VIRTUS FUNDS

Virtus Stone Harbor Emerging Markets Bond Fund

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

MARKET REVIEW

Sector Review "Broad Market"

In Q3, rising yields and weakness in China's economic data in July and August drove returns and sentiment on emerging markets (EM) debt. The increase in yields of U.S. Treasuries (USTs) and Bunds detracted from returns of external EM debt. Local currency debt returns also turned lower as the U.S. dollar appreciated. In China, a piecemeal effort to support a slowing economy raised market concerns over a potential larger downturn in growth not only for China but also for the broader set of EM countries.

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

Benchmark Performance

EEM corporate bonds returned a negative 0.26%, consisting of total returns of -1.25% and +1.16% from the IG and HY market segments, respectively. The benchmark spread tightened eight basis points, comprising spread tightening from IG and HY bonds of three basis points and six basis points, respectively. The increase in UST yields drove the relative underperformance of the IG sector.

At the industry level, one of the most important developments was the outperformance of bonds of independent oil exploration and production companies, particularly from Colombia and Ghana. While the overall contribution to EM corporate debt returns from E&P companies was modest at 0.36%, this result was a function of negative returns from partially state-owned enterprises from China, Kazakhstan, Saudi Arabia, and Thailand. Bonds from independent producers Tullow Oil and Kosmos Energy (Ghana) and Geopark and GTE (Colombia) generated total returns ranging from 5.7% to 27.7%.

Returns from Macau, Turkey, and Ukraine also deserve comment, in our view. The ongoing recovery in gaming bonds from Macau contrasted with the drawdown in Chinese corporate bonds in Q3. Gaming company debt makes up over 98% of the benchmark bonds from Macau and posted an average return of approximately 1% this quarter and 5.8% YTD. Turkey's total return of 4.3% reflected the positive shift toward conventional macroeconomic policymaking following President Erdogan's re-election in May 2023. In Ukraine, the announcement that agricultural producer MHP had obtained external financing boosted market sentiment for the company's debt, which posted total returns ranging from 16.8% to 21.1%.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned 0.30% (net of fees) and 0.55% (gross of fees) in the third quarter versus the J.P. Morgan CEMBI Broad Diversified Index return of -0.26%.

Positive Contributors

> **Mexico:** Issue selection, particularly in Cemex—a building materials company—enhanced performance.
> **Ghana:** Overweight exposure and issue selection, particularly the overweight in Tullow Oil and Kosmos Energy, enhanced relative returns.
> **Colombia:** An overweight exposure to independent E&P companies, such as Gran Tierra and Sierracol, generated positive attribution.

Performance Detractors

> **Indonesia:** An overweight to Indonesian corporates was a negative contributor to attribution.
> **India:** Issue selection in Vedanta Resources, a mining company, detracted from relative returns.
> **China:** Negative attribution was generated by issue selection of property developers Country Garden and Longfor.

OUTLOOK & STRATEGY

We incorporate the prospect for higher-for-longer U.S. interest rates in our macroeconomic scenario analysis. In our base case (45% probability), we see the current higher rate environment keeping U.S. growth below potential. In this scenario, China's growth stays subdued amid the continuing housing slump and weak global activity. Cuts in policy interest rates and solid domestic demand in many EMs support growth outside of China, offsetting the drag from slower growth in advanced countries. Our base case is still that China will avoid a sharp downturn triggered by housing and amplified by high leverage.

Recent strength in the U.S. economy lowers the probability of global recession, to 25% from 35% at the end of 2Q, in our view. We also see scope for core inflation to continue to moderate, allowing the Federal Reserve (Fed) and other central banks to lower policy rates in the near term, but assign a 15% probability to this outcome. Finally, we add a scenario in which the housing slowdown translates into a more significant decline in China's growth rate from 4% in our base case to 2% (scenario probability 15%).

Lower growth in China and higher bond yields in the U.S. weigh on market sentiment for EM debt. A prolonged downturn in China's real estate sector could continue to constrain demand for industrial metals and energy, reducing prices of key EM exports and U.S. dollar revenues for EM countries and companies. We expect that China's high debt levels prevent the aggressive use of stimulative credit policies to boost activity levels and market confidence. The weaker China scenario would result in lower returns on bonds from EM countries and companies that export commodities to China.

Effective January 30, 2023, this Fund's name has changed.

Continued on page 2

Nevertheless, default risk remains a key factor in our assessment of EM sovereign bonds, and on this metric, we see improvement. The increase in prices of defaulted bonds over the past year from Ghana, Sri Lanka, Suriname, Ukraine, and Zambia highlight this point. For countries that have made progress in debt restructuring negotiations with creditors, market expectations for recovery values have also increased over the past year, showing improved confidence among emerging market debt investors.

Our 12-month total return forecasts in our base case includes a 3.89% yield for the ten-year US Treasury note, down from 4.57% at the end of Q3. In hard currency sovereign debt, we expect a base case total return of 13% for the JP Morgan EMBI Global Diversified, comprising an excess return of 8.7%. For corporate debt, we project a base case total return of 10.7%, including an excess return of 7.7%.

PERFORMANCE ATTRIBUTION BREAKDOWN as of 09/30/2023

Portfolio (gross basis - USD)	0.55
JPM CEMBI Broad Div	-0.26
Difference	**0.81**
Breakdown	
Country Attribution	0.26
Issue Attribution	0.63
Miscellaneous Difference	**-0.08**

REGIONAL ALLOCATION

REGIONAL ALLOCATION	% Fund	Benchmark
Africa	10.13	7.87
Asia	39.48	42.92
Europe	5.87	7.19
Latin America	28.09	23.55
Middle East	12.61	18.47
Net Cash	3.83	0.00

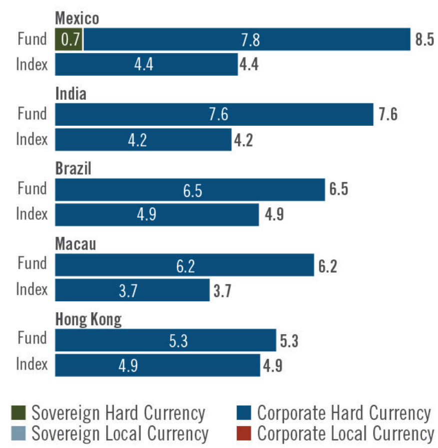
Weightings are subject to change. Weightings may not add up to 100% as a result of the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or for risk management purposes.

SECTOR DISTRIBUTION

SECTOR DISTRIBUTION	% Fund	Benchmark
Quasi-Sovereign Hard Currency	4.59	0.00
Corporate Hard Currency	91.58	100.00
Sovereign Local Currency	0.00	0.00
Corporate Local Currency	0.00	0.00
Net Cash	3.83	0.00

Sector weights are subject to change.

TOP 5 COUNTRIES (%)



CURRENT FUND STRATEGY AND POSITIONING

Positioning

> Neutral U.S. Treasury duration.

> Regional overweight in Latin America.

> 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. Overweight Gaming through positions in Macau as expected rebound in tourism should drive gaming revenues.

> BB-rated credits are favored.

	YIELD (%)		RATING**		NOTABLE DEVIATIONS	
Strategy	**Portfolio**	**Relative***	**Portfolio**	**Benchmark**	**O/W**	**U/W**
Corporate Hard Currency	8.73	0.72	BB+	BBB-	India, Mexico, Macau	China, Qatar, Philippines
Quasi-Sovereign Hard Currency	8.29	N/A	BB	N/A	South Africa, UAE, Mexico	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**.

Q3 23

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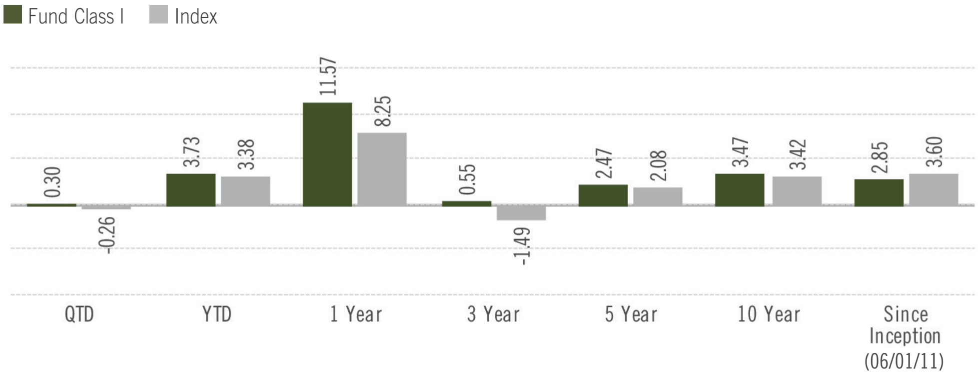
QUARTERLY REVIEW

AVERAGE ANNUAL TOTAL RETURNS (%) as of 09/30/23



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 2.21%. The net expense ratio is 1.00%, which reflects a contractual expense reimbursement in effect through 9/30/2024.

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

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. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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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