Virtus Stone Harbor Emerging Markets Corporate Debt Fund

A: VSHAX (92828Y615) | I: SHCDX (92828Y599)

MARKET REVIEW

Sector Review "Broad Market"

Rising inflation, higher financing costs, and weaker growth in developed economies provided a challenging macroeconomic backdrop for emerging markets (EM) debt returns in Q3. The U.S. Federal Reserve hiked its policy rate by 75 basis points in both July and September and signaled that it would continue to tighten. Several other major central banks made similar moves. Many EM central banks, which had already increased their policy rates, also tightened. Q3 growth moderated in advanced and emerging economies, but not enough for most central banks to pause their tightening cycles.

Despite the selloff, EM credit spreads tightened in many countries and in most regions from mid-July levels, when spreads reached their widest levels of the year so far. Accordingly, excess returns over U.S. Treasuries ("spread returns") were positive in 51 of 60 country benchmarks in corporate bonds. The performance of select non-investment grade (HY) credits drove the spread compression. Corporate bonds from many investment grade countries also generated positive spread returns during the quarter, though on average, the drag on total returns from rising U.S. Treasury yields/falling U.S. Treasury prices had a greater impact on investment grade (IG) assets than on HY bonds.

For more on our quarterly market review and outlook, **click here**.

Benchmark Performance

J.P. Morgan CEMBI-Broad Diversified returned -2.64% during the quarter. EM hard currency investment grade (IG) and high yield (HY) corporate debt posted total returns of -3.49% and -1.48%, respectively. Rising U.S. Treasury yields had a greater negative impact on returns of IG bonds than on HY bonds, which have lower duration sensitivity. The decline in prices of key commodities negatively impacted revenues and margins of EM exporters. Despite the selloff, excess returns over U.S. Treasuries ("spread returns") were positive in 51 of 60 country benchmarks in corporate bonds.

By industry sector, gaming companies from Macau outperformed, returning 5.3% as China lifted a citywide Covid restriction in August, enabling the entertainment hubs to reopen. China's property sector, however, remained under pressure, with total returns declining on average by over 13%. In terms of regional performance, each region posted negative returns, except Europe, where Turkey's banks outperformed. Latin American and Asia underperformed with returns of -3.3% and -3.1%, respectively.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned -3.18% (net of fees) and -2.93% (gross of fees) in the third quarter versus the J.P. Morgan CEMBI Broad Diversified Index return of -2.64%.

Positive Contributors

> **Overweight Exposure in Russia:** Off-benchmark exposure in Russia enhanced relative performance.

> **Issue Selection in Singapore:** An overweight to certain Singaporean credits that outperformed the market drove positive attribution.

> **Underweight Exposure and Issue Selection in China:** The main driver of weakness in China's performance was the real estate sector, which continued to be negatively impacted by a significant number of defaults. The Fund's underweight exposure enhance performance.

Performance Detractors

> **Overweight Exposure and Issue Selection in Brazil:** Brazilian corporates underperformed the index for the quarter as higher beta names were down significantly. GOL Airlines underperformed on investor concerns over rising fuel costs and a weakening real.

> **Issue Selection in Macau:** Macau casino operators continued to underperform as a result of China's ongoing Zero-COVID policy and associated travel restrictions.

> **Issue Selection in Saudi Arabia:** Exposure to an energy operator and distributor detracted from performance.

OUTLOOK & STRATEGY

A "softish landing" for the global economy is our base case macroeconomic scenario over the next 12 months. We expect slower growth, not recession, and assign a 40% probability to this outcome. A central bank-led recession, driven by a combination of tighter monetary policies and elevated energy prices, remains a major risk, which we currently assign a 35% likelihood. We also model inflation remaining stubbornly high even while growth slows (15% probability) and inflation reversing course, allowing the Fed and other central banks to ease monetary policies (10% probability).

From today's valuations, we see attractive return potential for each of the segments of the market. Current bond prices are historically low, credit spreads are wide, real effective exchange rates are historically low relative to the U.S. dollar, and local interest rates are high, particularly if inflation peaks in the near term in some EM countries, as we expect.

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In EM corporate debt, with a few exceptions, credit fundamentals remain strong and provide significant buffers against risks of recession and inflation. We currently favor low-cost commodity producers, especially in the context of a stronger U.S. dollar. With most bonds trading at prices below par, many well-managed companies have attractive opportunities to repurchase existing debt. Many EM corporate bond issuers have prefunded financing requirements as well as managed liabilities through bond tenders and buybacks, reducing refinancing risks. Current technical conditions, therefore, may create additional support for EM corporate debt once markets stabilize, in our view. Except for companies from Russia/Ukraine and from China's property sector, EM corporate defaults this year are limited; we expect them to remain so.

PERFORMANCE ATTRIBUTION BREAKDOWN as of 9/30/2022

Portfolio (gross basis - USD)	-2.93
JPM CEMBI Broad Div	-2.64
Difference	**-0.29**
Breakdown	
Country Attribution	0.39
Issue Attribution	-0.67
Miscellaneous Difference	**-0.01**

REGIONAL ALLOCATION

	% Fund	Benchmark
Africa	9.65	6.83
Asia	37.59	43.88
Europe	4.01	5.45
Latin America	28.88	23.83
Middle East	14.61	20.01
Net Cash	5.26	0.00

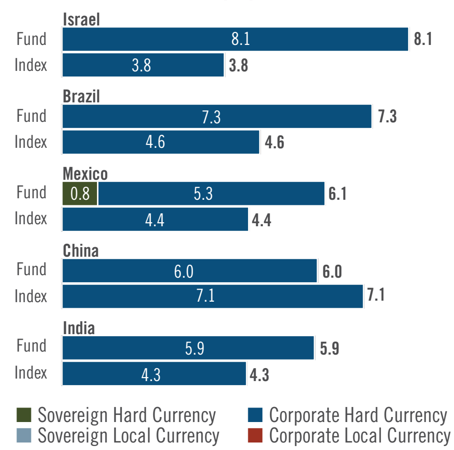
Weightings are subject to change. Weightings may not add up to 100% as a result of the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or for risk management purposes.

SECTOR DISTRIBUTION

	% Fund	Benchmark
Sovereign Hard Currency	5.34	0.00
Corporate Hard Currency	89.39	100.00
Sovereign Local Currency	0.00	0.00
Corporate Local Currency	0.00	0.00
Net Cash	5.26	0.00

Sector weights are subject to change.

TOP 5 COUNTRIES (%)



CURRENT FUND STRATEGY AND POSITIONING

Positioning

> Underweight U.S. Treasury duration, primarily in the shorter part of the rate curve.

> Regional overweight in Latin America, primarily in Brazil and Peru. Underweights in longer duration, highly rated corporates, namely Kuwait, Taiwan, UAE and Qatar.

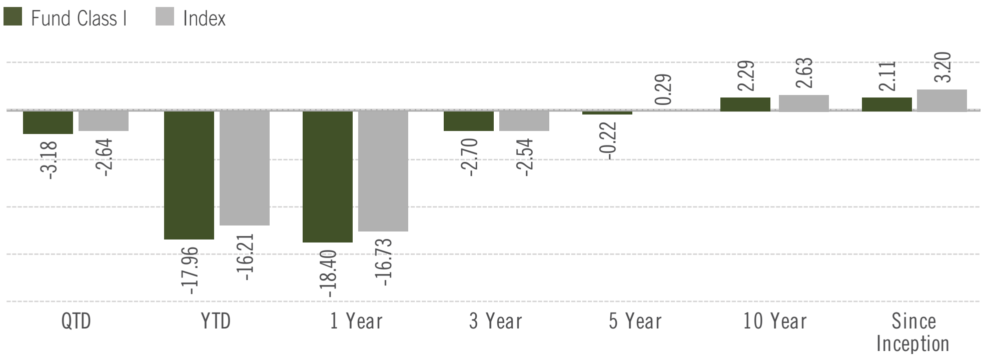
> Underweight in Financials. Overweight in Exploration & Production to take advantage of continued benefit of attractive oil prices. Overweight Utilities as power companies are generally protected from inflation and FX volatility.

> BB and B-rated credits are favored over investment grade issuers.

	YIELD (%)		RATING**		NOTABLE DEVIATIONS	
Strategy	**Portfolio**	**Relative***	**Portfolio**	**Benchmark**	**O/W**	**U/W**
Corporate Hard Currency	12.38	3.98	BB+	BB+	Israel, Brazil, India	Qatar, Philippines, UAE
Sovereign Hard Currency	9.86	N/A	BB	N/A	UAE, South Africa, Indonesia	N/A†

*Relative to **JPMorgan CEMBI Broad Diversified Index**.
**Credit ratings issued by Nationally Recognized Statistical Rating Organizations assess the credit worthiness of the issuers of the underlying securities and not to the Fund or its shares. Ratings are measured using a scale that ranges from AAA (highest) to NR (not rated). Not rated securities do not necessarily indicate low quality. The security's credit rating does not eliminate risk and credit ratings are subject to change. Credit Quality reflects a weighted average composite of the ratings of Standard & Poor's Corporation, Fitch, Moody's Investors Service, Inc and DBRS. Ratings are then adjusted to the Standard & Poor's rating tiers shown. In the case where the composite is in between two ratings the rating will be rounded down. A composite will not be generated if the bond is only rated by one of the four rating agencies. Expected ratings and unsolicited ratings, designated by 'e' and 'u', are not included in calculating the composite.
†Not in the index.
Benchmark: **JPMorgan CEMBI Broad Diversified Index**.

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 3.15%. The net expense ratio is 1.01%, 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.

Index: The **J.P. Morgan CEMBI Broad Diversified Index** tracks total returns for U.S. dollar denominated debt instruments issued by corporate entities in emerging markets countries. The benchmark limits the current face amount allocations of the bonds in the CEMBI Broad by constraining the total face amount outstanding for countries with larger debt stocks. Qualifying corporate bonds have a face amount greater than USD 300 million, maturity greater than 5 years, verifiable prices and cash flows, and from countries within Asia ex Japan, Latin America, Eastern Europe, Middle East, and Africa. 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.

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: 2011

James E. Craige, CFA
Industry start date: 1988
Start date as Fund Portfolio Manager: 2011

William Perry
Industry start date: 1984
Start date as Fund Portfolio Manager: 2012

Stuart Sclater-Booth
Industry start date: 1992
Start date as Fund Portfolio Manager: 2017

Kumaran Damodaran, Ph.D.
Industry start date: 2000
Start date as Fund Portfolio Manager: 2015

David A. Oliver, CFA
Industry start date: 1986
Start date as Fund Portfolio Manager: 2011

Notes on Risk: Emerging Markets Investing: Emerging markets securities may be more volatile, or more greatly affected by negative conditions, than those of their counterparts in more established foreign markets. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **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. **Currency Rate:** Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the portfolio's shares. **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 thaninvestment 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. **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.

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.