Virtus Stone Harbor Emerging Markets Corporate Debt Fund

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

MARKET REVIEW

Sector Review "Broad Market"

The potential for a "softish" landing of the global economy provided a supportive backdrop for emerging markets (EM) debt returns in Q4. Risks related to growth and inflation were balanced for most of the period, though growth concerns increased at the quarter's end as the U.S. reported weakness in recent economic activity. The termination of the zero-COVID policy in China and introduction of new measures to support the Chinese property market highlighted concerns over growth among policy makers for the world's second largest economy. Nevertheless, with improvements in inflation data and the anchoring of inflation expectations by the U.S. Federal Reserve (the Fed), markets reversed some of the trends from earlier in the year: the U.S. dollar weakened; EM currencies appreciated; government bond yields fell; and credit spreads tightened. Modest inflows into EM credit markets resumed in Q4, but flows remained substantially negative for the year. Tracking indices for the three sectors of emerging markets (EM) debt[1]— hard currency sovereign debt, local currency sovereign debt, and hard currency corporate debt — delivered total returns of 8.11%, 8.45%, and 4.72%, respectively. These results outperformed other major credit sectors and contrasted with the negative returns for all of 2022.

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

Benchmark Performance

EM hard currency investment grade and sub-investment grade corporate debt posted total returns of -2.99% and 7%, respectively. Spread compression in both sectors drove the positive results.

By industry sector, pulp and paper outperformed, as pulp prices remained resilient to the benefit of producers. The consumer sector, as well as metals and mining also performed well. Notable underperformance came from financials and transportation. Financials lagged the index during the quarter after outperforming for most of the year. A downturn in airlines negatively impacted average returns on transportation bonds.

Regionally, Latin America was the best performer for the quarter and for the year. Most of the major Latin American markets outperformed in Q4, though Argentina led the way with a return of 14.01%. A new finance minister engendered confidence that corporates would be able to continue to access U.S. dollars to meet financial obligations. Despite the election of Lula as president in Brazil, corporates in the country outperformed the broader index.

Elevated oil prices boosted cash flows and bond returns from producers in Colombia. In CEEMEA, Ukraine was a top performer as corporates from the country stayed current on debt obligations, despite the ongoing war. Turkey also had a better total return than the index as Turkish banks outperformed on the back of an improved regulatory environment.

The underperformance of Asian corporates came primarily from investment grade companies in Hong Kong, South Korea, and Singapore. However, bonds from China and Macau were the largest contributors to total returns in Q4 with average returns of 5.42% and 20.86%, respectively. China's property bonds gained following the announcement of new measures to support the housing market and after underperformance earlier in the year. Macau's gaming bonds rallied on expectations of a reopening of the Chinese economy and increased tourism revenue with the termination of the zero-COVID policy.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned 7.56% (net of fees) and 7.83% (gross of fees) in the fourth quarter versus the J.P. Morgan CEMBI Broad Diversified Index return of 4.72%.

Positive Contributors

> **Overweight Exposure and Issue Selection in Macau:** Bonds in the gaming sector rallied on expectations of a reopening of the Chinese economy and increased tourism revenue with the relaxation of the Zero-COVID policy.

> **Overweight Exposure and Issue Selection in Colombia:** Elevated oil prices boosted cash flows and bond returns from producers in Colombia. Additionally, a softening in messaging from the new presidential administration around the oil and gas industry was supportive of the market.

> **Underweight Exposure in Philippines:** Philippines sub-index underperformed the broader market and having no exposure in the Philippines enhanced performance.

Performance Detractors

> **Underweight Exposure in Turkey:** An underweight exposure detracted from performance as Turkey outperformed the broader market, driven by Turkish banks that benefitted from improved regulatory environment.

> **Overweight Exposure in Jamaica:** Overweights in select telecom and cable provider (Digicel) detracted from performance.

> **Underweight Exposure in Panama:** Underweights in select credits, including a cable and mobile services provider (Cable Onda), a power company (AES Panama Generation), and a telecom company (C&W Senior Financing Designated Activity Company) detracted from relative performance.

OUTLOOK & STRATEGY

We expect slower growth, not recession, over the next 12 months and assign a 45% probability to this "softish landing" scenario, an increase from our assessment at the end of Q3. A central bank-led recession, driven by a combination of tighter monetary policies and elevated energy prices, remains a major risk, which we assign a 35% likelihood. In addition, since our publication of our Q4 Market Review and outlook, forward rates on U.S. inflation-

[1] J.P. Morgan EMBI Global Diversified, J.P. Morgan GBI-EM Global Diversified, and J.P. Morgan CEMBI Broad Diversified.

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linked securities further suggest that the Fed's interest rate hikes have anchored inflation expectations. Accordingly, we increased our estimated probability for a third scenario in which the Fed and other central banks ease monetary policies as inflation reverses course in response to lower growth (20% 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 US dollar, and local interest rates are high, particularly if inflation peaks in the near term in some EM countries, as we expect it will.

In EM corporate debt, with few exceptions, credit fundamentals remain strong and provide significant buffers against risks of recession and inflation. We currently favor low-cost commodity producers, which continue to benefit from supportive commodity prices. In our base case, the number of EM companies in default decelerates as most of the defaults in Russia and in China's property sector have already occurred.

We also anticipate favorable technical conditions for EM corporate debt in the year ahead. 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. In addition, while international capital markets remain closed to many issuers, local debt markets in most of the largest EMs continue to provide attractive financing alternatives. Current technical conditions, therefore, may create additional support for EM corporate debt once markets stabilize, in our view.

PERFORMANCE ATTRIBUTION BREAKDOWN as of 12/30/2022

Portfolio (gross basis - USD)	7.83
JPM CEMBI Broad Div	4.72
Difference	**3.11**
Breakdown	
Country Attribution	0.78
Issue Attribution	2.34
Miscellaneous Difference	**-0.01**

REGIONAL ALLOCATION

	% Fund	Benchmark
Africa	9.51	6.88
Asia	36.81	43.52
Europe	5.67	5.59
Latin America	29.69	24.26
Middle East	13.78	19.75
Net Cash	4.53	0.00

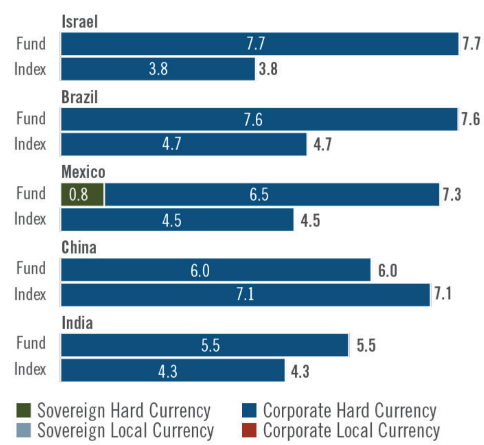
Weightings are subject to change. Weightings may not add up to 100% as a result of the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or for risk management purposes.

SECTOR DISTRIBUTION

	% Fund	Benchmark
Sovereign Hard Currency	7.36	0.00
Corporate Hard Currency	88.11	100.00
Sovereign Local Currency	0.00	0.00
Corporate Local Currency	0.00	0.00
Net Cash	4.53	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, primarily in Brazil and Mexico. Underweights in longer duration, highly rated corporates, namely Kuwait, Taiwan, UAE and Qatar.

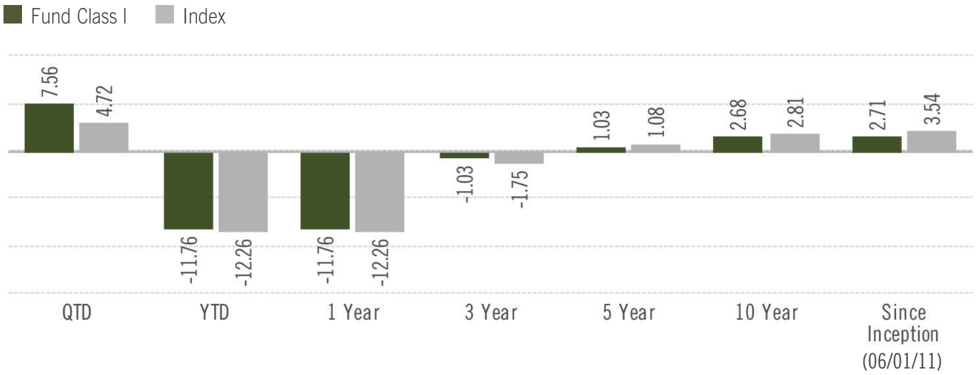
> Underweight in Financials. Overweight in Exploration & Production to take advantage of continued benefit of attractive oil prices. Overweight Utilities as power companies are generally protected from inflation and FX volatility.

> 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	10.57	2.79	BB+	BB+	Israel, Brazil, Mexico	Qatar, Philippines, UAE
Sovereign Hard Currency	8.52	N/A	BB+	N/A	Kazakstan, UAE, South Africa	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 12/30/22



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 or military conflict (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.

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