .....	3,475
Exchange listing fees .....	1,952
Custody fees .....	1,601
Distribution fees .....	1,601
Report to shareholders fees .....	1,484
Trustee fees .....	1,249
Insurance fees .....	937
Pricing fees .....	937
<b>Total Expenses</b> .....	<b>116,512</b>
Less expense waivers/reimbursements .....	(7,640)
Net Expenses .....	108,872
<b>Net Investment Income</b> .....	<b>72,782</b>
<b>Net Realized Gain on:</b>	
Investments .....	5,470
<b>Total Net Realized Gain</b> .....	<b>5,470</b>
<b>Change in Net Unrealized Appreciation on:</b>	
Investments .....	226,331
<b>Total Change in Net Unrealized Appreciation</b> .....	<b>226,331</b>
Net Realized and Change in Unrealized Gain .....	231,801
<b>Net Increase in Net Assets Resulting from Operations</b> .....	<b>\$304,583</b>

(1) From December 5, 2016 (commencement of operations) through January 31, 2017.

*The accompanying notes are an integral part of these financial statements.*

## Statement of Changes in Net Assets

	<b>Virtus Newfleet Dynamic Credit ETF</b> <b>For the Period December 5, 2016<sup>(1)</sup> Through January 31, 2017 (Unaudited)</b>
<b>Increase in Net Assets Resulting from Operations:</b>	
Net investment income .....	\$ 72,782
Net realized gain on investments .....	5,470
Net change in unrealized appreciation on investments .....	<u>226,331</u>
Net increase in net assets resulting from operations .....	<u>304,583</u>
<b>Distributions to Shareholders from:</b>	
Net investment income .....	<u>(33,684)</u>
Total distributions .....	<u>(33,684)</u>
<b>Shareholder Transactions:</b>	
Proceeds from shares sold .....	<u>140,114,336</u>
Increase in net assets .....	<u>140,385,235</u>
<b>Net Assets:</b>	
Beginning of period .....	<u>100,000</u>
End of period .....	<u>\$140,485,235</u>
Undistributed net investment income .....	<u>\$ 39,098</u>
<b>Changes in Shares Outstanding:</b>	
Shares outstanding, beginning of period .....	4,000
Shares sold .....	<u>5,600,000</u>
Shares outstanding, end of period .....	<u>5,604,000</u>

(1) Commencement of operations.

*The accompanying notes are an integral part of these financial statements.*

## Financial Highlights

	<b>Virtus Newfleet Dynamic Credit ETF</b> <b>For the Period December 5, 2016<sup>(1)</sup> Through January 31, 2017 (Unaudited)</b>
<b>Per Share Data for a Share Outstanding Throughout the Period:</b>	
Net asset value, beginning of period .....	\$ 25.00
Investment operations:	
Net investment income <sup>(2)</sup> .....	0.02
Net realized and unrealized gain on investments .....	0.06
Total from investment operations .....	0.08
<b>Less Distributions from:</b>	
Net Investment Income .....	(0.01)
Total distributions .....	(0.01)
<b>Net Asset Value, End of Period</b> .....	<b>\$ 25.07</b>
Net Asset Value Total Return <sup>(3)</sup> .....	0.30%
Net assets, end of period (000's omitted) .....	\$140,485
<b>RATIOS/SUPPLEMENTAL DATA:</b>	
<b>Ratios to Average Net Assets:</b>	
Expenses, net of expense waivers .....	0.68% <sup>(4)</sup>
Expenses, prior to expense waivers .....	0.73% <sup>(4)</sup>
Net investment income .....	0.45% <sup>(4)</sup>
Portfolio turnover rate <sup>(5)</sup> .....	47% <sup>(6)</sup>

(1) Commencement of operations.

(2) Based on average shares outstanding.

(3) Net Asset Value Total Return is calculated assuming an initial investment made at the net asset value on the first day of the period, reinvestment of dividends and distributions at net asset value during the period, and redemption at net asset value on the last day of the period. Total return calculated for a period of less than one year is not annualized.

(4) Annualized.

(5) Portfolio turnover excludes the value of portfolio securities received or delivered as a result of in-kind creations or redemptions of the Fund's capital shares.

(6) Not annualized.

*The accompanying notes are an integral part of these financial statements.*

January 31, 2017 (unaudited)

### **1. ORGANIZATION**

Virtus ETF Trust II (the “Trust”) was organized as a Delaware statutory trust on July 14, 2015 and is registered with the Securities and Exchange Commission (the “SEC”) as an open-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). Virtus Newfleet Dynamic Credit ETF (the “Fund”), a separate investment portfolio of the Trust, is presented herein. The Fund is classified as a diversified management investment company under the 1940 Act. The offering of Shares is registered under the Securities Act of 1933, as amended (the “Securities Act”).

The Fund commenced operations on December 5, 2016.

The Fund’s investment objective is to provide a high level of current income and, secondarily, capital appreciation, primarily through investments in fixed income investments.

The Fund has had no operations from its initial registration until the Fund’s commencement of operations other than matters relating to its organization and registration as an open-end management investment company under the 1940 Act, and the sale and issuance to Virtus ETF Advisers LLC (the “Adviser”), 4,000 shares of the Fund at an aggregate purchase of \$100,000.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The Fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standard Codification Topic 946 Financial Services — Investment Companies. Each Fund prepares its financial statements in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and follows the significant accounting policies described below.

#### **Use of Estimates**

Management makes certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of increases and decreases in the net assets from operations during the reporting period. Actual results could differ from those estimates.

#### **Indemnification**

In the normal course of business, the Fund may enter into contracts that contain a variety of representations which provide general indemnifications for certain liabilities. The Fund’s maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

#### **Security Valuation**

Security holdings traded on a national securities exchange are valued based on their last sale price. Price information on listed securities is taken from the exchange where the security is primarily traded. Securities regularly traded in an over the counter market are valued at the latest quoted sale price in such market or in the case of the New York Stock Exchange (“NYSE”) or NASDAQ, at the NYSE or NASDAQ Official Closing Price. If market quotations are not readily available, or if it is determined that a quotation of a security does not represent fair value, then the security is valued at fair value as determined in good faith using procedures adopted by the Trust’s Board of Trustees (the “Board”).

Debt securities, including restricted securities, are valued based on evaluated quotations received from independent pricing services or from dealers who make markets in such securities. For most bond types, the pricing service utilizes matrix pricing that considers one or more of the following factors: yield or price of bonds of comparable quality, coupon, maturity, current cash flows, type, and current day trade information, as well as dealer-supplied prices.

Short-term securities with 60 days or less remaining to maturity are valued using the amortized cost method, which approximates current market value.

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**Fair Value Measurement**

Accounting Standards Codification, Fair Value Measurements and Disclosures (“ASC 820”) defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and requires disclosure about fair value measurements. It also provides guidance on determining when there has been a significant decrease in the volume and level of activity for an asset or liability, when a transaction is not orderly, and how that information must be incorporated into fair value measurement. Under ASC 820, various inputs are used in determining the value of the Fund’s investments. These inputs are summarized in the following hierarchy:

- Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2 — Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 — Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the Fund’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following summarizes inputs used as of January 31, 2017 in valuing the Fund’s assets carried at fair value:

**Assets****Level 1**

Money Market Fund . . . . .	\$ 27,229,745
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**Level 2**

U.S. Treasury Notes . . . . .	82,846,696
Term Loans . . . . .	24,701,705
Corporate Bonds . . . . .	21,468,497
Foreign Bonds . . . . .	<u>8,051,278</u>

**Level 3**

Level 3 . . . . .	—
Totals . . . . .	<u>\$164,297,921</u>

For significant movements between levels within the fair value hierarchy, the Fund adopted a policy of recognizing transfers at the end of the period. There were no significant transfers between levels during the period ended January 31, 2017.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period. There were no Level 3 securities as of January 31, 2017.

**Security Transactions**

Security transactions are accounted for on the trade date. Realized gains and losses on sales of investment securities are calculated using specific identification.

**Investment Income and Expenses**

Dividend income is recognized on the ex-dividend date. Expenses and interest income are recognized on the accrual basis. Amortization of premium and accretion of discount on debt securities are included in interest income.

The Fund pays all of its expenses not assumed by Newfleet Asset Management, LLC (the “Sub-adviser”). General Trust expenses that are allocated among and charged to the assets of the Fund and other series of the Trust are done so on a basis that the Board deems fair and equitable, which may be on a basis of relative net assets of the Fund and other series of the Trust or the nature of the services performed and relative applicability to the Fund and other series of the Trust.

**Distributions to Shareholders**

Distributions are recorded by the Fund on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations that may differ from GAAP in the United States of America.

### **Cash**

Cash includes non-interest bearing non-restricted cash with one financial institution.

### **When-issued Purchases and Forward Commitments (Delayed Delivery)**

The Fund may engage in when-issued or forward commitment transactions. Securities purchased on a when-issued or forward commitment basis are also known as delayed delivery transactions. Delayed delivery transactions involve a commitment by a fund to purchase or sell a security at a future date, ordinarily up to 90 days later. When-issued or forward commitments enable a fund to lock in what is believed to be an attractive price or yield on a particular security for a period of time, regardless of future changes in interest rates. The Fund records when-issued and delayed delivery securities on the trade date. The Fund maintains collateral for the securities purchased. Securities purchased on a when-issued or delayed delivery basis begin earning interest on the settlement date.

### **Loan Agreements**

The Fund may invest in direct debt instruments which are interests in amounts owed by a corporate, governmental, or other borrower to lenders or lending syndicates. Loan agreements are generally non-investment grade and often involve borrowers that are highly leveraged. The Fund may invest in obligations of borrowers who are in bankruptcy proceedings. Loan agreements are typically senior in the corporate capital structure of the borrower. A loan is often administered by a bank or other financial institution (the “lender”) that acts as agent for all holders. The lender administers the terms of the loan, as specified in the loan agreement. The Fund’s investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. When investing in loan participations, the Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan participation and only upon receipt by the lender of payments from the borrower. The Fund generally has no right to enforce compliance with the terms of the loan agreement with the borrower. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the loan agreement. When the Fund purchases assignments from lenders, it acquires direct rights against the borrower on the loan.

The Fund may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. Loan agreements may involve foreign borrowers, and investments may be denominated in foreign currencies. Direct indebtedness of emerging countries involves a risk that the government entities responsible for the repayment of the debt may be unable, or unwilling, to pay the principal and interest when due.

The loan agreements have floating rate loan interests which generally pay interest at rates that are periodically determined by reference to a base lending rate plus a premium. The base lending rates are generally LIBOR (London Interbank Offered Rate), the prime rate offered by one or more U.S. banks or the certificate of deposit rate. When a loan agreement is purchased, the Fund may pay an assignment fee. On an ongoing basis, the Fund may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a loan agreement. Prepayment penalty fees are received upon the prepayment of a loan agreement by a borrower. Prepayment penalty, facility, commitment, consent and amendment fees are recorded to income as earned or paid.

At January 31, 2017, all loan agreements held by the Fund are assignment loans.

## **3. INVESTMENT MANAGEMENT AGREEMENT, RELATED PARTIES AND OTHER AGREEMENTS**

### **Investment Advisory Agreement**

The Trust has entered into an Investment Advisory Agreement (the “Advisory Agreement”) with the Adviser, a majority owned subsidiary of Virtus Partners, Inc., a wholly owned subsidiary of Virtus Investment Partners, Inc. (Ticker: VRTS) (together with its affiliates, “Virtus”). Pursuant to the Advisory Agreement, the Adviser has overall supervisory responsibility for the general management and investment of the Fund’s securities portfolios. For its services on the Fund, the Adviser is entitled to receive a fee, payable monthly, at an annual rate of 0.55% of the Fund’s average daily net assets.

The Advisory Agreement may be terminated on behalf of the Fund with the approval of the Fund’s Board or by a vote of the majority of the Fund’s shareholders and on behalf of the Adviser, upon not less than 60 day’s written notice.

### **Expense Limitation Agreement**

The Adviser has contractually agreed to reduce its fees and reimburse expenses in order to keep net expenses (excluding dividend and interest expenses, taxes, brokerage commissions, extraordinary expenses, acquired fund fees and expenses and payments, if any, under a Rule 12b-1 Distribution Plan) from exceeding a specified amount for the Fund average daily net assets. The expense limitation agreement will be terminated upon termination of the Advisory Agreement between the Adviser and the Fund. The expense cap in effect for the Fund during the period ended January 31, 2017 was 0.68%.

January 31, 2017 (unaudited)

Pursuant to the Expense Limitation Agreement, the Adviser may recapture operating expenses waived or reimbursed under this arrangement for a period of three years following the date on which such waiver or reimbursement occurred; provided that such recapture may not cause the Fund's total operating expenses to exceed 0.68% of the average daily net assets of the Fund.

For the period ended January 31, 2017, the Adviser waived fees and reimbursed expenses for the Fund as follows. The Adviser may recoup such waivers until the date indicated.

<u>Expenses Waived/Reimbursed</u>	<u>Recoupment Balance</u>	<u>Recoupment Expiration</u>
\$7,640	\$7,640	7/31/2020

#### **Sub-Advisory Agreement**

The Sub-Adviser provides investment advice and management services to the Fund. Pursuant to an investment sub-advisory agreement among the Trust, the Sub-Adviser and the Adviser, the Sub-Adviser fee is entitled to receive a fee, payable monthly, at an annual rate of 50% of the Adviser's advisory fee. However, the Sub-Adviser has also contractually agreed in the Sub-Advisory Agreement that the Sub-Adviser will waive its advisory fee or reimburse the Adviser in an amount equal to 50% of the Adviser's waivers and expenditures under the Expense Limitation Agreement. The Sub-Adviser is also entitled to receive 50% of the fees recaptured by the Adviser under the Expense Limitation Agreement. The Sub-Adviser is an indirect wholly-owned subsidiary of Virtus.

#### **Principal Underwriter**

Pursuant to the terms of a Distribution Agreement with the Trust, ETF Distributors LLC (the "Distributor") serves as the Fund's principal underwriter. The Distributor receives compensation for the statutory underwriting services it provides to the Fund. The Distributor will not distribute shares in less than Creation Units (as hereinafter defined), and does not maintain a secondary market in shares. The shares are expected to be traded in the secondary market in shares. The Distributor is a wholly-owned subsidiary of Virtus.

The Fund pays the Distributor directly for the services it receives from the Distributor, which amounted to \$1,601 for the period ended January 31, 2017.

#### **Distribution and Service (12b-1 Plan)**

The Board of Trustees has adopted a distribution and service plan, where the Fund is authorized to pay an amount up to 0.25% of its average daily net assets each year to finance activities primarily intended to result in the sale of Creation Units of the Fund or the provision of investor services. No 12b-1 fees are currently paid by the Fund and there are no current plans to impose these fees.

#### **Operational Administrator**

Virtus ETF Solutions LLC (the "Administrator") serves as the Fund's operational administrator. The Administrator supervises the overall administration of the Trust and the Fund including, among other responsibilities, the coordination and day-to-day oversight of the Fund's operations, the service providers' communications with the Fund and each other and assistance with Trust, Board and contractual matters related to the Fund. The Administrator also provides persons satisfactory to the Board to serve as officers of the Trust. The Administrator is a wholly-owned subsidiary of Virtus.

#### **Accounting Services Administrator, Custodian and Transfer Agent**

BNY Mellon provides administrative, accounting, tax and financial reporting for the maintenance and operations of the Trust as the Fund's accounting services administrator. BNY Mellon also serves as the custodian for the Fund's assets, and serves as transfer agent and dividend paying agent for the Fund.

#### **4. CREATION AND REDEMPTION TRANSACTIONS**

The Fund issues and redeems shares on a continuous basis at Net Asset Value ("NAV") in groups of 50,000 shares called "Creation Units." Creation Units of the Fund are issued and redeemed principally in-kind for securities held by the Fund.

Only "Authorized Participants" who have entered into contractual arrangements with the Distributor may purchase or redeem shares directly from the Fund. An Authorized Participant is either (i) a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation or (ii) a DTC participant and, in each case, must have executed a Participant Agreement with the Distributor. Most retail investors will not qualify as Authorized Participants or have the resources to buy and sell whole Creation Units. Therefore, they will be unable to purchase or redeem the shares directly from the Fund. Rather, most retail investors will purchase shares in the secondary market with the assistance of a broker and will be subject to customary brokerage commissions or fees.



January 31, 2017 (unaudited)

**5. FEDERAL INCOME TAX**

The Fund intends to qualify as a “regulated investment company” under Sub-chapter M of the Internal Revenue Code of 1986, as amended, by distributing substantially all of its net investment income and net capital gains to shareholders. *Accounting for Uncertainty in Income Taxes* as issued by the Financial Accounting Standards Board provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements, and requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Interest and penalty related to income taxes would be recorded as income tax expense. Management of the Fund is required to analyze all open tax years (2016), as defined by IRS statute of limitations, for all major jurisdictions, including federal tax authorities and certain state tax authorities. As of January 31, 2017, the Fund did not have a liability for any unrecognized tax benefits. The Fund has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the amounts of unrecognized tax benefits will significantly change in the next twelve months.

The Fund recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. For the period from inception to January 31, 2017, the Fund had no accrued penalties or interest.

The adjusted cost basis of investments and gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

<u>Federal Tax Cost of Investments</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
\$164,071,590	\$342,967	\$(116,636)	\$226,331

**6. INVESTMENT TRANSACTIONS**

Purchases and sales of investments (excluding short-term investments) for the period ended January 31, 2017 were as follows:

<u>Purchases</u>	<u>Sales</u>	<u>Subscriptions In-Kind</u>	<u>Redemptions In-Kind</u>
\$65,340,129	\$11,474,919	\$ —	\$ —

**7. INVESTMENT RISKS**

As with any investment, an investment in the Fund could result in a loss or the performance of the Fund could be inferior to that of other investments. An investor should consider the Fund’s investment objectives, risks, and charges and expenses carefully before investing. The Fund’s prospectus and statement of additional information contain this and other important information.

**8. CREDIT RISK**

The value of the Fund’s fixed income investments is dependent on the creditworthiness of their issuers. A deterioration in the financial condition of an issuer or a deterioration in general economic conditions may have an adverse effect on the value of the investment and may cause an issuer to fail to pay principal and interest when due.

**9. 10% SHAREHOLDERS**

As of January 31, 2017, the Fund had individual shareholder account(s) and/or omnibus shareholder account(s) (comprised of a group of individual shareholders), which individually amounted to more than 10% of the total shares outstanding of the Fund as detailed below:

<u>% of Shares Outstanding</u>	<u>Number of Accounts</u>
95	1

## Notes to Financial Statements (continued)

January 31, 2017 (unaudited)

### 10. NEW ACCOUNTING PRONOUNCEMENT

On October 13, 2016 the Securities and Exchange Commission amended existing rules intended to modernize reporting and disclosure of information. These amendments relate to Regulation S-X which sets forth the form and content of financial statements. At this time, management is evaluating the implications of adopting these amendments and their impact on the financial statements and accompanying notes.

### 11. SUBSEQUENT EVENTS

The Fund paid the following per share distributions after January 31, 2017:

<u>Ordinary Income</u>	<u>Ex-Date</u>
\$0.03233	2/22/17
\$0.04004	3/20/17

The Fund is required to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of the date of the Statement of Assets and Liabilities. For non-recognized subsequent events that must be disclosed to keep the financial statements from being misleading, the Fund is required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. Management has evaluated subsequent events through the issuance of these financial statements and has determined that, except as set forth above, there are no material events that would require disclosure.

On November 10, 2015, at an in-person meeting at which all of the Independent Trustees were present, the Board of Trustees, including the Independent Trustees voting separately, reviewed and unanimously approved an investment advisory agreement between Virtus ETF Advisers LLC (the “Adviser”) and the Trust (the “Advisory Agreement”) and an investment sub-advisory agreement among Newfleet Asset Management, LLC (“Newfleet”), the Adviser and the Trust (the “Newfleet Sub-Advisory Agreement”), each with respect to the Virtus Newfleet Dynamic Credit ETF (formerly known as Virtus Newfleet High Yield Income ETF).

The Board received and reviewed a substantial amount of information provided by the Adviser and Newfleet in response to requests of the Board and counsel, including, without limitation, a memorandum from the Adviser that included a description of the Adviser’s business, a copy of the Adviser’s Form ADV and certain other information about the Adviser to be considered in connection with the Trustees’ review process (the “Adviser Memorandum”), and a memorandum from Newfleet that included a description of Newfleet’s business, a copy of Newfleet’s Form ADV and certain other information about Newfleet to be considered in connection with the Trustees’ review process (the “Newfleet Memorandum”).

In deciding on whether to approve the Advisory Agreement on behalf of the Virtus Newfleet Dynamic Credit ETF, the Board considered numerous factors, including:

*The nature, extent, and quality of the services to be provided by the Adviser.* The Board considered the responsibilities the Adviser would have under the Advisory Agreement and the services that would be provided by the Adviser to the Virtus Newfleet Dynamic Credit ETF including, without limitation, the management and oversight services that the Adviser and its employees would provide to the Virtus Newfleet Dynamic Credit ETF, the services already provided by the Adviser related to organizing the Trust and the Virtus Newfleet Dynamic Credit ETF, the Adviser’s coordination of services for the Virtus Newfleet Dynamic Credit ETF by the Trust’s service providers, its compliance procedures and practices, particularly with respect to the Trust’s exemptive order permitting the operation of the Virtus Newfleet Dynamic Credit ETF as an exchange-traded fund, and its efforts to promote the Virtus Newfleet Dynamic Credit ETF. The Board also considered the quality of the services that the Adviser provides to another trust in the Virtus fund complex. The Board noted that many of the Trust’s executive officers are employees of the Adviser and serve the Trust without additional compensation from the Virtus Newfleet Dynamic Credit ETF. After reviewing the foregoing information and further information in the Adviser Memorandum (including descriptions of the Adviser’s investment advisory services and its related non-advisory business), and discussing the Adviser’s proposed services to the Virtus Newfleet Dynamic Credit ETF with the Adviser, the Board concluded that the quality, extent, and nature of the services proposed to be provided by the Adviser would be satisfactory and adequate for the Virtus Newfleet Dynamic Credit ETF.

*The investment management capabilities and experience of the Adviser.* The Board evaluated the management experience of the Adviser, including within the Virtus fund complex, in the light of the services it will be providing. In particular, the Board received information from the Adviser regarding, among other things, the Adviser’s experience in organizing, managing and overseeing exchange-traded funds and coordinating their operation and administration. After consideration of these factors, the Board determined that the Adviser would be an appropriate manager for the Virtus Newfleet Dynamic Credit ETF.

*The costs of the services to be provided and profits to be realized by the Adviser from its relationship with the Virtus Newfleet Dynamic Credit ETF.* The Board examined and evaluated the arrangements between the Adviser and the Virtus Newfleet Dynamic Credit ETF under the proposed Advisory Agreement, including the fact that the Virtus Newfleet Dynamic Credit ETF would utilize an expense limitation agreement to cap the Virtus Newfleet Dynamic Credit ETF’s total expenses (subject to customary exclusions). The Board also considered potential benefits for the Adviser in managing the Virtus Newfleet Dynamic Credit ETF, including promotion of the Adviser’s name and the interests of the Adviser in providing management and oversight services to the Virtus Newfleet Dynamic Credit ETF. The Board compared the fees and expenses of the Virtus Newfleet Dynamic Credit ETF (including the management fee) to other funds considered by Newfleet to have a similar investment objective and strategies to the Virtus Newfleet Dynamic Credit ETF. Following these comparisons and upon further consideration and discussion of the foregoing, the Board concluded that the fees to be paid to the Adviser by the Virtus Newfleet Dynamic Credit ETF would be appropriate and within the range of what would have been negotiated at arm’s length.

*The extent to which economies of scale would be realized as the Virtus Newfleet Dynamic Credit ETF grows and whether management fee levels reflect these economies of scale for the benefit of the Virtus Newfleet Dynamic Credit ETF’s investors.* The Board concluded that, in light of the fact that the Virtus Newfleet Dynamic Credit ETF was newly organized and that its assets were expected to be low for the foreseeable future, it would be premature to consider economies of scale.

The Board did not identify any single factor as being of paramount importance, and different Trustees may have given different weight to different factors. The Board reviewed with Trustee counsel the legal standards applicable to its consideration of the Advisory Agreement. Based on its review, including consideration of each of the factors referenced above, the Board determined, in the exercise of its reasonable

business judgment, that the advisory arrangement, as outlined in the Advisory Agreement, was fair and reasonable in light of the services performed or to be performed, expenses incurred or to be incurred and such other matters as the Board considered relevant.

After full consideration of the above factors as well as other factors, the Board unanimously approved the Advisory Agreement on behalf of the Virtus Newfleet Dynamic Credit ETF.

In deciding on whether to approve the Newfleet Sub-Advisory Agreement on behalf of the Virtus Newfleet Dynamic Credit ETF, the Board considered numerous factors, including:

*The nature, extent, and quality of the services to be provided by Newfleet.* The Board considered the responsibilities Newfleet would have under the Newfleet Sub-Advisory Agreement and the services that would be provided by Newfleet including, without limitation, its investment advisory services, its compliance procedures and practices, and its efforts to assist in the promotion of the Virtus Newfleet Dynamic Credit ETF. After considering the services provided by Newfleet to other funds in the Virtus fund complex, and after reviewing the foregoing information and further information in the materials, including the Newfleet Memorandum (which included descriptions of Newfleet business and Newfleet's Form ADV), the Board concluded that the quality, extent, and nature of the services to be provided by Newfleet would be satisfactory and adequate for the Virtus Newfleet Dynamic Credit ETF.

*The investment management capabilities and experience of the Newfleet.* The Board evaluated the investment management experience of Newfleet. In particular, the Board considered Newfleet's experience, including the experience of its portfolio managers, in implementing strategies similar to the one proposed for the Virtus Newfleet Dynamic Credit ETF. The Board discussed with Newfleet the investment objective and strategies for the Virtus Newfleet Dynamic Credit ETF and Newfleet's plans for implementing the strategies. The Board also considered the ability of Newfleet to manage the Virtus Newfleet Dynamic Credit ETF. After consideration of these factors, the Board determined that Newfleet would be an appropriate manager for the Virtus Newfleet Dynamic Credit ETF.

*The costs of the services to be provided and profits to be realized by Newfleet from its relationship with the Virtus Newfleet Dynamic Credit ETF.* The Board examined and evaluated the proposed arrangements between Newfleet and the Virtus Newfleet Dynamic Credit ETF under the proposed Newfleet Sub-Advisory Agreement, including the fact that the Virtus Newfleet Dynamic Credit ETF would utilize an expense limitation agreement with the Advisor to cap the Virtus Newfleet Dynamic Credit ETF's total expenses (subject to customary exclusions) to 0.68%, and that Newfleet would agree, pursuant to the Newfleet Sub-Advisory Agreement, to fund 50% of the Adviser's waivers and reimbursements under the expense limitation agreement. The Board noted that, under such an arrangement, Newfleet would likely supplement a portion of the cost of operating the Virtus Newfleet Dynamic Credit ETF for some period of time.

The Board considered Newfleet's staffing, personnel, and methods of operating; Newfleet's compliance policies and procedures; the financial condition of Newfleet and the level of commitment to the Virtus Newfleet Dynamic Credit ETF by Newfleet; the projected asset levels of the Virtus Newfleet Dynamic Credit ETF; Newfleet's payment of startup costs for the Virtus Newfleet Dynamic Credit ETF; Newfleet's agreement to share in waivers and reimbursements under the expense limitation agreement; and the overall projected expenses of the Virtus Newfleet Dynamic Credit ETF.

The Board also considered potential benefits to Newfleet in managing the Virtus Newfleet Dynamic Credit ETF, including promotion of Newfleet's name. The Board compared the fees and expenses of the Virtus Newfleet Dynamic Credit ETF (including the management fee) to other funds considered by Newfleet to have a similar investment objective and strategies to the Virtus Newfleet Dynamic Credit ETF. Following these comparisons and upon further consideration and discussion of the foregoing, the Board concluded that the fees to be paid to Newfleet by the Virtus Newfleet Dynamic Credit ETF would be appropriate and representative of an arm's length negotiation.

*The extent to which economies of scale would be realized as the Virtus Newfleet Dynamic Credit ETF grows and whether management fee levels reflect these economies of scale for the benefit of the Virtus Newfleet Dynamic Credit ETF's investors.* The Board considered that the Virtus Newfleet Dynamic Credit ETF is new, and its fee arrangements with Newfleet involve a capped fee arrangement. The Board considered that the Virtus Newfleet Dynamic Credit ETF would likely experience benefits from the capped fee and would continue to do so until the Virtus Newfleet Dynamic Credit ETF's assets grow to a level where Newfleet begins to receive the full fee. Accordingly, the Board concluded that it was too early to evaluate potential economies of scale in the Virtus Newfleet Dynamic Credit ETF.

The Board did not identify any single factor as being of paramount importance, and different Trustees may have given different weight to different factors. The Board reviewed with Trustee counsel the legal standards applicable to its consideration of the Newfleet Sub-Advisory Agreement. Based on its review, including consideration of each of the factors referenced above, the Board determined, in the exercise of its reasonable business judgment, that the advisory arrangement, as outlined in the Newfleet Sub-Advisory Agreement, was fair and reasonable in light of the services performed or to be performed, expenses incurred or to be incurred and such other matters as the Board considered relevant.

After full consideration of the above factors as well as other factors, the Board unanimously approved the Newfleet Sub-Advisory Agreement on behalf of the Virtus Newfleet Dynamic Credit ETF.

**INFORMATION ABOUT PORTFOLIO HOLDINGS**

The Fund files its complete schedule of portfolio holdings for its first and third fiscal quarters with the Securities and Exchange Commission (the “SEC”) on Form N-Q. The Fund Form N-Q is available without charge, upon request, by calling toll-free at (888) 383-0553. Furthermore, you may obtain the Form N-Q on the SEC’s website at [www.sec.gov](http://www.sec.gov). The Fund’s portfolio holdings are posted daily on the Fund’s website at [www.virtusetfs.com](http://www.virtusetfs.com).

The Fund’s premium/discount information that is current as of the most recent month-end is available by visiting [www.virtusetfs.com](http://www.virtusetfs.com) or by calling (888) 383-0553.

**INFORMATION ABOUT PROXY VOTING**

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities is provided in the Statement of Additional Information (“SAI”). The SAI is available without charge upon request by calling toll-free at (888) 383-0553, by accessing the SEC’s website at [www.sec.gov](http://www.sec.gov), or by accessing the Fund’s website at [www.virtusetfs.com](http://www.virtusetfs.com).

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30th is available by calling toll-free at (888) 383-0553 or by accessing the SEC’s website at [www.sec.gov](http://www.sec.gov).

**c/o ETF Distributors LLC**  
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