

Virtus InfraCap U.S. Preferred Stock ETF

NYSE ARCA | NAV Symbol PFFA.NV | IOPV Symbol PFFA.IV | CUSIP 26923G822

MARKET OVERVIEW

The market for all fixed income securities, including preferred stock, continued to stabilize during the first quarter due to both Federal Reserve action and a gradual return to normal economic activity after the shutdown. We continue to see the world's largest economies provide fiscal stimulus and monetary relief to offset the magnitude and duration of the effects of COVID-19. Additionally, the Federal Reserve recently reiterated its decision to keep short-term interest rates anchored near zero and its intent to hold rates low until inflation increases. We expect growth to continue into the second half of the year as the country reopens and vaccine distribution continues to progress.

HOW THE FUND PERFORMED

For the quarter, the Fund returned 11.96% at NAV, outperforming the S&P U.S. Preferred Stock Index, which returned 0.78%. For the trailing twelve months, the Fund returned 110.07% while the Fund's benchmark returned 27.89%.

The Fund paid a monthly dividend of \$0.16 per share for each month of the quarter, while NAV at quarter-end was \$24.03. As of quarter-end, the Fund had a 30-Day SEC Yield of 8.48%.¹

The Fund maintained large overweight positions in the real estate and industrial sectors relative to the benchmark. Our view is that the yield and credit profiles of these sectors are more attractive than the financial sector. At the end of the quarter, the real estate allocation was 33.12%, compared to 8.06% for the benchmark, and the allocation to the industrial sector was 7.18% versus 2.83% for the benchmark. The Fund's underweight to the financial sector is substantial, with a weighting of 5.22% compared to 44.92% for the benchmark. We believe the real estate and industrial sectors are best positioned for higher yields and total returns. The Fund ended the quarter with leverage of 27.1% of net asset value, slightly higher than the trailing twelve-month average. The Fund has a 49.9% weighting in fixed-to-floating rate preferred shares.

The Fund's strategy of maximizing yield-to-call generated substantial optimization profits during the quarter. The use of leverage also contributed to the amount of income available for distribution.

The top contributors to performance were:

- › **GasLog Partners** is an owner and operator of liquified natural gas carriers, an essential and growing part of natural gas logistics. GasLog outperformed on beta to the energy market and significantly widening natural gas differentials globally during the quarter.
- › **Braemar Hotels & Resorts** is a REIT focused on luxury hotels and resorts. The company has continued to manage its balance sheet and many of its hotel assets are situated in markets with high barriers to entry. The hospitality industry was a primary beneficiary of normalization after lockdowns.
- › **NuStar Energy** is a major midstream pipeline and storage company which benefited from a 22% increase crude oil prices during the quarter.
- › **Golar LNG** is an owner and operator of liquified natural gas carriers. Golar outperformed on beta to the energy market and significantly widening natural gas differentials globally during the quarter.

- › **Fortress Transportation** owns and acquires transportation and transportation-related infrastructure assets in aviation, energy, intermodal, and rail sectors.

The largest detractors to performance were:

- › **Edison International** develops, acquires, owns, and operates electric power generation facilities worldwide. Edison International missed consensus EPS estimates in three out of its last four quarters and consensus EPS for 2021 remains below what it was in mid-2020.
- › **CNO Financial Group** provides insurance products and services to American families and seniors. The company offers supplemental health insurance, individual life insurance, and annuities.
- › **Lexington Realty** is a real estate investment trust that owns and manages office, industrial, and retail properties net-leased to major corporations throughout the United States.
- › **Essential Utilities** operates as a water utility company and supplies water to residential, commercial, industrial, and public customers.
- › **The Southern Company** is a public utility holding company. The Southern Company, through its subsidiaries, generates, wholesales, and retails electricity in the southeastern United States.

Our view is that these securities offer attractive return prospects in the coming months.

PORTFOLIO CHANGES

During the quarter, the Fund increased its allocation to South Jersey Industries (SJI) by adding series SJIV, an issue which began trading on March 18. PFFA currently has an SJI issuer weight of 2.04%, composed of SJIV, SJIU and SJIJ. Compared to the benchmark, we are overweight the issuer by 1.92%. South Jersey Industries is an energy services holding company that provides regulated natural gas service to residential, commercial, and industrial customers in southern New Jersey, and we believe its preferred securities are undervalued.

OUTLOOK

We believe that preferred stocks will continue to trade higher and credit spreads will tighten as vaccine distribution progresses.

Investors seeking alternate sources of income in this low-yield environment are likely to find dividend yields of more than 8% attractive. Modest or negative correlation to Treasury bond yields is another attractive aspect of investing in most preferred stocks. Uncertainty over the magnitude and duration of the effects of the COVID-19 pandemic has led central banks from the world's largest economies to provide stimulus and monetary relief packages to help offset the economic impact. We believe that the historically expansive monetary policy implemented by the Federal Reserve has helped to quell liquidity concerns that may persist in 2021. We continue to believe that the fundamental credit characteristics are strong and that the market will reflect this as the economy recovers.

¹ 30-day SEC Yield is a standardized yield calculated according to a formula set by the SEC and is subject to change.

PORTFOLIO MANAGEMENT

Infrastructure Capital Advisors, LLC (ICA)

INVESTMENT PROFESSIONALS



Jay D. Hatfield
 Chief Investment Officer
 Industry start date: 2000
 Start date as Fund Portfolio Manager: 2018



Edward Ryan
 Chief Investment Officer
 Industry start date: 1980
 Start date as Fund Portfolio Manager: 2018

TOP TEN HOLDINGS

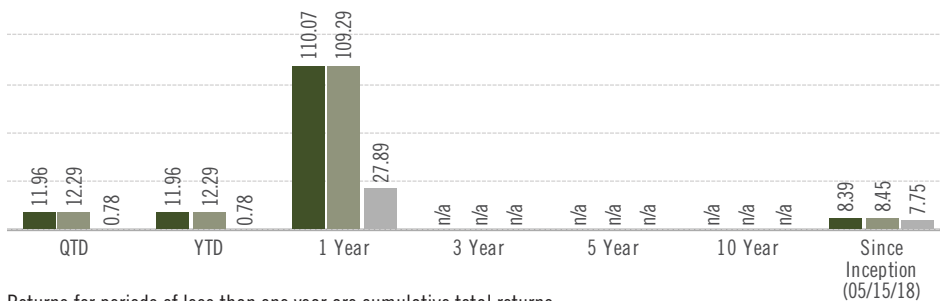
% Fund

| | |
|--------------------------------|------|
| American Finance Trust Inc. | 5.27 |
| RLJ Lodging Trust cv pfd 1.95% | 4.83 |
| DCP Midstream LP | 4.78 |
| Braemar Hotels & Resorts Inc. | 4.07 |
| CenterPoint Energy Inc. | 3.70 |
| SCE Trust III | 3.45 |
| EPR Properties | 3.22 |
| NuStar Energy LP | 3.12 |
| Colony Capital Inc. | 3.03 |
| NuStar Energy LP | 2.85 |

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/21

■ NAV ■ Market Price ■ Index



Returns for periods of less than one year are cumulative total returns.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end.

The fund class gross expense ratio is 1.47%.

The Total Expense Ratio represents the Fund's Total Annual Fund Operating Expenses, which includes the management fee and other expenses where applicable, except for certain payments that are paid directly by the Fund, as described in the Prospectus.

The Fund is an exchange-traded fund ("ETF"). The "net asset value" (NAV) of the Fund is determined at the close of each business day, and represents the dollar value of one share of the Fund; it is calculated by taking the total assets of the Fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV of the Fund is not necessarily the same as its intraday trading value. Fund investors should not expect to buy or sell shares at NAV because shares of ETFs such as the Fund are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Thus, shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. NAV returns are calculated using the Fund's daily 4:00 pm NAV, and include the reinvestment of all dividends and other distributions (reinvested at the Fund's NAV on distribution ex-date). Market price returns are calculated using the 4:00 pm midpoint between the bid and offer, and include the reinvestment of all dividends and other distributions (reinvested at the 4:00 pm bid/offer midpoint on distribution ex-date). Market price returns do not represent the return you would receive if you traded at other times.

Benchmark: 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. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

The Fund is an actively managed exchange-traded fund and does not seek to replicate the performance of a specified index. The Fund may have a higher portfolio turnover than funds that seek to replicate the performance of an index.

IOPV, or Indicative Optimized Portfolio Value, is a calculation disseminated by the stock exchange that approximates the Fund's NAV every fifteen seconds throughout the trading day.

Notes on Risk: Exchange-Traded Funds (ETF): The value of an ETF may be more volatile than the underlying portfolio of securities it is designed to track. The costs to the fund of owning shares of an ETF may exceed the cost of investing directly in the underlying securities. **Preferred Stocks:** Preferred stocks may decline in price, fail to pay dividends, or be illiquid.

Leverage: When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **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 non-diversified and may be more susceptible to factors negatively impacting its holdings to the extent that each security represents a larger portion of the portfolio's assets. **Market Price/NAV:** At the time of purchase and/or sale, an investor's shares may have a market price that is above or below the fund's NAV, which may increase the investor's risk of loss. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

ETFs distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.