Virtus Stone Harbor High Yield Bond Fund

A: VSHDX (92828Y540) | I: SHHYX (92828Y532)

MARKET REVIEW

The U.S. high yield market declined 0.67% in the quarter as U.S. Treasury yields surged. In September, interest rate volatility and increased recession concerns propelled the third largest monthly move in yields since August 2011. Lower-quality issues outperformed in the quarter despite meaningful periods of decompression as their significant underperformance in the prior quarter and the sharp rise in U.S. Treasury yields slightly offset the recessionary concerns.

Market volatility and inflation also took its toll on the European high yield market, which saw a quarterly decline of 0.51%. The resulting spike in UK government bond yields required intervention in the bond markets by the Bank of England to ease volatility and smooth market functioning. These factors combined to further increase recession odds.

In the U.S market, there were two defaults during the quarter, keeping the trailing 12-month par default rate at the end of September unchanged at 0.83%. Meanwhile, ratings trends were positive overall. 71 issuers were upgraded for a total of $126 billion, while 44 issuers were downgraded for a total of $82.5 billion. The upgrade-to-downgrade ratio was 1.5x, with five issuers leaving the high yield market for a total of $21.3 billion, while one issuer fell into the high yield market for a total of $1 billion.

Distress and default rates in Europe remained at historically low levels, with no defaults during the quarter. This left the 12-month default rate unchanged at 0.3% and the issuer default rate at 0.8%.

Market technicals for the U.S. were mixed as volatility continued to drive significant retail outflows, but also caused new issuance to be drastically curtailed. Retail funds reported an outflow of $8.7 billion in the quarter. The new issue market priced only $18.9 billion, representing the lightest quarter since the first quarter of 2009.

Technicals in Europe were mixed as the volatile market environment brought additional retail outflows and minimal new issuance. In the quarter, only €2.9 billion of bonds priced – the lowest volume since the second quarter of 2012. New issue supply is down 80% compared to 2021. Fund outflows remained elevated with €2.4 billion leaving in the quarter, increasing the year-to-date total to €11.7 billion.

FUND PERFORMANCE REVIEW

The Fund returned -0.03% in the third quarter versus the ICE BofA US High Yield Constrained Index return of -0.67.

Positive Contributors

> The Fund's overweight to E&P benefited performance as the sector remains supported by elevated energy prices.

> Fund performance was also helped by an underweight to healthcare, one of the worst-performing sectors this quarter as labor shortages continue to weigh it down.

> Strong issue selection within food/beverage/tobacco, building products, and services/other also had a positive impact on performance.

Performance Detractors

> The Fund's underweights to aerospace/defense and publishing/printing, both top performers for the quarter, had a negative impact on performance, though this was partially offset by strong issue selection within aerospace/defense.

> Issue selection within industrial/other, automotive, technology, and wirelines also negatively affected performance.

> The Fund's overweight to bonds rated CCC and below detracted from performance, though this was offset by strong security selection.

FUND STRATEGY AND POSITIONING (As of 9/30/22)

> Increased overweights to food/beverage/tobacco and drillers/svc.

> Reduced exposure to the healthcare and wireless sectors.

OUTLOOK

Elevated inflation levels requiring more aggressive monetary policy have added to market volatility. Though corporate balance sheets show high cash balances and leverage at pre-pandemic levels, financial conditions have tightened considerably and point to slower growth ahead. Risks remain around the pace and scale of global interest rate hikes, geopolitical events, inflationary pressures, supply chain and labor constraints, the ability of industries to successfully recover lost demand, and the COVID-19 variants. Recent negative returns present the opportunity for large future gains, with many quality bonds trading at significant discounts to par and with yields well above recent years. However, a pause in Fed interest rate hikes and lower U.S. Treasury volatility is likely required before spreads can tighten.

INDUSTRY ALLOCATIONS (%)	% Fund
E&P	10.31
Media Cable	7.99
Midstream	6.14
Gaming	6.02
Financial/Lease	5.77
Healthcare	5.73
Automotive	4.82
Building Products	4.53
Media Other	4.49
Industrial Other	4.16

Holdings and sector weightings are subject to change. Weightings may not add up to 100% as a result of the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or for risk management purposes.

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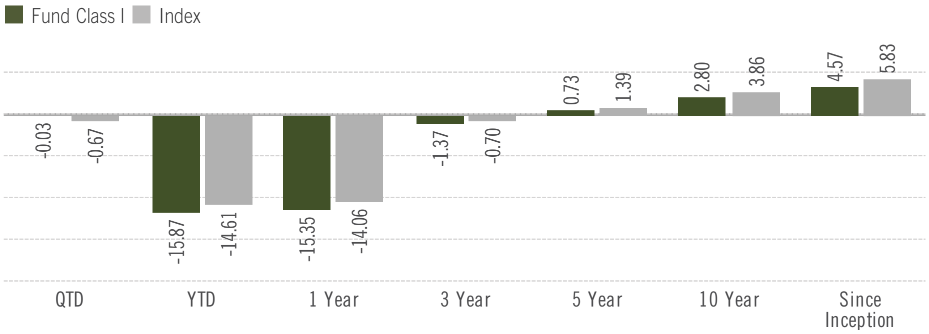
AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/22



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. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 0.83%. The net expense ratio is 0.66%, which reflects a contractual expense reimbursement in effect through 4/7/2024.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Stone Harbor Investment Partners

PORTFOLIO MANAGERS

Peter J. Wilby, CFA
Industry start date: 1980
Start date as Fund Portfolio Manager: 2007

James E. Craige, CFA
Industry start date: 1988
Start date as Fund Portfolio Manager: 2018

Matthew Kearns, CFA
Industry start date: 1997
Start date as Fund Portfolio Manager: 2018

Hunter Schwarz
Industry start date: 2003
Start date as Fund Portfolio Manager: 2018

Daniel Berkery, CFA
Industry start date: 1991
Start date as Fund Portfolio Manager: 2010

William Perry
Industry start date: 1984
Start date as Fund Portfolio Manager: 2018

Index: **The ICE BofA U.S. High Yield Constrained Index** contains all securities in the U.S. High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro rata basis. In the event there are fewer than 50 issues in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro rata basis. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Notes on Risk: Credit & Interest: Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Counterparties:** There is risk that a party upon whom the portfolio relies to complete a transaction will default. **Derivatives:** Derivatives may include, among other things, futures, options, forwards and swap agreements and may be used in order to hedge portfolio risks, create leverage, or attempt to increase returns. Investments in derivatives may result in increased volatility and the portfolio may incur a loss greater than its principal investment. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Liquidity:** Certain instruments may be difficult or impossible to sell at a time and price beneficial to the portfolio. **Income:** Income received from the portfolio may vary widely over the short- and long-term and/or be less than anticipated if the proceeds from maturing securities in the portfolio are reinvested in lower-yielding securities. **Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the non-repayment of underlying collateral, including losses to the portfolio. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional or global events such as war (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus. Distribution Rate is calculated by summing all distributions over the preceding 12 months, and dividing by the NAV on the last business date of the period.

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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