VIRTUS FUNDS

Virtus Stone Harbor Emerging Markets Bond Fund

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

MARKET REVIEW

Sector Review "Broad Market"

In Q1, 2023, tighter financial conditions in the U.S. and Europe and fears of reduced credit availability amidst banking sector stress led to a reversal of earlier gains in developed country credit markets. By extension, returns on emerging markets (EM) bonds also turned down in March as spreads widened and portfolio outflows resumed. However, tracking indices for the three sectors of EM debt[1]— hard currency sovereign debt, local currency sovereign debt, and hard currency corporate debt—delivered positive total returns of 1.9%, 5.2%, and 2.2%, respectively. Global fixed-income benchmark returns, including EM, benefited from a decline in U.S. Treasury yields, which dropped in March, after increasing in February on strong U.S. economic data. U.S. high yield and investment grade corporate debt returned 3.7% and 3.5%, respectively, while 7-10 year U.S. Treasuries gained 3.0%. The USD depreciated as U.S. yields fell. EM currencies appreciated on average.

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

Benchmark Performance

EM corporates returned 2.24%. Volatility in U.S. Treasury yields drove bond prices and spreads to move significantly during the quarter, especially in March. Total returns for sub-investment grade and investment grade sectors were 2.32% and 2.14%, respectively. The benchmark spread widened 25 basis points while the average spreads of sub investment grade and investment grade bonds widened 29 basis points and 34 basis points, respectively.

All major industry sectors posted positive returns with transportation issues leading and infrastructure bonds lagging. Financials returned 1.27%, underperforming the index as stress in the U.S. and European banking systems impacted bank debt globally. The real estate sector outperformed, led by a significant recovery among Chinese homebuilders as China's government implemented measures to support the industry.

Asia outperformed led by Macau, as the end of China's zero COVID policies prompted the return of tourists to the island's casinos. High grade, long-duration segments of the market from Hong Kong, Singapore, South Korea, and Taiwan also outperformed as U.S. Treasury yields declined.

Central and Eastern Europe led the broad region including Europe, the Middle East/Gulf States and Africa. Ukrainian corporates outperformed as most issuers met debt service obligations despite the ongoing war with Russia. Kazakhstan bonds posted an average total return of 3.98%, benefiting from the inclusion of Kazmunaygas in J.P. Morgan's CEMBI Broad Diversified. Middle Eastern markets underperformed as oil prices declined. Lower oil prices also impacted returns in Ghana. Zambia, on the other hand, was an outperformer after First Quantum reached an agreement on copper royalties with the Panamanian government, narrowly avoiding a shutdown of the Cobre Panama mine.

Corporate debt from Latin American region returned 0.76%. Brazil, which returned -0.51% detracted from the regional performance on concerns around the availability of financing for high yield corporates following the sudden default of Lojas Americanas. In January 2023, the company revealed that it had not properly disclosed certain financings, leading to a misstatement of leverage. We believe these irregularities were isolated to Lojas Americanas. Colombia also had a lower return than the index due to weaker oil prices. Jamaica was the best performer in Latin America as Digicel announced a debt restructuring that benefited parts of the capital structure.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned 2.06% (net of fees) and 2.31% (gross of fees) in the first quarter versus the J.P. Morgan CEMBI Broad Diversified Index return of 2.24%.

Positive Contributors

> **Ukraine:** Overweight exposure to Metinvest, steel and mining company, enhanced performance. During the quarter, Ukrainian corporates outperformed as most issuers met debt service obligations despite the ongoing war with Russia.

> **Argentina:** Overweight exposure and issue selection, primarily YPF, enhanced performance.

> **Brazil:** Issue selection, particularly the overweight in Gol and Iochpe-Maxion, as well as underweights in Light and Lojas Americanas, drove outperformance.

Performance Detractors

> **Jamaica:** Although an overweight exposure in Jamaica enhanced performance, which was supported by news of debt restructuring by Digicel, issue selection detracted from performance.

> **Colombia:** Overweight to independent oil & gas names, which were impacted by weaker oil prices during the quarter, detracted from performance.

> **Philippines:** UUnderweights in select credits, including SMC Global Power Holdings Corp, a power generation company, detracted from relative performance as the Philippines outperformed the index.

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

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

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OUTLOOK & STRATEGY

Our base case macroeconomic scenario is a softish landing, with tighter financial conditions induced by higher Fed policy rates and a fading rebound from COVID-19, meaningfully slowing growth. Under this scenario, to which we assign a 50% probability, we assume that growth in emerging markets recovers as the impact of China's reopening offsets the drag from developed markets, while commodity exporters still benefit from strong terms of trade. U.S. growth remains positive but anemic, and Eurozone growth is close to zero. Alternative scenarios include a central bank-led global recession (30% probability), stubbornly sticky inflation (10% probability), and spiraling banking problems (10% probability).

In corporate debt, the market faces a manageable debt maturity wall over the next 12 months, and in most markets, local financing remains a viable option for high quality issuers. This technical tailwind, combined with lower defaults in 2023 than in 2022, we believe, will be supportive for the sector. Defaults in 2022 were the products of the onset of the Russian/Ukraine war and the sharp downturn in the Chinese homebuilding sector; markets have already discounted these impacts. While emerging market companies would not be immune from a slowdown in global growth should additional stresses in the U.S. and European banking sectors emerge, we believe most large emerging market banks remain well capitalized, systematically important, and beneficiaries of implicit government support.

PERFORMANCE ATTRIBUTION BREAKDOWN as of 03/31/2023

Portfolio (gross basis - USD)	2.31
JPM CEMBI Broad Div	2.24
Difference	**0.07**
Breakdown	
Country Attribution	0.11
Issue Attribution	-0.08
Miscellaneous Difference	**0.04**

REGIONAL ALLOCATION

REGIONAL ALLOCATION	% Fund	Benchmark
Africa	9.90	7.66
Asia	40.30	42.99
Europe	5.60	6.66
Latin America	30.19	23.59
Middle East	11.16	19.09
Net Cash	2.86	0.00

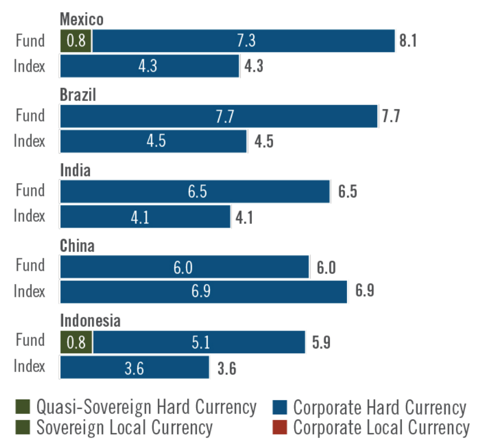
Weightings are subject to change. Weightings may not add up to 100% as a result of the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or for risk management purposes.

SECTOR DISTRIBUTION

SECTOR DISTRIBUTION	% Fund	Benchmark
Quasi-Sovereign Hard Currency	4.79	0.00
Corporate Hard Currency	92.34	100.00
Sovereign Local Currency	0.00	0.00
Corporate Local Currency	0.00	0.00
Net Cash	2.86	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, and in Africa. Underweights in longer duration, highly rated corporates, namely Qatar, Philippines, Taiwan, and Kuwait.

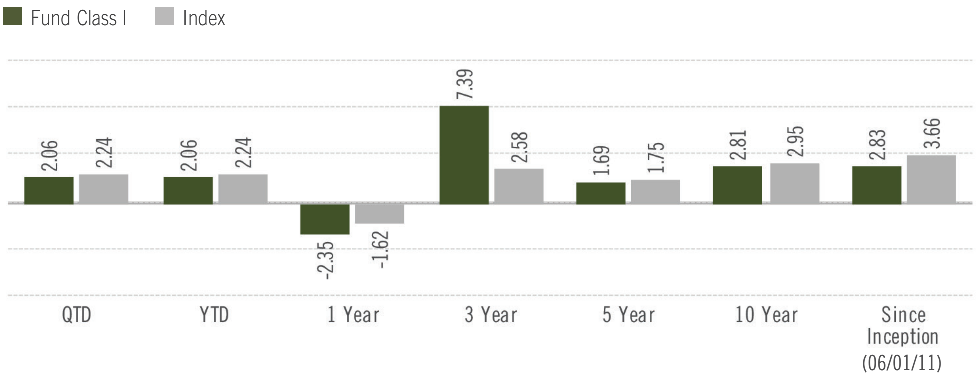
> Underweight in Financials. Overweight in Exploration & Production to take advantage of continued benefit of attractive oil prices. Overweight Utilities as power companies are generally protected from inflation and FX volatility. Overweight Gaming through positions in Macau as expected rebound in tourism should drive gaming revenues.

> BB 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	10.06	2.50	BB+	BB+	Brazil, Mexico, India	UAE, South Africa, Indonesia
Quasi-Sovereign Hard Currency	7.54	N/A	BB+	N/A	Kazakhstan, 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 03/31/23



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 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

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, 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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