

## VIRTUS STONE HARBOR EMERGING MARKETS TOTAL INCOME FUND

101 Munson Street  
Greenfield, MA 01301-9683  
(866) 270-7788

Dear Shareholder:

November 15, 2023

You are receiving this Information Statement/Prospectus because you own shares in Virtus Stone Harbor Emerging Markets Total Income Fund (the “Acquired Fund”). The Board of Trustees of the Acquired Fund has approved the reorganization of the Acquired Fund with and into Virtus Stone Harbor Emerging Markets Income Fund (the “Acquiring Fund” and, together with the Acquired Fund, the “Funds”). Each Fund is a closed-end management investment company. Each Fund’s investment adviser is Virtus Alternative Investment Advisers, Inc. and subadviser is Stone Harbor Investment Partners, an operating division of Virtus Fixed Income Advisers, LLC.

The reorganization of the Acquired Fund with and into the Acquiring Fund will occur pursuant to an Agreement and Plan of Reorganization providing for the transfer of all of the assets of the Acquired Fund to the Acquiring Fund in exchange solely for newly issued common shares of beneficial interest of the Acquiring Fund, the assumption by the Acquiring Fund of the liabilities of the Acquired Fund, the distribution of common shares of beneficial interest of the Acquiring Fund to the shareholders of the Acquired Fund, and complete liquidation of the Acquired Fund (the “Reorganization”).

The Reorganization is subject to certain conditions, including the separate approval of the shareholders of the Acquiring Fund of the issuance of additional common shares of beneficial interest of the Acquiring Fund in connection with the Reorganization. The shareholders of the Acquiring Fund approved the issuance of shares in connection with the Reorganization on May 22, 2023. The Reorganization is expected to occur after the close of business on or about December 15, 2023.

The Reorganization is expected to be treated as a tax-free reorganization for U.S. federal income tax purposes.

**The Reorganization does not require approval of the shareholders of the Acquired Fund, and you are not being asked to vote.** We do, however, ask that you carefully review the enclosed Information Statement/Prospectus, which contains information about the Acquiring Fund and the Reorganization.

Sincerely,

George R. Aylward  
President, Chief Executive Officer and Trustee,  
Virtus Stone Harbor Emerging Markets Total Income Fund

## QUESTIONS & ANSWERS

The following is a summary of more complete information appearing later in the attached Information Statement/Prospectus or incorporated by reference into the Information Statement/Prospectus. You should carefully read the entire Information Statement/Prospectus, including the Agreement and Plan of Reorganization, which is attached as Appendix A thereto, because it contains details that are not in the Questions and Answers.

**Q: Why am I receiving an Information Statement/Prospectus?**

**A:** You are receiving an Information Statement/Prospectus because you own shares of Virtus Stone Harbor Emerging Markets Total Income Fund (the “Acquired Fund”). The Board of Trustees of the Acquired Fund (the “Acquired Fund Board”) has approved the reorganization of the Acquired Fund with and into Virtus Stone Harbor Emerging Markets Income Fund (the “Acquiring Fund” and, together with the Acquired Fund, the “Funds”).

The reorganization of the Acquired Fund with and into the Acquiring Fund will occur pursuant to an Agreement and Plan of Reorganization providing for the transfer of all of the assets of the Acquired Fund to the Acquiring Fund in exchange solely for newly issued common shares of beneficial interest of the Acquiring Fund, the assumption by the Acquiring Fund of the liabilities of the Acquired Fund, the distribution of common shares of beneficial interest of the Acquiring Fund to the shareholders of the Acquired Fund and complete liquidation of the Acquired Fund (the “Reorganization”).

The Reorganization is subject to certain conditions, including the separate approval of the shareholders of the Acquiring Fund of the issuance of additional common shares of beneficial interest of the Acquiring Fund in connection with the Reorganization. The shareholders of the Acquiring Fund approved the issuance of shares in connection with the Reorganization on May 22, 2023. The Reorganization is expected to occur after the close of business on or about December 15, 2023.

The Acquiring Fund will be the accounting and performance survivor of the Reorganization. The Acquiring Fund as it will exist after the Reorganization is referred to as the “Combined Fund.”

**Q: Why did the Board of Trustees of the Acquired Fund approve the Reorganization?**

**A:** The Acquired Fund Board of Trustees determined that the Reorganization is in the best interests of the shareholders of the Acquired Fund and the interests of the existing shareholders of the Acquired Fund will not be diluted as a result of the Reorganization. The Acquired Fund Board considered other options potentially available to the Acquired Fund, including maintaining the status quo, modifications, or liquidating the Acquired Fund, and determined to approve the Reorganization.

Please see “Background and Reasons for the Proposed Reorganization” in the Information Statement/Prospectus for additional information on the Acquired Fund Board’s considerations relating to the Reorganization.

**Q: Am I being asked to vote on the Reorganization?**

**A:** No. Shareholders of the Acquired Fund are not required to approve the Reorganization under state or federal law, the Investment Company Act of 1940, as amended (the “1940 Act”), or the organizational documents governing the Acquired Fund. We are not asking you for a proxy, and you are requested not to send us a proxy.

**Q: How do the Funds compare?**

**A:** The Funds are substantially similar. Each Fund’s investment adviser is Virtus Alternative Investment Advisers, Inc. (the “Adviser” or “VAIA”). Each Fund’s investment subadviser is Stone Harbor Investment Partners (“Stone Harbor”), an operating division of Virtus Fixed Income Advisers, LLC (“VFIA”), an affiliate of VAIA. The Acquired Fund’s portfolio management team primarily responsible for the day-to-day management of the Acquired Fund’s portfolio consists of the same portfolio managers who comprise the Acquiring Fund’s portfolio management team primarily responsible for the day-to-day management of the Acquiring Fund. The Funds’ current portfolio management team will be primarily

responsible for the day-to-day management of the Combined Fund's portfolio. The Acquired Fund and the Acquiring Fund have the same investment objective and similar principal investment strategies, principal risks, and investment restrictions and policies.

Each Fund is a closed-end management investment company registered under the 1940 Act. Each Fund is organized as a Massachusetts business trust. The Acquired Fund and Acquiring Fund are both non-diversified management investment companies. A non-diversified fund is not limited by the 1940 Act with regard to the percentage of its assets that may be invested in the securities of a single issuer. Consequently, the securities of a particular issuer or a small number of issuers may constitute a significant portion of the fund's investment portfolio. Each Fund's common shares are listed on the New York Stock Exchange.

Each Fund may use leverage to the extent permitted by the 1940 Act. As of May 31, 2023, the Acquired Fund had 23% aggregate financial leverage from reverse repurchase agreements as a percentage of its total managed assets. As of the same date, the Acquiring Fund had 27% aggregate financial leverage from the issuance of reverse repurchase agreements as a percentage of its total managed assets. The Acquiring Fund uses leverage primarily in the form of the issuance of reverse repurchase agreements. The Combined Fund anticipates using leverage similarly to the Acquiring Fund's use thereof.

Each Fund intends to make monthly distributions to its shareholders.

Each Fund is governed by a Board of Trustees (each, a "Board"). The Board of the Acquired Fund has twelve Trustees, eleven of whom are not "interested persons" of the Acquired Fund (as defined in the 1940 Act) (the "Independent Trustees"). The Board of the Acquiring Fund consists of the same Trustees, including Independent Trustees, as the Acquired Fund.

Each Fund's Amended and Restated Agreement and Declaration of Trust (the "Declaration of Trust") and Second Amended and Restated Bylaws (the "Bylaws") are materially similar.

Please see "Comparison of the Funds" in the Information Statement/Prospectus for additional information.

**Q: How will the fees and expenses of the Combined Fund compare to those of the Acquired Fund?**

- A:** The contractual advisory fee of the Acquired Fund is 1.00% of the Fund's Managed Assets, as defined below. The contractual advisory fee of the Acquiring Fund is, and the Combined Fund will be, 1.00% of the Fund's Managed Assets provided that the advisory fee does not exceed 1.50% of the Acquiring Fund's net assets. Managed Assets are the average daily value of the fund's total assets, including any assets attributable to any leverage used, minus the fund's accrued liabilities, other than the fund liabilities incurred for any leverage.

The management fees for the Acquired Fund, Acquiring Fund and *pro forma* for the Combined Fund will vary based on the extent to which the Fund borrows for investment purposes. As a result, the advisory fee, as a percentage of net assets, can differ due to the amount of borrowings. The management fees for the Acquired Fund, Acquiring Fund and *pro forma* for the Combined Fund, based on the Funds' average daily net assets, assuming the Reorganization was consummated on May 31, 2023, are 1.25%, 1.28%, and 1.28%.

Following the consummation of the Reorganization, the *pro forma* total annual operating expense ratio of the Combined Fund is expected to be lower than the total annual operating expense ratio of the Acquired Fund. For the Acquired Fund and Acquiring Fund, VAIA has contractually agreed to limit each Fund's annual operating expenses other than the management fee, subject to certain exclusions, so that such expenses do not exceed, on an annualized basis, 0.70% and 0.58%, respectively, of average daily net assets through April 10, 2025. Exclusions from the expense limitation include investment advisory fees, interest, any other fees or expenses relating to financial leverage, preferred shares (such as dividends on preferred shares, auction agent fees and commissions and rating agency fees) or borrowing (such as interest, commitment, amendment and renewal expenses on credit or redemption facilities), taxes, extraordinary, unusual or infrequently occurring expenses (such as litigation), costs related to share offerings, brokerage commissions, expenses incurred in connection with any merger or

reorganization, underlying fund expenses and dividend expenses, if any (each expressed as a percentage of average daily net assets attributable to common shares). The total annual operating expenses (including interest on borrowings) for the Acquired Fund and *pro forma* for the Combined Fund are 3.11%, and 3.10%, respectively. *Pro forma* combined fees and expenses are estimated in good faith and are hypothetical. There can be no assurance that future expenses will not increase or that any estimated expense savings will be realized.

Please see “Fees and Expenses Table” and “Management of the Funds” in the Information Statement/Prospectus for additional information.

**Q: How will the Reorganization be effected?**

- A:** The Acquired Fund will transfer all of its assets to the Acquiring Fund in exchange for common shares of the Acquiring Fund, and the assumption by the Acquiring Fund of all the liabilities of the Acquired Fund. Following the Reorganization, the Acquired Fund will be dissolved and terminated in accordance with its Declaration of Trust and Bylaws and the 1940 Act.

You will become a shareholder of the Acquiring Fund. Holders of common shares of the Acquired Fund will receive newly issued common shares of the Acquiring Fund, par value \$0.001 per share, the aggregate net asset value (not the market value) of which will equal the aggregate net asset value (not the market value) of the common shares of the Acquired Fund you held immediately prior to the Reorganization (although shareholders will receive cash for fractional shares). Although the Reorganization will result in no dilution of the net asset value of Acquiring Fund common shares or dilution of the net asset value of Acquired Fund common shares, as a result of the Reorganization, a shareholder of either of the Funds will hold a reduced percentage of ownership in the Combined Fund than the shareholder did in the Acquired Fund or the Acquiring Fund prior to the Reorganization.

The Reorganization will be accounted for under the asset acquisition method of accounting under ASC 805-50. Under ASC 805-50-25-2, the entity that receives the net assets initially recognizes the assets and liabilities transferred at the date of transfer (i.e., the fair value of the assets acquired). Under ASC 805-50-30-3, the cost of a group of assets acquired in an asset acquisition is allocated to individual assets acquired or liabilities assumed based on their relative fair values and does not give rise to goodwill. There is no anticipated day one gain or loss. Any direct transaction costs associated with the transfer of the assets will be capitalized as a component of the costs of the assets acquired allocated on relative fair value basis.

**Q: At what prices have common shares of the Acquired Fund and common shares of the Acquiring Fund historically traded?**

- A:** Common shares of each Fund have from time to time traded differently from their net asset values. As of October 24, 2023, the Acquired Fund common shares were trading at a 6.95% discount to its net asset value and the Acquiring Fund common shares were trading at a 3.28% discount to its net asset value. There can be no assurance that, after the Reorganization, common shares of the Combined Fund will trade at, above or below net asset value. **The market value of the common shares of the Combined Fund may be more or less than the market value of either the common shares of the Acquired Fund or the common shares of the Acquiring Fund prior to the Reorganization.**

Please see “Share Price Data” in the Information Statement/Prospectus for additional information.

**Q: Will the Reorganization impact Fund distributions to shareholders?**

- A:** The Acquired Fund and the Acquiring Fund currently pay a monthly distribution of \$0.07 per share and \$0.06 per share, respectively. The Combined Fund expects to pay a monthly distribution of \$0.06 per share, which is the same as the monthly distribution of the Acquiring Fund and less than the monthly distribution of the Acquired Fund.

Based on each Fund’s NAV as of August 31, 2023, the exchange ratio at which common shares of the Acquired Fund would have converted to common shares of the Combined Fund is 1.19 (i.e., assuming

the Reorganization was consummated following the market close on August 31, 2023, an Acquired Fund shareholder would have received 1.19 shares of the Combined Fund for each Acquired Fund share held).

Prior to the closing of the Reorganization, the Acquired Fund expects to declare a distribution of all of its net investment income and net capital gains, if any. All or a portion of such distribution may be taxable to the Acquired Fund's shareholders for U.S. federal income tax purposes.

The Combined Fund intends to make its first distribution to shareholders in the month immediately following the Reorganization. In addition, the Combined Fund expects to follow the same frequency of payments as each Fund and make monthly distributions to shareholders.

**Q: Who will manage the Combined Fund's portfolio?**

**A:** The Combined Fund will be managed by VAIA and Stone Harbor, each Fund's current adviser and subadviser, respectively. The Acquired Fund's current portfolio management team will be primarily responsible for the day-to-day management of the Combined Fund's portfolio. The Acquired Fund's portfolio management team primarily responsible for the day-to-day management of the Acquired Fund's portfolio consists of the same portfolio managers who comprise the Acquiring Fund's portfolio management team primarily responsible for the day-to-day management of the Acquiring Fund.

**Q: Will there be any significant portfolio transitioning in connection with the Reorganization?**

**A:** It is anticipated that there will be no significant portfolio transitioning in connection with the Reorganization. Accordingly, there are expected to be no transaction costs (including brokerage commissions, transaction charges and related fees) associated with the Reorganization. To the extent there are any transaction costs, these will be borne by the Acquired Fund with respect to any portfolio transitioning conducted before the Reorganization and borne by the Combined Fund with respect to any portfolio transitioning conducted after the Reorganization.

As of November 30, 2022, the Acquired Fund had a short-term capital loss carryforward of approximately \$41,883,000 and a long-term capital loss carryforward of \$44,496,000. After the Reorganization, the capital losses will not expire but there may be a per year limit on the amount of the Acquired Fund's pre-Reorganization capital losses that can be used to offset future post-Reorganization capital gains. Please see "Material Federal Income Tax Consequences of the Reorganization" in the Information Statement/Prospectus for additional information.

**Q: Will I have to pay any sales load or commission in connection with the Reorganization?**

**A:** No. You will pay no sales load or commission in connection with the Reorganization.

**Q: Who will pay for the costs associated with the Reorganization?**

**A:** Each Fund will bear expenses incurred in connection with the Reorganization on a *pro rata* basis calculated as a percentage of each Fund's relative net assets. The expenses of the Reorganization are estimated to be \$450,000. If the Reorganization is not consummated, then the officers of the Acquired Fund and Acquiring Fund, or an affiliate, based on the reasons for not consummating the transaction, will agree on a reasonable allocation of expenses.

**Q: Is the Reorganization expected to be taxable to shareholders of the Acquired Fund?**

**A:** No. The Reorganization is intended to be treated as a tax-free reorganization for U.S. federal income tax purposes. As a condition to the closing of the Reorganization that the Acquired Fund and the Acquiring Fund each receive an opinion from Dechert LLP, dated as of the Closing Date, regarding the characterization of the Reorganization as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). If the Reorganization qualifies for tax-free treatment, Acquired Fund shareholders will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of Acquired Fund shares for Acquiring Fund shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares, if any). Prior to the closing of the Reorganization, the Acquired Fund expects to declare a distribution of all of its previously

undistributed net investment income and net capital gains, if any. All or a portion of such distribution may be taxable to the Acquired Fund's shareholders for U.S. federal income tax purposes. Please see "Material Federal Income Tax Consequences of the Reorganization" in the Information Statement/Prospectus for additional information.

**Q: Why is no Acquired Fund shareholder action necessary?**

**A:** No Acquired Fund shareholder action is necessary because the Reorganization satisfies the requisite conditions of Rule 17a-8 under the 1940 Act, and, in accordance with the Acquired Fund's Declaration of Trust and applicable Massachusetts state and U.S. federal law, the Reorganization may be effected without the approval of shareholders of the Acquired Fund.

**Q: Whom do I contact for further information?**

**A:** If you have any questions regarding the Reorganization, please call (866) 270-7788.

**INFORMATION STATEMENT FOR  
VIRTUS STONE HARBOR EMERGING MARKETS TOTAL INCOME FUND**

101 Munson Street  
Greenfield, MA 01301-9683  
(866) 270-7788

**PROSPECTUS FOR  
VIRTUS STONE HARBOR EMERGING MARKETS INCOME FUND**

101 Munson Street  
Greenfield, MA 01301-9683  
(866) 270-7788

**November 15, 2023**

This Information Statement/Prospectus is furnished to you as a common shareholder of the Virtus Stone Harbor Emerging Markets Total Income Fund (the “Acquired Fund”), a Massachusetts business trust and a closed-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The reorganization of the Acquired Fund with and into Virtus Stone Harbor Emerging Markets Income Fund (the “Acquiring Fund” and each, a “Fund” and together, the “Funds”) will occur pursuant to an Agreement and Plan of Reorganization (the “Plan”) providing for the transfer of all of the assets of the Acquired Fund to the Acquiring Fund in exchange solely for newly issued common shares of beneficial interest of the Acquiring Fund, the assumption by the Acquiring Fund of the liabilities of the Acquired Fund, the distribution of the common shares of beneficial interest of the Acquiring Fund to the shareholders of the Acquired Fund, and complete liquidation of the Acquired Fund (the “Reorganization”). The Acquiring Fund as it will exist after the Reorganization is referred to as the “Combined Fund.”

The Acquired Fund and the Acquiring Fund have the same investment objective and similar principal investment strategies, principal risks, and investment restrictions and policies. Each Fund seeks to maximize total return. Each Fund is a closed-end management investment company registered under the 1940 Act, and each Fund’s common shares are listed on the New York Stock Exchange (the “NYSE”).

The Reorganization is subject to certain conditions, including the separate approval of the shareholders of the Acquiring Fund of the issuance of additional common shares of beneficial interest of the Acquiring Fund in connection with the Reorganization. The shareholders of the Acquiring Fund approved the issuance of shares in connection with the Reorganization on May 22, 2023.

In connection with the Reorganization, you will become a shareholder of the Acquiring Fund. Holders of common shares of the Acquired Fund will receive newly issued common shares of the Acquiring Fund, par value \$0.001 per share, the aggregate net asset value (not the market value) of which will equal the aggregate net asset value (not the market value) of the common shares of the Acquired Fund you held immediately prior to the Reorganization (although shareholders will receive cash for fractional shares).

**THIS INFORMATION STATEMENT/PROSPECTUS IS FOR INFORMATIONAL PURPOSES ONLY, AND YOU DO NOT NEED TO DO ANYTHING IN RESPONSE TO RECEIVING IT.**

**WE ARE NOT ASKING YOU FOR A PROXY, AND YOU ARE NOT REQUESTED TO SEND US A PROXY.**

For federal income tax purposes, the Reorganization is intended to be structured as a tax-free reorganization.

The Funds are substantially similar. Each Fund’s investment adviser is Virtus Alternative Investment Advisers, Inc. (the “Adviser” or “VAIA”). Each Fund’s investment subadviser is the Stone Harbor Investment Partners (“Stone Harbor”), an operating division of Virtus Fixed Income Advisers, LLC (“VFIA”), an affiliate of VAIA. The Acquired Fund’s portfolio management team primarily responsible for the day-to-day management of the Acquired Fund’s portfolio consists of the same portfolio managers who comprise the

Acquiring Fund's portfolio management team primarily responsible for the day-to-day management of the Acquiring Fund. The Funds' current portfolio management team will be primarily responsible for the day-to-day management of the Combined Fund's portfolio.

Each Fund is governed by a Board of Trustees (each, a "Board"). The Board of the Acquired Fund has twelve Trustees, eleven of whom are not "interested persons" of the Acquired Fund (as defined in the 1940 Act) (the "Independent Trustees"). The Board of the Acquiring Fund consists of the same Trustees, including Independent Trustees, as the Acquired Fund.

Each Fund's Amended and Restated Agreement and Declaration of Trust ("Declaration of Trust") and Second Amended and Restated Bylaws ("Bylaws") are materially similar.

The common shares of the Acquiring Fund ("Shares" and the holders of such Shares, "Shareholders") are listed on the NYSE under the ticker symbol "EDF" and will continue to be so listed following the Reorganization. The common shares of the Acquired Fund are listed on the NYSE under the ticker symbol "EDI" and will be delisted from the NYSE following the Reorganization. Shareholder reports, proxy statements and other information concerning Funds can be inspected at the NYSE.

The following documents have been filed with the Securities and Exchange Commission ("SEC") and are incorporated into this Information Statement/Prospectus by reference:

- the Statement of Additional Information, dated November 15, 2023, relating to this Information Statement/Prospectus;
- the Annual Report to shareholders of the Acquired Fund for the fiscal period ended November 30, 2022 (Investment Company Act File No. 811-22716; Accession Number 0001193125-23-025626);
- the Semiannual Report to shareholders of the Acquired Fund for the fiscal period ended May 31, 2023 (Investment Company Act File No. 811-22716; Accession Number 0001193125-23-204824);
- the Annual Report to shareholders of the Acquiring Fund for the fiscal period ended November 30, 2022 (Investment Company Act File No. 811-22473; Accession Number 0001193125-23-025618); and
- the Semiannual Report to shareholders of the Acquiring Fund for the fiscal period ended May 31, 2023 (Investment Company Act File No. 811-22473; Accession Number 0001193125-23-204816).

Additional copies of the foregoing and any more recent reports filed after the date hereof for the Funds may be obtained without charge:

**By Phone:** (866) 270-7788  
**By Mail:** Virtus Funds  
c/o Computershare Investor Services  
P.O. Box 43078  
Providence, RI 02940-3078  
**By Internet:** [www.Virtus.com](http://www.Virtus.com)

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and, in accordance therewith, file reports, proxy statements, proxy materials and other information with the SEC. You also may view or obtain the foregoing documents from the SEC:

**By e-mail:** [publicinfo@sec.gov](mailto:publicinfo@sec.gov) (duplicating fee required)  
**By Internet:** [www.sec.gov](http://www.sec.gov)  
**By Mail:** 100 F Street, N.E., Washington, D.C. 20549

This Information Statement/Prospectus serves as a prospectus of the Acquiring Fund. This Information Statement/Prospectus sets forth concisely the information that shareholders of the Acquired Fund should know about the Reorganization. Please read it carefully and retain it for future reference. No person has been authorized to give any information or make any representation not contained in this Information Statement/Prospectus and, if so given or made, such information or representation must not be relied upon as

having been authorized. This Information Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

**THE SEC HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS INFORMATION STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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## SUMMARY

### Synopsis

The Board of Trustees of each Fund (each, a “Board”), including the Trustees who are not interested persons of the Fund, as defined in the 1940 Act (“Independent Trustees”), has approved the Agreement and Plan of Reorganization (the “Plan”). The reorganization of the Virtus Stone Harbor Emerging Markets Total Income Fund (the “Acquired Fund”) with and into Virtus Stone Harbor Emerging Markets Income Fund (the “Acquiring Fund” and each, a “Fund” and together, the “Funds”) will occur pursuant to the Plan (the “Reorganization”). The Acquiring Fund as it will exist after the Reorganization is referred to as the “Combined Fund.”

Subject to shareholder approval of the issuance of Acquiring Fund common shares by the shareholders of the Acquiring Fund, the Plan provides for:

- the transfer of all of the assets of the Acquired Fund to the Acquiring Fund, in exchange solely for shares of the Acquiring Fund;
- the assumption by the Acquiring Fund of the liabilities of the Acquired Fund;
- the distribution of common shares of the Acquiring Fund to the shareholders of the Acquired Fund; and
- the complete liquidation of the Acquired Fund.

The shareholders of the Acquiring Fund approved the issuance of shares in connection with the Reorganization on May 22, 2023. It is expected that the Reorganization will occur after the close of business on or about December 15, 2023. The Reorganization was originally expected to occur on or about August 4, 2023 but was delayed due to restrictions on the transfer of certain securities held by the Acquired Fund, which restrictions no longer apply.

The aggregate net asset value (not the market value) of Acquiring Fund common shares received by the shareholders of the Acquired Fund in the Reorganization will equal the aggregate net asset value (not the market value) of the Acquired Fund common shares held immediately prior to the Reorganization (although shareholders will receive cash for fractional shares). **The market value of the common shares of the Combined Fund may be more or less than the market value of either the common shares of the Acquired Fund or the common shares of the Acquiring Fund prior to the Reorganization.**

Based on each Fund’s NAV as of August 31, 2023, the exchange ratio at which common shares of the Acquired Fund would have converted to common shares of the Combined Fund is 1.19 (i.e., assuming the Reorganization was consummated following the market close on August 31, 2023, an Acquired Fund shareholder would have received 1.19 shares of the Combined Fund for each Acquired Fund share held).

It is anticipated that there will be no significant portfolio transitioning in connection with the Reorganization. Accordingly, there are expected to be no transaction costs (including brokerage commissions, transaction charges and related fees) associated with the Reorganization. However, to the extent there are any transaction costs, these will be borne by the Acquired Fund with respect to any portfolio transitioning conducted before the Reorganization and borne by the Combined Fund with respect to any portfolio transitioning conducted after the Reorganization.

The Funds are substantially similar. Each Fund’s investment adviser is Virtus Alternative Investment Advisers, Inc. (the “Adviser” or “VAIA”). Each Fund’s investment subadviser is Stone Harbor Investment Partners (“Stone Harbor”), an operating division of Virtus Fixed Income Advisers, LLC, an affiliate of VAIA. The Acquired Fund’s portfolio management team primarily responsible for the day-to-day management of the Acquired Fund’s portfolio consists of the same portfolio managers who comprise the Acquiring Fund’s portfolio management team primarily responsible for the day-to-day management of the Acquiring Fund. The Funds’ current portfolio management team will be primarily responsible for the day-to-day management of the Combined Fund’s portfolio. The Acquired Fund and the Acquiring Fund have the same investment objective and similar principal investment strategies, principal risks, and investment restrictions and policies.

Each Fund is governed by a Board of Trustees. The Board of the Acquired Fund has twelve Trustees, eleven of whom are Independent Trustees. The Board of the Acquiring Fund consists of the same Trustees, including Independent Trustees, as the Acquired Fund.

Each Fund's Amended and Restated Agreement and Declaration of Trust ("Declaration of Trust") and Second Amended and Restated Bylaws ("Bylaws") are materially similar.

Each Fund is a closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). Each Fund is a Massachusetts business trust. The Acquired Fund and Acquiring Fund are both non-diversified management investment companies. A non-diversified fund is not limited by the 1940 Act with regard to the percentage of its assets that may be invested in the securities of a single issuer. Consequently, the securities of a particular issuer or a small number of issuers may constitute a significant portion of the fund's investment portfolio. Each Fund's common shares are listed on the New York Stock Exchange.

There risks of the Acquiring Fund and the risks of the Acquired Fund are similar, although the Acquired Fund is subject to certain additional principal risks to which the Acquiring Fund is not subject. The principal risks of each Fund are summarized in the "Principal Risks" section below.

Both Funds are subject to the following principal risks: non-diversification, management, market volatility, foreign investing, emerging market investing, currency rate, sovereign debt obligations, credit, interest rate, derivatives, counterparty, high yield fixed income securities, leverage, closed-end fund, and no guarantee that the Fund will meet its investment objective. The Acquired Fund is also subject to the following principal risks: equity securities, preferred stocks, and exchange traded funds ("ETFs") and other mutual funds. In addition to those risks, the Reorganization poses risk that there is no guarantee that the anticipated benefits of the Reorganization will occur, the Reorganization could have a negative impact on the market price of the Acquiring Fund's shares following the Reorganization and, to the extent the Acquiring Fund is trading at a premium, the Reorganization may cause the premium to lessen from current levels.

Each Fund may use leverage to the extent permitted by the 1940 Act. As of May 31, 2023, the Acquired Fund had 23% aggregate financial leverage from reverse repurchase agreements as a percentage of its total managed assets. As of the same date, the Acquiring Fund had 27% aggregate financial leverage from reverse repurchase agreements as a percentage of its total managed assets. The Combined Fund anticipates using leverage similarly to the Acquiring Fund's use thereof.

Each Fund makes monthly distributions to its shareholders. Prior to the closing of the Reorganization, the Acquired Fund expects to declare a distribution of all of its net investment income and net capital gains, if any. All or a portion of such distribution may be taxable to the Acquired Fund's shareholders for U.S. federal income tax purposes.

For federal income tax purposes, the Reorganization is intended to be structured as a tax-free transaction.

### **Background and Reasons for the Reorganization**

The Funds have the same investment objective in that both Funds seek to maximize total return. The Reorganization will allow shareholders of the Acquired Fund to own a fund that is identical in style, and with a greater amount of assets. The Reorganization could create better efficiencies for the portfolio management team and perhaps lower expenses for the Acquiring Fund, which could benefit shareholders of the Acquired Fund.

At an in-person meeting held on March 1, 2023, the Acquired Fund Board, including a majority of the Independent Trustees, considered and approved the Reorganization as set forth in the Plan. They determined that the Reorganization was in the best interests of the Acquired Fund and its shareholders, and that the interests of existing shareholders of the Acquired Fund will not be diluted as a result of the transactions contemplated by the Reorganization.

Before approving the Plan, the Board evaluated information provided with respect to the management of the Funds and reviewed various factors about the Funds and the proposed Reorganization. The Trustees

noted that the Acquiring Fund has the same investment objective and similar investment strategies to the Acquired Fund. They further noted that the Combined Fund's pro forma fund operating expenses (excluding the costs of the Reorganization) were expected to be the lower than those for the Acquired Fund.

The Trustees considered the relative asset size of each Fund, including the benefits of investing in a fund with a higher combined level of assets for current shareholders of the Acquired Fund. In addition, the Trustees considered, among other things:

- the terms and conditions of the Reorganization;
- other alternatives, including maintaining the status quo, modifications, or liquidating the Acquired Fund;
- the fact that the Reorganization will not result in the dilution of shareholders' interests;
- the fact that the Acquired Fund and the Acquiring Fund have the same investment objective and similar principal investment strategies;
- the fact that the Reorganization will reduce the number of closed-end funds offering similar investment strategies in the market and will reduce the number of similar funds managed by VAIA;
- the explanation from the Funds' management that alternatives to the Reorganization had been considered, including modifications to the Funds, liquidation of one or both Funds, and maintaining the status quo;
- the fact that the Funds will share the expenses incurred in connection with the Reorganization pro rata based on assets under management;
- the potential for the increase in assets to provide greater secondary market liquidity for the Combined Fund's shares;
- the benefits to shareholders, including from operating efficiencies, which may be achieved from combining the Funds;
- the fact that the Acquiring Fund will assume all of the liabilities of the Acquired Fund; and
- the fact that the Reorganization is expected to be a tax-free transaction for U.S. federal income tax purposes.

During their consideration of the Reorganization, the Independent Trustees consulted with their independent legal counsel, as appropriate.

After consideration of the factors noted above, together with other factors and information considered to be relevant, and recognizing that there can be no assurance that any operating efficiencies or other benefits will in fact be realized, the Acquired Fund Board concluded that the proposed Reorganization will be in the best interests of the Acquired Fund and its shareholders and approved the Plan.

The determination of the Acquired Fund Board and the Acquiring Fund Board was made on the basis of each Trustee's business judgment after consideration of all of the factors taken as a whole with respect to the Acquired Fund and the Acquiring Fund, respectively, and their shareholders, although individual Trustees may have placed different weight and assigned different degrees of materiality to various factors.

## COMPARISON OF THE FUNDS

### Investment Objectives

The investment objective of the Acquired Fund and the Acquiring Fund are the same in that both Funds seek to maximize total return (although the investment objective of the Acquired Fund, unlike that of the Acquiring Fund, specifically refers to investment in emerging markets securities). The investment objectives of both the Acquired Fund and the Acquiring Fund are non-fundamental, which means that each may be changed by vote of the respective Fund's Board and without shareholder approval, upon 60 days' notice to shareholders. The investment objectives of each Fund are as follows:

Acquired Fund	Acquiring Fund
The Fund's investment objective is to maximize total return, which consists of income and capital appreciation from investments in emerging markets securities.	The Fund's investment objective is to maximize total return, which consists of income on its investments and capital appreciation.

### Principal Investment Strategies

The Acquired Fund and Acquiring Fund are non-diversified management investment companies. The principal investment strategies of the Funds are similar, although there are some differences. These differences include the following:

- The Acquired Fund, unlike the Acquiring Fund, normally expects to invest up to 20% of its total assets in Emerging Markets Equity (as defined below), which it expects will consist primarily of single country and regional ETFs.
- The Acquired Fund may invest up to 25% of its total assets in a single country, while the Acquiring Fund intends to invest less than 50% of its assets in a single country.
- While both Funds engage in leveraging through Borrowings (as defined below), the principal investment strategies for the Acquiring Fund specifically contemplate the use of leverage through issuance of preferred shares. Notwithstanding the foregoing, the Acquiring Fund does not have preferred shares outstanding at this time.

The principal investment strategies of each Fund are as follows:

Acquired Fund	Acquiring Fund
The Fund normally will invest at least 80% of its net assets (plus any borrowings for investment purposes) in Emerging Markets Debt (the "80% policy"). "Emerging Markets Debt" includes fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries' markets, currencies, economies or ability to repay loans. A security or instrument is economically tied to an emerging market country if it is principally traded on the country's securities markets or if the issuer is organized or principally operates in the country, derives a majority of its income from its operations within the country or has a majority of its assets within the country.	The Fund normally will invest at least 80% of its net assets (plus any borrowings for investment purposes) in Emerging Markets Securities (the "80% policy"). "Emerging Markets Securities" include fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked to those countries' markets, currencies, economies or ability to repay loans. A security or instrument is economically tied to an emerging market country if it is principally traded on the country's securities markets or if the issuer is organized or principally operates in the country, derives a majority of its income from its operations within the country or has a majority of its assets within the country.

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**Acquired Fund**

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The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity. “Emerging Markets Equity” includes securities issued by either single country or regional ETFs, common stocks, preferred stocks, other equity securities and other instruments (including derivatives) that are economically tied to the equity markets of emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, or economies. Emerging Markets Securities may be denominated in non-U.S. currencies or the U.S. dollar.

The Fund considers emerging market countries as those countries identified by the World Bank Group as being “low income economies” or which are included in a J.P. Morgan emerging market bond index. It is anticipated that the Fund will focus most of its investments in Asia, Africa, the Middle East, Latin America and the developing countries of Europe. The Fund’s investments may include, among other things, sovereign debt obligations, corporate debt securities, structured notes, convertible securities, securities issued by supranational organizations, floating rate commercial loans, securitized loan participations, restricted securities, non-U.S. currencies, currency

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**Acquiring Fund**

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The Fund considers emerging market countries as those countries identified by the World Bank Group as being “low income economies” or which are included in a J.P. Morgan emerging market bond index. It is anticipated that the Fund will focus most of its investments in Asia, Africa, the Middle East, Latin America and the developing countries of Europe. The Fund’s investments may include, among other things, sovereign debt obligations, corporate debt securities, structured notes, convertible securities, securities issued by supranational organizations, floating rate commercial loans, securitized loan participations, restricted securities, non-U.S. currencies, currency forward contracts and other foreign currency transactions, and derivatives related to or referencing these types of securities and instruments. The Fund may use derivatives to a significant extent for hedging, investment or leverage purposes. Although Emerging Markets Securities may include any derivative or other instrument that provides the Fund exposure to emerging markets, the Fund currently expects that its derivatives transactions or instruments will consist primarily of the following instruments and transactions: credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options. The Fund may use these instruments for hedging purposes, for leverage or otherwise to gain, or reduce, long or short exposure to emerging securities markets (for example, credit linked notes may be used to gain exposure to certain emerging markets fixed income securities). Emerging Markets Securities may be denominated in non-U.S. currencies or the U.S. dollar.

The Fund seeks income and capital appreciation through country selection, sector selection, security selection and currency selection. In selecting Emerging Markets Securities for investment, the Fund’s subadviser will apply a market risk analysis contemplating the assessment of various factors, such as liquidity, volatility, tax implications, interest rate sensitivity, counterparty risks, economic factors, currency exchange rates and technical market considerations.

The Fund may invest, without limitation, in debt securities that are rated below investment grade by a nationally recognized statistical rating organization or unrated securities that are deemed to be of

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**Acquired Fund**

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forward contracts and other foreign currency transactions, and derivatives related to or referencing these types of securities and instruments. The Fund may use derivatives to a significant extent for hedging, investment, interest rate, or duration management or leverage purposes. Although Emerging Markets Securities may include any derivative or other instrument that provides the Fund exposure to emerging markets, the Fund currently expects that its derivatives transactions will consist primarily of the following instruments and transactions: credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options. The Fund may use these instruments for hedging purposes, for leverage or otherwise to gain, or reduce, long or short exposure to emerging securities markets (for example, credit linked notes may be used to gain exposure to certain emerging markets fixed income securities).

The Fund may invest up to 25% of its total assets in a single country.

The Fund seeks income and capital appreciation through country selection, sector selection, security selection and currency selection. In selecting emerging securities market for investment, the Fund's subadviser will apply a market risk analysis contemplating the assessment of various factors, such as liquidity, volatility, tax implications, interest rate sensitivity, counterparty risks, economic factors, currency exchange rates and technical market considerations.

The Fund may invest, without limitation, in debt securities that are rated below investment grade by a nationally recognized statistical rating organization or unrated securities that are deemed to be of comparable quality by the Fund's subadviser, including distressed and defaulted securities. Debt securities rated below investment grade are commonly known as "high yield" or "junk bonds" and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.

The Fund's holdings may range in maturity from overnight to 30 years or more. The Investment Manager does not manage the Fund to have a

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**Acquiring Fund**

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comparable quality by the Fund's subadviser, including defaulted securities. Debt securities rated below investment grade are commonly known as "junk bonds" and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.

The Fund's holdings may range in maturity from overnight to 30 years or more. The Fund's subadviser does not manage the Fund to have a specific average maturity or duration. The Fund may also invest in currencies, money market and short-term debt securities and cash equivalents, warrants, structured investments or other derivatives, which may be used to maintain exposure of at least 80% of its net assets (plus borrowings for investment purposes) to Emerging Markets Securities. Under certain limited circumstances, the Fund may obtain substantially all of its investment exposure to Emerging Markets Securities through the use of derivatives.

The Fund intends to invest less than 50% of its assets in a single country.

In addition, the Fund may invest the remainder of its assets in securities which will not be used to achieve the Fund's 80% policy, such as shares of

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**Acquired Fund**

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specific average maturity or duration. The Fund may also invest in currencies, money market and short-term debt securities and cash equivalents, warrants, structured investments or other derivatives, which may be used to maintain exposure of at least 80% of its net assets (plus borrowings for investment purposes) to Emerging Markets Debt. Under certain limited circumstances, the Fund may obtain a substantial part of its investment exposure to Emerging Markets Securities through the use of derivatives.

The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity, which the Fund expects will consist primarily of single country and regional ETFs. The ETFs in which the Fund expects to invest will generally invest in, or track indices related to, equity securities. Emerging Markets Equity may also include other types of equity from time to time, including, but not limited to, common stock, preferred stocks, securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including without limitation securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act, or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may invest in issuers with any market capitalization, including small and medium market capitalization issuers.

In addition, the Fund may invest the remainder of its total assets in securities and other instruments (including derivatives) which will not be used to achieve the Fund's 80% policy, including, without limitation, shares of open- and closed-end investment companies, common stocks, bonds and convertible securities of non-emerging market issuers.

The Fund's investment objective and 80% policy are non-fundamental, and may be changed without shareholder approval; however, shareholders will be notified in writing of any material changes to the investment objective or the 80% policy at least 60 days prior to any change.

The Fund may borrow from banks and other financial institutions and may also borrow additional funds through reverse repurchase agreements or the issuance of debt securities (collectively, "Borrowings"). Under normal market conditions, the Fund intends to leverage the Fund by engaging in Borrowings. The aggregate amount of the Fund's Borrowings will generally not exceed

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**Acquiring Fund**

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open- and closed-end investment companies, common stocks, bonds and convertible securities.

The Fund's investment objective and 80% policy are non-fundamental, and may be changed without shareholder approval; however, shareholders will be notified in writing of any material changes to the investment objective or the 80% policy at least 60 days prior to any change.

The Fund may borrow from banks and other financial institutions and may also borrow additional funds through reverse repurchase agreements or the issuance of debt securities (collectively, "Borrowings"). Under normal market conditions, the Fund intends to leverage the Fund by engaging in Borrowings and/or issuing preferred shares. The aggregate amount of the Fund's Borrowings and the liquidation value of any preferred shares will generally not exceed 33 $\frac{1}{3}$ % of the Fund's Managed Assets (as defined below) measured immediately after the transaction giving rise to the leverage. The Fund may also enter into other transactions that are not subject to this 33 $\frac{1}{3}$ % threshold but that may give rise to a form of leverage including, among others, credit default swaps and other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. Managed Assets are the average daily value of the fund's total assets, including any assets attributable to any leverage used, minus the fund's accrued liabilities, other than the fund liabilities incurred for any leverage.

Acquired Fund	Acquiring Fund
<p>33<math>\frac{1}{3}</math>% of the Fund's Managed Assets (as defined below) measured immediately after the transaction giving rise to the leverage. The Fund may also enter into other transactions that are not subject to this 33<math>\frac{1}{3}</math>% threshold but that may give rise to a form of leverage including, among others, credit default swaps and other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. Managed Assets are the average daily value of the fund's total assets, including any assets attributable to any leverage used, minus the fund's accrued liabilities, other than the fund liabilities incurred for any leverage.</p>	

When the subadviser anticipates unusual market or other conditions, a Fund may temporarily depart from its principal investment strategies as a defensive measure. To the extent that a Fund invests defensively, it likely will not achieve its investment objective. Please see "Appendix B — Information about the Funds" in the Information Statement/Prospectus for additional information on the Funds' permitted investments.

### Distribution Information

The Acquired Fund and the Acquiring Fund currently pay a monthly distribution of \$0.07 per share and \$0.06 per share, respectively. The Combined Fund will pay a monthly distribution of \$0.06 per share, which is the same as the monthly distribution of the Acquiring Fund and less than the monthly distribution of the Acquired Fund.

Please see "Description of Common Shares to be Issued by the Acquiring Fund; Comparison to the Acquired Fund" below for additional information.

### Leverage

The Funds may use leverage to the extent permitted by the 1940 Act. The Funds' strategies relating to its use of leverage may not be successful, and the Funds' use of leverage will cause the Funds' NAV to be more volatile than it would otherwise be. There can be no guarantee that the Funds will leverage their assets or, to the extent the Funds utilize leverage, what percentage of their assets such leverage will represent.

As of May 31, 2023, the Acquired Fund and Acquiring Fund had aggregate financial leverage from reverse repurchase agreements as a percentage of their total managed assets as follows:

	<u>Leverage Ratio</u>
Acquired Fund . . . . .	23%
Acquiring Fund . . . . .	27%

If the Reorganization had occurred on May 31, 2023, the leverage ratio for the Combined Fund would have been 27%.

### Fees and Expenses Table

Below is a comparison of the fees and expenses of the Funds before and after the Reorganization. The *pro forma* information for the Combined Fund is as of May 31, 2023 and does not include the costs of the Reorganization. *Pro forma* combined fees and expenses are estimated in good faith and are hypothetical.

It is important to note that following the Reorganization, shareholders of the Acquired Fund will be subject to the actual fees and expenses of the Acquiring Fund, which may not be the same as the *pro forma* combined fees and expenses. Future fees and expenses may be greater or lesser than those indicated below.

	Acquired Fund	Acquiring Fund	Pro Forma Combined Fund <sup>(1)</sup>
<b>Shareholder Transaction Expenses</b>			
Maximum Sales Load (as a percentage of the offering price) imposed on purchases of common shares . . . . .	None	None	None
Dividend Reinvestment and Cash Purchase Plan Fees . . . . .	None	None	None
<b>Annual Total Expenses (as a percentage of average net assets attributable to common shares)</b>			
Management Fees <sup>(2)</sup> . . . . .	1.25%	1.28%	1.28%
Administration Fees <sup>(2)</sup> . . . . .	0.12%	0.13%	0.13%
Other Expenses <sup>(3)</sup> . . . . .	0.42%	0.32%	0.24%
Interest Payments on Borrowed Funds . . . . .	1.32%	1.48%	1.45%
Total Annual Operating Expenses . . . . .	3.11%	3.21%	3.10%

- (1) There is no guarantee that actual expenses will be the same as those shown in the table. Pro Forma numbers are estimated as if the Reorganization had been completed as of May 31, 2023 and do not include the estimated costs of the Reorganization. The estimated expense of the Reorganization are \$184,000 or 37 basis points for the Acquiring Fund and \$266,000 or 37 basis points for the Acquired Fund, totaling \$450,000.
- (2) The contractual management fee and administration fee are asset based fees calculated using the average daily managed assets of each Fund. The calculation reflects the use of leverage of each Fund during the period.
- (3) Other Expenses are based on estimated amounts for the current fiscal year.

### Expense Example

The following example illustrates the expenses that a shareholder would pay on a \$1,000 investment that is held for the time periods provided in the table. The examples assume that all dividends and other distributions are reinvested and that Total Annual Operating Expenses remain the same. The example set forth below assumes shares of each Fund were owned as of the completion of the Reorganization and uses a 5% annual rate of return as mandated by the Securities and Exchange Commission's ("SEC") regulations. The examples should not be considered a representation of future expenses. Actual expenses may be greater or lesser than those shown.

	1 Year	3 Years	5 Years	10 Years
Acquired Fund . . . . .	\$31	\$96	\$163	\$342
Acquiring Fund . . . . .	\$32	\$99	\$168	\$351
<i>Pro Forma Combined Fund</i> . . . . .	\$31	\$96	\$163	\$341

### Principal Risks

The principal risks of the Funds are similar, although the Acquired Fund is subject to certain additional principal risks to which the Acquiring Fund is not subject. The shared principal risks of the Acquired Fund and Acquiring Fund are summarized below. For the purpose of this section, "the Fund" refers to each Fund.

**Non-Diversification:** As a non-diversified investment company, the Fund is not limited in the proportion of assets that it may invest in the securities of any one issuer. If the Fund takes concentrated positions in a small number of issuers, the Fund may be more susceptible to the risks associated with those issuers, or to a single economic, political, regulatory or other event affecting those issuers.

**Management:** The Fund is subject to management risk because it is an actively managed investment portfolio. The subadviser's judgments about the attractiveness and potential appreciation of an investment

may prove to be inaccurate and may not produce the desired results. The subadviser will apply its investment techniques and risk analyses in making investment decisions for the Fund, but there is no guarantee that its decisions will produce the intended result.

**Market Volatility:** The value of the securities in which the Fund invests may go up or down in response to the prospects of individual issuers and/or general economic conditions. Such price changes may be temporary or may last for extended periods. 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 Fund and its investments, including hampering the ability of the Fund's portfolio managers to invest the Fund's assets as intended.

**Foreign Investing:** Investing in securities of non-U.S. companies involves special risks and considerations not typically associated with investing in U.S. companies, and the values of non-U.S. securities may be more volatile than those of U.S. securities. The values of non-U.S. securities are subject to economic and political developments in countries and regions where the issuers operate or are domiciled, or where the securities are traded, such as changes in economic or monetary policies, and to changes in currency exchange rates. Values may also be affected by restrictions on receiving the investment proceeds from a non-U.S. country.

In general, less information is publicly available about non-U.S. companies than about U.S. companies. Non-U.S. companies are generally not subject to the same accounting, auditing and financial reporting standards as are U.S. companies. Certain foreign issuers classified as passive foreign investment companies may be subject to additional taxation risk.

**Emerging Markets Investing:** The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Emerging market countries typically have economic and political systems that are less fully developed, and can be expected to be less stable than those of more developed countries. For example, the economies of such countries can be subject to rapid and unpredictable rates of inflation or deflation. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. They may also have policies that restrict investment by foreigners, or that prevent foreign investors from withdrawing their money at will. Certain emerging markets may also face other significant internal or external risks, including the imposition of sanctions, the risk of war and civil unrest. For all of these reasons, investments in emerging markets may be considered speculative. To the extent that the Fund invests a significant portion of its assets in a particular emerging market, the Fund will be more vulnerable to financial, economic, political and other developments in that country, and conditions that negatively impact that country will have a greater impact on the Fund as compared with a fund that does not have its holdings concentrated in a particular country.

**Sanctions:** The imposition of sanctions, exchange controls (including repatriation restrictions), confiscation of assets and property, trade restrictions (including tariffs) and other government restrictions by the U.S. or other governments, or from problems in registration, settlement or custody, may result in losses. The type and severity of sanctions and other similar measures, including counter sanctions and other retaliatory actions, that may be imposed could vary broadly in scope, and their impact is impossible to predict. For example, the imposition of sanctions and other similar measures could, among other things, cause a decline in the value and/or liquidity of securities issued by the sanctioned country or companies located in or economically tied to the sanctioned country and increase market volatility and disruption in the sanctioned country and throughout the world. Sanctions and other similar measures could limit or prevent the Fund from buying and selling securities (in the sanctioned country and other markets), significantly delay or prevent the settlement of securities transactions, and significantly impact the Fund's liquidity and performance.

**Currency Rate:** Because the foreign securities in which the Fund invests generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect the Fund's net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. Because the value of the Fund's shares is calculated in U.S. dollars, it is possible for the Fund to lose money by investing in a foreign security if the local currency of a foreign market depreciates against the U.S. dollar, even if the local

currency value of the Fund's holdings goes up. Generally, a strong U.S. dollar relative to such other currencies will adversely affect the value of the Fund's holdings in foreign securities.

**Sovereign Debt Obligations:** When the Fund invests in debt instruments issued by a government outside the U.S., the Fund is exposed to the risks that: (a) the governmental entity that controls the repayment of government debt may not be willing or able to repay the principal and/or to pay the interest when it becomes due, due to factors such as political considerations, the relative size of the governmental entity's debt position in relation to the economy, cash flow problems, insufficient foreign currency reserves, the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies, and/or other national economic factors; (b) the issuing government may default on its debt instruments, which may require holders of such securities to participate in debt rescheduling; and (c) there is no legal or bankruptcy process by which defaulted government debt may be collected in whole or in part.

**Credit:** There is a risk that the issuer of a debt instrument will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of the instrument to decline. Debt instruments rated below investment-grade are especially susceptible to this risk.

**Interest Rate:** The values of debt instruments usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the value of existing debt instruments, and rising interest rates generally decrease the value of existing debt instruments. Changes in a debt instrument's value usually will not affect the amount of interest income paid to the Fund, but will affect the value of the Fund's shares. Interest rate risk is generally greater for investments with longer maturities. It is difficult to predict the pace at which central banks or monetary authorities may change interest rates or the timing, frequency, or magnitude of such changes. Any such changes could be sudden and could expose debt markets to significant volatility and reduced liquidity for investments.

Certain instruments pay interest at variable or floating rates. Variable rate instruments reset at specified intervals, while floating rate instruments reset whenever there is a change in a specified index rate. In most cases, these reset provisions reduce the effect of changes in market interest rates on the value of the instrument. However, some instruments do not track the underlying index directly, but reset based on formulas that can produce an effect similar to leveraging; others may also provide for interest payments that vary inversely with market rates. The market prices of these instruments may fluctuate significantly when interest rates change.

Some investments give the issuer the option to call or redeem an investment before its maturity date. If an issuer calls or redeems an investment during a time of declining interest rates, the Fund might have to reinvest the proceeds in an investment offering a lower yield, and therefore it might not benefit from any increase in value as a result of declining interest rates.

**Derivatives:** Derivative are contracts whose value is derived from the value of an underlying asset, index or rate, including futures, options, non-deliverable forwards, forward foreign currency exchange contracts and swap agreements. The Fund may use derivatives to hedge against factors that affect the value of its investments, such as interest rates and foreign currency exchange rates. The Fund may also utilize derivatives as part of its overall investment technique to gain or lessen exposure to various securities, markets, volatility, dividend payments and currencies.

Derivatives typically involve greater risks than traditional investments. It is generally more difficult to ascertain the risk of, and to properly value, derivative contracts. Many derivatives, and particularly those that are privately negotiated, are complex and often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to the Fund. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. Derivatives are usually less liquid than traditional securities and are subject to counterparty risk (the risk that the other party to the contract will default or otherwise not be able to perform its contractual obligations). In addition, some derivatives transactions may involve potentially unlimited losses.

Derivative contracts entered into for hedging purposes may also subject the Fund to losses if the contracts do not correlate with the assets, indexes or rates they were designed to hedge. Gains and losses

derived from hedging transactions are, therefore, more dependent upon the subadviser's ability to correctly predict the movement of the underlying asset prices, indexes or rates.

As an investment company registered with the SEC, the Fund is subject to Rule 18f-4 under the 1940 Act, which applies to the Fund's use of derivative investments and certain financing transactions (e.g., reverse repurchase agreements). Among other things, Rule 18f-4 requires a fund to apply a value-at-risk based limit to its use of certain derivative instruments and financing transactions and to adopt and implement a derivatives risk management program. The application of Rule 18f-4 to the Fund could restrict the Fund's ability to utilize derivative investments and financing transactions and prevent the Fund from implementing its principal investment strategies as described herein, which may result in changes to the Fund's principal investment strategies and could adversely affect the Fund's performance and its ability to achieve its investment objective. Governments, agencies and/or other regulatory bodies may further adopt or change laws or regulations that could adversely affect the Fund's ability to invest in derivatives as the Fund's subadviser intends.

There are also special tax rules applicable to certain types of derivatives, which could affect the amount, timing and character of the Fund's income or loss and hence of its distributions to shareholders by causing holding period adjustments, converting short-term capital losses into long-term capital losses, and accelerating the Fund's income or deferring its losses. The Fund's use of derivatives may also increase the amount of taxes payable by shareholders or the resources required by the Fund or its adviser and/or subadviser to comply with particular regulatory requirements.

**Reverse Repurchase Agreements Risk:** Reverse repurchase agreements are transactions in which the Fund sells a security and simultaneously commits to repurchase that security from the buyer, such as a bank or broker-dealer, at an agreed-upon price on an agreed-upon future date. The resale price in a reverse repurchase agreement reflects a market rate of interest that is not related to the coupon rate or maturity of the sold security. For certain demand agreements, there is no agreed-upon repurchase date and interest payments are calculated daily, often based upon the prevailing overnight repurchase rate.

Generally, a reverse repurchase agreement enables the Fund to recover for the term of the reverse repurchase agreement all or most of the cash invested in the portfolio securities sold and to keep the interest income associated with those portfolio securities. Such transactions are only advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the cost of obtaining the cash otherwise. In addition, interest costs on the money received in a reverse repurchase agreement may exceed the return received on the investments made by the Fund with those monies. Using reverse repurchase agreements to earn additional income involves the risk that the interest earned on the invested proceeds is less than the expense of the reverse repurchase agreement transaction.

A Fund will enter into reverse repurchase agreements only with parties that the Fund's subadviser deems creditworthy, but such investments are still subject to the risks of leverage discussed above.

Reverse repurchase agreements are generally subject to the provisions of Rule 18f-4.

**Counterparty:** When the Fund engages in investment techniques in which it relies on another party to consummate the transaction, the Fund is subject to the risk of default by the other party. To the extent that the Fund enters into multiple transactions with a single or limited number of counterparties, the Fund will be subject to increased levels of counterparty risk.

**High Yield Fixed Income Securities:** Securities rated below the four highest rating categories of a nationally recognized statistical rating organization, may be known as "high-yield" securities and commonly referred to as "junk bonds." The highest of the ratings among these nationally recognized statistical rating organizations is used to determine the security's classification. Such securities entail greater price volatility and credit and interest rate risk than investment-grade securities. Analysis of the creditworthiness of high-yield/high-risk issuers is more complex than for higher-rated securities, making it more difficult for the Fund's subadviser to accurately predict risk. There is a greater risk with high-yield/high-risk fixed income securities that an issuer will not be able to make principal and interest payments when due. If the Fund pursues missed payments, there is a risk that the Fund's expenses could increase. In addition, lower-rated

securities may not trade as often and may be less liquid than higher-rated securities, especially during periods of economic uncertainty or change. As a result of all of these factors, these bonds are generally considered to be speculative.

**Leverage:** Although the Fund presently intends to utilize leverage, there can be no assurance that the Fund will do so, or that, if utilized, it will be successful during any period in which it is employed. The use of leverage by the Fund would result in more risk to the Fund's shareholders than if leverage had not been used and can magnify the effect of any losses. If the income and gains earned on securities to which the Fund has exposure through the use of leverage are greater than the Fund's costs of borrowing, the costs of derivatives transactions used to generate leverage the Fund's returns will be greater than if leverage had not been used. Conversely, if the income and gains from those securities do not cover the payments due in connection with the leverage used, the return will be less than if the economic leverage had not been used. The expenses of a borrowing program and/or of a derivatives transaction will be borne by shareholders and, consequently, will result in a reduction of the NAV of the Fund's common shares. During periods in which the Fund is using leverage, the fees paid by the Fund for investment advisory and administrative services will be higher than if the Fund did not use leverage, as such fees will be calculated on the basis of the Fund's managed assets, which includes assets attributable to borrowings.

**Closed-End Fund:** Closed-end funds may trade at a discount or premium from their net asset values, which may affect whether an investor will realize gains or losses. They may also employ leverage, which may increase volatility.

**No Guarantee:** There is no guarantee that the Fund will meet its objective.

The Acquired Fund is also subject to the following principal risks to which the Acquiring Fund is not subject:

**Equity Securities:** Generally, prices of equity securities are more volatile than those of fixed income investments. The prices of equity securities will rise and fall in response to a number of different factors. In particular, equity securities will respond to events that affect entire financial markets or industries (such as changes in inflation or consumer demand) and to events that affect particular issuers (such as news about the success or failure of a new product). Equity securities also are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. When the value of the stocks held by the Acquired Fund goes down, the net asset value of the Acquired Fund's shares will be affected.

**Issuer Risk:** The value of a security may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services as well as the historical and prospective earnings of the issuer and the value of its assets.

**Preferred Stocks:** Preferred stocks may provide a higher dividend rate than the interest yield on debt instruments of the same issuer, but are subject to greater risk of fluctuation in market value and greater risk of non-receipt of income. Unlike interest on debt instruments, dividends on preferred stocks must be declared by the issuer's board of directors before becoming payable. Preferred stocks are in many ways like perpetual debt instruments, providing a stream of income but without stated maturity date. Because they often lack a fixed maturity or redemption date, preferred stocks are likely to fluctuate substantially in price when interest rates change. Such fluctuations generally are comparable to or exceed those of long-term government or corporate bonds (those with maturities of fifteen to thirty years). Preferred stocks have claims on assets and earnings of the issuer which are subordinate to the claims of all creditors but senior to the claims of common stockholders. A preferred stock rating differs from a bond rating because it applies to an equity issue which is intrinsically different from, and subordinated to, a debt issue. Preferred stock ratings generally represent an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. Preferred stock also may be subject to optional or mandatory redemption provisions, and may be significantly less liquid than many other securities, such as U.S. Government securities, corporate debt or common stock.

**ETFs and Other Mutual Funds:** Through its investments in ETFs and/or other mutual funds (each, an "underlying fund"), the Acquired Fund is exposed to not only to the risks of the underlying funds' investments but also to certain additional risks. Assets invested in ETFs and/or other mutual funds incur a layering of expenses, including operating costs, advisory fees and administrative fees that you, as a shareholder in the

Acquired Fund, indirectly bear. Such fees and expenses may exceed the fees and expenses the Acquired Fund would have incurred if it invested in the underlying fund's assets directly. To the extent that the expense ratio of an underlying fund changes, the weighted average operating expenses borne by the Acquired Fund may increase or decrease. An underlying fund may change its investment objective or policies without the approval of the Acquired Fund, and the Acquired Fund might be forced to withdraw its investment from the underlying fund at a time that is unfavorable to the Acquired Fund.

ETFs invest in a portfolio of securities designed to track a particular market segment or index. The risks associated with investing in ETFs generally reflect the risks of owning shares of the underlying securities the ETF is designed to track, although lack of liquidity in an ETF could result in its value being more volatile than the underlying portfolio of securities. Shares of ETFs trade on a securities exchange and may trade at, above, or below their net asset value.

### **Investment Restrictions and Policies**

The Funds' fundamental investment restrictions and policies are the same. For the purpose of this section, "the Fund" as used below refers to each Fund.

The following investment restrictions of the Fund are designated as fundamental policies and as such cannot be changed without the approval of the holders of a majority of the Fund's outstanding common shares, which, as used in the Statement of Additional Information, means the lesser of (a) 67% of the shares of the Fund present or represented by proxy at a meeting if the holders of more than 50% of the outstanding shares are present or represented at the meeting or (b) more than 50% of outstanding shares of the Fund. As a matter of fundamental policy, the Fund may not:

- (1) Purchase any security (other than U.S. government securities) if, as a result, more than 25% of the Fund's total assets (taken at current value) would be invested in any one industry. For purposes of this restriction, telephone, gas and electric public utilities are each regarded as separate industries, finance companies whose financing activities are related primarily to the activities of their parent companies are classified in the industry of their parents, and each non-U.S. country's government (together with subdivisions thereof) will be considered to be a separate industry. For purposes of this restriction with regard to bank obligations, bank obligations are considered to be one industry, and asset-backed securities are not considered to be bank obligations;
- (2) Make short sales of securities or maintain a short position, except that the Fund may make any short sales or maintain any short positions where the short sales or short positions would not constitute "senior securities" under the 1940 Act;
- (3) Borrow money, except to the extent permitted under the 1940 Act;
- (4) Make loans, except that the Fund may purchase or hold debt instruments in accordance with its investment objectives ("objective" in the case of the Acquired Fund) and policies; provided however, this restriction does not apply to repurchase agreements or loans of portfolio securities;
- (5) Act as an underwriter of securities of other issuers except that, in the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws;
- (6) Purchase or sell real estate, although the Fund may purchase securities of issuers which deal in real estate, securities which are secured by interests in real estate, and securities which represent interests in real estate, and the Fund may acquire and dispose of real estate or interests in real estate acquired through the exercise of its rights as a holder of debt obligations secured by real estate or interests therein;
- (7) Purchase or sell commodities, except that the Fund may purchase and sell futures contracts and options, may enter into foreign exchange contracts and may enter into swap agreements and other financial transactions not requiring the delivery of physical commodities; or
- (8) Issue senior securities, except for permitted borrowings, the issuance of preferred shares or as otherwise permitted under the 1940 Act.

Restrictions (2) and (8) shall be interpreted based upon no-action letters and other pronouncements of the staff of the SEC. Under current pronouncements, certain Fund positions are excluded from the definition of “senior security” so long as the Funds maintains adequate cover, segregation of assets or otherwise.

Whenever an investment policy or investment restriction set forth in the Prospectus or Statement of Additional Information states a maximum or minimum percentage of assets that may be invested in any security or other assets or describes a policy regarding quality standards, such percentage limitation or standard shall be determined immediately after and as a result of the Fund’s acquisition of such security or asset. Accordingly, any later increase or decrease resulting from a change in values or assets, from other circumstances, or from any subsequent rating change made by a rating service (or as determined by Stone Harbor if the security is not rated by a rating agency) will not compel the Fund to dispose of such security or other asset. Notwithstanding the foregoing, the Fund must always be in compliance with the borrowing policies set forth above.

Under the 1940 Act, a “senior security” does not include any promissory note or evidence of indebtedness where such loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the issuer at the time the loan is made. A loan is presumed to be for temporary purposes if it is repaid within sixty days and is not extended or renewed.

The Fund would be deemed to “concentrate” its investments in a particular industry if it invested more than 25% of its total assets in that industry. The Fund’s industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities). The Fund interprets its industry concentration policy to apply to direct investments in the securities of issuers in a particular industry, as defined by the Fund. For purposes of this restriction, each non-U.S. country’s government is considered to be a separate industry. Currency positions are not considered to be an investment in a foreign government for industry concentration purposes. Securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities are not subject to the Fund’s industry concentration restrictions. Similarly, municipal bonds issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies and authorities are not subject to the Funds’ industry concentration restrictions.

To the extent the Fund covers its commitment under a reverse repurchase agreement, credit default swap or other derivative instrument (such as credit linked notes, interest rate swaps, total return swaps on indices and individual securities, foreign currency forward contracts, credit default swaps and interest rate futures contracts and options) by the segregation or designation on the records of the Fund of liquid assets equal in value to the amount of the Fund’s commitment, such instrument will not be considered a “senior security” for purposes of the asset coverage requirements otherwise applicable to borrowings by the Fund.

If the Fund determines to issue Preferred Shares, it intends to apply for ratings for such Preferred Shares from Moody’s Investor Service, Inc. (“Moody’s”), S&P Global Ratings (“S&P”) and/or Fitch Ratings (“Fitch”). In order to obtain and maintain such required ratings, the Fund may be required to comply with investment quality, and other guidelines established by Moody’s, S&P and/or Fitch. Such guidelines will likely be more restrictive than the restrictions set forth above. The Fund does not anticipate that any such guidelines would have a material adverse effect on common shareholders or its ability to achieve its investment objective. No minimum rating is required for the issuance of preferred shares by the Fund. Moody’s, S&P and Fitch receive fees in connection with their ratings issuances.

### **Rights of Fund Shareholders**

The Acquired Fund was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts on May 25, 2012. The Acquiring Fund was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts on September 10, 2010. Each Fund is also governed by its own Declaration of Trust and Bylaws.

There are no material differences between the rights of shareholders of the Acquired Fund and the Acquiring Fund.

## MANAGEMENT OF THE FUNDS

### The Boards of the Funds

The Boards of the Acquiring Fund and the Acquired Fund are responsible for the overall supervision of the respective Fund, including establishing each Fund's policies and general supervision and review of their investment activities, and performs the various duties imposed on Trustees by the 1940 Act and under Massachusetts law. Each Fund is governed by a Board. The Board of the Acquired Fund has twelve Trustees, eleven of whom are Independent Trustees. The Board of the Acquiring Fund consists of the same Trustees, including Independent Trustees, as the Acquired Fund.

### The Adviser and Subadviser of the Funds

VAIA is the investment adviser to the funds and is located at One Financial Plaza, Hartford, CT 06103. VAIA, an indirect, wholly-owned subsidiary of Virtus Investment Partners, Inc., a publicly traded multi-manager asset management business, acts as the investment adviser to open- and closed-end funds totaling approximately \$988 million in assets under management as of December 31, 2022.

VFIA, an affiliate of VAIA, has its principal office at One Financial Plaza, Hartford, CT 06103. VFIA operates through its division, Stone Harbor, in subadvising the Funds. Stone Harbor is located at 31 West 52nd Street, 16th Floor, New York, New York 10019. As of December 31, 2022, the three divisions that make up VFIA managed approximately \$33.1 billion in aggregate assets under management.

Stone Harbor Investment Partners, LLC, which merged with and into VFIA on July 1, 2022, and the former portfolio management team of which now operates as the Stone Harbor division of VFIA, was established in 2006. As of December 31, 2022, the Stone Harbor division of VFIA managed approximately \$10.8 billion in assets under management.

The contractual advisory fee of the Acquired Fund is 1.00% of the Fund's Managed Assets. The contractual advisory fee of the Acquiring Fund is 1.00% of the Fund's Managed Assets provided that the advisory fee does not exceed 1.50% of the Acquiring Fund's net assets.

The management fees for the Acquired Fund and Acquiring Fund will vary based on the extent to which the Fund borrows for investment purposes. As a result, the advisory fee, as a percentage of net assets, can differ due to the amount of borrowings. The management fees for the Acquired Fund and Acquiring Fund for the period ended May 31, 2023 as a percentage of net assets were 1.25% and 1.28%, respectively.

The Adviser has contractually agreed to limit the Acquired Fund's annual operating expenses other than the management fees, subject to the following exclusions, so that such expenses do not exceed, on an annualized basis, 0.70% of average daily net assets through April 10, 2025. Following the contractual period, the Adviser may discontinue these expense reimbursement arrangements at any time. The reimbursements are accrued daily and received monthly. The exclusions include investment advisory fees, interest, any other fees or expenses relating to financial leverage, preferred shares (such as dividends on preferred shares, auction agent fees and commissions and rating agency fees) or borrowing (such as interest, commitment, amendment and renewal expenses on credit or redemption facilities), taxes, extraordinary, unusual or infrequently occurring expenses (such as litigation), costs related to share offerings, brokerage commissions, expenses incurred in connection with any merger or reorganization, underlying fund expenses and dividend expenses, if any (each expressed as a percentage of average daily net assets attributable to common shares).

The Adviser has contractually agreed to limit the Acquiring Fund's annual operating expenses other than the management fees, subject to the following exclusions, so that such expenses do not exceed, on an annualized basis, 0.58% of average daily net assets through April 10, 2025. Following the contractual period, the Adviser may discontinue these expense reimbursement arrangements at any time. The reimbursements are accrued daily and received monthly. The exclusions include investment advisory fees, interest, any other fees or expenses relating to financial leverage, preferred shares (such as dividends on preferred shares, auction agent fees and commissions and rating agency fees) or borrowing (such as interest, commitment, amendment and renewal expenses on credit or redemption facilities), taxes, extraordinary, unusual or infrequently occurring expenses (such as litigation), costs related to share offerings, brokerage commissions,

expenses incurred in connection with any merger or reorganization, underlying fund expenses and dividend expenses, if any (each expressed as a percentage of average daily net assets attributable to common shares).

Under certain conditions, VAIA may recapture operating expenses reimbursed or fees waived under these arrangements within three years after the date on which such amounts were incurred or waived. Each Fund must pay its ordinary operating expenses before VAIA is entitled to any reimbursement and must remain in compliance with any applicable expense limitations or, if none, the expense limitation in effect at the time of the waiver or reimbursement. During the year ended November 30, 2022, VAIA recaptured \$37 and \$30 in expenses previously waived for the Acquired Fund and Acquiring Fund, respectively.

A discussion regarding the basis for the Board approving the investment advisory and subadvisory agreements for each Fund is available in the Fund's semiannual shareholder report for the period ended May 31, 2022.

### **Portfolio Management of the Funds**

The following individuals are jointly and primarily responsible for the day-to-day management of the Funds' portfolios.

***Peter J. Wilby, CFA (since 2010 for the Acquiring Fund and 2012 for the Acquired Fund)***

Mr. Wilby serves as Co-Chief Investment Officer and a Portfolio Manager of Stone Harbor. Prior to joining the predecessor to Stone Harbor in April 2006, Chief Investment Officer — North American Fixed Income and senior portfolio manager responsible for directing investment policy and strategy for all emerging markets and high yield fixed income portfolios at Citigroup Asset Management; Joined Citigroup or its predecessor firms in 1989.

***James E. Craig, CFA (since 2010 for the Acquiring Fund and 2012 for the Acquired Fund)***

Mr. Craig serves as Co-Chief Investment Officer and a Portfolio Manager of Stone Harbor. Prior to joining the predecessor to Stone Harbor in April 2006, Managing Director and Senior Portfolio Manager for emerging markets debt portfolios at Salomon Brothers Asset Management Inc.; Joined Salomon Brothers Asset Management Inc. in 1992.

***Kumaran Damodaran, PhD (since 2015 for the Acquiring Fund and the Acquired Fund)***

Mr. Damodaran serves as a Portfolio Manager of Stone Harbor. Prior to joining the predecessor to Stone Harbor in September 2015, Lead Emerging Markets Macro Portfolio Manager for GLG Partners from 2012 to 2015. From 2008 to 2012, Executive Vice President and Emerging Markets Portfolio Manager at PIMCO. Prior to PIMCO, Senior Vice President and Trader in Latin American Local Market Rate Derivatives at Lehman Brothers for over five years.

***Stuart Sclater-Booth (since 2017 for the Acquiring Fund and the Acquired Fund)***

Mr. Sclater-Booth serves as a Portfolio Manager of Stone Harbor. Prior to joining the predecessor to Stone Harbor in June 2014, Managing Director and head of Emerging Markets Debt strategy for Goldman Sachs from August 2009-2010 and June 2011-June 2014; Executive Director — Global Head of Emerging Markets Macro Strategy, Executive Directors — Emerging Markets Proprietary Trading, Vice President, Head of Trade Strategy for JP Morgan Chase Securities from March 1998-March 2009 and August 2010-June 2011.

***David A. Oliver, CFA (since 2010 for the Acquiring Fund and 2012 for the Acquired Fund)***

Mr. Oliver serves as a Portfolio Manager of Stone Harbor. Prior to joining the predecessor to Stone Harbor in June 2008, Managing Director in emerging market sales and trading at Citigroup; Joined Citigroup in 1986.

The Statement of Additional Information relating to this Information Statement provides additional information about the portfolio managers, including their compensation structure, other accounts managed and ownership of shares of the Acquiring Fund.

## Other Service Providers

The other service providers for the Funds are identical and will be the service providers to the Combined Fund. The other service providers for the Funds are as follows:

<b>Administrator</b>	Virtus Fund Services, LLC
<b>Custodian</b>	The Bank of New York Mellon
<b>Transfer Agent, Dividend Disbursing Agent and Registrar</b>	Computershare Trust Company, N.A.
<b>Independent Registered Public Accounting Firm</b>	PricewaterhouseCoopers LLP
<b>Fund Counsel</b>	Dechert LLP

## Capitalization

The table below sets forth the capitalization of the Acquired Fund and the Acquiring Fund as of May 31, 2023, and the *pro forma* capitalization of the Combined Fund as if the Reorganization had occurred on that date.

	<u>Acquired Fund</u>	<u>Acquiring Fund</u>	<u>Adjustments</u>	<u>Pro Forma Combined Fund</u>
<b>Net Assets</b> . . . . .	\$47,433,000	\$68,674,000	(450,000) <sup>(1)</sup>	\$115,657,000
<b>Common Shares Outstanding</b> . . . . .	10,019,162	17,232,116	1,883,028	\$ 29,134,306
<b>Net Asset Value Per Share</b> . . . . .	\$ 4.73	\$ 3.99	—	\$ 3.97

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(1) The expenses of the Reorganization are estimated to be \$450,000.

## ADDITIONAL INFORMATION ABOUT THE COMMON SHARES OF THE FUNDS

### Description of Common Shares to be Issued by the Acquiring Fund; Comparison to the Acquired Fund

**General.** Each Fund is an unincorporated voluntary association with transferable shares of beneficial interest (commonly referred to as a “Massachusetts business trust”) established under the laws of The Commonwealth of Massachusetts by its Declaration of Trust. Each Declaration of Trust provides that the Trustees of the Fund may authorize separate classes of shares of beneficial interest.

The Acquired Fund and the Acquiring Fund each offer one class of shares. As a general matter, with respect to the Acquiring Fund and the Acquired Fund, the shares have equal voting rights and equal rights with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of their respective Fund and have no preemptive, conversion or exchange rights or rights to cumulative voting. Holders of whole shares of each Fund are entitled to one vote per share on any matter on which the shares are entitled to vote, while each fractional share is entitled to a proportional fractional vote.

The Acquiring Fund’s Declaration of Trust authorizes an unlimited number of shares. If the Reorganization is consummated, the Acquiring Fund will issue common shares to the shareholders of common shares of the Acquired Fund based on the relative per share net asset value of the Acquiring Fund and the net asset value of the assets of the Acquired Fund, in each case as of the date of the Reorganization. The Acquiring Fund shares, when issued, will be fully paid and non-assessable and have no preemptive, conversion or exchange rights or rights to cumulative voting.

**Preferred Shares and Other Securities.** Currently, neither the Acquiring Fund nor the Acquired Fund have issued preferred shares. As of the date of this Information Statement/Prospectus, the Acquiring Fund does not currently intend to issue preferred shares in the 12 months following the Reorganization. For the purpose of this section, “the Fund” refers to each Fund.

The Declaration of Trust of the Fund provides that the Board may, subject to the Fund’s investment policies and restrictions and the requirements of the 1940 Act, authorize and cause the Fund to issue securities of the Fund having such par value and such preferences, voting powers, terms of redemption, if any, and special or relative rights or privileges (including conversion rights, if any) as the Board may determine, without the approval of shareholders.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the market value of the total assets of the Fund’s portfolio is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the Fund’s average daily total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the preferred shares of the Fund have an asset coverage of at least 200% after deducting the amount of such dividend or other distribution, as the case may be. Although the Fund does not currently intend to issue preferred shares, if preferred shares are issued, the Fund intends, to the extent possible, to purchase or redeem preferred shares, from time to time, to maintain coverage of any preferred shares of at least 300%. If the Fund issues preferred shares, the holders of the preferred shares will elect two of the Trustees of the Fund. In the event the Fund failed to pay dividends on its preferred shares for two years, holders of preferred shares would be entitled to elect a majority of the Trustees until the dividends are paid.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Acquiring Fund, the terms of any preferred shares may entitle the holders of preferred shares to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus redemption premium, if any, together with accrued and unpaid dividends, whether or not earned or declared and on a cumulative basis) before any distribution of assets is made to shareholders. After payment of the full amount of the liquidating distribution to which they are entitled, the preferred shareholders would not be entitled to any further participation in any distribution of assets by the Acquiring Fund.

**Distributions.** For the purpose of this section, “the Fund” refers to each Fund.

The Fund intends to make a level dividend distribution each month to common shareholders after deduction of interest on any outstanding Borrowings or dividend on any outstanding preferred shares. The level dividend rate may be modified by the Board from time to time and will be based upon the past and projected performance and expenses of the Fund. The Fund will also make a distribution during or with respect to each calendar year (which may be combined with a regular monthly distribution), which will generally include any net investment income and net realized capital gain for the year not otherwise distributed.

If the total distributions made in any calendar year exceed the Fund's current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, such excess distributed amount would be a tax-free return of capital to the extent of the adjusted tax basis in the common shares. After such adjusted tax basis is reduced to zero, the distribution would constitute capital gain (assuming the shares are held as capital assets). In general terms, a return of capital would involve a situation in which a Fund distribution (or a portion thereof) represents a return of a portion of the common shareholder's investment, rather than net income or capital gains generated from his or her investment during a particular period. Although return of capital distributions may not be taxable, such distributions would reduce the basis of a shareholder's common shares and therefore may increase a shareholder's tax liability for capital gains upon a sale of common shares.

The Fund's distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital resulting in less of a shareholder's assets being invested in the Fund and, over time, increase the Fund's expense ratio. The distribution policy also may cause the Fund to sell a security at a time it would not otherwise do so in order to manage the distribution of income and gain.

The level dividend distribution described above is intended to result in the payment of approximately the same amount or percentage to common shareholders each month. Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide a written statement accompanying any such payment that adequately discloses its source or sources. Thus, if the source of the dividend or other distribution were the original capital contribution of the common shareholder, and the payment amounted to a return of capital, the Fund would be required to provide written disclosure to that effect. Nevertheless, persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Common shareholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net income or net profit. In addition, in cases in which the Fund would return capital to common shareholders, such distribution may bear on the Fund's ability to maintain its asset coverage requirements and to pay the dividends on any preferred shares that the Fund may issue.

#### **Outstanding Shares as of August 31, 2023**

	<b>Outstanding Common Shares</b>
<b>Acquired Fund</b> . . . . .	10,034,240
<b>Acquiring Fund</b> . . . . .	17,307,524

#### **Purchase and Sale**

Each Fund's common shares are listed on the New York Stock Exchange (the "NYSE"). The common shares of the Acquiring Fund are listed on the NYSE under the ticker symbol "EDF" and will continue to be so listed following the Reorganization. The common shares of the Acquired Fund are listed on the NYSE under the ticker symbol "EDI" and will be delisted from the NYSE following the Reorganization.

Purchase and sale procedures for the common shares of each of the Funds are identical. Investors typically purchase and sell common shares of the Funds through a registered broker-dealer on the NYSE, thereby incurring a brokerage commission set by the broker-dealer. Alternatively, investors may purchase or sell common shares of the Funds through privately negotiated transactions with existing shareholders.

## Share Price Data

The following table sets forth the quarterly high and low closing share price for each Fund's common shares on the NYSE and the corresponding NAV and discount or premium to NAV for the corresponding day for the last two full fiscal years of each Fund and the current fiscal year to date.

### *Acquiring Fund*

Quarterly Period Ended	Market Price (\$)		Net Asset Value (\$)		Premium/(discount) to net asset value	
	High	Low	High	Low	High	Low
August 2023	4.95	4.00	4.39	3.99	13.81%	-3.10%
May 2023	5.03	3.97	4.42	3.93	16.47%	-0.49%
February 2023	5.51	4.07	4.74	4.19	20.84%	-3.55%
November 2022	4.44	3.49	4.17	3.53	7.79%	-11.47%
August 2022	5.74	4.15	5.09	3.63	21.65%	0.88%
May 2022	6.63	5.10	5.70	4.88	18.60%	1.58%
February 2022	6.84	6.00	6.53	5.64	9.60%	-0.49%
November 2021	8.40	6.63	7.27	6.24	17.60%	3.82%
August 2021	8.73	8.09	7.36	6.96	22.13%	15.53%
May 2021	8.92	8.00	7.17	6.65	30.09%	12.99%
February 2021	8.90	7.57	7.39	7.01	24.13%	6.92%
November 2020	7.45	6.24	7.23	6.50	5.23%	-5.27%

### *Acquired Fund*

Quarterly Period Ended	Market Price (\$)		Net Asset Value (\$)		Premium/(discount) to net asset value	
	High	Low	High	Low	High	Low
August 2023	5.78	4.55	5.22	4.74	12.67%	-5.82%
May 2023	5.79	4.53	5.21	4.67	16.81%	-4.23%
February 2023	6.42	4.56	5.58	4.97	18.23%	-8.98%
November 2022	4.90	3.77	4.96	4.21	2.47%	-14.71%
August 2022	6.32	4.89	6.02	4.34	18.57%	-4.75%
May 2022	7.35	5.61	6.73	5.78	13.47%	-5.19%
February 2022	8.09	7.07	7.74	6.69	9.05%	-1.68%
November 2021	9.24	7.52	8.58	7.41	8.42%	0.65%
August 2021	9.68	8.88	8.65	8.23	15.93%	4.46%
May 2021	9.23	8.48	8.43	7.80	16.33%	1.56%
February 2021	9.56	8.45	8.62	8.20	11.81%	1.56%
November 2020	8.56	6.96	8.30	7.50	4.54%	-7.69%

As of October 24, 2023, the net asset value per common share of the Acquired Fund was \$4.75, and the market price per common share was \$4.42, representing a discount to net asset value of 6.95%, and the net asset value per common share of the Acquiring Fund was \$3.96 and the market price per common share was \$3.83, representing a discount to net asset value of 3.28%. Common shares of each Fund have historically traded at both a premium and a discount to net asset value. It is not possible to state whether Combined Fund shares will trade at a discount or premium to NAV or what the extent of any such discount or premium might be.

## Performance Information

The performance table below illustrates the past performance of an investment in shares of the Acquired Fund and Acquiring Fund by setting forth the average total returns for the Acquired Fund and Acquiring Fund for the fiscal years ended November 30, 2022. A Fund's past performance does not necessarily indicate how its shares will perform in the future.

	Average Annual Total Return on Net Asset Value			Average Annual Total Return on Market Value		
	1 Year	5 Years	10 Years	1 Year	5 Years	10 Years
Acquired Fund . . . . .	-22.55%	-7.78%	-3.27%	-25.23%	-8.02%	-3.55%
Acquiring Fund . . . . .	-22.31%	-7.61%	-2.28%	-25.98%	-9.58%	-3.26%

Total return on market value is calculated assuming a purchase of common shares on the opening of the first day and sale on the closing of the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Brokerage commissions that a shareholder may pay are not reflected. Total return on market value does not reflect the deduction of taxes that a shareholder may pay on fund distributions or the sale of fund shares. Total return on net asset value uses the same methodology, but with use of net asset value for the beginning and ending values.

## CALCULATION OF NET ASSET VALUE

The following is a description of the procedures used by the Acquiring Fund in valuing its assets. The Board has adopted valuation policy and approved procedures for determining the value of investments of the Fund. Pursuant to the valuation policy and Rule 2a-5 under the 1940 Act, the Board has designated the Adviser as its "valuation designee" for fair value determinations. The Fund calculates a share price for its shares. The share price (net asset value or "NAV") is based on the net assets of the Fund and the number of outstanding shares. In general, the Fund calculates a share price by:

- adding the values of all securities and other assets of the Fund;
- subtracting liabilities; and
- dividing the result by the total number of outstanding shares.

*Assets:* Equity securities are valued at the official closing price (typically last sale) on the exchange on which the securities are primarily traded, or, if no closing price is available, at the last bid price. Shares of other investment companies are valued at such companies' NAVs. Debt instruments, including restricted securities, are valued based on evaluated quotations received from independent pricing services or from dealers who make markets in such securities. Other assets, such as accrued interest, accrued dividends and cash are also included in determining the Fund's NAV. As required, some securities and assets are valued at fair value as determined by the Adviser.

*Net Asset Value (NAV):* Accrued expenses and liabilities are deducted from the assets of the Fund. The resulting amount is then divided by the number of shares outstanding to produce the NAV per share. The NAV per share of the Fund is determined as of the close of regular trading (generally 4:00 PM Eastern Time) on days when the NYSE is open for trading. The Fund will not calculate its NAV on days when the NYSE is closed for trading. If the Fund holds securities that are traded on foreign exchanges that trade on weekends or other holidays when the Fund does not price their shares, the NAV of the Fund's shares may change on days when shareholders will not be able to purchase or redeem the Fund's shares.

The procedures used by the Acquired Fund to calculate its NAV are the same as those used by the Acquiring Fund.

## DIVIDEND REINVESTMENT PLAN

The Acquiring Fund's dividend reinvestment plan, described below, will be the dividend reinvestment plan of the Combined Fund.

Unless the registered owner of common shares elects to receive cash by contacting Computershare Trust Company, N.A. (the “Plan Administrator”), all dividends declared on common shares will be automatically reinvested by the Plan Administrator for shareholders in the Fund’s Automatic Dividend Reinvestment Plan (the “Dividend Reinvestment Plan”), in additional common shares. Common shareholders who elect not to participate in the Dividend Reinvestment Plan will receive all dividends and other distributions in cash paid by check mailed directly to the shareholder of record (or, if the common shares are held in street or other nominee name, then to such nominee) by the Plan Administrator as dividend disbursing agent. Participation in the Dividend Reinvestment Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Such notice will be effective with respect to a particular dividend or other distribution (together, a “Dividend”). Some brokers may automatically elect to receive cash on behalf of common shareholders and may re-invest that cash in additional common shares, which may result in a higher cost to such shareholders as compared to shareholders who participate in the Dividend Reinvestment Plan.

The Plan Administrator will open an account for each common shareholder under the Dividend Reinvestment Plan in the same name in which such common shareholder’s common shares are registered. Whenever the Fund declares a Dividend payable in cash, non-participants in the Dividend Reinvestment Plan will receive cash and participants in the Dividend Reinvestment Plan will receive the equivalent in common shares. The common shares will be acquired by the Plan Administrator for the participants’ accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (“Newly Issued Common Shares”) or (ii) by purchase of outstanding common shares on the open market (“Open-Market Purchases”) on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per common share is equal to or greater than the NAV per common share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant’s account will be determined by dividing the dollar amount of the Dividend by the NAV per common share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per common share on the payment date. If, on the payment date for any Dividend, the NAV per common share is greater than the closing market value plus estimated brokerage commissions, the Plan Administrator will invest the Dividend amount in common shares acquired on behalf of the participants in Open-Market Purchases.

In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the common shares trade on an “ex-dividend” basis or 30 days after the payment date for such Dividend, whichever is sooner (the “Last Purchase Date”), to invest the Dividend amount in common shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly income Dividends. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per common share exceeds the NAV per common share, the average per common share purchase price paid by the Plan Administrator may exceed the NAV of the common shares, resulting in the acquisition of fewer common shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Dividend Reinvestment Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per common share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per common share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date for purposes of determining the number of shares issuable under the Dividend Reinvestment Plan.

The Plan Administrator maintains all shareholders’ accounts in the Dividend Reinvestment Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common shares in the account of each Plan participant will be held by the

Plan Administrator on behalf of the Dividend Reinvestment Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Dividend Reinvestment Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Dividend Reinvestment Plan in accordance with the instructions of the participants.

In the case of common shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Dividend Reinvestment Plan on the basis of the number of common shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Dividend Reinvestment Plan.

There will be no brokerage charges with respect to common shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. Participants that request a sale of common shares through the Plan Administrator are subject to brokerage commissions.

The Fund reserves the right to amend or terminate the Dividend Reinvestment Plan. There is no direct service charge to participants with regard to purchases in the Dividend Reinvestment Plan; however, the Fund reserves the right to amend the Dividend Reinvestment Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Dividend Reinvestment Plan should be directed to the Plan Administrator at 1-866-270-7788.

The Acquiring Fund's Dividend Reinvestment Plan is the same as that of the Acquired Fund.

#### **CERTAIN PROVISIONS OF THE ACQUIRING FUND'S DECLARATION OF TRUST**

The Acquiring Fund's Declaration of Trust and the Bylaws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status.

The Acquiring Fund's Trustees are divided into three classes. At each annual meeting of shareholders, the term of one class expires and each Trustee elected to that class holds office for a term of three years. The classification of the Board in this manner could delay for an additional year the replacement of a majority of the Board. In addition, the Acquiring Fund's Declaration of Trust provides that a Trustee may be removed only for cause and only (i) by action of at least 75% of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by at least 75% of the remaining Trustees.

The Acquiring Fund's Declaration of Trust grants special approval rights with respect to certain matters to members of the Board who qualify as "Continuing Trustees," which means Trustees who either (i) have been members of the Board for a period of at least thirty-six months, or since the commencement of the Fund's operations, if less than thirty-six months, or (ii) were nominated to serve as members of the Board by a majority of the Continuing Trustees then members of the Board.

The Acquiring Fund's Declaration of Trust requires the affirmative vote or consent of at least 75% of the Trustees and holders of at least 75% of the Fund's common shares to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation, issuance or transfer by the Fund of the Fund's shares, except as may be pursuant to a public offering, the Fund's dividend reinvestment plan or upon exercise of any stock subscription rights, a sale, transfer or other disposition of Fund assets, or any shareholder proposal regarding specific investment decisions, unless the transaction is authorized by both a majority of the Trustees and 75% of the Continuing Trustees, in which case no shareholder authorization would be required by the Acquiring Fund's Declaration of Trust, but may be required in certain cases under the 1940 Act.

The Acquiring Fund's Declaration of Trust also requires the affirmative vote or consent of holders of at least 75% of the Fund's common shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a

majority of the Trustees and 75% of the Continuing Trustees, in which case shareholders would have only the minimum voting rights required by the 1940 Act with respect to the conversion. Also, the Acquiring Fund's Declaration of Trust provides that the Fund may be terminated at any time by vote or consent of at least 75% of the Fund's shares or, alternatively, by vote or consent of both a majority of the Trustees and 75% of the Continuing Trustees.

The Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters in the Bylaws, certain of which are required by the 1940 Act.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. These provisions also provide, however, the advantage of potentially requiring persons seeking control of the Acquiring Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objective and policies. The provisions of the Acquiring Fund's Declaration of Trust and Bylaws described above could have the effect of discouraging a third party from seeking to obtain control of the Acquiring Fund in a tender offer or similar transaction. The Board has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Acquiring Fund and its shareholders.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Acquiring Fund's Declaration of Trust and the Bylaws, both of which are on file with the SEC.

Under Massachusetts law, shareholders could, in certain circumstances, be held personally liable for the obligations of the Acquiring Fund. However, the Acquiring Fund's Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the Trustees. The Acquiring Fund's Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Acquiring Fund would be unable to meet its obligations. The Acquiring Fund believes that the likelihood of such circumstances is remote.

The Acquired Fund's Declaration of Trust and Bylaws contain materially the same provisions as those of the Acquiring Fund.

## **REPURCHASE OF COMMON SHARES; POTENTIAL CONVERSION TO OPEN-END FUND**

Each Fund is a closed-end investment company and as such common shareholders do not have the right to cause the Fund to redeem their common shares. Instead, the common shares trade in the open market at a price that is a function of several factors, including dividend levels, NAV, call protection, portfolio credit quality, relative demand for and supply of such shares in the market, general market and economic conditions, conditions affecting individual issuers and other factors. Shares of a closed-end investment company may frequently trade at prices lower than NAV. To the extent permitted under applicable law, the Board reserves the right to purchase its common shares on the open market at any time. For example, the Board regularly monitors the relationship between the market price and NAV of the common shares. If the common shares were to trade at a substantial discount to NAV for an extended period of time, the Board may consider the repurchase of its common shares on the open market or in private transactions, the making of a tender offer for such shares, or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that the Board will decide to take or propose any of these actions, or that share repurchases or tender offers will actually reduce market discount.

If a Fund were to convert to an open-end company, it would be required to redeem all preferred shares and other preferred shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the common shares would no longer be listed on the NYSE. In addition, the Fund may have to close out any credit default swaps that it had written. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV, less any redemption charge that is in effect at the time of redemption. In addition, if the Fund were to convert to an open-end company, it would not be able to invest more than 15% of its net assets in illiquid investments, which may

necessitate a substantial repositioning of the Fund's investment portfolio, which may in turn generate substantial transaction costs, which would be borne by common shareholders, and may adversely affect the Fund's performance and common share dividends.

Before deciding whether to take any action to convert a Fund to an open-end investment company, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the effect of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund's common shares should trade at a discount, the Board may determine that, in the interest of the Fund and its shareholders, no action should be taken.

#### **APPRAISAL RIGHTS**

Shareholders of the Acquired Fund and the Acquiring Fund do not have appraisal rights in connection with the proposed transactions.

## FINANCIAL HIGHLIGHTS

### The Acquired Fund

The Financial Highlights table is intended to help you understand the Acquired Fund's financial performance for the periods shown. Certain information reflects the financial results for a single Acquired Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in the Acquired Fund (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the periods shown has been audited by Deloitte & Touche LLP, the Acquired Fund's independent registered public accounting firm, unless identified as unaudited. Financial statements for the fiscal year ended November 30, 2022, and the Report of the Independent Registered Public Accounting Firm thereon appear in the Acquired Fund's Annual Report for the fiscal year ended November 30, 2022, which is available upon request. Unaudited financial statements for the fiscal period ended May 31, 2023 appear in the Acquired Fund's Semiannual Report for the fiscal period ended May 31, 2023, which is available upon request.

	Six Months Ended May 31, 2023 (Unaudited)	Year Ended November 30,				
		2022	2021	2020	2019	2018
<b>PER SHARE DATA:</b>						
Net asset value, beginning of period . . . . .	\$ 4.95	\$ 7.41	\$ 8.15	\$ 10.07	\$ 11.30	\$ 15.22
<b>Income (loss) from investment operations:</b>						
Net investment income (loss) <sup>(1)</sup> . . . . .	0.27	0.62	0.71	0.75	0.93	1.13
Net realized and unrealized gain (loss) . . . . .	(0.07)	(2.24)	(0.56)	(1.35)	(0.35)	(3.24)
Total from investment operations . . . . .	0.20	(1.62)	0.15	(0.60)	0.58	(2.11)
<b>Dividends and Distributions to Shareholders:</b>						
Net investment income . . . . .	(0.42)	(0.13)	(0.68)	(0.21)	(0.48)	(0.17)
Return of capital . . . . .	—	(0.71)	(0.21)	(1.11)	(1.33)	(1.64)
Total dividends and distributions to shareholders . . . . .	(0.42)	(0.84)	(0.89)	(1.32)	(1.81)	(1.81)
Net asset value, end of period . . . . .	\$ 4.73	\$ 4.95	\$ 7.41	\$ 8.15	\$ 10.07	\$ 11.30
Market value, end of period . . . . .	\$ 4.53	\$ 4.83	\$ 7.52	\$ 8.52	\$ 11.57	\$ 11.34
Total return, net asset value <sup>(2)(3)</sup> . . . . .	3.90%	(22.55)%	1.17%	(4.68)%	5.02%	(14.98)%
Total return, market value <sup>(2)(3)</sup> . . . . .	1.93%	(25.23)%	(1.96)%	(13.34)%	19.13%	(12.99)%
<b>RATIOS/SUPPLEMENTAL DATA:</b>						
Ratio of total expenses after interest expense to average net assets <sup>(4)(5)</sup> . . . . .	3.32%	2.96%	2.47%	2.69%	2.02%	3.11%
Ratio of net investment income (loss) to average net assets <sup>(4)</sup> . . . . .	10.93%	10.55%	8.64%	9.29%	8.40%	8.35%
Portfolio turnover rate <sup>(2)</sup> . . . . .	42%	38%	53%	124%	89%	118%
Net assets, end of period (000's) . . . . .	\$47,433	\$49,376	\$73,622	\$80,459	\$98,555	\$109,657
Borrowings, end of period (000's) . . . . .	\$13,957	\$18,390	\$30,434	\$31,000	\$ 6,000	\$ 54,343
Asset coverage, per \$1,000 of borrowings <sup>(6)</sup> . . .	\$ 4,399	\$ 3,685	\$ 3,419	\$ 3,565	\$16,906	\$ 3,018

(1) Calculated using average shares outstanding.

(2) Not annualized for periods less than one year.

(3) Total return on market value is calculated assuming a purchase of common shares on the opening of the first day and sale on the closing of the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's Automatic Reinvestment and Cash Purchase Plan. Total return on market value is not annualized for periods of less than one year. Brokerage commissions that a shareholder may pay are not reflected. Total

return on market value does not reflect the deduction of taxes that a shareholder may pay on fund distributions or the sale of fund shares. Total return on net asset value uses the same methodology, but with use of net asset value for the beginning, ending and reinvestment values.

- (4) Annualized for periods less than one year.
- (5) Ratio of total expenses before interest expense to average net assets was 2.00% for the six months ended May 31, 2023, and 2.12%, 2.07%, 2.09%, 1.67% and 1.97% for the years ended November 30, 2022, 2021, 2020, 2019, and 2018 respectively.
- (6) Represents value of net assets plus the borrowings at the end of period divided by the borrowings at the end of the period multiplied by \$1,000.

## The Acquiring Fund

The Financial Highlights table is intended to help you understand the Acquiring Fund's financial performance for the periods shown. Certain information reflects the financial results for a single Acquiring Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in the Acquiring Fund (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the periods shown has been audited by Deloitte & Touche LLP, the Acquiring Fund's independent registered public accounting firm, unless identified as unaudited. Financial statements for the fiscal year ended November 30, 2022, and the Report of the Independent Registered Public Accounting Firm thereon appear in the Acquiring Fund's Annual Report for the fiscal year ended November 30, 2022, which is available upon request. Unaudited financial statements for the fiscal period ended May 31, 2023 appear in the Acquiring Fund's Semiannual Report for the fiscal period ended May 31, 2023, which is available upon request.

	Six Months Ended May 31, 2023 (Unaudited)	Year Ended November 30,				
		2022	2021	2020	2019	2018
<b>PER SHARE DATA:</b>						
Net asset value, beginning of period . . . . .	\$ 4.17	\$ 6.24	\$ 7.04	\$ 8.91	\$ 10.58	\$ 14.67
<b>Income (loss) from investment operations:</b>						
Net investment income (loss) <sup>(1)</sup> . . . . .	0.23	0.52	0.60	0.64	0.89	1.13
Net realized and unrealized gain (loss) . . . . .	(0.05)	(1.87)	(0.52)	(1.08)	(0.40)	(3.06)
Total from investment operations . . . . .	0.18	(1.35)	0.08	(0.44)	0.49	(1.93)
<b>Dividends and Distributions to Shareholders:</b>						
Net investment income . . . . .	(0.36)	(0.09)	(0.57)	(0.28)	(0.76)	(0.42)
Return of capital . . . . .	—	(0.63)	(0.31)	(1.15)	(1.40)	(1.74)
Total dividends and distributions to shareholders . . . . .	(0.36)	(0.72)	(0.88)	(1.43)	(2.16)	(2.16)
Net asset value, end of period . . . . .	\$ 3.99	\$ 4.17	\$ 6.24	\$ 7.04	\$ 8.91	\$ 10.58
Market value, end of period . . . . .	\$ 4.00	\$ 4.24	\$ 6.65	\$ 7.40	\$ 13.18	\$ 12.05
Total return, net asset value <sup>(2)(3)</sup> . . . . .	4.15%	(22.31)%	0.36%	(3.32)%	4.45%	(14.51)%
Total return, market value <sup>(2)(3)</sup> . . . . .	2.44%	(25.98)%	0.66%	(32.92)%	29.86%	(6.89)%
<b>RATIOS/SUPPLEMENTAL DATA:</b>						
Ratio of total expenses after interest expense to average net assets <sup>(4)(5)</sup> . . . . .	3.43%	2.95%	2.37%	2.56%	1.97%	2.96%
Ratio of net investment income (loss) to average net assets <sup>(4)</sup> . . . . .	11.00%	10.55%	8.57%	9.04%	8.88%	8.76%
Portfolio turnover rate <sup>(2)</sup> . . . . .	39%	37%	47%	127%	107%	130%
Net assets, end of period (000's) . . . . .	\$68,674	\$71,293	\$105,134	\$117,235	\$146,213	\$170,992
Borrowings, end of period (000's) . . . . .	\$24,767	\$28,600	\$ 45,481	\$ 46,000	\$ 8,976	\$ 85,000
Asset coverage, per \$1,000 of borrowings <sup>(6)</sup> . . . . .	\$ 3,773	\$ 3,493	\$ 3,312	\$ 3,545	\$ 17,290	\$ 3,019

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- (1) Calculated using average shares outstanding.
  - (2) Not annualized for periods less than one year.
  - (3) Total return on market value is calculated assuming a purchase of common shares on the opening of the first day and sale on the closing of the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's Automatic Reinvestment and Cash Purchase Plan. Total return on market value is not annualized for periods of less than one year. Brokerage commissions that a shareholder may pay are not reflected. Total return on market value does not reflect the deduction of taxes that a shareholder may pay on fund distributions or the sale of fund shares. Total return on net asset value uses the same methodology, but with use of net asset value for the beginning, ending and reinvestment values.
  - (4) Annualized for periods less than one year.
  - (5) Ratio of total expenses before interest expense to average net assets was 1.94% for the six months ended May 31, 2023, and 2.03%, 1.96%, 1.99%, 1.59% and 1.88% for the years ended November 30, 2022, 2021, 2020, 2019 and 2018, respectively.
  - (6) Represents value of net assets plus the borrowings at the end of the period divided by the borrowings at the end of the period multiplied by \$1,000.

## TERMS OF THE AGREEMENT AND PLAN OF REORGANIZATION

The following is a summary of the significant terms of the Plan and is qualified in its entirety by reference to the Plan (a form of which is attached as Appendix A to this Information Statement/Prospectus).

The Plan provides that all of the assets of the Acquired Fund will be acquired by the Acquiring Fund in exchange for Acquiring Fund shares and the assumption by the Acquiring Fund of all of the liabilities of the Acquired Fund after the close of business on or about December 15, 2023, or such other date as may be agreed upon by the parties (the “Closing Date”). Prior to the Closing Date, the Acquired Fund will endeavor to discharge all of its known liabilities and obligations.

The Acquired Fund will operate its business in the ordinary course until the Closing Date except as contemplated by the Plan, including the declaration and payment of customary dividends and distributions, and any other distribution that may be advisable. At or prior to the Closing Date, the Acquired Fund will declare and pay a distribution or distributions that, together with all previous distributions, shall have the effect of distributing to its shareholders (i) all of its investment company taxable income and all of its net realized capital gains, if any, for the period from the close of its last fiscal year to 4:00 p.m. Eastern time on the Closing Date; and (ii) any undistributed investment company taxable income and net realized capital gains from any period to the extent not otherwise already distributed.

The number of shares of the Acquiring Fund to be received by the shareholders of the Acquired Fund will be determined by dividing the value of the net assets of the Acquired Fund by the net asset value of a share of the Acquiring Fund (with cash in lieu of fractional shares). These value computations will take place as of immediately after the close of business on the NYSE and after the declaration of any dividends at or prior to the Closing Date (the “Valuation Date”). The net asset value of the Acquiring Fund Shares shall be the net asset value per share computed as of the Valuation Date, using the valuation procedures of the Acquiring Fund.

Virtus Fund Services, LLC (“Virtus Fund Services”), the administrator for both Funds, will compute the value of each Fund’s respective portfolio of securities. The method of valuation employed will be consistent with the procedures set forth in the Prospectus and Statement of Additional Information of the Acquiring Fund, Rule 22c-1 under the 1940 Act, and with the interpretations of that Rule by the SEC’s Division of Investment Management. The method of valuation employed will also be subject to confirmation by each Fund’s respective independent registered public accounting firm upon reasonable request of the other Fund.

Immediately after the transfer of its assets to the Acquiring Fund, the Acquired Fund will liquidate and distribute pro rata to its shareholders as of the close of business on the Closing Date the shares of the Acquiring Fund received by the Acquired Fund. The liquidation and distribution will be accomplished by the establishment of accounts in the names of the Acquired Fund’s shareholders on the share records of the Acquiring Fund or its transfer agent. The aggregate net asset value of Acquiring Fund shares to be credited to Acquired Fund shareholders will be equal to the aggregate net asset value of the Acquired Fund shares owned by such shareholders on the Closing Date. Cash for fractional shares will be paid to the Acquired Fund’s shareholders via check or electronic transfer. All issued and outstanding shares of the Acquired Fund will simultaneously be canceled on the books of the Acquired Fund. After these distributions and the winding up of its affairs, the Acquired Fund will completely liquidate.

The consummation of the Reorganization is subject to the conditions set forth in the Plan, including accuracy of various representations and warranties, and receipt of an opinion of counsel. The Plan may be terminated (a) by the mutual agreement of the Funds; (b) by either the Acquiring Fund or the Acquired Fund if the Reorganization has not occurred on or before February 4, 2024, unless such date is extended by mutual agreement of the Acquiring Fund and the Acquired Fund; or (c) by either party if the other party materially breaches its obligations under the Plan or made a material and intentional misrepresentation in the Plan or in connection with the Plan.

If the Reorganization is not consummated, then the officers of the Acquired Fund and Acquiring Fund, or an affiliate, based on the reasons for not consummating the transaction, will agree on a reasonable allocation of expenses.

If the Reorganization is not consummated, the Board will consider other possible courses of action in the best interests of the Acquired Fund and its shareholders, such as maintaining the status quo, modifications, or liquidating the Acquired Fund.

## MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE REORGANIZATION

*The following discussion summarizes certain material U.S. federal income tax consequences of the Reorganization, including an investment in Acquiring Fund shares, that are applicable to you as an Acquired Fund shareholder. It is based on the Internal Revenue Code of 1986, as amended (the “Code”), applicable U.S. Treasury regulations, judicial authority and administrative rulings and practice, all as of the date of this Information Statement/Prospectus and all of which are subject to change, including changes with retroactive effect. The discussion below does not address any state, local or foreign tax consequences of the Reorganization. Your tax treatment may vary depending upon your particular situation. You also may be subject to special rules not discussed below if you are a certain kind of Acquired Fund shareholder, including, but not limited to: an insurance company; a tax-exempt organization; a financial institution or broker-dealer; a person who is neither a citizen nor resident of the United States or entity that is not organized under the laws of the United States or a political subdivision thereof; a holder of Acquired Fund shares as part of a hedge, straddle or conversion transaction; a person or entity that does not hold Acquired Fund shares as a capital asset at the time of the Reorganization; or an entity taxable as a partnership for U.S. federal income tax purposes (or a holder of interests in such a partnership).*

*For purposes of this discussion, a “U.S. shareholder” is a beneficial owner of Acquiring Fund shares who is for U.S. federal income tax purposes: (1) a citizen or individual resident of the United States; (2) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (3) a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or (4) an estate the income of which is subject to U.S. federal income taxation regardless of its source. A “non-U.S. shareholder” is a beneficial owner of Acquiring Fund shares who is for U.S. federal income tax purposes a person other than: (1) a U.S. shareholder and (2) a partnership.*

*The Acquiring Fund has not requested, and will not request, an advance ruling from the Internal Revenue Service, or the IRS, as to the U.S. federal income tax consequences of the Reorganization or any related transactions. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. You are urged to consult with your own tax advisors and financial planners as to the particular tax consequences of the Reorganization to you, including the applicability and effect of any state, local or foreign laws and the effect of possible changes in applicable tax laws.*

### **Tax Consequences of the Reorganization**

It is a condition to the closing of the Reorganization that the Acquired Fund and the Acquiring Fund each receive an opinion from Dechert LLP, dated as of the Closing Date, regarding the characterization of the Reorganization as a “reorganization” within the meaning of Section 368(a) of the Code. The opinion of Dechert LLP will be based on U.S. federal income tax law in effect on the Closing Date. In rendering its opinion, Dechert LLP will also rely upon certain representations made by the Acquired Fund and the Acquiring Fund and upon customary assumptions, including, among other things, that the Reorganization will be consummated in accordance with the Plan and other operative documents and as described herein. It is possible that the IRS could disagree with counsel’s opinion. An opinion of counsel is not binding on the IRS or any court. If the Reorganization was not to qualify as a reorganization under the Code, the tax consequences could materially and adversely differ from those described herein.

As a reorganization, the U.S. federal income tax consequences of the Reorganization can be summarized as follows:

- The transfer of the Acquired Fund’s assets in exchange solely for Acquiring Fund shares and the assumption by the Acquiring Fund of stated liabilities of the Acquired Fund followed by the distribution by the Acquired Fund of Acquiring Fund shares to the Acquired Fund shareholders in exchange for their Acquired Fund shares in liquidation of the Acquired Fund pursuant to and in accordance with the terms of the Plan will constitute a “reorganization” within the meaning of Section 368(a)(1) of the Code;

- No gain or loss will be recognized by the Acquiring Fund upon the receipt of the Acquired Fund assets solely in exchange for the Acquiring Fund shares and the assumption by the Acquiring Fund of the stated liabilities of the Acquired Fund;
- No gain or loss will be recognized by the Acquired Fund upon the transfer of the Acquired Fund assets to the Acquiring Fund in exchange solely for Acquiring Fund shares and the assumption by the Acquiring Fund of the stated liabilities or upon the distribution of the Acquiring Fund shares to the Acquired Fund shareholders in exchange for their Acquired Fund shares, except that the Acquired Fund may be required to recognize gain or loss with respect to contracts described in Section 1256(b) of the Code or stock in a passive foreign investment company, as defined in Section 1297(a) of the Code;
- No gain or loss will be recognized by the Acquired Fund shareholders upon the exchange of the Acquired Fund shares for Acquiring Fund shares (except with respect to cash received in lieu of fractional shares);
- The aggregate tax basis for the Acquiring Fund shares received by each Acquired Fund shareholder pursuant to the Reorganization will be the same as the aggregate tax basis of the Acquired Fund shares held by each such Acquired Fund shareholder immediately prior to the Reorganization (reduced by any amount of tax basis allocable to fractional shares for which cash is received);
- The holding period of the Acquiring Fund shares to be received by each Acquired Fund shareholder will include the period during which the Acquired Fund shares surrendered in exchange therefor were held (provided such Acquired Fund shares were held as capital assets on the date of the Reorganization);
- The tax basis of the Acquired Fund assets acquired by the Acquiring Fund will be the same as the tax basis of such assets to the Acquired Fund in exchange therefor; and
- The holding period of the Acquired Fund assets in the hands of the Acquiring Fund will include the period during which those assets were held by the Acquired Fund (except where the investment activities of the Acquiring Fund have the effect of reducing or eliminating such periods with respect to an Acquired Fund asset).

Notwithstanding the foregoing, no opinion will be expressed as to the tax consequences of the Reorganization on contracts or securities on which gain or loss is recognized upon the transfer of an asset regardless of whether such transfer would otherwise be a nonrecognition transaction under the Code. If the Reorganization were consummated but the IRS or the courts were to determine that the Reorganization did not qualify as a tax-free reorganization under the Code, and thus was taxable, the Acquired Fund would recognize gain or loss on the transfer of its assets to the Acquiring Fund, and each shareholder of the Acquired Fund that held shares in a taxable account would recognize a taxable gain or loss equal to the difference between its tax basis in its Acquired Fund shares and the fair market value of the shares of the Acquiring Fund it received.

#### *Capital Loss Carryforwards*

As of the end of the last fiscal year, the Acquired Fund had approximately \$86.4 million of capital loss carryforwards, and the Acquiring Fund had approximately \$128.8 million of capital loss carryforwards. The Acquiring Fund's ability to carry forward and use either Fund's pre-Reorganization capital losses may be limited. In addition, the loss limitation rules of Sections 382, 383 and 384 of the Code may apply. Either Fund's "pre-acquisition losses" (including capital loss carryforwards, net current-year capital losses, and unrealized losses that exceed certain thresholds) cannot be used to offset unrealized gains in another Fund that are "built in" (unrealized) at the time of the Reorganization and that exceed certain thresholds ("non-de minimis built-in gains") for five calendar years. Further, a portion of a Fund's pre-acquisition losses may become subject to an annual limitation on the amount that may be used to offset future gain. Any remaining pre-acquisition losses will offset capital gains realized after the Reorganization and this will reduce subsequent capital gain distributions to a broader group of shareholders than would have been the case absent such Reorganization. Therefore, in certain circumstances, shareholders of a Fund, upon receipt of capital gain distributions, may be subject to tax sooner, or incur more taxes as a result of the transactions that would take place as part of the Reorganization, than they would have had the Reorganization not occurred.

The impact of the rules described above will depend on the relative sizes of, and the losses and gains (both realized and unrealized) in, each of the Acquired Fund and the Acquiring Fund at the time of the Reorganization and thus cannot be calculated precisely at this time. As of the date of this Information Statement/Prospectus, it is expected that a portion of the Acquired Fund's pre-acquisition losses may become subject to an annual limitation on the amount that may be used by the Acquiring Fund in any particular taxable year to offset realized gains.

#### *Cash in lieu of Fractional Shares*

If an Acquired Fund shareholder receives cash in lieu of a fractional share of Acquiring Fund, the Acquired Fund shareholder will be treated as having received the fractional share of Acquiring Fund pursuant to the Reorganization and then as having sold that fractional share of Acquiring Fund for cash. As a result, each such Acquired Fund shareholder generally will recognize gain or loss equal to the difference between the amount of cash received and the tax basis in his, her or its fractional share of Acquiring Fund. This gain or loss generally will be a capital gain or loss and will be long-term capital gain or loss if, as of the date of Reorganization, the holding period for the shares (including the holding period of Acquired Fund surrendered therefor) is greater than one year. The deductibility of capital losses is subject to limitations. You should consult your tax advisor about your specific tax situation.

#### *Distribution of Income and Gains*

The Acquired Fund's tax year is expected to end as a result of the Reorganization. The Acquired Fund generally will be required to declare to its shareholders of record one or more distributions of all of its previously undistributed net investment income and net realized capital gain (if any), including capital gain realized on any securities disposed of in connection with the Reorganization, in order to maintain its treatment as a regulated investment company under Subchapter M of the Code during its tax year ending with the date of the Reorganization and to eliminate any U.S. federal income tax on its taxable income in respect of such tax year.

Moreover, if the Acquiring Fund has net investment income or net realized capital gain, but has not distributed such income or gain prior to the Reorganization and you acquire shares of the Acquiring Fund in the Reorganization, a portion of your subsequent distributions from the Acquiring Fund may, in effect, be a taxable return of part of your investment. Similarly, if you acquire Acquiring Fund shares in the Reorganization when the Acquiring Fund holds appreciated securities, you may receive a taxable return of part of your investment if and when the Acquiring Fund sells the appreciated securities and distributes the realized gain.

#### **U.S. Federal Income Taxation of an Investment in Acquiring Fund Shares**

The following discussion summarizes the U.S. federal income taxation of an investment in Acquiring Fund shares by shareholders of the Acquired Fund as a result of the Reorganization. This discussion is not intended as a substitute for careful tax planning. You should consult your tax advisor about your specific tax situation.

The Acquiring Fund has elected to be treated for U.S. federal income tax purposes, and intends to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Code. As a RIC, the Acquiring Fund generally will not be subject to corporate-level U.S. federal income taxes on any ordinary income or capital gains that it distributes as dividends to shareholders. To qualify as a RIC in any tax year, the Acquiring Fund must, among other things, satisfy both a source of income test and asset diversification tests. The Acquiring Fund will satisfy these tests if (i) at least 90% of the Acquiring Fund's gross income for such tax year consists of dividends; interest; payments with respect to certain securities loans; gains from the sale or other disposition of shares, securities or foreign currencies; other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such shares, securities or currencies; and net income derived from interests in "qualified publicly-traded partnerships" (such income, "Qualifying RIC Income"); and (ii) the Acquiring Fund's holdings are diversified so that, at the end of each quarter of such tax year, (a) at least 50% of the value of the Acquiring Fund's total assets is represented by cash and cash equivalents, securities of other RICs, U.S. government securities and other securities, with such other securities limited, in respect of any one issuer, to an amount not

greater than 5% of the value of the Acquiring Fund's total assets and not greater than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the value of the Acquiring Fund's total assets is invested (x) in securities (other than U.S. government securities or securities of other RICs) of any one issuer or of two or more issuers that the Acquiring Fund controls and that are engaged in the same, similar or related trades or businesses or (y) in the securities of one or more "qualified publicly-traded partnerships." The Acquiring Fund's share of income derived from a partnership other than a "qualified publicly-traded partnership" will be treated as Qualifying RIC Income only to the extent that such income would have constituted Qualifying RIC Income if derived directly by the Acquiring Fund. A "qualified publicly-traded partnership" is generally defined as an entity that is treated as a partnership for U.S. federal income tax purposes if (1) interests in such entity are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof and (2) less than 90% of its gross income for the relevant tax year consists of Qualifying RIC Income. The Code provides that the Treasury Department may by regulation exclude from Qualifying RIC Income foreign currency gains that are not directly related to the RIC's principal business of investing in shares or securities (or options and futures with respect to shares or securities). The Acquiring Fund anticipates that, in general, its foreign currency gains will be directly related to its principal business of investing in shares and securities.

In addition, to maintain RIC tax treatment, the Acquiring Fund must distribute on a timely basis with respect to each tax year dividends of an amount at least equal to 90% of the sum of its "investment company taxable income" and its net tax-exempt interest income, determined without regard to any deduction for dividends paid, to shareholders (the "90% distribution requirement"). If the Acquiring Fund qualifies as a RIC and satisfies the 90% distribution requirement, the Acquiring Fund generally will not be subject to U.S. federal income tax on its "investment company taxable income" and net capital gains (that is, the excess of net long-term capital gains over net short-term capital losses) that it distributes as dividends to shareholders (including amounts that are reinvested pursuant to a dividend reinvestment program). In general, a RIC's "investment company taxable income" for any tax year is its taxable income, determined without regard to net capital gains and with certain other adjustments. The Acquiring Fund intends to distribute all or substantially all of its "investment company taxable income," net tax-exempt interest income (if any) and net capital gains on an annual basis. Any taxable income, including any net capital gains, that the Acquiring Fund does not distribute in a timely manner, will be subject to U.S. federal income tax at regular corporate rates.

The Acquiring Fund is generally permitted to carry forward a net capital loss in any taxable year to offset its own capital gains, if any. These amounts are available to be carried forward to offset future capital gains to the extent permitted by the Code and applicable tax regulations. Any such loss carryforwards will retain their character as short-term or long-term. In the event that the Acquiring Fund were to experience an ownership change as defined under the Code, the capital loss carryforwards and other favorable tax attributes of the Acquiring Fund, if any, may be subject to limitation.

In determining its net capital gain, including in also connection with determining the amount available to support a capital gain dividend, its taxable income and its earnings and profits, the Acquiring Fund generally may also elect to treat part or all of any post-October capital loss (defined as any net capital loss attributable to the portion, if any, of the taxable year after October 31 or, if there is no such loss, the net long-term capital loss or net short-term capital loss attributable to any such portion of the taxable year) or late-year ordinary loss (generally, the sum of its (i) net ordinary loss, if any, from the sale, exchange or other taxable disposition of property, attributable to the portion, if any, of the taxable year after October 31, and its (ii) other net ordinary loss, if any, attributable to the portion, if any, of the taxable year after December 31) as if incurred in the succeeding taxable year.

If the Acquiring Fund retains any net capital gains for reinvestment, it may elect to treat such capital gains as having been distributed to shareholders. If the Acquiring Fund makes such an election, each shareholder will be required to report its share of such undistributed net capital gains as long-term capital gain and will be entitled to claim its share of the U.S. federal income taxes paid by the Acquiring Fund on such undistributed net capital gains as a credit against its own U.S. federal income tax liability, if any, and to claim a refund on a properly-filed U.S. federal income tax return to the extent that the credit exceeds such liability. In addition, each shareholder will be entitled to increase the adjusted tax basis of its shares by the

difference between its share of such undistributed net capital gain and the related credit. There can be no assurance that the Acquiring Fund will make this election if it retains all or a portion of its net capital gain for a tax year.

As a RIC, the Acquiring Fund will be, subject to a nondeductible 4% federal excise tax on certain undistributed amounts for each calendar year (the “4% excise tax”). To avoid the 4% excise tax, the Acquiring Fund must distribute in respect of each calendar year dividends of an amount at least equal to the sum of (1) 98% of its ordinary taxable income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of its capital gain net income (adjusted for certain ordinary losses) generally for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and capital gains for previous calendar years that were not distributed during those calendar years. For purposes of determining whether the Acquiring Fund has met this distribution requirement, the Acquiring Fund will be deemed to have distributed any income or gains previously subject to U.S. federal income tax. Furthermore, any distribution declared by the Acquiring Fund in October, November or December of any calendar year, payable to shareholders, of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated for tax purposes as if it had been paid on December 31 of the calendar year in which the distribution was declared. The Acquiring Fund generally intends to avoid the imposition of the 4% excise tax, but there can be no assurance in this regard.

If the Acquiring Fund fails to qualify as a RIC or fails to satisfy the 90% distribution requirement in respect of any tax year, the Acquiring Fund would be subject to U.S. federal income tax at regular corporate rates on its taxable income, including its net capital gains, even if such income were distributed, and all distributions out of earnings and profits would be taxed as ordinary dividend income. Such distributions generally would be eligible for the dividends-received deduction in the case of certain corporate shareholders and may be eligible to be qualified dividend income in the case of certain non-corporate shareholders. In addition, the Acquiring Fund could be required to recognize unrealized gains, pay taxes and make distributions (any of which could be subject to interest charges) before re-qualifying for taxation as a RIC. If the Acquiring Fund fails to satisfy either the income test or asset diversification test described above, in certain cases, however, the Acquiring Fund may be able to avoid losing its status as a RIC by timely providing notice of such failure to the IRS, curing such failure and possibly paying an additional tax or penalty.

Some of the investments that the Acquiring Fund is expected to make, such as investments in debt instruments having market discount and/or treated as issued with OID, may cause the Acquiring Fund to recognize income or gain for U.S. federal income tax purposes prior to the receipt of any corresponding cash or other property. As a result, the Acquiring Fund may have difficulty meeting the 90% distribution requirement necessary to maintain RIC tax treatment. Because this income will be included in the Acquiring Fund’s investment company taxable income for the tax year it is accrued, the Acquiring Fund may be required to make a distribution to shareholders to meet the distribution requirements described above, even though the Acquiring Fund will not have received any corresponding cash or property. The Acquiring Fund may be required to borrow money, dispose of other securities or forgo new investment opportunities for this purpose.

There may be uncertainty as to the appropriate treatment of certain of the Acquiring Fund’s investments for U.S. federal income tax purposes. In particular, the Acquiring Fund expects to invest a portion of its net assets in below investment grade instruments, trust preferred securities and convertible securities. U.S. federal income tax rules with respect to such instruments are not entirely clear about issues such as whether and to what extent the Acquiring Fund should recognize interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt obligations in a bankruptcy or workout context are taxable. Although the Acquiring Fund will seek to address these and other issues, to the extent necessary, in connection with the Acquiring Fund’s general intention to distribute sufficient income to qualify, and maintain its qualification to be subject to tax as a RIC and to minimize the risk that it becomes subject to U.S. federal income or excise tax, no assurances can be given that the Acquiring Fund will not be adversely affected as a result of such issues.

Income received by the Acquiring Fund from sources outside the United States may be subject to withholding and other taxes imposed by such countries, thereby reducing income available to the Acquiring Fund. Tax conventions between certain countries and the United States may reduce or eliminate such

taxes. The Acquiring Fund generally intends to conduct its investment activities to minimize the impact of foreign taxation, but there is no guarantee that the Acquiring Fund will be successful in this regard. If more than 50% of the value of the Acquiring Fund's total assets at the close of its tax year consists of securities of foreign corporations, the Acquiring Fund will be eligible to elect to "pass-through" to the Acquiring Fund the foreign source amount of income deemed earned and the respective amount of foreign taxes paid by the Acquiring Fund. If the Acquiring Fund so elects, each shareholder would be required to include in gross income, even though not actually received, each shareholder's *pro rata* share of the foreign taxes paid or deemed paid by the Acquiring Fund, but would be treated as having paid its *pro rata* share of such foreign taxes and would therefore be allowed to either deduct such amount in computing taxable income or use such amount as a foreign tax credit against federal income tax (but not both), in each case subject to various limitations.

The Acquiring Fund may invest in shares of foreign companies that are classified under the Code as passive foreign investment companies ("PFICs"). In general, a foreign company is considered a PFIC if at least 50% of its assets constitute investment-type assets or 75% or more of its gross income is investment-type income. In general under the PFIC rules, an "excess distribution" received with respect to PFIC shares is treated as having been realized ratably over the period during which the Acquiring Fund held the PFIC shares. The Acquiring Fund generally will be subject to tax on the portion, if any, of the excess distribution that is allocated to the Acquiring Fund's holding period in prior tax years (and an interest factor will be added to the tax, as if the tax had actually been payable in such prior tax years) even though the Acquiring Fund distributes the corresponding income to shareholders. Excess distributions include any gain from the sale of PFIC shares as well as certain distributions and other income with respect to a PFIC. All excess distributions are taxable as ordinary income.

The Acquiring Fund may be eligible to elect alternative tax treatment with respect to PFIC shares. Under one such election (*i.e.*, a "QEF" election), the Acquiring Fund generally would be required to include in its gross income its share of the earnings of a PFIC on a current basis, regardless of whether any distributions are received from the PFIC. If this election is made, the special rules, discussed above, relating to the taxation of excess distributions, would not apply. Alternatively, the Acquiring Fund may be able to elect to mark its PFIC shares to market, resulting in any unrealized gains at the Acquiring Fund's tax year end being treated as though they were recognized and reported as ordinary income. Any mark-to-market losses and any loss from an actual disposition of the PFIC shares would be deductible as ordinary losses to the extent of any net mark-to-market gains included in income in prior tax years with respect to shares in the same PFIC.

Because the application of the PFIC rules may affect, among other things, the character of gains, the amount of gain or loss and the timing of the recognition of income, gain or loss with respect to PFIC shares, as well as subject the Acquiring Fund itself to tax on certain income from PFIC shares, the amount that must be distributed to Acquiring Fund shareholders, and which will be recognized by Acquiring Fund shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not invest in PFIC shares. Note that distributions from a PFIC are not eligible for the reduced rate of tax on distributions of "qualified dividend income" as discussed below.

Some of the Structured Products in which the Acquiring Fund invests may be PFICs, which are generally subject to the tax consequences described above. Investment in certain equity interests of Structured Products that are subject to treatment as PFICs for U.S. federal income tax purposes may cause the Acquiring Fund to recognize income in a tax year in excess of the Acquiring Fund's distributions from such Structured Products, PFICs and the Acquiring Fund's proceeds from sales or other dispositions of equity interests in other Structured Products and other PFICs during that tax year. As a result, the Acquiring Fund generally would be required to distribute such income to satisfy the distribution requirements applicable to RICs. Treasury regulations generally would treat the Acquiring Fund's income inclusion with respect to a PFIC with respect to which the Acquiring Fund has made a QEF election as Qualifying RIC Income either if (A) there is a current distribution out of the earnings and profits of the PFIC that are attributable to such income inclusion or (ii) such inclusion is derived with respect to the Acquiring Fund's business of investing in stock, securities, or currencies.

If the Acquiring Fund holds more than 10% of the interests treated as equity for U.S. federal income tax purposes in a foreign corporation that is treated as a controlled foreign corporation ("CFC"), including

equity tranche investments and certain debt tranche investments in a Structured Product treated as CFC, the Acquiring Fund may be treated as receiving a deemed distribution (taxable as ordinary income) each tax year from such foreign corporation of an amount equal to the Acquiring Fund's *pro rata* share of the foreign corporation's earnings for such tax year (including both ordinary earnings and capital gains), whether or not the corporation makes an actual distribution to the Acquiring Fund during such tax year. This deemed distribution is required to be included in the income of certain U.S. shareholders of a CFC, such as the Acquiring Fund. The Acquiring Fund is generally required to distribute such income in order to satisfy the distribution requirements applicable to RICs, even to the extent the Acquiring Fund's income from a CFC exceeds the distributions from the CFC and the Acquiring Fund's proceeds from the sales or other dispositions of CFC stock during that tax year. In general, a foreign corporation will be treated as a CFC for U.S. federal income tax purposes if more than 50% of the shares of the foreign corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by U.S. shareholders. A "U.S. shareholder," for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power or value of all classes of shares of a corporation. Treasury regulations generally would treat the Acquiring Fund's income inclusion with respect to a CFC as Qualifying RIC Income either if (A) there is a distribution out of the earnings and profits of the CFC that are attributable to such income inclusion or (ii) such inclusion is derived with respect to the Acquiring Fund's business of investing in stock, securities, or currencies.

The functional currency of the Acquiring Fund, for U.S. federal income tax purposes, is the U.S. dollar. Gains or losses attributable to fluctuations in foreign currency exchange rates that occur between the time the Acquiring Fund accrues interest income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Acquiring Fund actually collects such receivables or pays such liabilities generally are respectively characterized as ordinary income or ordinary loss for U.S. federal income tax purposes. Similarly, on the sale of other disposition of certain investments, including debt securities, certain forward contracts, as well as other derivative financial instruments, denominated in a foreign currency, gains or losses attributable to fluctuations in the value of foreign currency between the date of acquisition of the security or contract and the date of disposition also are generally treated as ordinary gain or loss. These gains and losses, referred to under the Code as "section 988" gains and losses, may increase or decrease the amount of the Acquiring Fund's investment company taxable income subject to distribution to Acquiring Fund shareholders as ordinary income. For example, fluctuations in exchange rates may increase the amount of income that the Acquiring Fund must distribute to qualify for tax treatment as a RIC and to prevent application of an excise tax on undistributed income. Alternatively, fluctuations in exchange rates may decrease or eliminate income available for distribution. If section 988 losses exceed other investment company taxable income during a tax year, the Acquiring Fund would not be able to distribute amounts considered dividends for U.S. federal income tax purposes, and any distributions during a tax year made by the Acquiring Fund before such losses were recognized would be re-characterized as a return of capital to Acquiring Fund shareholders for U.S. federal income tax purposes, rather than as ordinary dividend income, and would reduce each Acquiring Fund shareholder's tax basis in Acquiring Fund shares.

If the Acquiring Fund utilizes leverage through the issuance of preferred shares or borrowings, it will be prohibited from declaring a distribution or dividend if it would fail the applicable asset coverage test(s) under the 1940 Act after the payment of such distribution or dividend. In addition, certain covenants in credit facilities or indentures may impose greater restrictions on the Acquiring Fund's ability to declare and pay dividends on Acquiring Fund shares. Limits on the Acquiring Fund's ability to pay dividends on Acquiring Fund shares may prevent the Acquiring Fund from meeting the distribution requirements described above and, as a result, may affect the Acquiring Fund's ability to be subject to tax as a RIC or subject the Acquiring Fund to income tax or undistributed income or the 4% excise tax. The Acquiring Fund endeavors to avoid restrictions on its ability to make distribution payments. If the Acquiring Fund is precluded from making distributions on Acquiring Fund shares because of any applicable asset coverage requirements, the terms of preferred shares (if any) may provide that any amounts so precluded from being distributed, but required to be distributed by the Acquiring Fund to enable the Acquiring Fund to satisfy the distribution requirements that would enable the Acquiring Fund to be subject to tax as a RIC, will be paid to the holders of preferred shares as a special distribution. This distribution can be expected to decrease the amount that holders of preferred shares would be entitled to receive upon repurchase or liquidation of such preferred shares.

Certain of the Acquiring Fund's investments are expected to be subject to special U.S. federal income tax provisions that may, among other things, (1) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (2) convert lower-taxed long-term capital gains into higher-taxed short-term capital gains or ordinary income, (3) convert an ordinary loss or a deduction into a capital loss, the deductibility of which is more limited, (4) adversely affect when a purchase or sale of shares or securities is deemed to occur, (5) adversely alter the intended characterization of certain complex financial transactions, (6) cause the Acquiring Fund to recognize income or gain without a corresponding receipt of cash, (7) treat dividends that would otherwise constitute qualified dividend income as non-qualified dividend income, (8) treat dividends that would otherwise be eligible for the corporate dividends received deduction as ineligible for such treatment and (9) produce income that will not constitute Qualifying RIC Income. The application of these rules could cause the Acquiring Fund to be subject to U.S. federal income tax or the 4% excise tax and, under certain circumstances, could affect the Acquiring Fund's status as a RIC. The Acquiring Fund monitors its investments and may make certain tax elections to mitigate the effect of these provisions.

The remainder of this discussion assumes that the Acquiring Fund has qualified and maintain its qualification as a RIC and has satisfied the distribution requirements described above.

## **TAXATION OF U.S. SHAREHOLDERS**

This subsection applies to U.S. shareholders only. Persons who are not U.S. shareholders should refer to "Taxation of Non-U.S. shareholders," below.

### **Distributions**

Distributions of the Acquiring Fund's ordinary income and net short-term capital gains will, except as described below with respect to distributions of "qualified dividend income," generally be taxable to shareholders as ordinary income to the extent such distributions are paid out of the Acquiring Fund's current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Properly reported distributions (or deemed distributions, as described above), if any, of net capital gains will be taxable as long-term capital gains, regardless of the length of time a shareholder has owned shares. The ultimate tax characterization of the Acquiring Fund's distributions made in a tax year cannot be determined until after the end of the tax year. As a result, the Acquiring Fund may make total distributions during a tax year in an amount that exceeds the current and accumulated earnings and profits of the Acquiring Fund. A distribution of an amount in excess of the Acquiring Fund's current and accumulated earnings and profits will be treated by a shareholder as a return of capital that will be applied against and reduce the shareholder's tax basis in its shares. To the extent that the amount of any such distribution exceeds the shareholder's tax basis in its shares, the excess will be treated as gain from a sale or exchange of shares. Distributions will be treated in the manner described above regardless of whether such distributions are paid in cash or invested in additional shares. Generally, for U.S. federal income tax purposes, a shareholder receiving shares under a dividend reinvestment program will be treated as having received a distribution equal to the amount of cash that could have been received instead.

A return of capital to shareholders is a return of a portion of their original investment in the Acquiring Fund, thereby reducing the tax basis of their investment. As a result of such reduction in tax basis, shareholders may be subject to tax in connection with the sale of Acquiring Fund shares, even if such shares are sold at a loss relative to the shareholder's original investment.

It is expected that a substantial portion of the Acquiring Fund's income will consist of ordinary income. For example, interest and OID derived by the Acquiring Fund characterized as ordinary income for U.S. federal income tax purposes. In addition, gain derived by the Acquiring Fund from the disposition of debt instruments with "market discount" (generally, securities with a fixed maturity date of more than one year from the date of issuance acquired by the Acquiring Fund at a price below the lesser of their stated redemption price at maturity or accreted value, in the case of securities with OID) will be characterized as ordinary income for U.S. federal income tax purposes to the extent of the market discount that has accrued, as determined for U.S. federal income tax purposes, at the time of such disposition, unless the Acquiring Fund makes an election to accrue market discount on a current basis. In addition, certain of the Acquiring Fund's investments will be subject to other special U.S. federal income tax provisions that may affect the character, increase the amount and/or accelerate the timing of distributions to shareholders.

Properly reported distributions made by the Acquiring Fund to a corporate shareholder will qualify for the dividends-received deduction only to the extent that the distributions are attributable to qualifying dividends received by the Acquiring Fund. In addition, any portion of the Acquiring Fund's dividends otherwise qualifying for the dividends-received deduction will be disallowed or reduced if the corporate shareholder fails to satisfy certain requirements, including a holding period requirement, with respect to its shares. Properly reported distributions made by the Acquiring Fund to an individual or other non-corporate shareholder will be treated as "qualified dividend income" to such shareholder to the extent of the Acquiring Fund's "qualified dividend income" and generally will be taxed at long-term capital gain rates, provided the shareholder satisfies the applicable holding period and other requirements. "Qualified dividend income" generally includes dividends from domestic corporations and dividends from foreign corporations that meet certain specified criteria. Given the Acquiring Fund's investment strategy, it is not expected that a significant portion of the distributions made by the Acquiring Fund will be eligible for the dividends-received deduction or the reduced rates applicable to "qualified dividend income."

Certain distributions reported by the Acquiring Fund as Section 163(j) interest dividends may be treated as interest income by shareholders for purposes of the tax rules applicable to interest expense limitations under Section 163(j) of the Code. Such treatment by the shareholder is generally subject to holding period requirements and other potential limitations, although the holding period requirements are generally not applicable to dividends declared by money market funds and certain other funds that declare dividends daily and pay such dividends on a monthly or more frequent basis. The amount that the Acquiring Fund is eligible to report as a Section 163(j) dividend for a tax year is generally limited to the excess of the Acquiring Fund's business interest income over the sum of the Acquiring Fund's (i) business interest expense and (ii) other deductions properly allocable to the Acquiring Fund's business interest income.

The Acquiring Fund will be treated as a "publicly offered regulated investment company" (within the meaning of Section 67 of the Code) if either (i) shares of the Acquiring Fund are held by at least 500 persons at all times during a taxable year, (ii) shares of the Acquiring Fund are treated as regularly traded on an established securities market or (iii) shares of the Acquiring Fund are continuously offered pursuant to a public offering (within the meaning of section 4 of the 1933 Act). If the Acquiring Fund is not treated as a publicly offered RIC for any calendar year, for purposes of computing the taxable income of shareholders that are individuals, trusts or estates, (i) the Acquiring Fund's earnings will be computed without taking into account such shareholders' allocable shares of the management fees paid to the Acquiring Fund's investment adviser and certain of the Acquiring Fund's other expenses, (ii) each such shareholder will be treated as having received or accrued a dividend from the Acquiring Fund in the amount of such shareholder's allocable share of these fees and expenses for the calendar year, (iii) each such shareholder will be treated as having paid or incurred such shareholder's allocable share of these fees and expenses for the calendar year, and (iv) each such shareholder's allocable share of these fees and expenses will be treated as miscellaneous itemized deductions by such shareholder. Miscellaneous itemized deductions are not deductible for taxable years that begin before January 1, 2026, and thereafter generally (i) will be deductible only to the extent that they exceed 2% of the adjusted gross income of the taxpayer, (ii) will not be deductible for purposes of the alternative minimum tax, and (iii) will be subject to the overall limitation on itemized deductions under Section 68 of the Code. If a person acquires shares shortly before the record date of a distribution, the price of the shares may include the value of the distribution, and the person will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment in such shares.

Distributions paid by the Acquiring Fund generally will be treated as received by a shareholder at the time the distribution is made. However, the Acquiring Fund may, under certain circumstances, elect to treat a distribution that is paid during the following tax year as if it had been paid during the tax year in which the income or gains supporting the distribution was earned. If the Acquiring Fund makes such an election, the shareholder will still be treated as receiving the distribution in the tax year in which the distribution is received. In this instance, however, any distribution declared by the Acquiring Fund in October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated for tax purposes as if it had been received by shareholders on December 31 of the calendar year in which the distribution was declared.

Shareholders will be notified annually, as promptly as practicable after the end of each calendar year, as to the U.S. federal tax status of distributions, and shareholders receiving distributions in the form of additional shares will receive a report as to the NAV of those shares.

The IRS requires that a RIC that has two or more classes of stock allocate to each class proportionate amounts of each type of its income (such as ordinary income, capital gains and dividends qualifying for the dividends-received deduction) based upon the percentage of total dividends paid to each class for the tax year. Accordingly, if the Acquiring Fund issues preferred shares, the Acquiring Fund will allocate capital gain dividends and dividends qualifying for the dividends-received deduction, if any, between its common shares and shares of preferred stock in proportion to the total dividends paid to each class with respect to such tax year.

### **Sale or exchange of shares**

The repurchase or transfer of shares (including in connection with termination of the Acquiring Fund) may result in a taxable gain or loss to the tendering shareholder. Different tax consequences may apply for tendering and non-tendering shareholders in connection with a repurchase offer. For example, if a shareholder does not tender all of his or her shares, such repurchase may be treated as a dividend (as opposed to a sale or exchange) for U.S. federal income tax purposes, and may result in deemed distributions to non-tendering shareholders. On the other hand, shareholders holding shares as capital assets who tender all of their shares (including shares deemed owned by shareholders under constructive ownership rules) will be treated as having sold their shares and generally will recognize capital gain or loss. The amount of the gain or loss will be equal to the difference between the amount received for the shares and the shareholder's adjusted tax basis in the relevant shares. Such gain or loss generally will be a long-term capital gain or loss if the shareholder has held such shares as capital assets for more than one year. Otherwise, the gain or loss will be treated as short-term capital gain or loss.

Losses realized by a shareholder on the sale or exchange of shares held as capital assets for six months or less will be treated as long-term capital losses to the extent of any distribution of long-term capital gains received (or deemed received, as discussed above) with respect to such shares. In addition, no loss will be allowed on a sale or other disposition of shares if the shareholder acquires (including through reinvestment of distributions or otherwise) shares, or enters into a contract or option to acquire shares, within 30 days before or after any disposition of such shares at a loss. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Under current law, net capital gains recognized by non-corporate shareholders are generally subject to U.S. federal income tax at lower rates than the rates applicable to ordinary income. Corporate shareholders currently are subject to U.S. federal income tax on net capital gain at the same rate as ordinary income. Non-corporate shareholders with net capital losses for a tax year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each tax year. Any net capital losses of a non-corporate shareholder in excess of \$3,000 generally may be carried forward and used in subsequent tax years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses for a tax year, but may carry back such losses for three tax years or carry forward such losses for five tax years.

### **Medicare tax**

An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Acquiring Fund and net gains from repurchases or other taxable dispositions of shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts. U.S. persons that are individuals, estates or trusts are urged to consult their tax advisors regarding the applicability of this tax to their income and gains in respect of their investment in the Acquiring Fund.

### **Certain reporting requirements**

Under U.S. Treasury regulations, if a shareholder recognizes losses with respect to shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on IRS Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement

to shareholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Information returns will be filed with the IRS in connection with payments on shares and the proceeds from a sale or other disposition of shares. Reporting of adjusted cost basis information is required for covered securities, which generally include shares of a RIC acquired after January 1, 2012, to the IRS and to taxpayers. Shareholders should contact their Financial Intermediaries with respect to reporting of cost basis and available elections for their accounts.

### **Backup withholding and information reporting**

A shareholder will be subject to backup withholding on all such payments if it fails to provide the payor with its correct taxpayer identification number (generally, in the case of a U.S. resident shareholder, on an IRS Form W-9) and to make required certifications or otherwise establish an exemption from backup withholding. Corporate shareholders and certain other shareholders generally are exempt from backup withholding. Backup withholding is not an additional tax. Any amounts withheld as backup withholding may be credited against the applicable shareholder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

### **TAXATION OF NON-U.S. SHAREHOLDERS**

This subsection applies to non-U.S. shareholders only. Persons who are U.S. shareholders should refer to "Taxation of U.S. shareholders," above.

Whether an investment in the Acquiring Fund is appropriate for a non-U.S. shareholder will depend upon that investor's particular circumstances. An investment in the Acquiring Fund by a non-U.S. shareholder may have adverse tax consequences. Non-U.S. shareholders should consult their tax advisors before investing in shares.

The U.S. federal income taxation of a non-U.S. shareholder depends on whether the income that the shareholder derives from the Acquiring Fund is "effectively connected" with a U.S. trade or business carried on by the shareholder.

If the income that a non-U.S. shareholder derives from the Acquiring Fund is not "effectively connected" with a U.S. trade or business carried on by such non-U.S. shareholder, distributions of "investment company taxable income" (including any deemed distributions with respect to a repurchase offer) will generally be subject to a U.S. federal withholding tax at a rate of 30% (or a lower rate provided under an applicable treaty). Alternatively, if the income that a non-U.S. shareholder derives from the Acquiring Fund is effectively connected with a U.S. trade or business of the non-U.S. shareholder, the Acquiring Fund will not be required to withhold U.S. federal tax if the non-U.S. shareholder complies with applicable certification and disclosure requirements, although such income will be subject to U.S. federal income tax in the manner described below and at the rates applicable to U.S. shareholders. Backup withholding will not, however, be applied to payments that have been subject to this 30% withholding tax applicable to non-U.S. shareholders.

A non-U.S. shareholder whose income from the Acquiring Fund is not "effectively connected" with a U.S. trade or business will generally be exempt from U.S. federal income tax on capital gains distributions, any amounts retained by the Acquiring Fund that are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares. If, however, such a non-U.S. shareholder is a nonresident alien individual and is physically present in the United States for 183 days or more during the tax year and meets certain other requirements such as capital gains distributions, undistributed capital gains and gains from the sale or exchange of shares will be subject to a 30% U.S. tax.

Furthermore, properly reported distributions by the Acquiring Fund and received by non-U.S. shareholders are generally exempt from U.S. federal withholding tax when they (a) are paid by the Acquiring Fund in respect of the Acquiring Fund's "qualified net interest income" (*i.e.*, the Acquiring Fund's U.S. source interest income, subject to certain exceptions, reduced by expenses that are allocable to such income), or (b) are paid by the Acquiring Fund in connection with the Acquiring Fund's "qualified short-term

capital gains” (generally, the excess of the Acquiring Fund’s net short-term capital gains over the Acquiring Fund’s long-term capital losses for such tax year). However, depending on the circumstances, the Acquiring Fund may designate all, some or none of the Acquiring Fund’s potentially eligible distributions as derived from such qualified net interest income or from such qualified short-term capital gains, and a portion of such distributions (*e.g.*, derived from interest from non-U.S. sources or any foreign currency gains) would be ineligible for this potential exemption from withholding. Moreover, in the case of shares held through an intermediary, the intermediary may have withheld amounts even if the Acquiring Fund reported all or a portion of a distribution as exempt from U.S. federal withholding tax. To qualify for this exemption from withholding, a non-U.S. shareholder must comply with applicable certification requirements relating to its non-U.S. tax residency status (including, in general, furnishing an IRS Form W-8BEN, IRS Form W-8BEN-E, IRS Form W-8ECI, IRS Form W-8IMY or IRS Form W-8EXP, or an acceptable substitute or successor form). There can be no assurance as to what portion, if any, of the Acquiring Fund’s distributions would qualify for favorable treatment as qualified net interest income or qualified short-term capital gains. An investment in the shares by a non-U.S. shareholder may have adverse tax consequences as compared to a direct investment in the assets in which the Acquiring Fund will invest.

If the income from the Acquiring Fund is “effectively connected” with a U.S. trade or business carried on by a non-U.S. shareholder, any distributions of “investment company taxable income,” capital gains distributions, amounts retained by the Acquiring Fund that are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares will be subject to U.S. income tax, on a net income basis, in the same manner, and at the rates applicable to, U.S. shareholders. If such a non-U.S. shareholder is a corporation, it may also be subject to the U.S. branch profits tax.

A non-U.S. shareholder other than a corporation may be subject to backup withholding on net capital gains distributions that are otherwise exempt from withholding tax or on distributions that would otherwise be taxable at a reduced treaty rate if such shareholder does not certify its non-U.S. status under penalties of perjury or otherwise establish an exemption.

If the Acquiring Fund distributes net capital gains in the form of deemed rather than actual distributions, a non-U.S. shareholder will be entitled to a U.S. federal income tax credit or tax refund equal to the shareholder’s allocable share of the tax the Acquiring Fund pays on the capital gains deemed to have been distributed. To obtain the refund, the non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return.

Under the Foreign Account Tax Compliance Act provisions of the Code, withholding of U.S. tax (at a 30% rate) is required on payments of taxable dividends made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive reporting and withholding requirements in the Code designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts.

Shareholders may be requested to provide additional information to the Acquiring Fund to enable the Acquiring Fund to determine whether withholding is required.

The tax consequences to a non-U.S. shareholder entitled to claim the benefits of an applicable tax treaty may differ from those described herein. Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Acquiring Fund, including the potential application of the U.S. estate tax.

## **OTHER TAXES**

Shareholders may be subject to state, local and non-U.S. taxes applicable to their investment in the Acquiring Fund. In those states or localities, entity-level tax treatment and the treatment of distributions made to shareholders under those jurisdictions’ tax laws may differ from the treatment under the Code. Accordingly, an investment in shares may have tax consequences for shareholders that are different from those of a direct investment in the Acquiring Fund’s portfolio investments. Shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Acquiring Fund.

## **OTHER INFORMATION**

### **Householding**

Please note that only one copy of shareholder documents, including annual or semiannual reports and proxy materials, may be delivered to two or more shareholders of the Acquired Fund who share an address, unless the Acquired Fund has received instructions to the contrary. This practice is commonly called “householding” and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be househanded indefinitely unless you instruct the Acquired Fund otherwise. To request a separate copy of any shareholder document, or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, shareholders should contact the Acquired Fund at the address and phone number set forth above.

### **Shareholder Communications**

Shareholders of a Fund who wish to send communications to the Board of Trustees of the Fund should send them c/o the Fund’s Secretary, One Financial Plaza, Hartford, CT 06103-2608.

## SHAREHOLDER INFORMATION

As of October 31, 2023, no single shareholder or “group” (as that term is used in Section 13(d) of the Exchange Act) beneficially owned more than 5% of either Fund’s outstanding common shares, except as described in the following table. A control person is one who owns, either directly or indirectly, more than 25% of the voting securities of a Fund or acknowledges the existence of control. A party that controls a Fund may be able to significantly affect the outcome of any item presented to shareholders for approval. This information is based on, among other sources, publicly available Schedule 13D and 13G disclosures filed with the SEC.

### The Acquiring Fund

Shareholder Name and Address	Class of Shares	Share Holdings	Percentage Owned	Estimated Pro Forma Percentage of Ownership of Combined Fund
Morgan Stanley . . . . . 1585 Broadway New York, New York 10036	Common Shares	1,161,270 <sup>(1)</sup>	6.70%	4.30%

(1) Based on June 30, 2023 Section 13 filing.

### Security Ownership of Management

As of October 24, 2023, the officers and trustees of the Acquired Fund, in the aggregate, owned less than 1% of the outstanding shares of the Acquired Fund. As of October 24, 2023, the officers and trustees of the Acquiring Fund, in the aggregate, owned less than 1% of the outstanding shares of the Acquiring Fund.

## **APPENDIX A AGREEMENT AND PLAN OF REORGANIZATION**

**THIS AGREEMENT AND PLAN OF REORGANIZATION** (the “Agreement”) is made as of this 23rd day of May, 2023, by and between Virtus Stone Harbor Emerging Markets Total Income Fund, a Massachusetts business trust (the “Acquired Fund”), and Virtus Stone Harbor Emerging Markets Income Fund, a Massachusetts business trust (the “Acquiring Fund” and, together with the Acquired Fund, the “Funds”), each with its principal place of business at 101 Munson Street, Greenfield, Massachusetts 01301.

This Agreement is intended to be and is adopted as a plan of reorganization and liquidation within the meaning of Section 368(a)(1) of the United States Internal Revenue Code of 1986, as amended (the “Code”). The reorganization (the “Reorganization”) will consist of the transfer of all of the assets of the Acquired Fund to the Acquiring Fund in exchange solely for voting shares of beneficial interest of the Acquiring Fund (the “Acquiring Fund Shares”), the assumption by the Acquiring Fund of all liabilities of the Acquired Fund, and the distribution of the Acquiring Fund Shares to the shareholders of the Acquired Fund in complete liquidation of the Acquired Fund as provided herein, all upon the terms and conditions hereinafter set forth in this Agreement.

Each of the Acquired Fund and the Acquiring Fund is a closed-end, registered investment company of the management type. The Acquired Fund owns securities that generally are assets of the character in which the Acquiring Fund is permitted to invest.

The Board of Trustees of the Acquiring Fund, including a majority of the Trustees who are not “interested persons” of the Acquiring Fund, as defined in the Investment Company Act of 1940, as amended (the “1940 Act”), has determined, with respect to the Acquiring Fund, that the exchange of all of the assets of the Acquired Fund for Acquiring Fund Shares and the assumption of all liabilities of the Acquired Fund by the Acquiring Fund is in the best interests of the Acquiring Fund and its shareholders, and that the interests of the existing shareholders of the Acquiring Fund would not be diluted as a result of this transaction.

The Board of Trustees of the Acquired Fund, including a majority of the Trustees who are not “interested persons” of the Acquired Fund, as defined in the 1940 Act, has also determined, with respect to the Acquired Fund, that the exchange of all of the assets of the Acquired Fund for Acquiring Fund Shares and the assumption of all liabilities of the Acquired Fund by the Acquiring Fund is in the best interests of the Acquired Fund and its shareholders and that the interests of the existing shareholders of the Acquired Fund would not be diluted as a result of this transaction.

**NOW, THEREFORE**, in consideration of the premises and of the covenants and agreements hereinafter set forth, the parties hereto covenant and agree as follows:

### **1. TRANSACTION**

1.1 Subject to the terms and conditions set forth herein and on the basis of the representations and warranties contained herein, the Acquired Fund agrees to transfer all of the Acquired Fund’s assets, as set forth in paragraph 1.2, to the Acquiring Fund, and the Acquiring Fund agrees in exchange therefor: (i) to deliver to the Acquired Fund the number of Acquiring Fund Shares, determined by dividing the value of the Acquired Fund’s net assets, computed in the manner and as of the time and date set forth in paragraph 2.1, by the net asset value of one Acquiring Fund Share, computed in the manner and as of the time and date set forth in paragraph 2.2; and (ii) to assume all liabilities of the Acquired Fund, as set forth in paragraph 1.3. Such transactions shall take place at the closing provided for in paragraph 3.1 (the “Closing Date”).

1.2 The assets of the Acquired Fund to be acquired by the Acquiring Fund shall consist of all assets and property, including, without limitation, all cash, securities, commodities and futures interests and dividends or interests receivable, that are owned by the Acquired Fund, and any deferred or prepaid expenses shown as an asset on the books of the Acquired Fund, on the Closing Date (collectively, the “Assets”).

1.3 The Acquired Fund will endeavor to discharge or accrue for all of its known liabilities and obligations prior to the Closing Date consistent with its obligation to continue to pursue its investment objective and strategies in accordance with the terms of its prospectus. The Acquiring Fund shall also assume

all of the liabilities of the Acquired Fund, whether accrued or contingent, known or unknown, existing at the Valuation Date, as defined in paragraph 2.1 (collectively, “Liabilities”).

1.4 Immediately after the transfer of Assets provided for in paragraph 1.1, the Acquired Fund will distribute to the Acquired Fund’s shareholders of record, determined as of immediately after the close of business on the Closing Date (the “Acquired Fund Shareholders”), on a *pro rata* basis, the Acquiring Fund Shares received by the Acquired Fund pursuant to paragraph 1.1, and will completely liquidate. Such distribution and liquidation will be accomplished, with respect to the Acquired Fund’s shares, by the transfer of the Acquiring Fund Shares then credited to the account of the Acquired Fund on the books of the Acquiring Fund to open accounts on the share records of the Acquiring Fund in the names of the Acquired Fund Shareholders. The aggregate net asset value of Acquiring Fund Shares to be so credited to Acquired Fund Shareholders shall be equal to the aggregate net asset value of the Acquired Fund shares owned by such shareholders on the Closing Date. No fractional shares of Acquiring Fund Shares will be issued to Acquired Fund Shareholders. Acquired Fund Shareholders who would otherwise have been entitled to receive fractional shares of Acquiring Fund Common Shares will receive a cash payment in lieu thereof. All issued and outstanding shares of the Acquired Fund will simultaneously be canceled on the books of the Acquired Fund.

1.5 Ownership of Acquiring Fund Shares will be shown on the books of the Acquiring Fund or its Transfer Agent, as defined in paragraph 3.3.

1.6 Any reporting responsibility of the Acquired Fund including, but not limited to, the responsibility for filing of regulatory reports, tax returns, or other documents with the U.S. Securities and Exchange Commission (the “Commission”), any state securities commission, and any federal, state or local tax authorities or any other relevant regulatory authority, is and shall remain the responsibility of the Acquired Fund.

## **2. VALUATION**

2.1 The value of the Assets shall be the value computed as of immediately after the close of business of the New York Stock Exchange and after the declaration of any dividends at or prior to the Closing Date (such time and date being hereinafter called the “Valuation Date”), using the valuation procedures of the Acquired Fund.

2.2 The net asset value of the Acquiring Fund Shares shall be the net asset value per share computed as of the Valuation Date, using the valuation procedures of the Acquiring Fund.

2.3 The number of Acquiring Fund Shares to be issued in exchange for the Acquired Fund’s Assets shall be determined by dividing the value of the net assets with respect to the shares of the Acquired Fund determined using the same valuation procedures referred to in paragraph 2.1, by the net asset value of an Acquiring Fund Share, determined in accordance with paragraph 2.2.

2.4 Virtus Fund Services, LLC (“VFS”) shall make all computations of value, in its capacity as administrator for the Funds.

2.5 All computations of value hereunder shall be made in accordance with each Fund’s regular practice and the requirements of the 1940 Act, and shall be subject to confirmation by each Fund’s respective independent registered public accounting firm upon reasonable request of the other Fund.

## **3. CLOSING AND CLOSING DATE**

3.1 The Closing Date shall be August 4, 2023, or such other date as the parties may agree. All acts taking place at the closing of the transaction (the “Closing”) shall be deemed to take place simultaneously as of immediately after the close of business on the Closing Date unless otherwise agreed to by the parties. The close of business on the Closing Date shall be as of 4:00 p.m., Eastern Time. The Closing shall be held at the offices of VFS or at such other time and/or place as the parties may agree.

3.2 The Acquired Fund shall direct The Bank of New York Mellon, as custodian for the Acquired Fund (the “Custodian”), to deliver, on the next business day after the Closing, a certificate of an authorized

officer stating that the Assets shall have been delivered in proper form to the Acquiring Fund. The Acquired Fund shall have delivered to the Acquiring Fund a certificate executed in the Acquired Fund's name by its Treasurer or Assistant Treasurer, in a form reasonably satisfactory to the Acquiring Fund, and dated as of the Closing Date, to the effect that all necessary taxes in connection with the delivery of the Assets, including all applicable federal and state stock transfer stamps, if any, have been paid or provision for payment has been made. The Acquired Fund's portfolio securities represented by a certificate or other written instrument shall be presented by the Custodian as custodian for both Funds, from the Acquired Fund to the Acquiring Fund for examination no later than on the next business day following the Closing Date, and shall be transferred and delivered by the Acquired Fund on the next business day following the Closing Date for the account of the Acquiring Fund duly endorsed in proper form for transfer in such condition as to constitute good delivery thereof. The Custodian shall deliver as of the Closing Date by book entry, in accordance with the customary practices of such depositories and the Custodian, the Acquired Fund's portfolio securities and instruments deposited with a "securities depository", as defined in Rule 17f-4 under the 1940 Act. The cash to be transferred by the Acquired Fund shall be delivered by wire transfer of federal funds on the Closing Date.

3.3 The Acquired Fund shall direct Computershare Trust Company, N.A. in its capacity as transfer agent for the Acquired Fund (the "Transfer Agent") to deliver on the next business day following the Closing, a certificate of an authorized officer stating that its records contain the names and addresses of the Acquired Fund Shareholders, and the number and percentage ownership of outstanding shares owned by each such shareholder immediately prior to the Closing. The Acquiring Fund shall issue and deliver a confirmation evidencing the Acquiring Fund Shares to be credited on the Closing Date to the Secretary of the Acquired Fund, or provide evidence satisfactory to the Acquired Fund that such Acquiring Fund Shares have been credited to the Acquired Fund's account on the books of the Acquiring Fund. At the Closing each party shall deliver to the other such bills of sale, checks, assignments, share certificates, if any, receipts or other documents as such other party or its counsel may reasonably request.

3.4 In the event that on the Valuation Date (a) the New York Stock Exchange or another primary trading market for portfolio securities of the Acquiring Fund or the Acquired Fund shall be closed to trading or trading thereupon shall be restricted, or (b) trading or the reporting of trading on such Exchange or elsewhere shall be disrupted so that accurate appraisal of the value of the net assets of the Acquired Fund or the Acquiring Fund is impracticable, the Closing Date shall be postponed until the first Friday after the day when trading shall have been fully resumed and reporting shall have been restored.

#### **4. REPRESENTATIONS AND WARRANTIES**

4.1 The Acquired Fund represents and warrants as follows:

(a) The Acquired Fund is a Massachusetts business trust duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts with power under its Declaration of Trust (the "Trust Instrument") to own all of its assets and to carry on its business as it is now being conducted;

(b) The Acquired Fund is registered with the Commission as a closed-end management investment company under the 1940 Act, and the registration of shares of the Acquired Fund under the Securities Act of 1933, as amended ("1933 Act"), is in full force and effect;

(c) No consent, approval, authorization, or order of any court or governmental authority is required for the consummation by the Acquired Fund of the transactions contemplated herein, except such as have been obtained under the 1933 Act, the Securities Exchange Act of 1934, as amended (the "1934 Act") and the 1940 Act and such as may be required by state securities laws;

(d) The current prospectus, statement of additional information, shareholder reports, marketing and other related materials of the Acquired Fund and each prospectus and statement of additional information of the Acquired Fund used at all times prior to the date of this Agreement conforms or conformed at the time of its use in all material respects to the applicable requirements of the 1933 Act and the 1940 Act and the rules and regulations of the Commission thereunder, and does not or did not at the time of its use include any untrue statement of a material fact or omit to state any material fact

required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not materially misleading;

(e) On the Closing Date, the Acquired Fund will have good and marketable title to the Assets and full right, power, and authority to sell, assign, transfer and deliver such Assets hereunder free of any liens or other encumbrances, and upon delivery and payment for such Assets, the Acquiring Fund will acquire good and marketable title thereto, subject to no restrictions on the full transfer thereof, including such restrictions as might arise under the 1933 Act, other than as disclosed to the Acquiring Fund;

(f) The Acquired Fund is not engaged currently, and the execution, delivery and performance of this Agreement will not result, in (i) a material violation of the Acquired Fund's Trust Instrument or of any agreement, indenture, instrument, contract, lease or other undertaking to which the Acquired Fund is a party or by which it is bound, or (ii) the acceleration of any obligation, or the imposition of any penalty, under any agreement, indenture, instrument, contract, lease, judgment or decree to which the Acquired Fund is a party or by which it is bound;

(g) All material contracts or other commitments of the Acquired Fund (other than this Agreement and certain investment contracts, including options, futures and forward contracts) will terminate without liability or obligation to the Acquired Fund on or prior to the Closing Date;

(h) Except as otherwise disclosed in writing to and accepted by the Acquiring Fund, no litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or, to its knowledge, threatened against the Acquired Fund or any of its properties or assets that, if adversely determined, would materially and adversely affect its financial condition or the conduct of its business. The Acquired Fund knows of no facts which might form the basis for the institution of such proceedings and is not a party to or subject to the provisions of any order, decree or judgment of any court or governmental body which materially and adversely affects its business or its ability to consummate the transactions herein contemplated;

(i) The audited Statement of Assets and Liabilities, Statements of Operations and Changes in Net Assets, and Schedule of Investments of the Acquired Fund at November 30, 2022 are in accordance with generally accepted accounting principles ("GAAP") consistently applied, and such statements (copies of which have been furnished to the Acquiring Fund) present fairly, in all material respects, the financial condition of the Acquired Fund as of such date in accordance with GAAP, and there are no known contingent liabilities of the Acquired Fund required to be reflected on a balance sheet (including the notes thereto) in accordance with GAAP as of such date not disclosed therein;

(j) Since November 30, 2022, there has not been any material adverse change in the Acquired Fund's financial condition, assets, liabilities or business, other than changes occurring in the ordinary course of business, or any incurrence by the Acquired Fund of indebtedness maturing more than one year from the date such indebtedness was incurred, except as otherwise disclosed to and accepted by the Acquiring Fund. For the purposes of this subparagraph (j), a decline in net asset value per share of the Acquired Fund due to declines in market values of securities in the Acquired Fund's portfolio or the discharge of Acquired Fund liabilities shall not constitute a material adverse change;

(k) On the Closing Date, all Federal and other tax returns, dividend reporting forms, and other tax-related reports of the Acquired Fund required by law to have been filed by such date (including any extensions) shall have been filed and are or will be correct in all material respects, and all Federal and other taxes shown as due or required to be shown as due on said returns and reports shall have been paid or provision shall have been made for the payment thereof, and to the best of the Acquired Fund's knowledge, no such return is currently under audit and no assessment has been asserted with respect to such returns;

(l) For each taxable year of its operation (including the year ending on the Closing Date), the Acquired Fund has met (or will meet) the requirements of Subchapter M of the Code for qualification as a regulated investment company, has been (or will be) eligible to and has computed (or will compute) its Federal income tax under Section 852 of the Code, and will have distributed all of its investment company taxable income and net capital gain (as defined in the Code) that has accrued through the

Closing Date, and before the Closing Date will have declared dividends sufficient to distribute all of its investment company taxable income and net capital gain for the period ending on the Closing Date;

(m) All issued and outstanding shares of the Acquired Fund are, and on the Closing Date will be, duly and validly issued and outstanding, fully paid and non-assessable (recognizing that, under Massachusetts law, it is theoretically possible that shareholders of the Acquired Fund could under certain circumstances, be held personally liable for obligations of the Acquired Fund) and have been offered and sold in every state and the District of Columbia in compliance in all material respects with applicable registration requirements of the 1933 Act and state securities laws. All of the issued and outstanding shares of the Acquired Fund will, at the time of Closing, be held by the persons and in the amounts set forth in the records of the Transfer Agent, on behalf of the Acquired Fund, as provided in paragraph 3.3. The Acquired Fund does not have outstanding any options, warrants or other rights to subscribe for or purchase any of the shares of the Acquired Fund, nor is there outstanding any security convertible into any of the Acquired Fund shares;

(n) The execution, delivery and performance of this Agreement will have been duly authorized prior to the Closing Date by all necessary action, if any, on the part of the Board of Trustees of the Acquired Fund, and this Agreement will constitute a valid and binding obligation of the Acquired Fund, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights and to general equity principles; and

(o) The information to be furnished by the Acquired Fund for use in registration statements, proxy materials and other documents filed or to be filed with any Federal, state or local regulatory authority (including the Financial Industry Regulatory Authority), which may be necessary in connection with the transactions contemplated hereby, shall be accurate and complete in all material respects and shall comply in all material respects with Federal securities and other laws and regulations thereunder applicable thereto.

4.2 Except as has been fully disclosed to the Acquired Fund in a written instrument executed by an officer of the Acquiring Fund, the Acquiring Fund represents and warrants as follows:

(a) The Acquiring Fund is a Massachusetts business trust duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts with power under its Trust Instrument to own all of its assets and to carry on its business as it is now being conducted;

(b) The Acquiring Fund is registered with the Commission as a closed-end management investment company under the 1940 Act and the registration of shares of the Acquiring Fund under the 1933 Act, is in full force and effect;

(c) No consent, approval, authorization, or order of any court or governmental authority is required for the consummation by the Acquiring Fund of the transactions contemplated herein, except such as have been obtained under the 1933 Act, the 1934 Act and the 1940 Act and such as may be required by state securities laws;

(d) The Information Statement/Prospectus of the Acquiring Fund initially filed with the Commission on March 31, 2023 on Form N-14 which will become effective prior to the Closing Date, conforms and, as of its effective date and the Closing Date, will conform in all material respects to the applicable requirements of the 1933 Act and the 1940 Act and the rules and regulations of the Commission thereunder and does not and, as of its effective date and the Closing Date, will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not materially misleading;

(e) The Acquiring Fund is not engaged currently, and the execution, delivery and performance of this Agreement will not result, in (i) a material violation of the Acquiring Fund's Trust Instrument or of any agreement, indenture, instrument, contract, lease or other undertaking to which the Acquiring Fund is a party or by which it is bound, or (ii) the acceleration of any obligation, or the imposition

of any penalty, under any agreement, indenture, instrument, contract, lease, judgment or decree to which the Acquiring Fund is a party or by which it is bound;

(f) Except as otherwise disclosed in writing to and accepted by the Acquired Fund, no litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or, to its knowledge, threatened against the Acquiring Fund, or any of the Acquiring Fund's properties or assets that, if adversely determined, would materially and adversely affect the Acquiring Fund's financial condition or the conduct of the Acquiring Fund's business. The Acquiring Fund knows of no facts which might form the basis for the institution of such proceedings and is not a party to or subject to the provisions of any order, decree or judgment of any court or governmental body which materially and adversely affects the Acquiring Fund's business or the Acquiring Fund's ability to consummate the transactions herein contemplated;

(g) On the Closing Date, the Acquiring Fund will have good and marketable title to its assets;

(h) The audited financial statements of the Acquiring Fund at November 30, 2022 are in accordance with GAAP consistently applied, and such statements (copies of which have been furnished to the Acquired Fund) fairly reflect the financial condition of the Acquiring Fund as of such date, and there are no known contingent liabilities of the Acquiring Fund as of such date not disclosed therein;

(i) Since November 30, 2022, there has not been any material adverse change in the Acquiring Fund's financial condition, assets, liabilities, or business other than changes occurring in the ordinary course of business, or any incurrence by the Acquiring Fund of indebtedness maturing more than one year from the date such indebtedness was incurred, except as otherwise disclosed to and accepted by the Acquired Fund. For the purposes of this subparagraph (i), a decline in the net asset value of the Acquiring Fund shall not constitute a material adverse change;

(j) On the Closing Date, all Federal and other tax returns, dividend reporting forms, and other tax-related reports of the Acquiring Fund required by law to have been filed by such date (including any extensions) shall have been filed and are or will be correct in all material respects, and all Federal and other taxes shown as due or required to be shown as due on said returns and reports shall have been paid or provision shall have been made for the payment thereof, and to the best of the Acquiring Fund's knowledge no such return is currently under audit and no assessment has been asserted with respect to such returns;

(k) For each taxable year of its operation (including through the end of the year in which the Reorganization occurs), the Acquiring Fund has met (or will meet) the requirements of Subchapter M of the Code for qualification and treatment as a regulated investment company, has been (or will be) eligible to and has computed (or will compute) its Federal income tax under Section 852 of the Code, and has distributed (or will distribute) in each such year all of its investment company taxable income and net realized capital gains;

(l) All issued and outstanding Acquiring Fund Shares are, and on the Closing Date will be, duly and validly issued and outstanding, fully paid and non-assessable (recognizing that, under Massachusetts law, it is theoretically possible that shareholders of the Acquiring Fund could, under certain circumstances, be held personally liable for obligations of the Acquiring Fund) and have been offered and sold in every state and the District of Columbia in compliance in all material respects with applicable registration requirements of the 1933 Act. The Acquiring Fund does not have outstanding any options, warrants or other rights to subscribe for or purchase any Acquiring Fund Shares, nor is there outstanding any security convertible into any Acquiring Fund Shares;

(m) The execution, delivery and performance of this Agreement will have been fully authorized prior to the Closing Date by all necessary action, if any, on the part of the Trustees of the Acquiring Fund and this Agreement will constitute a valid and binding obligation of the Acquiring Fund, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights and to general equity principles;

(n) Acquiring Fund Shares to be issued and delivered to the Acquired Fund, for the account of the Acquired Fund Shareholders, pursuant to the terms of this Agreement, will on the Closing Date have been duly authorized and, when so issued and delivered, will be duly and validly issued Acquiring Fund Shares, and will be fully paid and non-assessable (recognizing that, under Massachusetts law, it is theoretically possible that shareholders of the Acquiring Fund could, under certain circumstances, be held personally liable for obligations of the Acquiring Fund);

(o) The information to be furnished by the Acquiring Fund for use in the registration statements, proxy materials and other documents that may be necessary in connection with the transactions contemplated hereby shall be accurate and complete in all material respects and shall comply in all material respects with Federal securities and other laws and regulations applicable thereto; and

(p) The Information Statement/Prospectus, insofar as it relates to the Acquiring Fund and the Acquiring Fund Shares, will, through the date of the meeting of shareholders of the Acquired Fund and Acquiring Fund contemplated therein and at the Closing Date (i) not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which such statements were made, not materially misleading, and (ii) comply in all material respects with the provisions of the 1933 Act, the 1934 Act, and the 1940 Act and the rules and regulations thereunder; provided, however, that the representations and warranties of this subparagraph (p) shall not apply to statements in or omissions from the Joint Proxy Statement/Prospectus made in reliance upon and in conformity with information that was furnished by the Acquired Fund for use therein.

(q) The Acquiring Fund agrees to use all reasonable efforts to obtain the approvals and authorizations required by the 1933 Act, the 1940 Act and such of the state blue sky or securities laws as may be necessary in order to continue its operations after the Closing Date.

## **5. COVENANTS OF THE ACQUIRED FUND**

5.1 The Acquired Fund will operate its business in the ordinary course between the date hereof and the Closing Date except as contemplated by this Agreement, it being understood that such ordinary course of business will include the declaration and payment of customary dividends and distributions, and any other distribution that may be advisable.

5.2 If necessary, the Acquired Fund will call a meeting of the shareholders of the Acquired Fund to consider and act upon this Agreement and to take all other actions necessary to obtain approval of the transactions contemplated herein.

5.3 The Acquired Fund covenants that the Acquiring Fund Shares to be issued hereunder are not being acquired for the purpose of making any distribution thereof, other than in accordance with the terms of this Agreement.

5.4 The Acquired Fund shall assist the Acquiring Fund in obtaining such information as the Acquiring Fund reasonably requests concerning the holders of the Acquired Fund's shares.

5.5 Subject to the provisions of this Agreement, the Acquired Fund will take, or cause to be taken, all action, and do or cause to be done, all things reasonably necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement.

5.6 The Acquired Fund will provide the Acquiring Fund with information regarding the Acquired Fund, reasonably necessary for the preparation of an information statement/prospectus on Form N-14 (the "Information Statement/Prospectus"), in compliance with the 1934 Act and the 1940 Act in connection with the meeting of shareholders of the Acquired Fund to consider and vote upon this Agreement and the transactions contemplated herein.

5.7 As soon as is reasonably practicable after the Closing, the Acquired Fund will make a liquidating distribution to its shareholders consisting of the Acquiring Fund Shares received at the Closing.

5.8 The Acquired Fund shall use its reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to effect the transactions contemplated by this Agreement as promptly as practicable.

5.9 The Acquired Fund covenants that it will, from time to time, as and when reasonably requested by the Acquiring Fund, execute and deliver or cause to be executed and delivered all such assignments and other instruments, and will take or cause to be taken such further action as the Acquiring Fund, may reasonably deem necessary or desirable in order to vest in and confirm (a) the Acquired Fund's title to and possession of the Acquiring Fund Shares to be delivered hereunder, and (b) the Acquiring Fund's title to and possession of all the assets, and to carry out the intent and purpose of this Agreement.

## **6. COVENANTS OF THE ACQUIRING FUND**

6.1 The Acquiring Fund will operate its business in the ordinary course between the date hereof and the Closing Date except as contemplated by this Agreement.

6.2 The Acquiring Fund will call a meeting of the shareholders of the Acquiring Fund to consider and vote upon the issuance of the Acquiring Fund Shares and to take all other actions necessary to obtain approval of the transactions contemplated herein.

6.3 Subject to the provisions of this Agreement, the Acquiring Fund will take, or cause to be taken, all action, and do or cause to be done, all things reasonably necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement.

6.4 The Acquiring Fund shall use its reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to effect the transactions contemplated by this Agreement as promptly as practicable.

6.5 The Information Statement/Prospectus which the Acquiring Fund shall have prepared and filed for the registration under the 1933 Act of the Acquiring Fund Shares to be distributed to the Acquired Fund Shareholders pursuant hereto, shall have become effective under the 1933 Act and no stop orders suspending the effectiveness thereof shall have been issued and, to the knowledge of the parties thereto, no investigation or proceeding for that purpose shall have been instituted or be pending, threatened or contemplated under the 1933 Act.

6.6 The Acquiring Fund will use all reasonable efforts to obtain the approvals and authorizations required by the 1933 Act, the 1940 Act and such of the state blue sky or securities laws as may be necessary in order to continue its operations after the Closing Date.

## **7. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRED FUND**

The obligations of the Acquired Fund to consummate the transactions provided for herein shall be subject, at the Acquired Fund's election, to the performance by the Acquiring Fund, of all the obligations to be performed by it hereunder on or before the Closing Date, and, in addition thereto, the following further conditions:

7.1 All representations and warranties of the Acquiring Fund contained in this Agreement shall be true and correct in all material respects as of the date hereof and, except as they may be affected by the transactions contemplated by this Agreement, as of the Closing Date, with the same force and effect as if made on and as of the Closing Date;

7.2 The Acquiring Fund shall have performed all of the covenants and complied with all of the provisions required by this Agreement to be performed or complied with by the Acquiring Fund on or before the Closing Date;

7.3 The Acquiring Fund shall have delivered to the Acquired Fund a certificate executed in the Acquiring Fund's name by its President or Vice President, and its Treasurer or Assistant Treasurer, in a form reasonably satisfactory to the Acquired Fund, and dated as of the Closing Date, to the effect that the representations and warranties of the Acquiring Fund made in this Agreement are true and correct at and as of the Closing Date, except as they may be affected by the transactions contemplated by this Agreement and as to such other matters as the Acquired Fund shall reasonably request; and

7.4 The Acquired Fund and the Acquiring Fund shall have agreed on the number of Acquiring Fund Shares to be issued in connection with the Reorganization after such number has been calculated in accordance with paragraph 2.3.

## **8. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRING FUND**

The obligations of the Acquiring Fund to consummate the transactions provided for herein shall be subject, at the Acquiring Fund's election, to the performance by the Acquired Fund of all of the obligations to be performed by it hereunder on or before the Closing Date and, in addition thereto, the following further conditions:

8.1 All representations and warranties of the Acquired Fund contained in this Agreement shall be true and correct in all material respects as of the date hereof and, except as they may be affected by the transactions contemplated by this Agreement, as of the Closing Date, with the same force and effect as if made on and as of the Closing Date;

8.2 The Acquired Fund shall have delivered to the Acquiring Fund a statement of the Acquired Fund's assets and liabilities, as of the Closing Date, certified by the Treasurer of the Acquired Fund;

8.3 The Acquired Fund shall have performed all of the covenants and complied with all of the provisions required by this Agreement to be performed or complied with by the Acquired Fund on or before the Closing Date;

8.4 The Acquired Fund shall have declared and paid a distribution or distributions prior to the Closing Date that, together with all previous distributions, shall have the effect of distributing to its shareholders (i) all of its investment company taxable income and all of its net realized capital gains, if any, for the period from the close of its last fiscal year to 4:00 p.m. Eastern time on the Closing Date; and (ii) any undistributed investment company taxable income and net realized capital gains from any period to the extent not otherwise already distributed;

8.5 The Acquired Fund shall have delivered to the Acquiring Fund a certificate executed in the Acquired Fund's name by its President or Vice President, and its Treasurer or Assistant Treasurer, in a form reasonably satisfactory to the Acquiring Fund, and dated as of the Closing Date, to the effect that the representations and warranties of the Acquired Fund made in this Agreement are true and correct at and as of the Closing Date, except as they may be affected by the transactions contemplated by this Agreement and as to such other matters as the Acquiring Fund shall reasonably request; and

8.6 The Acquired Fund and the Acquiring Fund shall have agreed on the number of Acquiring Fund Shares to be issued in connection with the Reorganization after such number has been calculated in accordance with paragraph 2.3.

## **9. FURTHER CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRING FUND AND THE ACQUIRED FUND**

If any of the conditions set forth below have not been satisfied on or before the Closing Date with respect to either the Acquired Fund or the Acquiring Fund, the other party to this Agreement shall, at its option, not be required to consummate the transactions contemplated by this Agreement:

9.1 This Agreement and the transactions contemplated herein shall have been approved by the requisite vote of the holders of the outstanding shares of the Acquired Fund and the Acquiring Fund, as necessary, in accordance with each Fund's Trust Instrument, applicable Massachusetts law, the 1940 Act, and applicable exchange rules. Notwithstanding anything herein to the contrary, neither the Acquired Fund nor the Acquiring Fund may waive the conditions set forth in this paragraph 9.1;

9.2 On the Closing Date no action, suit or other proceeding shall be pending or, to the knowledge of either Fund, threatened before any court or governmental agency in which it is sought to restrain or prohibit, or obtain damages or other relief in connection with, this Agreement or the transactions contemplated herein;

9.3 All consents of other parties and all other consents, orders and permits of Federal, state and local regulatory authorities deemed necessary by either Fund to permit consummation, in all material respects, of the transactions contemplated hereby shall have been obtained, except where failure to obtain any such

consent, order or permit would not involve a risk of a material adverse effect on the assets or properties of the Acquiring Fund or the Acquired Fund, provided that either party hereto may for itself waive any of such conditions;

9.4 The Information Statement/Prospectus shall have become effective under the 1933 Act and no stop orders suspending the effectiveness thereof shall have been issued and, to the best knowledge of the parties hereto, no investigation or proceeding for that purpose shall have been instituted or be pending, threatened or contemplated under the 1933 Act; and

9.5 The Funds shall have received the opinion of Dechert LLP (“Tax Counsel”), addressed to the Funds substantially to the effect that, based upon certain facts, assumptions, and representations, for federal income tax purposes:

(a) The acquisition by the Acquiring Fund of the Assets in exchange solely for the Acquiring Fund Shares and the assumption of the Liabilities by the Acquiring Fund followed by the distribution of Acquiring Fund Shares to the Acquired Fund Shareholders in exchange for their Acquired Fund shares in complete liquidation and termination of the Acquired Fund will constitute a tax-free reorganization under Section 368(a) of the Code;

(b) The Acquired Fund will not recognize gain or loss upon the transfer of the Assets to Acquiring Fund in exchange solely for the Acquiring Fund Shares and the assumption of the Liabilities by the Acquiring Fund, except that the Acquired Fund may be required to recognize gain or loss with respect to contracts described in Section 1256(b) of the Code or stock in a passive foreign investment company, as defined in Section 1297(a) of the Code;

(c) The Acquired Fund will not recognize gain or loss upon the distribution to the Acquired Fund Shareholders of the Acquiring Fund Shares received by the Acquired Fund in the Reorganization;

(d) The Acquiring Fund will recognize no gain or loss upon receiving the Assets in exchange solely for the issuance of the Acquiring Fund Shares and the assumption of the Liabilities;

(e) The Acquiring Fund’s adjusted tax basis of the Assets received by the Acquiring Fund in the Reorganization will be the same as the adjusted tax basis of those Assets in the hands of the Acquired Fund immediately before the Reorganization;

(f) The Acquiring Fund’s holding period of the Assets received by the Acquiring Fund in the Reorganization will include the period during which those Assets were held by the Acquired Fund (except where investment activities of the Acquiring Fund have the effect of reducing or eliminating a holding period with respect to an Asset);

(g) The Acquired Fund Shareholders will recognize no gain or loss upon receiving Acquiring Fund Shares solely in exchange for their Acquired Fund shares (except with respect to cash received in lieu of fractional shares);

(h) An Acquired Fund Shareholder’s aggregate tax basis of the Acquiring Fund Shares received by the Acquired Fund Shareholder in the Reorganization will be the same as the aggregate tax basis of the Acquired Fund shares surrendered by the Acquired Fund Shareholder in exchange therefor (reduced by any amount of tax basis allocable to fractional shares for which cash is received).

(i) An Acquired Fund Shareholder’s holding period of the Acquiring Fund Shares received by the Acquired Fund Shareholder in the Reorganization will include the period during which the Acquired Fund shares surrendered in exchange therefor were held by the Acquired Fund Shareholder, provided that the Acquired Fund Shareholder held such Acquired Fund shares as a capital asset on the date of Reorganization.

The delivery of such opinion is conditioned upon receipt of representations Tax Counsel shall request of each Fund. Notwithstanding anything herein to the contrary, the Funds may not waive the condition set forth in this paragraph 9.5.

## **10. BROKERAGE FEES AND EXPENSES**

10.1 Each of the Acquired Fund and the Acquiring Fund represents and warrants that there are no brokers or finders entitled to receive any payments in connection with the transactions provided for herein.

10.2 The expenses relating to the proposed Reorganization will be shared between the Acquired Fund and Acquiring Fund. The costs of the Reorganization shall include, but not be limited to, costs associated with obtaining any necessary order of exemption from the 1940 Act, preparation of the Information Statement/Prospectus, printing and distributing the Acquiring Fund's prospectus/proxy statement or information statement, legal fees, accounting fees, and securities registration fees. Notwithstanding any of the foregoing, expenses will in any event be paid by the party directly incurring such expenses if and to the extent that the payment by another person of such expenses would result in the disqualification of such party as a "regulated investment company" within the meaning of Section 851 of the Code.

10.3 In the event the transactions contemplated by this Agreement are not consummated, then the officers of the Acquired Fund and Acquiring Fund, or an affiliate, shall, based on the reasons for not consummating the transaction, agree on a reasonable allocation of expenses.

## **11. ENTIRE AGREEMENT; SURVIVAL OF WARRANTIES**

11.1 Neither the Acquiring Fund nor the Acquired Fund has made any representation, warranty or covenant not set forth herein; this Agreement constitutes the entire agreement between the parties.

11.2 The representations, warranties and covenants contained in this Agreement or in any document delivered pursuant hereto or in connection herewith shall not survive the consummation of the transactions contemplated hereunder. The covenants to be performed after the Closing shall survive the Closing.

## **12. TERMINATION**

This Agreement may be terminated and the transactions contemplated hereby may be abandoned by either party by (i) mutual agreement of the parties, or (ii) by either party if the Closing shall not have occurred on or before February 4, 2024 unless such date is extended by mutual agreement of the parties, or (iii) by either party if the other party shall have materially breached its obligations under this Agreement or made a material and intentional misrepresentation herein or in connection herewith. In the event of any such termination, this Agreement shall become void and there shall be no liability hereunder on the part of any party or their respective Trustees or officers, except for any such material breach or intentional misrepresentation, as to each of which all remedies at law or in equity of the party adversely affected shall survive.

## **13. WAIVER**

The Acquiring Fund and the Acquired Fund, after consultation with their respective counsel and by mutual consent of each of their Board of Trustees, may waive any condition to their respective obligations hereunder, except the conditions set forth in paragraphs 9.1 and 9.5.

## **14. AMENDMENTS**

This Agreement may be amended, modified or supplemented in such manner as may be deemed necessary or advisable and mutually agreed upon in writing by the authorized officers of each of the Acquiring Fund and the Acquired Fund; provided, however, that following the meeting of the shareholders, if necessary, of the Acquired Fund or the Acquiring Fund called pursuant to this Agreement, no such amendment may have the effect of changing the provisions for determining the number of Acquiring Fund Shares to be issued to Acquired Fund Shareholders under this Agreement to the detriment of such shareholders without their further approval.

## **15. NOTICES**

Any notice, report, statement or demand required or permitted by any provisions of this Agreement shall be in writing and shall be given by facsimile, personal service or prepaid or certified mail addressed to the receiving party in care of Virtus Fund Services, LLC, One Financial Plaza, Hartford, CT 06103, Attn: Counsel.

## **16. HEADINGS; COUNTERPARTS; GOVERNING LAW; ASSIGNMENT; LIMITATION OF LIABILITY**

16.1 The Article and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

16.2 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

16.3 This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

16.4 This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns, but no assignment or transfer hereof or of any rights or obligations hereunder shall be made by any party without the written consent of the other party. Nothing herein expressed or implied is intended or shall be construed to confer upon or give any person, firm or corporation, other than the parties hereto and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

16.5 It is expressly agreed that the obligations of the respective parties hereunder shall not be binding upon any of the Trustees, shareholders, nominees, officers, agents, or employees of each such party personally, but shall bind only the property of the respective party, as provided in each Trust Instrument. The execution and delivery by such officers of the respective parties shall not be deemed to have been made by any of them individually or to impose any liability on any of them personally, but shall bind only the property of the each such party as provided in each Trust Instrument.

## **17. INDEMNIFICATION**

17.1 The Acquiring Fund agrees to indemnify and hold harmless the Acquired Fund, and its Trustees, officers, employees and agents (the "Acquired Fund Indemnified Parties"), from and against any and all losses, claims, damages, liabilities or expenses (including, without limitation, the payment of reasonable legal fees and reasonable costs of investigation) to which the Acquired Fund Indemnified Parties may become subject, insofar as such loss, claim, damage, liability or expense (or actions with respect thereto) arises out of or is based on (a) any breach by the Acquiring Fund of any of its representations, warranties, covenants or agreements set forth in this Agreement or (b) any act, error, omission, neglect, misstatement, materially misleading statement, breach of duty or other act wrongfully done or attempted to be committed by the Acquiring Fund or the members of the Acquiring Fund's Board of Trustees or its officers prior to the Closing Date, provided that this indemnification shall not apply to the extent such loss, claim, damage, liability or expense (or actions with respect thereto) shall be due to any negligent, intentional or fraudulent act, omission or error of the Acquired Fund or its respective Trustees, officers, employees or agents.

17.2 The Acquired Fund agrees to indemnify and hold harmless the Acquiring Fund, and its Trustees, officers, employees and agents (the "Acquiring Fund Indemnified Parties") from and against any and all losses, claims, damages, liabilities or expenses (including, without limitation, the payment of reasonable legal fees and reasonable costs of investigation) to which the Acquiring Fund Indemnified Parties may become subject, insofar as such loss, claim, damage, liability or expense (or actions with respect thereto) arises out of or is based on (a) any breach by the Acquired Fund of any of its representations, warranties, covenants or agreements set forth in this Agreement or (b) any act, error, omission, neglect, misstatement, materially misleading statement, breach of duty or other act wrongfully done or attempted to be committed by the Acquired Fund or the members of the Acquired Fund's Board of Trustees or its officers prior to the Closing Date, provided that this indemnification shall not apply to the extent such loss, claim, damage, liability or expense (or actions with respect thereto) shall be due to any negligent, intentional or fraudulent act, omission or error of the Acquiring Fund or its respective Trustees, officers, employees or agents.

[Signature page follows]

**IN WITNESS WHEREOF**, each of the parties hereto has caused this Agreement to be executed by its President, Vice President or Treasurer all as of the date first written above.

**VIRTUS STONE HARBOR EMERGING MARKETS  
INCOME FUND**

By: \_\_\_\_\_  
Name: W. Patrick Bradley  
Title: Executive Vice President, Chief Financial  
Officer and Treasurer

**VIRTUS STONE HARBOR EMERGING MARKETS  
TOTAL INCOME FUND**

By: \_\_\_\_\_  
Name: Richard W. Smirl  
Title: Executive Vice President

## APPENDIX B INFORMATION ABOUT THE FUNDS

For the purpose of this section, “the Fund” refers to each Fund.

### Portfolio Composition

The Fund’s permitted investments include, but are not limited to:

*Sovereign Debt Obligations.* Sovereign debt obligations are obligations of governmental issuers in foreign developed and emerging market countries (“Sovereign Debt Obligations”). Sovereign Debt Obligations include, but are not limited to, (i) debt securities issued or guaranteed by governments, government agencies or instrumentalities and political subdivisions, (ii) debt securities issued by government owned, controlled or sponsored entities and supranational government entities, (iii) interests in entities organized and operated for the purposes of restructuring the investment characteristics of instruments issued by any of the above issuers or (iv) participation in loans between governments and financial institutions. Supranational entities include international organizations that are organized or supported by one or more government entities to promote economic reconstruction or development and by international banking institutions and related governmental agencies. As a holder of Sovereign Debt Obligations, the Fund may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there are generally no bankruptcy proceedings similar to those in the United States by which defaulted Sovereign Debt Obligations may be collected. Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities.

*High Yield Securities.* The Fund may invest without limit in debt securities that are rated below investment grade (below Baa by Moody’s Investor Service, Inc. (“Moody’s”) or below BBB by either S&P Global Ratings (“S&P”) or Fitch Ratings (“Fitch”)) or unrated but judged by the investment subadviser, Stone Harbor Investment Partners (“Stone Harbor”), to be of comparable quality (“Non-Investment Grade Bonds”). Non-Investment Grade Bonds are commonly referred to as “high yield” securities or “junk bonds.” Non-Investment Grade Bonds involve a greater degree of risk (in particular, a greater risk of default) than, and special risks in addition to the risks associated with, investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, Non-Investment Grade Bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Non-Investment Grade Bonds may be regarded as predominantly speculative with respect to the issuer’s continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by one or more ratings agencies.

The market values of Non-Investment Grade Bonds tend to reflect individual developments of the issuer to a greater extent than do higher-quality securities, which tend to react mainly to fluctuations in the general level of interest rates. In addition, lower-quality debt securities tend to be more sensitive to general economic conditions. Certain emerging market governments that issue Non-Investment Grade Bonds in which the Fund may invest are among the largest debtors to commercial banks, foreign governments and supranational organizations, such as the World Bank, and may not be able or willing to make principal and/or interest payments as they come due.

*Corporate Debt Securities.* The Fund may invest in debt securities of non-governmental issuers. Like all debt securities, corporate debt securities generally represent an issuer’s obligation to repay to the investor (or lender) the amount borrowed plus interest over a specified time period. A typical corporate bond specifies a fixed date when the amount borrowed (principal) is due in full, known as the maturity date, and specifies dates when periodic interest (coupon) payments will be made over the life of the security.

Corporate debt securities come in many varieties and may differ in the way that interest is calculated, the amount and frequency of payments, the type of collateral, if any, and the presence of special features (e.g., conversion rights). The Fund’s investments in corporate debt securities may include, but are not limited to, senior, junior, secured and unsecured bonds, notes and other debt securities, and may be fixed rate, floating rate, zero coupon and inflation linked, among other things. The Fund may invest in convertible

bonds and warrant structures, which are fixed income securities with imbedded warrants that are exercisable into other debt or equity securities.

*Bonds.* The Fund may invest in a wide variety of bonds of varying maturities issued by U.S. and foreign corporations and other business entities, governments and municipalities and other issuers. Bonds are fixed or variable/floating-rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Some bonds are “perpetual” in that they have no maturity date.

*Currency.* The Fund may engage in foreign currency exchange transactions in connection with its investments in emerging markets securities. The Fund will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or in the derivatives markets, including through entering into forward, futures or options contracts to purchase or sell foreign currencies. Additional instruments that provide exposure to currencies include, but are not limited to, currency swap contracts, currency futures contracts and options on such futures contracts, purchasing put or call options on currencies in U.S. or foreign markets and other currency derivatives.

*Loan Participations and Assignments.* The Fund may invest in fixed and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions. The Fund’s investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties. The Fund’s investment in participations typically will result in the Fund having a contractual relationship only with the lender and not with the borrower. The Fund will have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the borrower.

The purchaser of an assignment acquires direct rights against the borrower on the loan. Because assignments are arranged through private negotiations between potential assignees and potential assignors, however, the rights and obligations so acquired may differ from, and be more limited than, those held by the assigning lender. The assignability of certain loans, especially with respect to Sovereign Debt Obligations, is restricted by the governing documentation as to the nature of the assignee such that the only way in which the Fund may acquire an interest in such a loan is through a participation and not through an assignment.

*Forward Foreign Currency Exchange Contracts.* The Fund may enter into forward foreign currency exchange contracts (“forward contracts”) for purposes of gaining exposure to the currency of an emerging markets or other foreign country or as a hedge against fluctuations in future foreign currency exchange rates. A forward contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large, commercial and investment banks) and their customers. A non-deliverable currency forward contract is a short-term forward contract on a foreign currency where the profit and loss is the difference between a specified exchange rate and the spot rate at the time of settlement.

At times, the Fund may enter into “cross-currency” hedging transactions involving currencies other than those in which securities are held or proposed to be purchased are denominated.

By entering into a forward contract for the purchase or sale, for a fixed amount of dollars or other currency, of the amount of foreign currency involved in an underlying security transaction, the Fund may be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the currency which is being used for the security transaction.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend to actually convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will, however, do so with respect to a portion of the Fund’s assets from time to time, and investors should be aware of the costs of currency conversion. Although foreign currency exchange dealers typically do not charge a fee for conversion, they do realize a profit based on the spread between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

The Fund may be limited in its ability to enter into hedging transactions involving forward contracts by the Internal Revenue Code of 1986, as amended (the “Code”) requirements relating to qualification as a regulated investment company.

Forward contracts may limit gains on portfolio securities that could otherwise be realized had they not been utilized and could result in losses. The contracts also may increase the Fund’s volatility and may involve a significant amount of risk relative to the investment of cash.

*Options.* A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer of the option the obligation to buy, the underlying security, commodity, index or other instrument at the exercise price. The Fund’s purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. The Fund’s purchase of a call option on a security, financial future contract, index or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. An American style put or call option may be exercised at any time during the option exercise period while a European style put or call option may be exercised only upon expiration. A Bermudan style put or call may be exercised on fixed dates occurring during the term of the option. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold.

*Futures Contracts.* The Fund may enter into contracts for the purchase or sale for future delivery of securities or foreign currencies, or contracts based on financial indices, including any stock index or index of government or other securities. A futures contract purchaser incurs an obligation to take delivery of a specified amount of the security, currency or other asset underlying the contract at a specified time in the future for a specified price. A seller of a futures contract incurs an obligation to deliver the specified amount of the underlying security, currency or other asset at a specified time in return for an agreed upon price. The purchase of a futures contract enables the Fund, during the term of the contract, to lock in a price at which it may purchase a security, currency or other asset and protect against a rise in prices pending purchase. The sale of a futures contract enables the Fund to lock in a price at which it may sell a security, currency or other asset and protect against declines pending sale.

Although most futures contracts call for actual delivery or acceptance of the underlying security, currency or other asset, the contracts usually are closed out before the settlement date without the making or taking of delivery. Index futures contracts provide for the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the open or close of the last trading day of the contract and the futures contract price. A futures contract sale is closed out by effecting a futures contract purchase for the same aggregate amount of the specific type of security, currency or other asset and the same delivery date. If the sale price exceeds the offsetting purchase price, the seller would be paid the difference and would realize a gain. If the offsetting purchase price exceeds the sale price, the seller would pay the difference and would realize a loss. Similarly, a futures contract purchase is closed out by effecting a futures contract sale for the same aggregate amount of the specific type of security, currency or other asset and the same delivery date. If the offsetting sale price exceeds the purchase price, the purchaser would realize a gain, whereas if the purchase price exceeds the offsetting sale price, the purchaser would realize a loss. There is no assurance that the Fund will be able to enter into a closing transaction.

Currently, securities index futures contracts can be purchased with respect to several indices on various exchanges. Differences in the securities included in the indices may result in differences in correlation of the futures contracts with movements in the value of the securities being hedged. The Fund also may invest in foreign stock index futures contracts traded outside the United States which involve additional risks, including fluctuations in foreign exchange rates, foreign currency exchange controls, political and economic instability, differences in financial reporting and securities regulation and trading, and foreign taxation issues.

In addition, the Fund may enter into financial futures contracts or purchase or sell put and call options on futures contracts as a hedge against anticipated interest rate or debt market changes, to gain exposure to a market, for duration management or for risk management purposes. Futures contracts are generally

bought and sold on the exchanges where they are listed with payment of initial and variation margin as described below. The purchase of a financial futures contract creates a firm obligation by the Fund, as purchaser, to take delivery from the seller the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures contracts and Eurodollar instruments, the net cash amount). The sale of a futures contract creates a firm obligation by the Fund, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures contracts and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract and obligates the seller to assume the opposite position.

*Futures Contracts Strategies.* When a significant market advance is anticipated, the purchase of a futures contract by the Fund affords a hedge against not participating in the advance at a time when the Fund is otherwise fully invested. Such purchase of a futures contract would serve as a temporary substitute for the purchase of individual securities, which may be purchased in an orderly fashion once the market has stabilized. As individual securities are purchased, an equivalent amount of futures contracts could be terminated by offsetting sales. The Fund may sell futures contracts in anticipation of or in a general market decline that may adversely affect the market value of the Fund's securities. To the extent that the value of the Fund's portfolio of securities changes in correlation with the value of the underlying security or index, the sale of futures contracts would substantially reduce the risk to the Fund of a market decline and, by so doing, provides an alternative to the liquidation of securities positions in the Fund. Ordinarily transaction costs associated with futures contracts transactions are lower than transaction costs that would be incurred in the purchase and sale of the underlying securities.

Typically, maintaining a futures contract or selling an option on a futures contract requires the Fund to deposit with a financial intermediary as security for its obligations an amount of cash or other specified assets (initial margin), which initially is typically 1% to 10% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets (variation margin) may be required to be deposited thereafter on a daily basis as the mark to market value of the contract fluctuates. The purchase of options on financial futures contracts involves payment of a premium for the option without any further obligation on the part of the Fund. If the Fund exercises an option on a futures contract it will be obligated to post initial margin (and potential subsequent variation margin) for the resulting futures contract position just as it would for any position. Futures contracts and options on futures contracts are generally settled by entering into an offsetting transaction but there can be no assurance that the position can be offset prior to settlement at an advantageous price nor that delivery will occur.

Because the initial margin required to maintain a futures contract is a fraction of the face value of the contract, the value of the contract can be much higher or lower than the value of the Fund's assets used to take the position. The Fund may therefore use futures as form of leverage and may be exposed to the associated risks.

There currently are limited futures markets for certain currencies of emerging market countries, securities and indexes and the nature of the strategies adopted by Stone Harbor and the extent to which those strategies are used will depend on the development of those markets. To the extent the Fund engages in transactions in options and futures, the Fund will normally transact in options and futures that are traded on a recognized securities or futures exchange, including non-U.S. exchanges. Moreover, when the Fund purchases a futures contract or a call option thereon or writes a put option thereon, an amount of cash or high quality, liquid securities, including U.S. government securities, will be designated on the Fund's records or deposited in a segregated account with the Fund's custodian so that the amount so designated or segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract.

*Structured Products.* The Fund may invest a portion of its assets in structured investments, structured notes and other types of similarly structured products consistent with the Fund's investment objective and policies. Generally, structured investments are interests in entities organized and operated for the purpose of restructuring the investment characteristics of underlying investment interests or securities. These investment entities may be structured as trusts or other types of pooled investment vehicles. This type of structuring generally involves the deposit with or purchase by an entity of the underlying investments and

the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying investments or referencing an indicator related to such investments. The cash flow or rate of return on the underlying investments may be apportioned among the newly issued securities to create different investment characteristics, such as varying maturities, credit quality, payment priorities and interest rate provisions.

Structured notes are derivative securities for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors may include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or London Interbank Offered Rate), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. In some cases, the impact of the movements of these factors may increase or decrease through the use of multipliers or deflators.

The cash flow or rate of return on a structured investment may be determined by applying a multiplier to the rate of total return on the underlying investments or referenced indicator. Application of a multiplier is comparable to the use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss. As a result, a relatively small decline in the value of the underlying investments or referenced indicator could result in a relatively large loss in the value of a structured product.

*Swaps.* The Fund may enter into swap transactions, such as interest rate swaps, cross currency swaps, total return swaps, and options on swaps, caps, floors or collars. A swap is a derivative in the form of an agreement to exchange the return generated by one instrument for the return generated by another instrument. The payment streams are often calculated by reference to a specified index and agreed upon notional amount. The term “specified index” may include currencies, interest rates, prices, total return on interest rate indices, debt indices, stock indices and commodity indices (as well as amounts derived from arithmetic operations on these indices). For example, the Fund may agree to swap the return generated by a debt index for the return generated by a second debt index. Such swaps may involve initial and final exchanges that correspond to the agreed upon notional amount.

The swaps in which the Fund may engage also include rate caps, floors, collars and other combinations of options, forwards, swaps and/or futures under which one party pays a single or periodic fixed amount(s) (or premium), and the other party pays periodic amounts based on the movement of a specified index. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, accordingly, they are less liquid than swaps.

The Fund will usually enter into swaps on a net basis, i.e., the two payment streams are netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund’s obligations under a swap agreement will generally be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by the designation of cash or liquid securities in an amount equal to the Fund’s net obligations under the swap. These transactions are not subject to the Fund’s borrowing restrictions. The Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.

The Fund will engage in any swap transactions in a manner consistent with its intention to qualify as a regulated investment company under the Code.

*Options on Swaps.* The Fund may engage in options on swaps for hedging purposes to manage and mitigate the credit and interest rate risks. A swap option (sometimes called a “swaption”) is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement at some designated future time on specified terms. The Fund may write (sell) and purchase put and call swap options. The use of swap options involves risks, including, among others, that (i) the changes in the market value of securities held by the Fund and in the swap options relating to those securities may not be proportionate, which could result in an imperfect hedge leaving the Fund economically over or under exposed to such securities, (ii) there may not be a liquid market to sell a swap option, which could result in difficulty closing a position, (iii) swap options can

magnify the extent of losses incurred due to changes in the market value of the securities to which they relate, and (iv) counterparty risk.

*Credit Default Swaps.* The Fund may enter into credit default swap contracts for hedging purposes or to add investment exposure to certain securities or markets to the Fund. As the seller in a credit default swap contract, the Fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as an emerging market corporate issuer, on the debt obligation. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total assets, the Fund would be subject to investment exposure to the reference instrument in the amount of the notional amount of the swap.

The Fund may also purchase credit default swap contracts in order to hedge against the risk of default of debt securities held in its portfolio, in which case the Fund would function as the counterparty referenced in the preceding paragraph. This would involve the risk that the investment may expire worthless and would generate income only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial instability). It would also involve credit risk that the seller may fail to satisfy its payment obligations to the Fund in the event of a default.

If the Fund sells credit protection through a credit default swap, although the Fund may not be required to pay the par (or other agreed upon) value of the referenced debt instrument absent a default of the underlying debt obligation, a credit downgrade or other indication of financial distress with respect to the reference issuer may cause the value of the credit default swap to decrease, causing a loss to the Fund, and may also require the Fund to deposit additional margin with the counterparty, possibly requiring it to sell other assets at disadvantageous times or prices.

The market for credit default swaps has become more volatile recently as the creditworthiness of certain counterparties has been questioned and/or downgraded. If a counterparty's credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase the risk that the Fund may not receive adequate collateral. Credit default swaps are not currently traded on any securities exchange. The Fund generally may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause the Fund to incur more losses.

*Credit-Linked Notes.* The Fund may invest in credit-linked notes, which are types of derivative instruments. A credit linked note is a synthetic obligation between two or more parties where the payment of principal and/or interest is based on the performance of some obligation (a reference obligation, such as an underlying emerging market bond). The Fund will typically be a purchaser of credit linked notes, in that it will pay the counterparty a sum of money in exchange for the right to payments corresponding to interest and principal payments actually made by the issuer of the reference obligation. In addition to credit risk and other risks of the reference obligations and interest rate risk, a purchaser of a credit linked note is subject to counterparty risk.

*Leverage.* The Fund may use leverage through borrowings and possibly through issuing preferred shares, in an aggregate amount of up to 33 1/3% of the Fund's total assets immediately after such transactions. The Fund may also engage in other transactions that result in leverage, such as credit default swaps and other derivatives, but are not subject to this restriction.

*Zero Coupon Bonds.* Certain debt securities purchased by the Fund may take the form of zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis

or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its common shareholders.

*Yankee Dollar Obligations, Eurobonds, Global Bonds.* Certain debt securities purchased by the Fund may take the forms of Yankee dollar obligations, eurobonds or global bonds. Yankee dollar obligations are dollar-denominated obligations issued in the U.S. capital markets by foreign issuers, such as corporations and banks. A eurobond is a bond issued in a currency other than the currency of the country or market in which it is issued. Global bonds are bonds that can be offered within multiple markets simultaneously. Unlike eurobonds, global bonds can be issued in the local currency of the country of issuance.

*Brady Bonds.* The Fund may invest in Brady bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. Investments in Brady bonds may be viewed as speculative. Brady bonds acquired by the Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to realize a loss of interest or principal on any of its portfolio holdings.

*Repurchase Agreements.* The Fund may engage in repurchase agreements with broker-dealers, banks and other financial institutions to earn incremental income on temporarily available cash which would otherwise be uninvested. A repurchase agreement is a short-term investment in which the purchaser (i.e., the Fund) acquires ownership of a security and the seller agrees to repurchase the obligation at a future time and set price, thereby determining the yield during the holding period. Repurchase agreements involve risks in the event of default by the other party. The Fund may enter into repurchase agreements with broker-dealers, banks and other financial institutions deemed to be creditworthy by Stone Harbor. Repurchase agreements maturing in more than seven days may be considered illiquid.

Repurchase agreements are fully collateralized by the underlying securities. The Fund pays for such securities only upon physical delivery or evidence of book entry transfer to the account of a custodian or bank acting as agent. The seller under a repurchase agreement will be required to maintain the value of the underlying securities marked-to-market daily at not less than the repurchase price. The underlying securities (normally securities of emerging market countries, the U.S. government and their agencies or instrumentalities) may have maturity dates exceeding one year.

*Reverse Repurchase Agreements.* The Fund may generate leverage by entering into reverse repurchase agreements, under which the Fund sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. Such agreements, which are in effect collateralized borrowings by the Fund, are considered to be senior securities under Investment Company Act of 1940, as amended (the “1940 Act”) unless the Fund designates on its books and records an amount of assets equal to the amount of the Fund’s obligations under the reverse repurchase agreements.

*When-Issued and Delayed Delivery Securities.* The Fund may purchase and sell securities on a “when-issued” or “delayed delivery” basis whereby the Fund buys or sells a security with payment and delivery taking place in the future. The payment obligation and the interest rate are fixed at the time the Fund enters into the commitment. No income accrues to the Fund on securities in connection with such transactions prior to the date the Fund actually takes delivery of such securities. These transactions are subject to market risk as the value or yield of a security at delivery may be more or less than the purchase price or the yield generally available on securities when delivery occurs. In addition, the Fund is subject to counterparty risk because it relies on the buyer or seller, as the case may be, to consummate the transaction, and failure by the other party to complete the transaction may result in the Fund missing the opportunity of obtaining a price or yield considered to be advantageous. An increase in the percentage of the Fund’s assets committed to the purchase of securities on a when issued or delayed delivery basis may increase the volatility of the Fund’s net asset value (“NAV”).

*Asset-Backed Securities.* Asset-backed securities are interests in pools of debt securities backed by various types of loans such as credit card, auto and home equity loans. Payment of principal and interest may be guaranteed up to certain amounts and for certain time periods by a letter of credit issued by a financial institution unaffiliated with the entities issuing the securities. These securities involve prepayment risk as well as risk that the underlying debt securities will default.

*Private Placements and Restricted Securities.* The Fund may invest in securities which are subject to restrictions on resale because they have not been registered under the Securities Act of 1933 (the “Securities Act”), or which are otherwise not readily marketable. These securities are generally referred to as private placements or restricted securities. Limitations on the resale of these securities may have an adverse effect on their marketability, and may prevent the Fund from disposing of them promptly at reasonable prices. The Fund may have to bear the expense of registering the securities for resale and the risk of substantial delays in effecting the registration.

Rule 144A permits the Fund to sell certain restricted securities to qualified institutional buyers without limitation. However, investing in Rule 144A securities could have the effect of increasing the level of Fund illiquidity to the extent the Fund, at a particular point in time, may be unable to find qualified institutional buyers interested in purchasing such securities.

*Short Sales.* A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. The Fund may use short sales for investment purposes or for hedging and risk management purposes. The Fund may also take short positions with respect to the performance of securities, indexes, interest rates, currencies and other assets or markets through the use of derivative or forward instruments. When the Fund engages in a short sale of a security, it must borrow the security sold short and deliver it to the counterparty. The Fund may have to pay a fee to borrow particular securities and would often be obligated to pay over any payments received on such borrowed securities. The Fund’s obligation to replace the borrowed security will be secured by collateral deposited with the lender, which is usually a broker-dealer, and/or with the Fund’s custodian. The Fund may not receive any payments (including interest) on its collateral. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. The Fund may engage in so-called “naked” short sales when it does not own or have the immediate right to acquire the security sold short at no additional cost, in which case the Fund’s losses theoretically could be unlimited. If the price of the security sold short increases between the time of the short sale and the time that the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and securities being hedged if the short sale is being used for hedging purposes. The Fund may engage in short selling to the extent permitted by the 1940 Act and the rules and interpretations thereunder and other federal securities laws. If the Fund engages in short selling in foreign (non-U.S.) jurisdictions, the Fund will do so only to the extent permitted by the laws and regulations of such jurisdiction. The Fund will not make a short sale if, after giving effect to such sale, the market value of all securities sold short by the Fund exceeds 25% of the value of its total assets.

*Convertible Securities.* Convertible securities are generally issued as bonds or shares preferred stock that, at the holder’s option, may be exchanged for a fixed number of the issuer’s common shares or other equity securities.

In addition to traditional convertible securities, the Fund may invest in “exchangeable” and “synthetic” convertible securities. The Fund may also invest in traditional convertible securities whose conversion values are based on the common stock of the issuer of the convertible security. “Synthetic” and “exchangeable” convertible securities are preferred stocks or debt obligations of an issuer which are combined with an equity component whose conversion value is based on the value of the common stock of a different issuer or a particular benchmark (which may include a foreign issuer or basket of foreign stocks, or a company whose stock is not yet publicly traded). In many cases, “synthetic” and “exchangeable” convertible securities are not convertible prior to maturity, at which time the value of the security is paid in cash by the issuer.

*Money Market Instruments.* Money market instruments are high quality short-term debt securities. Money market instruments in which the Fund may invest may include obligations of governments, government agencies, banks, corporations and special purpose entities including time deposits and certificates of deposit, and repurchase agreements relating to these obligations. Certain money market instruments may be denominated in foreign currencies.

*Common Stock.* Common stock generally represents an ownership or equity interest in an issuer, without preference over any other class of securities, including such issuer’s debt securities, preferred stock

and other senior equity securities. Common stocks are entitled to the income and increase in the value of the assets and business of the issuer after all its debt obligations and obligations to preferred stockholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity. They may or may not pay dividends, as some issuers reinvest all of their profits back into their businesses, while others pay out some of their profits to stockholders as dividends.

*Preferred Stock.* Preferred stock, like common stock, represents an equity ownership in an issuer. Generally, preferred stock has a priority of claim over common stock in dividend payments and upon liquidation of the issuer. Unlike common stock, preferred stock does not usually have voting rights. Preferred stock in some instances is convertible into common stock.

Although they are equity securities, preferred stocks have characteristics of both debt and common stock. Like debt, their promised income is contractually fixed. Like common stock, they do not have rights to precipitate bankruptcy proceedings or collection activities in the event of missed payments. Other equity characteristics are their subordinated position in an issuer's capital structure and that their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Distributions on preferred stock are declared by the board of directors of the issuer and may be subject to deferral, and thus may not be automatically payable. Income payments on preferred stocks may be cumulative, causing dividends and distributions to accrue even if not declared by the board or otherwise made payable, or non-cumulative, so that skipped dividends and distributions do not continue to accrue. There is no assurance that dividends on preferred stocks in which the Fund invests will be declared or otherwise made payable. The Fund is permitted to invest in non-cumulative preferred stock, although Stone Harbor will consider, among other factors, the non-cumulative nature in making any decision to purchase or sell such securities on behalf of the Fund.

*Inflation Linked Bonds.* Inflation linked bonds are government-issued debt securities that offer an investor inflationary protection, by linking yields to the inflation rate.

*Warrants.* Warrants give holders the right, but not the obligation, to buy common stock or fixed income securities of an issuer at a given price, usually higher than the market price at the time of issuance, during a specified period. Warrants are usually freely transferable. The risk of investing in a warrant is that the warrant may expire prior to the market value of the underlying security exceeding the price fixed by the warrant.

In particular, the Fund may seek to gain exposure to emerging markets securities through warrants, the return on which is linked to one or more securities of issuers located in emerging market countries. Purchasing warrants would entitle the Fund, upon exercise of the warrant, to receive any appreciation in the market price of its securities over approximately the market price at the time of purchase. Warrants are exercisable over specified periods.

*Unrated Securities.* The Fund may purchase unrated securities (which are not rated by a rating agency) if Stone Harbor determines that the securities are of comparable quality to rated securities that the Fund may purchase. Unrated securities may be less liquid than comparable rated securities and involve the risk that Virtus Alternative Investment Advisers, Inc. (the "Adviser") may not accurately evaluate the security's comparative credit rating. Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher-quality debt obligations. The Fund's success in achieving its investment objective may depend more heavily on Stone Harbor's credit analysis to the extent that the Fund invests in below investment grade quality and unrated securities.

*Collateralized Debt Obligations.* The Fund may invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be

rated below investment grade or equivalent unrated loans. CDOs may charge management fees and administrative expenses. For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the “equity” tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically has higher ratings and lower yields than the underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults and aversion to CBO or CLO securities as a class. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CDOs may be characterized by the Fund as illiquid securities; however, an active dealer market may exist for CDOs allowing a CDO to qualify under Rule 144A under the Securities Act. CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the Fund may invest in CDO securities that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

*Commercial Paper.* Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

*U.S. Government Securities.* U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the NAV of the Funds’ shares. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the “U.S. Treasury”); others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. Government to purchase the agency’s obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

*Zero-Coupon Bonds, Step-Ups and Payment-In-Kind Securities.* Zero-coupon bonds pay interest only at maturity rather than at intervals during the life of the security. Like zero-coupon bonds, “step up” bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (“PIKs”) are debt obligations that pay “interest” in the form of other debt obligations, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds, step-ups and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on these instruments as it accrues, even though the Fund will not receive the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

*Inflation-Indexed Bonds.* Inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) are fixed income securities the principal value of which is periodically adjusted according to the rate of inflation. If the index measuring inflation falls, the principal value of inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) will be adjusted downward, and consequently the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond

repaid at maturity may be less than the original principal. With regard to certain corporate inflation-indexed bonds, the inflation adjustment is reflected in the semi-annual coupon payment. As a result, the principal value of such corporate inflation-indexed bonds does not adjust according to the rate of inflation.

The value of inflation-indexed bonds is expected to change in response to changes in real interest rates. Real interest rates are tied to the relationship between nominal interest rates and the rate of inflation. If nominal interest rates increase at a faster rate than inflation, real interest rates may rise, leading to a decrease in value of inflation-indexed bonds. Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity.

*Variable- and Floating-Rate Securities.* Variable- and floating-rate instruments are instruments that pay interest at rates that adjust whenever a specified interest rate (the “reference rate”) changes and/or that reset on predetermined dates (such as the last day of a month or calendar quarter). In addition to floating-rate loans, variable- and floating-rate instruments may include, without limitation, instruments such as catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds, money market instruments and certain types of mortgage-backed and other asset-backed securities. Due to their variable- or floating-rate features, these instruments will generally pay higher levels of income in a rising interest rate environment and lower levels of income as interest rates decline. For the same reason, the market value of a variable- or floating-rate instrument is generally expected to have less sensitivity to fluctuations in market interest rates than a fixed-rate instrument, although the value of a variable- or floating-rate instrument may nonetheless decline as interest rates rise and due to other factors, such as changes in credit quality or because of an imperfect correlation between the securities interest rate adjustment mechanism and the level of interest rates generally.

The Fund also may engage in credit spread trades. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, in which the value of the investment position is determined by changes in the difference between the prices or interest rates, as the case may be, of the respective securities. The Fund may also invest in inverse floating-rate debt instruments (“inverse floaters”), which are floating rate instruments whose coupon rate moves in the opposite direction from the change in the reference rate. An inverse floater may exhibit greater price volatility than a fixed-rate obligation of similar credit quality.

*Hybrid Instruments.* A hybrid instrument is a type of potentially high-risk derivative that combines a traditional stock, bond or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some commodity, currency or securities index or another interest rate or some other economic factor (each a “benchmark”). The interest rate or (unlike most fixed income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark. An example of a hybrid could be a bond issued by an oil company that pays a small base level of interest with additional interest that accrues in correlation to the extent to which oil prices exceed a certain predetermined level. Such a hybrid instrument would be a combination of a bond and a call option on oil.

Hybrids can be used as an efficient means of pursuing a variety of investment goals, including currency hedging, duration management and increased total return. Hybrids may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero. Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and pays a fixed rate or floating rate of interest. The purchase of hybrids also exposes the Fund to the credit risk of the issuer of the hybrids. These risks may cause significant fluctuations in the NAV of the Fund’s common shares if the Fund invests in hybrid instruments.

Certain hybrid instruments may provide exposure to the commodities markets. These are derivative securities with one or more commodity-linked components that have payment features similar to commodity futures contracts, commodity options or similar instruments. Commodity-linked hybrid instruments may

be either equity or debt securities, leveraged or unleveraged, and are considered hybrid instruments because they have both security and commodity-like characteristics. A portion of the value of these instruments may be derived from the value of a commodity, futures contract, index or other economic variable.

Certain issuers of structured products such as hybrid instruments may be deemed to be investment companies as defined in the 1940 Act. As a result, the Funds' investments in these products may be subject to limits applicable to investments in investment companies and may be subject to restrictions contained in the 1940 Act.

*Depository Receipts.* The Fund may invest in American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs"), Global Depositary Receipts ("GDRs") and similar securities that represent interests in a company's securities that have been deposited with a bank or trust and that trade on an exchange or over-the-counter. For example, ADRs represent interests in a non-U.S. company but trade on a U.S. exchange or over-the-counter and are denominated in U.S. dollars. These securities represent the right to receive securities of the foreign issuer deposited with the bank or trust. ADRs, EDRs and GDRs can be sponsored by the issuing bank or trust company or the issuer of the underlying securities. Although the issuing bank or trust company may impose charges for the collection of dividends and the conversion of such securities into the underlying securities, there are generally no fees imposed on the purchase or sale of these securities, other than transaction fees ordinarily involved with trading stock. Such securities may be less liquid or may trade at a lower price than the underlying securities of the issuer. Additionally, receipt of corporate information about the underlying issuer and proxy disclosure may be untimely.

*Other Investment Companies.* The Fund may invest in securities of other open- or closed-end investment companies, including exchange traded funds ("ETFs") and investment companies organized under non-U.S. law, to the extent that such investments are consistent with the Fund's investment objective, strategies and policies and permissible under the 1940 Act. The Fund may invest in other investment companies to gain broad market, sector or geographic exposure, including during periods when it has large amounts of uninvested cash or when the Adviser, believes share prices of other investment companies offer attractive values. The Fund may invest in investment companies that are advised by the Adviser, Stone Harbor, or their affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the Securities and Exchange Commission ("SEC"). As a shareholder in an investment company, the Fund would bear its ratable share of that investment company's expenses and would remain subject to payment of the Fund's management fees and other expenses with respect to assets so invested. Common shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The securities of other investment companies may be leveraged, in which case the NAV and/or market value of the investment company's shares will be more volatile than unleveraged investments.

## **Portfolio Turnover**

The Fund's portfolio turnover rate may exceed 100% or more, which generally results in greater expenses to the Fund and may result in realization of net short-term capital gains.

## **Lending of Portfolio Securities**

The Fund may lend its portfolio securities to brokers, dealers, domestic and foreign banks and other institutional investors. By lending its portfolio securities, the Fund will attempt to earn incremental income on portfolio securities through the receipt of interest on the cash collateral with respect to the loan or fees received from the borrower in connection with the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Fund. The Fund may employ an agent to implement the securities lending program and the agent receives a fee from the Fund for its services. The Fund will not lend more than 33 $\frac{1}{3}$ % of the value of its total assets. The Fund may lend its portfolio securities consistent with the Fund's investment objective so long as the terms, structure and the aggregate amount of such loans are not inconsistent with the 1940 Act or the rules and regulations or interpretations of the SEC thereunder, which currently require that (i) the borrower pledge and maintain with the Fund collateral consisting of liquid, unencumbered assets having a value at all times not less than 100% of the value of the securities loaned; (ii) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the borrower "marks to market" on a daily basis); (iii) the loan be made subject to termination by the Fund at any time; and (iv) the Fund receive a reasonable return on the loan

(which may include the Fund investing any cash collateral in interest bearing short-term investments), any distributions on the loaned securities and any increase in their market value. In addition, voting rights may pass with the loaned securities, but the Fund will retain the right to call any security in anticipation of a vote that Stone Harbor deems material to the security on loan.

## **STATEMENT OF ADDITIONAL INFORMATION**

### **RELATING TO THE REORGANIZATION OF VIRTUS STONE HARBOR EMERGING MARKETS TOTAL INCOME FUND WITH AND INTO VIRTUS STONE HARBOR EMERGING MARKETS INCOME FUND**

#### **(EACH, A “FUND” AND COLLECTIVELY, THE “FUNDS”)**

**November 15, 2023**

This Statement of Additional Information (the “SAI”) is available to shareholders of Virtus Stone Harbor Emerging Markets Total Income Fund (the “Acquired Fund”) in connection with the proposed reorganization of the Acquired Fund with and into Virtus Stone Harbor Emerging Markets Income Fund (the “Acquiring Fund”), pursuant to an Agreement and Plan of Reorganization (the “Agreement”) providing for the Acquiring Fund to continue as the surviving entity after the reorganization and shareholders of the Acquired Fund to receive newly issued common shares of the Acquiring Fund in exchange for their Acquired Fund shares (and cash in lieu of any fractional Acquiring Fund common shares) (the “Reorganization”). Pursuant to the Agreement, the Acquiring Fund will acquire all of the assets and assume the liabilities of the Acquired Fund in exchange solely for newly issued shares of the Acquiring Fund’s common shares, par value \$0.001 per share (plus any accumulated and unpaid dividends that have accrued on the Acquired Fund’s shares of common stock up to and including the day immediately preceding the closing date of the Reorganization if such dividends have not been paid prior to such closing date).

This SAI provides additional information to the Information Statement/Prospectus on Form N-14 filed with the Securities and Exchange Commission (the “SEC”) dated November 15, 2023, relating to the proposed Reorganization (the “Information Statement/Prospectus”). This SAI is not a prospectus and should only be read in conjunction with the Information Statement/Prospectus. You may obtain a copy of the Information Statement/Prospectus and other information may be obtained without charge with respect to the Fund by calling (860) 270-7788; or by writing to Virtus Funds, c/o Computer Investor Services, P.O. Box 43078, Providence, RI 02940-3078. The information contained in, or that can be accessed through, the Fund’s website is not part of the Information Statement/Prospectus or this SAI. You may also obtain a copy of the Information Statement/Prospectus on the website of the SEC (<http://www.sec.gov>). Capitalized terms used but not defined in this SAI have the meanings ascribed to them in the Information Statement/Prospectus.

The Acquiring Fund will provide, without charge, upon the written or oral request of any person to whom this SAI is delivered, a copy of any and all documents that have been incorporated by reference in the registration statement of which this SAI is a part.

The audited financial statements appear in each Fund’s annual report for its most recent fiscal year. Unaudited financial statements appear in each Fund’s semiannual report for the period ending May 31, 2023. Shareholders may obtain a copy of the Acquired Fund’s and the Acquiring Fund’s Annual Reports each dated November 30, 2022 and Semiannual Reports each dated May 31, 2023, without charge, by calling (860) 270-7788 or visiting [virtus.com](http://virtus.com).

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## GLOSSARY

1933 Act	The Securities Act of 1933, as amended
1940 Act	The Investment Company Act of 1940, as amended
Acquired Fund	Virtus Stone Harbor Emerging Markets Total Income Fund
Acquiring Fund or Fund	Virtus Stone Harbor Emerging Markets Income Fund
Administrator	The Acquiring Fund's administrative agent, Virtus Fund Services, LLC
ADRs	American Depositary Receipts
ADSS	American Depositary Shares
Adviser	The investment adviser to the Acquired Fund and Acquiring Fund, Virtus Alternative Investment Advisers, Inc.
Agreement	Agreement and Plan of Reorganization providing for the reorganization of the Acquired Fund with and into the Acquiring Fund
BNYM	The Bank of New York Mellon, the Acquiring Fund's custodian
Board	The Board of Trustees of the Acquiring Fund (also referred to herein as the "Trustees")
CDRs	Continental Depositary Receipts (another name for EDRs)
CEA	Commodity Exchange Act, which is the U.S. law governing trading in commodity futures
CFTC	Commodity Futures Trading Commission, which is the U.S. regulator governing trading in commodity futures
Closing Date	December 15, 2023 or such other date as may be agreed upon by the parties
Code	The Internal Revenue Code of 1986, as amended, which is the law governing U.S. federal taxes
Custodian	The custodian of the Acquiring Fund's assets, The Bank of New York Mellon
Deloitte	The auditor of the Acquiring Fund's most recent financial statements
EDRs	European Depositary Receipts (another name for CDRs)
ETFs	Exchange-traded Funds
FHFA	Federal Housing Finance Agency, an independent Federal agency that regulates FNMA, FHLMC and the twelve Federal Home Loan Banks
FHLMC	Federal Home Loan Mortgage Corporation, also known as "Freddie Mac", which is a government-sponsored corporation formerly owned by the twelve Federal Home Loan Banks and now owned entirely by private stockholders
Fitch	Fitch Ratings, Inc.
FNMA	Federal National Mortgage Association, also known as "Fannie Mae", which is a government-sponsored corporation owned entirely by private stockholders and subject to general regulation by the Secretary of Housing and Urban Development
Funds	Acquired Fund and Acquiring Fund
GDRs	Global Depositary Receipts

GNMA	Government National Mortgage Association, also known as “Ginnie Mae”, which is a wholly-owned United States Government corporation within the Department of Housing and Urban Development
IMF	International Monetary Fund, an international organization seeking to promote international economic cooperation, international trade, employment and exchange rate stability, among other things
Independent Trustees	Those members of the Board who are not “interested persons” as defined by the 1940 Act
Information Statement/Prospectus	The Information Statement/Prospectus to which this SAI relates
IRS	The United States Internal Revenue Service, which is the arm of the U.S. government that administers and enforces the Code
LIBOR	London Interbank Offering Rate, an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market
Moody’s	Moody’s Investors Service, Inc.
NAV	Net Asset Value
NYSE	New York Stock Exchange
OCC	Options Clearing Corporation, a large equity derivatives clearing corporation
PERLS	Principal Exchange Rate Linked Securities
PwC	PricewaterhouseCoopers LLP, the independent registered public accounting firm for the Acquiring Fund
RIC	Regulated Investment Company, a designation under the Code indicating a U.S.-registered investment company meeting the specifications under the Code allowing the investment company to be exempt from paying U.S. federal income taxes
Reorganization	Reorganization of the Acquired Fund with and into the Acquiring Fund
S&P	S&P Global Ratings
SAI	Statement of Additional Information, such as this document
SEC	U.S. Securities and Exchange Commission
SMBS	Stripped Mortgage-backed Securities
SOFR	Secured Overnight Financing Rate, the preferred LIBOR successor for U.S. dollar markets
Stone Harbor or Subadviser	Stone Harbor Investment Partners, a division of VFIA, subadviser to the Acquiring Fund
VAIA	Virtus Alternative Investment Advisers, Inc., the Adviser to the Acquired Fund and Acquiring Fund
VFIA	Virtus Fixed Income Advisers, LLC, an affiliate of VAIA
VFS	Virtus Fund Services, LLC, the Administrator of the Acquiring Fund
Virtus	Virtus Investment Partners, Inc., which is the parent company of the Adviser, the Subadviser, and the Administrator

Virtus Funds	<p>The family of funds overseen by the Board, consisting of the Fund, The Merger Fund<sup>®</sup>, The Merger Fund<sup>®</sup> VL, the series of Virtus Alternative Solutions Trust, the series of Virtus Asset Trust, the series of Virtus Equity Trust, the series of Virtus Event Opportunities Trust, the series of Virtus Investment Trust, the series of Virtus Opportunities Trust, the series of Virtus Retirement Trust, the series of Virtus Strategy Trust, the series of Virtus Variable Insurance Trust, Virtus Artificial Intelligence &amp; Technology Opportunities Fund, Virtus Convertible &amp; Income 2024 Target Term Fund, Virtus Convertible &amp; Income Fund, Virtus Convertible &amp; Income Fund II, Virtus Diversified Income &amp; Convertible Fund, Virtus Dividend, Interest &amp; Premium Strategy Fund, Virtus Equity &amp; Convertible Income Fund, Virtus Global Multi-Sector Income Fund, Virtus Stone Harbor Emerging Markets Income Fund, Virtus Stone Harbor Emerging Markets Total Income Fund, and Virtus Total Return Fund Inc.</p>
Virtus Mutual Funds	<p>The family of funds consisting of The Merger Fund<sup>®</sup>, the series of Virtus Alternative Solutions Trust, the series of Virtus Asset Trust, the series of Virtus Equity Trust, the series of Virtus Event Opportunities Trust, the series of Virtus Investment Trust, the series of Virtus Opportunities Trust, and the series of Virtus Strategy Trust</p>
World Bank	<p>International Bank for Reconstruction and Development, an international financial institution that provides loans to developing countries for capital programs</p>

## **GENERAL**

Prior to April 11, 2022, Virtus Stone Harbor Emerging Markets Income Fund was known as Stone Harbor Emerging Markets Income Fund.

### **ADDITIONAL INVESTMENT ACTIVITIES AND RESTRICTIONS**

The Acquiring Fund's primary investment objective is to maximize total return, which consists of income on its investments and capital appreciation. The Acquiring Fund is non-diversified under the 1940 Act. The Acquiring Fund's primary investment strategies are described in the Information Statement/Prospectus. The following is a description of the various investment policies that the Acquiring Fund may engage in, whether as a primary or secondary strategy, and a summary of certain attendant risks. The Fund's subadviser may, but is not required to, buy any of the following instruments or use any of the following techniques, and would do so only if it believes that doing so will help to achieve the Fund's investment objective. The following is not meant to be an exclusive list of all the securities and instruments in which the Fund may invest or investment strategies in which it may engage, and the Fund may invest in instruments and securities and engage in strategies other than those listed below.

#### **Fundamental Restrictions**

The following investment restrictions of the Acquiring Fund are designated as fundamental policies and as such cannot be changed without the approval of the holders of a majority of the Acquiring Fund's outstanding common shares, which, as used in this SAI, means the lesser of (a) 67% of the shares of the Acquiring Fund present or represented by proxy at a meeting if the holders of more than 50% of the outstanding shares are present or represented at the meeting or (b) more than 50% of outstanding shares of the Acquiring Fund. As a matter of fundamental policy, the Acquiring Fund may not:

- (1) Purchase any security (other than U.S. government securities) if, as a result, more than 25% of the Acquiring Fund's total assets (taken at current value) would be invested in any one industry. For purposes of this restriction, telephone, gas and electric public utilities are each regarded as separate industries, finance companies whose financing activities are related primarily to the activities of their parent companies are classified in the industry of their parents, and each non-U.S. country's government (together with subdivisions thereof) will be considered to be a separate industry. For purposes of this restriction with regard to bank obligations, bank obligations are considered to be one industry, and asset-backed securities are not considered to be bank obligations;
- (2) Make short sales of securities or maintain a short position, except that the Acquiring Fund may make any short sales or maintain any short positions where the short sales or short positions would not constitute "senior securities" under the 1940 Act;
- (3) Borrow money, except to the extent permitted under the 1940 Act;
- (4) Make loans, except that the Acquiring Fund may purchase or hold debt instruments in accordance with its investment objectives and policies; provided however, this restriction does not apply to repurchase agreements or loans of portfolio securities;
- (5) Act as an underwriter of securities of other issuers except that, in the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws;
- (6) Purchase or sell real estate, although the Acquiring Fund may purchase securities of issuers which deal in real estate, securities which are secured by interests in real estate, and securities which represent interests in real estate, and the Acquiring Fund may acquire and dispose of real estate or interests in real estate acquired through the exercise of its rights as a holder of debt obligations secured by real estate or interests therein;
- (7) Purchase or sell commodities, except that the Acquiring Fund may purchase and sell futures contracts and options, may enter into foreign exchange contracts and may enter into swap agreements and other financial transactions not requiring the delivery of physical commodities; or

(8) Issue senior securities, except for permitted borrowings, the issuance of preferred shares or as otherwise permitted under the 1940 Act.

Restrictions (2) and (8) shall be interpreted based upon no-action letters and other pronouncements of the staff of the SEC. Under current pronouncements, certain Acquiring Fund positions are excluded from the definition of “senior security” so long as the Acquiring Fund maintains adequate cover, segregation of assets or otherwise.

Whenever an investment policy or investment restriction set forth in the Information Statement/ Prospectus or this SAI states a maximum or minimum percentage of assets that may be invested in any security or other assets or describes a policy regarding quality standards, such percentage limitation or standard shall be determined immediately after and as a result of the Acquiring Fund’s acquisition of such security or asset. Accordingly, any later increase or decrease resulting from a change in values or assets, from other circumstances, or from any subsequent rating change made by a rating service (or as determined by the Fund’s subadviser if the security is not rated by a rating agency) will not compel the Acquiring Fund to dispose of such security or other asset. Notwithstanding the foregoing, the Acquiring Fund must always be in compliance with the borrowing policies set forth above.

Under the 1940 Act, a “senior security” does not include any promissory note or evidence of indebtedness where such loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the issuer at the time the loan is made. A loan is presumed to be for temporary purposes if it is repaid within sixty days and is not extended or renewed.

The Acquiring Fund would be deemed to “concentrate” its investments in a particular industry if it invested more than 25% of its total assets in that industry. The Acquiring Fund’s industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities). The Acquiring Fund interprets its industry concentration policy to apply to direct investments in the securities of issuers in a particular industry, as defined by the Acquiring Fund. For purposes of this restriction, each non-U.S. country’s government is considered to be a separate industry. Currency positions are not considered to be an investment in a foreign government for industry concentration purposes. Securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities are not subject to the Acquiring Fund’s industry concentration restrictions. Similarly, municipal bonds issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies and authorities are not subject to the Acquiring Fund’s industry concentration restrictions.

To the extent the Acquiring Fund covers its commitment under a reverse repurchase agreement, credit default swap or other derivative instrument (such as credit linked notes, interest rate swaps, total return swaps on indices and individual securities, foreign currency forward contracts, credit default swaps and interest rate futures contracts and options) by the segregation or designation on the records of the Acquiring Fund of liquid assets equal in value to the amount of the Acquiring Fund’s commitment, such instrument will not be considered a “senior security” for purposes of the asset coverage requirements otherwise applicable to borrowings by the Acquiring Fund.

If the Acquiring Fund determines to issue Preferred Shares, it intends to apply for ratings for such Preferred Shares from Moody’s, S&P and/or Fitch. In order to obtain and maintain such required ratings, the Acquiring Fund may be required to comply with investment quality, and other guidelines established by Moody’s, S&P and/or Fitch. Such guidelines will likely be more restrictive than the restrictions set forth above. The Acquiring Fund does not anticipate that any such guidelines would have a material adverse effect on common shareholders or its ability to achieve its investment objective. No minimum rating is required for the issuance of preferred shares by the Acquiring Fund. Moody’s, S&P and Fitch receive fees in connection with their ratings issuances.

### **Temporary Borrowings**

The Acquiring Fund may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Acquiring Fund securities.

## **Portfolio Turnover**

A change in the securities held by the Acquiring Fund is known as “portfolio turnover.” The Subadviser manages the Acquiring Fund without regard generally to restrictions on portfolio turnover. Trading in fixed income securities does not generally involve the payment of brokerage commissions, but does involve indirect transaction costs such as dealer mark-ups and mark-downs. The use of futures contracts may involve the payment of commissions to futures commission merchants. High portfolio turnover (*e.g.*, greater than 100%) involves correspondingly greater expenses to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. The higher the rate of portfolio turnover of the Fund, the higher these transaction costs borne by the Fund generally will be. Such sales may result in realization of taxable capital gains, including short-term capital gains (which are generally taxed as ordinary income upon distribution in the form of dividends to shareholders at ordinary income tax rates).

The portfolio turnover rate of the Fund is calculated by dividing (a) the lesser of purchases or sales of portfolio securities for the particular fiscal year by (b) the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. In calculating the rate of portfolio turnover, there is excluded from both (a) and (b) all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less. Proceeds from short sales and assets used to cover short positions undertaken are included in the amounts of securities sold and purchased, respectively, during the year.

## **Debt Investing**

The Fund may invest in debt, or fixed income, instruments. Debt, or fixed income, instruments (which include corporate bonds, commercial paper, debentures, notes, government securities, municipal obligations, state- or state agency-issued obligations, obligations of foreign issuers, asset- or mortgage-backed securities, and other obligations) are used by issuers to borrow money and thus are debt obligations of the issuer. Holders of debt instruments are creditors of the issuer, normally ranking ahead of holders of both common and preferred stock as to dividends or upon liquidation. The issuer usually pays a fixed, variable, or floating rate of interest and must repay the amount borrowed at the instrument’s maturity. Some debt instruments, such as zero-coupon bonds (discussed below), do not pay interest but may be sold at a deep discount from their face value.

Yields on debt instruments depend on a variety of factors, including the general conditions of the money, bond, and note markets, the size of a particular offering, the maturity date of the obligation, and the rating of the issue. Debt instruments with longer maturities tend to produce higher yields and are generally subject to greater price fluctuations in response to changes in market conditions than obligations with shorter maturities. An increase in interest rates generally will reduce the market value of portfolio debt instruments, while a decline in interest rates generally will increase the value of the same instruments. The achievement of the Fund’s investment objective depends in part on the continuing ability of the issuers of the debt instruments in which the Fund invests to meet their obligations for the payment of principal and interest when due. Obligations of issuers of debt instruments are subject to the provisions of bankruptcy, insolvency, sovereign immunity, and other laws that affect the rights and remedies of creditors. There is also the possibility that, as a result of litigation or other conditions, the ability of an issuer to pay, when due, the principal of and interest on its debt instruments may be materially affected.

## ***Collateralized Debt Obligations***

The Fund may invest in collateralized debt obligations (“CDOs”), which includes collateralized bond obligations (“CBOs”), collateralized loan obligations (“CLOs”) and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. CDOs may charge management fees and administrative expenses.

For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the “equity” tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically has higher ratings and lower yields than its underlying securities, and may be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CBO or CLO securities as a class.

The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus, are not registered under the securities laws. As a result, investments in CDOs may be characterized by the Fund as illiquid securities, however an active dealer market may exist for CDOs allowing a CDO to qualify for Rule 144A transactions. In addition to the normal risks associated with fixed income securities discussed elsewhere in this SAI and the Information Statement/Prospectus (e.g., interest rate risk and default risk), CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the Fund may invest in classes of CDO securities that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

### ***Convertible Securities***

A convertible security is a bond, debenture, note, or other security that entitles the holder to acquire common stock or other equity securities of the same or a different issuer within a particular period of time at a specific price or formula. It generally entitles the holder to receive interest paid or accrued until the security matures or is redeemed, converted, or exchanged. Convertible securities may have several unique investment characteristics such as (1) higher yields than common stocks, but lower yields than comparable nonconvertible securities, (2) a lesser degree of fluctuation in value than the underlying stock since they have fixed income characteristics and (3) the potential for capital appreciation if the market price of the underlying common stock increases.

Before conversion, convertible securities have characteristics similar to nonconvertible debt securities. Convertible securities often rank senior to common stock in a corporation’s capital structure and, therefore, are often viewed as entailing less risk than the corporation’s common stock, although the extent to which this is true depends in large measure on the degree to which the convertible security sells above its value as a fixed income security. However, because convertible securities are often viewed by the issuer as future common stock, they are often subordinated to other senior securities and therefore are rated one category lower than the issuer’s nonconvertible debt obligations or preferred stock.

A convertible security may be subject to redemption or conversion at the option of the issuer at a predetermined price. If a convertible security held by the Fund is called for redemption, the Fund could be required to permit the issuer to redeem the security and convert it to the underlying common stock. The Fund generally would invest in convertible securities for their favorable price characteristics and total return potential, and would normally not exercise an option to convert. The Fund might be more willing to convert such securities to common stock.

The Fund’s subadviser will select only those convertible securities for which it believes (a) the underlying common stock is an appropriate investment for the Fund and (b) a greater potential for total return exists by purchasing the convertible security because of its higher yield and/or favorable market valuation. However, the Fund may invest in convertible debt securities rated less than investment grade.

Debt securities rated less than investment grade are commonly referred to as “junk bonds.” (For information about debt securities rated less than investment grade, see “High-Yield Fixed Income Securities (Junk Bonds)” under “Debt Investing” in this section of the SAI; for additional information about ratings on debt obligations, see Appendix A to this SAI.)

## ***Corporate Debt Securities***

The Fund may invest in debt securities issued by corporations, limited partnerships and other similar entities. The Fund's investments in debt securities of domestic or foreign corporate issuers include bonds, debentures, notes and other similar corporate debt instruments, including convertible securities that meet the Fund's minimum ratings criteria or if unrated are, in the Fund's subadviser's opinion, comparable in quality to corporate debt securities that meet those criteria. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies or to the value of commodities, such as gold.

### ***Dollar-denominated Foreign Debt Securities ("Yankee Bonds")***

The Fund may invest in "Yankee bonds", which are dollar- denominated instruments issued in the U.S. market by foreign branches of U.S. banks and U.S. branches of foreign banks. Since these instruments are dollar-denominated, they are not affected by variations in currency exchange rates. They are influenced primarily by interest rate levels in the United States and by the financial condition of the issuer, or of the issuer's foreign parent. However, investing in these instruments may present a greater degree of risk than investing in domestic securities, due to less publicly available information, less securities regulation, war or expropriation. Special considerations may include higher brokerage costs and thinner trading markets. Investments in foreign countries could be affected by other factors including extended settlement periods. (See "Foreign Investing" in this section of the SAI for additional information about investing in foreign countries.)

### ***Duration***

Duration is a time measure of a bond's interest-rate sensitivity, based on the weighted average of the time periods over which a bond's cash flows accrue to the bondholder. Time periods are weighted by multiplying by the present value of its cash flow divided by the bond's price. (A bond's cash flows consist of coupon payments and repayment of capital.) A bond's duration will almost always be shorter than its maturity, with the exception of zero-coupon bonds, for which maturity and duration are equal.

### ***High-Yield Fixed Income Securities ("Junk Bonds")***

Investments in securities rated "BB" or below by S&P or Fitch, or "Ba" or below by Moody's generally provide greater income (leading to the name "high-yield" securities) and opportunity for capital appreciation than investments in higher quality securities, but they also typically entail greater price volatility, liquidity, and principal and income risk. These securities are regarded as predominantly speculative as to the issuer's continuing ability to meet principal and interest payment obligations. Analysis of the creditworthiness of issuers of lower-quality debt securities may be more complex than for issuers of higher-quality debt securities.

Interest-bearing securities typically experience appreciation when interest rates decline and depreciation when interest rates rise. The market values of low-rated securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. Low-rated securities also tend to be more sensitive to economic conditions than higher-rated securities. As a result, they generally involve more credit risks than securities in the higher-rated categories. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of low-rated securities may experience financial stress and may not have sufficient revenues to meet their payment obligations. The issuer's ability to service its debt obligations may also be adversely affected by specific corporate developments, the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by an issuer of low-rated securities is generally considered to be significantly greater than issuers of higher- rated securities because such securities are usually unsecured and are often subordinated to other creditors. Further, if the issuer of a low- rated security defaulted, the Fund might incur additional expenses in seeking recovery. Periods of economic uncertainty and changes would also generally result in increased volatility in the market prices of low-rated securities and thus in the Fund's NAV.

Low-rated securities often contain redemption, call or prepayment provisions which permit the issuer of the securities containing such provisions to, at its discretion, redeem the securities. During periods of falling interest rates, issuers of low-rated securities are likely to redeem or prepay the securities and refinance them with debt securities with a lower interest rate. To the extent an issuer is able to refinance the securities or otherwise redeem them, the Fund may have to replace the securities with a lower yielding security which would result in lower returns for the Fund.

The Fund may have difficulty disposing of certain low-rated securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in all low-rated securities, there is no established retail secondary market for many of these securities. The Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. To the extent a secondary trading market does exist, it is generally not as liquid as the secondary market for higher-rated securities. The lack of a liquid secondary market may have an adverse impact on the market price of the security, and accordingly, the NAV of a particular Fund and its ability to dispose of particular securities when necessary to meet its liquidity needs, or in response to a specific economic event, or an event such as a deterioration in the creditworthiness of the issuer. The lack of a liquid secondary market for certain securities may also make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its respective portfolio. Market quotations are generally available on many low-rated issues only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales. During periods of thin trading, the spread between bid and asked prices is likely to increase significantly. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of low-rated securities, especially in a thinly-traded market. Due to the limited liquidity of low-rated securities, to the extent the Fund needs to liquidate these types of securities the Fund may be forced to do so at a substantial discount. Any such liquidation could result in a reduced rate of return for the Fund.

### ***Interest Rate Environment Risk***

Changing interest rates, may have unpredictable effects on markets, may result in heightened market volatility and may detract from the Fund's performance to the extent the Fund is exposed to such interest rates. A low interest rate environment may have an adverse impact on the Fund's ability to provide a positive yield to its shareholders and pay expenses out of Fund assets because of the low yields from the Fund's portfolio investments. Alternatively, a general rise in interest rates has the potential to cause investors to move out of fixed-income securities on a large scale. To the extent the Fund needs to sell assets at such a time, this could cause the Fund to sell assets at inopportune times or at a loss or depressed value and could hurt the Fund's performance.

Further, Federal Reserve policy changes may expose fixed-income and related markets to heightened volatility and may reduce liquidity for certain Fund investments, which could cause the value of the Fund's investments and the Fund's share price to decline or create difficulties for the Fund in disposing of investments. The Fund that invests in derivatives tied to fixed-income markets may be more substantially exposed to these risks than the Fund that does not invest in derivatives.

The Fund could also be forced to liquidate its investments at disadvantageous times or prices, thereby adversely affecting the Fund.

### ***Inverse Floating Rate Obligations***

Certain variable rate securities pay interest at a rate that varies inversely to prevailing short-term interest rates (sometimes referred to as inverse floaters). For example, upon reset the interest rate payable on a security may go down when the underlying index has risen. During periods when short-term interest rates are relatively low as compared to long-term interest rates, the Fund may attempt to enhance its yield by purchasing inverse floaters. Certain inverse floaters may have an interest rate reset mechanism that multiplies the effects of changes in the underlying index. While this form of leverage may increase the security's yield, it may also increase the volatility of the security's market value.

Similar to other variable and floating rate obligations, effective use of inverse floaters requires skills different from those needed to select most portfolio securities. If movements in interest rates are incorrectly anticipated, the Fund holding these instruments could lose money and its NAV could decline.

## ***Letters of Credit***

Debt obligations, including municipal obligations, certificates of participation, commercial paper and other short-term obligations, may be backed by an irrevocable letter of credit of a bank that assumes the obligation for payment of principal and interest in the event of default by the issuer. Only banks that, in the opinion of the Fund's subadviser, are of investment quality comparable to other permitted investments of the Fund may be used for Letter of Credit-backed investments.

## ***Loan and Debt Participations and Assignments***

A loan participation agreement involves the purchase of a share of a loan made by a bank to a company in return for a corresponding share of the borrower's principal and interest payments. Loan participations of the type in which the Fund may invest include interests in both secured and unsecured corporate loans. When the Fund purchases loan assignments from lenders, it will acquire direct rights against the borrower, but these rights and the Fund's obligations may differ from, and be more limited than, those held by the assignment lender. The principal credit risk associated with acquiring loan participation and assignment interests is the credit risk associated with the underlying corporate borrower. There is also a risk that there may not be a readily available market for participation loan interests and, in some cases, this could result in the Fund disposing of such securities at a substantial discount from face value or holding such securities until maturity.

There is typically a limited amount of public information available about loans because loans normally are not registered with the SEC or any state securities commission or listed on any securities exchange. Certain of the loans in which the Fund may invest may not be considered "securities," and therefore the Fund may not be entitled to rely on the anti-fraud protections of the federal securities laws with respect to those loans in the event of fraud or misrepresentation by a borrower. The Fund may come into possession of material, non-public information about a borrower as a result of the Fund's ownership of a loan or other floating-rate instrument of the borrower. Because of prohibitions on trading in securities of issuers while in possession of material, non-public information, the Fund might be unable to enter into a transaction in a publicly-traded security of the borrower when it would otherwise be advantageous to do so.

Loans trade in an unregulated inter-dealer or inter-bank secondary market. Purchases and sales of loans are generally subject to contractual restrictions that must be satisfied before a loan can be bought or sold. These restrictions may (i) impede the Fund's ability to buy or sell loans; (ii) negatively affect the transaction price; affect the counterparty credit risk borne by the Fund; (iv) impede the Fund's ability to timely vote or otherwise act with respect to loans; and (v) expose the Fund to adverse tax or regulatory consequences.

In the event that a corporate borrower failed to pay its scheduled interest or principal payments on participations held by the Fund, the market value of the affected participation would decline, resulting in a loss of value of such investment to the Fund. Accordingly, such participations are speculative and may result in the income level and net assets of the Fund being reduced. Moreover, loan participation agreements generally limit the right of a participant to resell its interest in the loan to a third party and, as a result, loan participations may be deemed by the Fund to be illiquid investments. The Fund will invest only in participations with respect to borrowers whose creditworthiness is, or is determined by the Fund's subadviser to be, substantially equivalent to that of issuers whose senior unsubordinated debt securities are rated B or higher by Moody's or S&P. For the purposes of diversification and/or concentration calculations, both the borrower and issuer will be considered an "issuer."

The Fund may purchase from banks participation interests in all or part of specific holdings of debt obligations. Each participation interest is backed by an irrevocable letter of credit or guarantee of the selling bank that the Fund's subadviser has determined meets the prescribed quality standards of the Fund. Thus, even if the credit of the issuer of the debt obligation does not meet the quality standards of the Fund, the credit of the selling bank will.

Loan participations and assignments may be illiquid.

The Fund may invest in floating rate loans that have interest rate provisions linked to LIBOR. LIBOR is used extensively in the U.S. and globally as a "benchmark" or "reference rate" for such loans. However,

the United Kingdom's Financial Conduct Authority, which regulates LIBOR, has announced plans to phase out the use of LIBOR. Certain U.S. dollar LIBOR publications were discontinued at the end of 2021, while the remainder are expected to end by mid-2023.

The discontinuation of LIBOR may impact the functioning, liquidity, and value of floating rate loans. The extent of this impact will depend on the specific loans, as well as the terms of those loans. Many loans have interest rate provisions referencing LIBOR that, when drafted, did not contemplate the permanent discontinuation of LIBOR and, as a result, there may be uncertainty or disagreement over how the loans should be interpreted. For example, loans without fallback language, or with fallback language that does not contemplate the discontinuation of LIBOR, could become less liquid and/or change in value as the date approaches when LIBOR will no longer be updated. Further, the interest rate provisions of these loans may need to be renegotiated. Finally, there may be other risks related to the discontinuation of LIBOR, such as loan price volatility risk and technology or systems risk.

Currently, the U.S. and other countries are working to replace LIBOR with alternative reference rates. The transition effort in the U.S. is being led by the Alternative Reference Rate Committee ("ARRC"), a diverse group of market participants convened by the Federal Reserve. After much deliberation, ARRC selected the Secured Overnight Financing Rate ("SOFR") as the preferred LIBOR successor for U.S. dollar markets. SOFR is a volume-weighted median of borrowing rates from the Treasury repurchase agreement market. National working groups in other jurisdictions have similarly identified overnight nearly risk-free rates like SOFR as their preferred alternatives to LIBOR. The alternative reference rates may be more volatile than LIBOR and may perform erratically until widely accepted within the marketplace. The risks associated with this discontinuation and transition will persist if the work necessary to effect an orderly transition to an alternative reference rate is not completed in a timely manner.

The shift to SOFR from LIBOR also brings pricing challenges for borrowers and loan issuers, who prefer exposure to credit benchmarks that will adjust to shifts in credit market conditions. SOFR is based on the U.S. repurchase agreement market, which has no credit risk and may fall during times of stress. LIBOR, by contrast, measures bank borrowing costs and rises during periods of stress. Lenders are adapting by pricing loans with a spread to SOFR. However, there are risks that this spread could underprice risks if there are unexpected periods of credit stress.

### ***Participations on Creditors' Commitments***

While the Fund does not invest in securities to exercise control over the securities' issuers, the Fund may, from time to time, participate on committees formed by creditors to negotiate with the management of financially troubled issuers of securities held by the Fund. Such participation may subject the Fund to expenses such as legal fees and may deem the Fund an "insider" of the issuer for purposes of the Federal securities laws, and expose the Fund to material non-public information of the issuer, and therefore may restrict the Fund's ability to purchase or sell a particular security when it might otherwise desire to do so. Participation by the Fund on such committees also may expose the Fund to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. The Fund will participate on such committees only when the Fund's subadviser believes that such participation is necessary or desirable to enforce the Fund's rights as a creditor or to protect the value of securities held by the Fund.

### ***Payable in Kind ("PIK") Bonds***

PIK bonds are obligations which provide that the issuer thereof may, at its option, pay interest on such bonds in cash or "in kind", which means in the form of additional debt securities. Such securities benefit the issuer by mitigating its need for cash to meet debt service, but also require a higher rate of return to attract investors who are willing to defer receipt of such cash. The Fund will accrue income on such investments for tax and accounting purposes, which is distributable to shareholders and which, because no cash is received at the time of accrual, may require the liquidation of other portfolio securities to satisfy the Fund's distribution obligations. The market prices of PIK bonds generally are more volatile than the market prices of securities that pay interest periodically, and they are likely to respond to changes in interest rates to a greater degree than would otherwise similar bonds on which regular cash payments of interest are being made.

## ***Ratings***

The rating or quality of a debt security refers to a rating agency's assessment of the issuer's creditworthiness, i.e., its ability to pay principal and interest when due. Higher ratings indicate better credit quality, as rated by independent rating organizations such as Moody's, S&P or Fitch, which publish their ratings on a regular basis. Appendix A provides a description of the various ratings provided for bonds (including convertible bonds), municipal bonds, and commercial paper.

After the Fund purchases a debt security, the rating of that security may be reduced below the minimum rating acceptable for purchase by the Fund. A subsequent downgrade does not require the sale of the security, but the Fund's subadviser will consider such an event in determining whether to continue to hold the obligation. To the extent that ratings established by Moody's or S&P may change as a result of changes in such organizations or their rating systems, the Fund will invest in securities which are deemed by the Fund's subadviser to be of comparable quality to securities whose current ratings render them eligible for purchase by the Fund.

Credit ratings issued by credit rating agencies evaluate the safety of principal and interest payments of rated securities. They do not, however, evaluate the market-value risk and therefore may not fully reflect the true risks of an investment. In addition, credit rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the condition of the issuer that affect the market value of the security. Consequently, credit ratings are used only as a preliminary indicator of investment quality.

## ***Sovereign Debt***

The Fund may invest in "sovereign debt," which is issued or guaranteed by foreign governments (including countries, provinces and municipalities) or their agencies and instrumentalities. Sovereign debt may trade at a substantial discount from face value. The Fund may hold and trade sovereign debt of foreign countries in appropriate circumstances to participate in debt conversion programs. Emerging market country sovereign debt involves a higher degree of risk than that of developed markets, is generally lower-quality debt, and is considered speculative in nature due, in part, to the extreme and volatile nature of debt burdens in such countries and because emerging market governments can be relatively unstable. The issuer or governmental authorities that control sovereign-debt repayment ("sovereign debtors") may be unable or unwilling to repay principal or interest when due in accordance with the terms of the debt. A sovereign debtor's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash-flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy towards the IMF, and the political constraints to which the sovereign debtor may be subject. Sovereign debtors may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment of these third parties to make such disbursements may be conditioned on the sovereign debtor's implementation of economic reforms or economic performance and the timely service of the debtor's obligations. The sovereign debtor's failure to meet these conditions may cause these third parties to cancel their commitments to provide funds to the sovereign debtor, which may further impair the debtor's ability or willingness to timely service its debts. In certain instances, the Fund may invest in sovereign debt that is in default as to payments of principal or interest. In the event that the Fund holds non-performing sovereign debt, the Fund may incur additional expenses in connection with any restructuring of the issuer's obligations or in otherwise enforcing their rights thereunder.

## ***Brady Bonds***

The Fund may invest a portion of its assets in certain sovereign debt obligations known as "Brady Bonds." Brady Bonds are issued under the framework of the Brady Plan, an initiative announced by former U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external indebtedness. The Brady Plan contemplates, among other things, the debtor nation's adoption of certain economic reforms and the exchange of commercial bank debt for newly issued bonds. In restructuring its external debt under the Brady Plan framework, a debtor nation negotiates with its existing bank lenders as well as the World Bank or the IMF. The World Bank or IMF supports the restructuring by providing funds pursuant to loan agreements or other arrangements that enable the debtor nation to

collateralize the new Brady Bonds or to replenish reserves used to reduce outstanding bank debt. Under these loan agreements or other arrangements with the World Bank or IMF, debtor nations have been required to agree to implement certain domestic monetary and fiscal reforms. The Brady Plan sets forth only general guiding principles for economic reform and debt reduction, emphasizing that solutions must be negotiated on a case-by-case basis between debtor nations and their creditors.

Brady Bonds are often viewed as having three or four valuation components: (i) the collateralized repayment of principal at final maturity; (ii) the collateralized interest payments; (iii) the uncollateralized interest payments; and (iv) any uncollateralized repayment of principal at maturity (these uncollateralized amounts constitute the “residual risk”). In light of the residual risk of Brady Bonds and, among other factors, the history of defaults with respect to commercial bank loans by public and private entities of countries issuing Brady Bonds, investments in Brady Bonds can be viewed as speculative.

### ***Stand-by Commitments***

The Fund may purchase securities together with the right to resell them to the seller or a third party at an agreed-upon price or yield within specified periods prior to their maturity dates. Such a right to resell is commonly known as a stand-by commitment, and the aggregate price which the Fund pays for securities with a stand-by commitment may increase the cost, and thereby reduce the yield, of the security. The primary purpose of this practice is to permit the Fund to be as fully invested as practicable in municipal securities while preserving the desired flexibility and liquidity. Standby commitments acquired by the Fund are valued at zero in determining the Fund’s NAV. Stand-by commitments involve certain expenses and risks, including the inability of the issuer of the commitment to pay for the securities at the time the commitment is exercised, non-marketability of the commitment, and differences between the maturity of the underlying security and the maturity of the commitment.

### ***Strip Bonds***

Strip bonds are debt securities that are stripped of their interest (usually by a financial intermediary) after the securities are issued. The market value of these securities generally fluctuates more in response to changes in interest rates than interest-paying securities of comparable maturity.

### ***Tender Option Bonds***

Tender option bonds are relatively long-term bonds that are coupled with the option to tender the securities to a bank, broker-dealer or other financial institution at periodic intervals and receive the face value of the bond. This investment structure is commonly used as a means of enhancing a security’s liquidity.

### ***Variable and Floating Rate Obligations***

The Fund may purchase securities having a floating or variable rate of interest. These securities pay interest at rates that are adjusted periodically according to a specific formula, usually with reference to some interest rate index or market interest rate (the “underlying index”). The floating rate tends to decrease the security’s price sensitivity to changes in interest rates. These securities may carry demand features permitting the holder to demand payment of principal at any time or at specified intervals prior to maturity. Accordingly, as interest rates decrease or increase, the potential for capital appreciation or depreciation is less than for fixed-rate obligations.

The floating and variable rate obligations that the Fund may purchase include variable rate demand securities. Variable rate demand securities are variable rate securities that have demand features entitling the purchaser to resell the securities to the issuer at an amount approximately equal to amortized cost or the principal amount thereof plus accrued interest, which may be more or less than the price that the Fund paid for them. The interest rate on variable rate demand securities also varies either according to some objective standard, such as an index of short-term, tax-exempt rates, or according to rates set by or on behalf of the issuer.

When the Fund purchases a floating or variable rate demand instrument, the Fund’s subadviser will monitor, on an ongoing basis, the ability of the issuer to pay principal and interest on demand. The Fund’s

right to obtain payment at par on a demand instrument could be affected by events occurring between the date the Fund elects to demand payment and the date payment is due that may affect the ability of the issuer of the instrument to make payment when due, except when such demand instrument permits same day settlement. To facilitate settlement, these same day demand instruments may be held in book entry form at a bank other than the Fund's custodian subject to a sub-custodian agreement between the bank and the Fund's custodian.

The floating and variable rate obligations that the Fund may purchase also include certificates of participation in such obligations purchased from banks. A certificate of participation gives the Fund an undivided interest in the underlying obligations in the proportion that the Fund's interest bears to the total principal amount of the obligation. Certain certificates of participation may carry a demand feature that would permit the holder to tender them back to the issuer prior to maturity.

The income received on certificates of participation in tax-exempt municipal obligations constitutes interest from tax-exempt obligations.

The Fund will limit its purchases of floating and variable rate obligations to those of the same quality as it otherwise is allowed to purchase. Similar to fixed rate debt instruments, variable and floating rate instruments are subject to changes in value based on changes in prevailing market interest rates or changes in the issuer's creditworthiness.

### ***Zero and Deferred Coupon Debt Securities***

The Fund may invest in debt obligations that do not make any interest payments for a specified period of time prior to maturity ("deferred coupon" bonds) or until maturity ("zero coupon" bonds). The nonpayment of interest on a current basis may result from the bond's having no stated interest rate, in which case the bond pays only principal at maturity and is normally initially issued at a discount from face value. Alternatively, the bond may provide for a stated rate of interest, but provide that such interest is not payable until maturity, in which case the bond may initially be issued at par. The value to the investor of these types of bonds is represented by the economic accretion either of the difference between the purchase price and the nominal principal amount (if no interest is stated to accrue) or of accrued, unpaid interest during the bond's life or payment deferral period.

Because deferred and zero coupon bonds do not make interest payments for a certain period of time, they are generally purchased by the Fund at a deep discount and their value fluctuates more in response to interest rate changes than does the value of debt obligations that make current interest payments. The degree of fluctuation with interest rate changes is greater when the deferred period is longer. Therefore, when the Fund invests in zero or deferred coupon bonds, there is a risk that the value of the Fund's shares may decline more as a result of an increase in interest rates than would be the case if the Fund did not invest in such bonds.

Even though zero and deferred coupon bonds may not pay current interest in cash, the Fund is required to accrue interest income on such investments and to distribute such amounts to shareholders. Thus, the Fund would not be able to purchase income-producing securities to the extent cash is used to pay such distributions, and, therefore, the Fund's current income could be less than it otherwise would have been. Instead of using cash, the Fund might liquidate investments in order to satisfy these distribution requirements.

### **Derivative Instruments**

The Fund may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Fund may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, swaps, forward contracts, structured investments, and other equity-linked derivatives.

The Fund may use derivative instruments for hedging (to offset risks associated with an investment, currency exposure, or market conditions) or in pursuit of its investment objective(s) and policies (to seek to enhance returns). When the Fund invests in a derivative, the risks of loss of that derivative may be greater

than the derivative's cost. The Fund may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. In addition to other considerations, the Fund's ability to use derivative instruments may be limited by tax considerations.

Investments in derivatives may subject the Fund to special risks in addition to normal market fluctuations and other risks inherent in investment in securities. Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case.

SEC Rule 18f-4 ("Rule 18f-4" or the "Derivatives Rule") regulates the ability of the Fund to enter into derivative transactions and other leveraged transactions. The Derivatives Rule defines the term "derivatives" to include short sales and forward contracts, such as TBA transactions, in addition to instruments traditionally classified as derivatives, such as swaps, futures, and options. Rule 18f-4 also regulates other types of leveraged transactions, such as reverse repurchase transactions and transactions deemed to be "similar to" reverse repurchase transactions, such as certain securities lending transactions in connection with which the Fund obtains leverage. Among other things, under Rule 18f-4, the Fund is prohibited from entering into these derivatives transactions except in reliance on the provisions of the Derivatives Rule. The Derivatives Rule establishes limits on the derivatives transactions that the Fund may enter into based on the value-at-risk ("VaR") of the Fund inclusive of derivatives. In addition, among other requirements, Rule 18f-4 requires the Fund to establish a derivatives risk management program, appoint a derivatives risk manager, and carry out enhanced reporting to the Board, the SEC and the public regarding the Fund's derivatives activities. These new requirements apply unless the Fund qualifies as a "limited derivatives user," which the Derivatives Rule defines as a fund that limits its derivatives exposure to 10% of its net assets. It is possible that the limits and compliance costs imposed by the Derivatives Rule may adversely affect the Fund's performance, efficiency in implementing its strategy, liquidity and/or ability to pursue its investment objectives and may increase the cost of the Fund's investments and cost of doing business, which could adversely affect investors.

### ***Commodity Interests***

Certain of the derivative investment types permitted for the Fund may be considered commodity interests for purposes of the CEA and regulations approved by the CFTC. Investing in commodity interests, outside of certain conditions required to qualify for exemption or exclusion, will cause the Fund to be deemed a commodity pool, thereby subjecting the Fund to regulation under the CEA and CFTC rules. In that event, the Adviser will be registered as a Commodity Pool Operator, the Fund's subadviser will be registered as a Commodity Trading Adviser, and the Fund will be operated in accordance with CFTC rules. Because of the applicable registration requirements and rules, investing the Fund's assets in commodity interests could cause the Fund to incur additional expenses. Alternatively, to the extent that the Fund limits its exposure to commodity interests in order to qualify for exemption from being considered a commodity pool, the Fund's use of investment techniques described in its Prospectus and this SAI may be limited or restricted. However, as of the date of this SAI, the Fund intends to limit the use of such investment types as required to qualify for exclusion or exemption from being considered a "commodity pool" or otherwise as a vehicle for trading in commodity interests under such regulations. As a result, the Fund has filed a notice of exclusion under CFTC Regulation 4.5 or exemption under another CFTC regulation.

### ***Credit-linked Notes***

Credit-linked notes are derivative instruments used to transfer credit risk. The performance of the notes is linked to the performance of the underlying reference obligation or reference portfolio ("reference entities"). The notes are usually issued by a special purpose vehicle that sells credit protection through a credit default swap agreement in return for a premium and an obligation to pay the transaction sponsor should a reference entity experience a credit event, such as bankruptcy. The special purpose vehicle invests the proceeds from the notes to cover its contingent obligation. Revenue from the investments and the money received as premium are used to pay interest to note holders. The main risk of credit linked notes is the risk of default to

the reference obligation of the credit default swap. Should a default occur, the special purpose vehicle would have to pay the transaction sponsor, subordinating payments to the note holders. Credit linked notes also may not be liquid and may be subject to currency and interest rate risks as well.

### ***Equity-linked Derivatives***

The Fund may invest in equity-linked derivative products, the performance of which is designed to correspond generally to the performance of a specified stock index or “basket” of stocks, or to a single stock. Investments in equity-linked derivatives involve the same risks associated with a direct investment in the types of securities such products are designed to track. There can be no assurance that the trading price of the equity-linked derivatives will equal the underlying value of the securities purchased to replicate a particular investment or that such basket will replicate the investment.

Investments in equity-linked derivatives may constitute investments in other investment companies. (See “Other Investment Companies” in this section of the SAI for information regarding the implications of the Fund investing in other investment companies.)

### ***Eurodollar Instruments***

The Fund may invest in Eurodollar instruments. Eurodollar instruments are dollar-denominated certificates of deposit and time deposits issued outside the U.S. capital markets by foreign branches of U.S. banks and by foreign banks. Eurodollar futures contracts enable purchasers to obtain a fixed rate for the lending of funds and sellers to obtain a fixed rate for borrowings. The Fund might use Eurodollar instruments to hedge against changes in interest rates or to enhance returns.

Eurodollar obligations are subject to the same risks that pertain to domestic issuers, most notably income risk (and, to a lesser extent, credit risk, market risk, and liquidity risk). Additionally, Eurodollar obligations are subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of dollars, from flowing across its borders. Other risks include adverse political and economic developments, the extent and quality of government regulation of financial markets and institutions, the imposition of foreign withholding taxes, and expropriation or nationalization of foreign issuers. However, Eurodollar obligations will undergo the same type of credit analysis as domestic issuers in which the Fund invests.

### ***Foreign Currency Forward Contracts, Futures and Options***

The Fund may engage in certain derivative foreign currency exchange and option transactions involving investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Fund’s subadviser’s predictions of movements in the direction of securities prices or currency exchange rates are inaccurate, the Fund may experience adverse consequences, leaving it in a worse position than if it had not used such strategies. Risks inherent in the use of option and foreign currency forward and futures contracts include: (1) dependence on the Fund’s subadviser’s ability to correctly predict movements in the direction of securities prices and currency exchange rates; (2) imperfect correlation between the price of options and futures contracts and movements in the prices of the securities or currencies being hedged; (3) the fact that the skills needed to use these strategies are different from those needed to select portfolio securities; (4) the possible absence of a liquid secondary market for any particular instrument at any time; and (5) the possible need to defer closing out certain hedged positions to avoid adverse tax consequences. The Fund’s ability to enter into futures contracts is also limited by the requirements of the Code for qualification as a regulated investment company.

The Fund may engage in currency exchange transactions to protect against uncertainty in the level of future currency exchange rates. In addition, the Fund may write covered put and call options on foreign currencies for the purpose of increasing its return.

The Fund may enter into contracts to purchase or sell foreign currencies at a future date (“forward contracts”) and purchase and sell foreign currency futures contracts. For certain hedging purposes, the Fund may also purchase exchange-listed and over-the-counter put and call options on foreign currency futures contracts and on foreign currencies. A put option on a futures contract gives the Fund the right to

assume a short position in the futures contract until the expiration of the option. A put option on a currency gives the Fund the right to sell the currency at an exercise price until the expiration of the option. A call option on a futures contract gives the Fund the right to assume a long position in the futures contract until the expiration of the option. A call option on a currency gives the Fund the right to purchase the currency at the exercise price until the expiration of the option.

When engaging in position hedging, the Fund enters into foreign currency exchange transactions to protect against a decline in the values of the foreign currencies in which its portfolio securities are denominated (or an increase in the values of currency for securities which the Fund expects to purchase, when the Fund holds cash or short-term investments). In connection with position hedging, the Fund may purchase put or call options on foreign currency and on foreign currency futures contracts and buy or sell forward contracts and foreign currency futures contracts. (The Fund may also purchase or sell foreign currency on a spot basis, as discussed in “Foreign Currency Transactions” under “Foreign Investing” in this section of the SAI.)

The precise matching of the amounts of foreign currency exchange transactions and the value of the portfolio securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the dates the currency exchange transactions are entered into and the dates they mature. It is also impossible to forecast with precision the market value of portfolio securities at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary for the Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security or securities being hedged is less than the amount of foreign currency the Fund is obligated to deliver and a decision is made to sell the security or securities and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security or securities if the market value of such security or securities exceeds the amount of foreign currency the Fund is obligated to deliver.

Hedging techniques do not eliminate fluctuations in the underlying prices of the securities which the Fund owns or intends to purchase or sell. They simply establish a rate of exchange which one can achieve at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they also tend to limit any potential gain which might result from the increase in value of such currency.

The Fund may seek to increase its return or to offset some of the costs of hedging against fluctuations in currency exchange rates by writing covered put options and covered call options on foreign currencies. In that case, the Fund receives a premium from writing a put or call option, which increases the Fund’s current return if the option expires unexercised or is closed out at a net profit. The Fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction in which it purchases an option having the same terms as the option written.

The Fund’s currency hedging transactions may call for the delivery of one foreign currency in exchange for another foreign currency and may at times not involve currencies in which its portfolio securities are then denominated. The Fund’s subadviser will engage in such “cross hedging” activities when it believes that such transactions provide significant hedging opportunities for the Fund. Cross hedging transactions by the Fund involve the risk of imperfect correlation between changes in the values of the currencies to which such transactions relate and changes in the value of the currency or other asset or liability which is the subject of the hedge.

Foreign currency forward contracts, futures and options may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States; may not involve a clearing mechanism and related guarantees; and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the Fund’s ability to act upon economic events occurring in foreign markets during non- business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States, and (v) lesser trading volume.

The types of derivative foreign currency exchange transactions most commonly employed by the Fund are discussed below, although the Fund is also permitted to engage in other similar transactions to the extent consistent with the Fund's investment limitations and restrictions.

#### *Foreign Currency Forward Contracts*

A foreign currency forward contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days ("term") from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded directly between currency traders (usually large commercial banks) and their customers.

#### *Foreign Currency Futures Transactions*

The Fund may use foreign currency futures contracts and options on such futures contracts. Through the purchase or sale of such contracts, the Fund may be able to achieve many of the same objectives attainable through the use of foreign currency forward contracts, but more effectively and possibly at a lower cost.

Unlike forward foreign currency exchange contracts, foreign currency futures contracts and options on foreign currency futures contracts are standardized as to amount and delivery period and are traded on boards of trade and commodities exchanges. It is anticipated that such contracts may provide greater liquidity and lower cost than forward foreign currency exchange contracts.

Purchasers and sellers of foreign currency futures contracts are subject to the same risks that apply to the buying and selling of futures generally. In addition, there are risks associated with foreign currency futures contracts similar to those associated with options on foreign currencies. (See "Foreign Currency Options" and "Futures Contracts and Options on Futures Contracts", each in this sub-section of the SAI.) The Fund must accept or make delivery of the underlying foreign currency, through banking arrangements, in accordance with any U.S. or foreign restrictions or regulations regarding the maintenance of foreign banking arrangements by U.S. residents and may be required to pay any fees, taxes or charges associated with such delivery which are assessed in the issuing country.

Futures contracts are designed by boards of trade which are designated "contracts markets" by the CFTC. Futures contracts trade on contracts markets in a manner that is similar to the way a stock trades on a stock exchange and the boards of trade, through their clearing corporations, guarantee performance of the contracts. As of the date of this SAI, the Fund may invest in futures contracts under specified conditions without being regulated as commodity pools. However, under CFTC rules the Fund's ability to maintain the exclusions/exemptions from the definition of commodity pool may be limited. (See "Commodity Interests" in this section of the SAI.)

#### *Foreign Currency Options*

A foreign currency option provides the option buyer with the right to buy or sell a stated amount of foreign currency at the exercise price at a specified date or during the option period. A call option gives its owner the right, but not the obligation, to buy the currency, while a put option gives its owner the right, but not the obligation, to sell the currency. The option seller (writer) is obligated to fulfill the terms of the option sold if it is exercised. However, either seller or buyer may close its position during the option period for such options any time prior to expiration.

A call rises in value if the underlying currency appreciates. Conversely, a put rises in value if the underlying currency depreciates. While purchasing a foreign currency option can protect the Fund against an adverse movement in the value of a foreign currency, it does not limit the gain which might result from a favorable movement in the value of such currency. For example, if the Fund were holding securities denominated in an appreciating foreign currency and had purchased a foreign currency put to hedge against a decline in the value of the currency, it would not have to exercise its put. Similarly, if the Fund had entered into a contract to purchase a security denominated in a foreign currency and had purchased a foreign currency call to hedge against a rise in the value of the currency but instead the currency had depreciated in value between the date of purchase and the settlement date, the Fund would not have to exercise its call but could acquire in the spot market the amount of foreign currency needed for settlement.

The value of a foreign currency option depends upon the value of the underlying currency relative to the other referenced currency. As a result, the price of the option position may vary with changes in the value of either or both currencies and have no relationship to the investment merits of a foreign security, including foreign securities held in a “hedged” investment portfolio. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, the Fund may be disadvantaged by having to deal in an odd lot market (generally consisting of transactions of less than \$1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

As in the case of other kinds of options, the use of foreign currency options constitutes only a partial hedge, and the Fund could be required to purchase or sell foreign currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on a foreign currency may not necessarily constitute an effective hedge against fluctuations in exchange rates and, in the event of rate movements adverse to the Fund’s position, the Fund may forfeit the entire amount of the premium plus related transaction costs.

Options on foreign currencies written or purchased by the Fund may be traded on U.S. or foreign exchanges or over the counter. There is no systematic reporting of last sale information for foreign currencies traded over the counter or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Quotation information available is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (i.e., less than \$1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the options markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that are not reflected in the options market.

For additional information about options transactions, see “Options” under “Derivative Investments” in this section of the SAI.

#### *Foreign Currency Warrants*

Foreign currency warrants such as currency exchange warrants are warrants that entitle the holder to receive from the issuer an amount of cash (generally, for warrants issued in the United States, in U.S. dollars) that is calculated pursuant to a predetermined formula and based on the exchange rate between two specified currencies as of the exercise date of the warrant. Foreign currency warrants generally are exercisable upon their issuance and expire as of a specified date and time.

Foreign currency warrants may be used to reduce the currency exchange risk assumed by purchasers of a security by, for example, providing for a supplemental payment in the event the U.S. dollar depreciates against the value of a major foreign currency such as the Japanese Yen or Euro. The formula used to determine the amount payable upon exercise of a foreign currency warrant may make the warrant worthless unless the applicable foreign currency exchange rate moves in a particular direction (e.g., unless the U.S. dollar appreciates or depreciates against the particular foreign currency to which the warrant is linked or indexed).

Foreign currency warrants are severable from the debt obligations with which they may be offered, and may be listed on exchanges. Foreign currency warrants may be exercisable only in certain minimum amounts, and an investor wishing to exercise warrants who possesses less than the minimum number required for exercise may be required either to sell the warrants or to purchase additional warrants, thereby incurring additional transaction costs. Upon exercise of warrants, there may be a delay between the time the holder gives instructions to exercise and the time the exchange rate relating to exercise is determined, thereby affecting both the market and cash settlement values of the warrants being exercised. The expiration date of the warrants may be accelerated if the warrants should be delisted from an exchange or if their trading should be suspended permanently, which would result in the loss of any remaining “time value” of the warrants (i.e., the difference between the current market value and the exercise value of the warrants), and, if the warrants were “out-of-the-money,” in a total loss of the purchase price of the warrants.

Warrants are generally unsecured obligations of their issuers and are not standardized foreign currency options issued by the OCC. Unlike foreign currency options issued by OCC, the terms of foreign exchange

warrants generally will not be amended in the event of governmental or regulatory actions affecting exchange rates or in the event of the imposition of other regulatory controls affecting the international currency markets. The initial public offering price of foreign currency warrants could be considerably in excess of the price that a commercial user of foreign currencies might pay in the interbank market for a comparable option involving larger amounts of foreign currencies. Foreign currency warrants are subject to significant foreign exchange risk, including risks arising from complex political or economic factors.

#### *Performance Indexed Paper*

Performance indexed paper is commercial paper the yield of which is linked to certain currency exchange rate movements. The yield to the investor on performance indexed paper is established at maturity as a function of spot exchange rates between the designated currencies as of or about the time (generally, the index maturity two days prior to maturity). The yield to the investor will be within a range stipulated at the time of purchase of the obligation, generally with a guaranteed minimum rate of return that is below, and a potential maximum rate of return that is above, market yields on commercial paper, with both the minimum and maximum rates of return on the investment corresponding to the minimum and maximum values of the spot exchange rate two business days prior to maturity.

#### *Principal Exchange Rate Linked Securities (“PERLS”)*

PERLS are debt obligations the principal on which is payable at maturity in an amount that may vary based on the exchange rate between the particular currencies at or about that time. The return on “standard” principal exchange rate linked securities is enhanced if the currency to which the security is linked appreciates against the base currency, and is adversely affected by increases in the exchange value of the base currency. “Reverse” PERLS are like the “standard” securities, except that their return is enhanced by increases in the value of the base currency and adversely impacted by increases in the value of other currency. Interest payments on the securities are generally made at rates that reflect the degree of currency risk assumed or given up by the purchaser of the notes (i.e., at relatively higher interest rates if the purchaser has assumed some of the currency exchange risk, or relatively lower interest rates if the issuer has assumed some of the currency exchange risk, based on the expectations of the current market). PERLS may in limited cases be subject to acceleration of maturity (generally, not without the consent of the holders of the securities), which may have an adverse impact on the value of the principal payment to be made at maturity.

#### *Future Contracts and Options on Futures Contracts*

The Fund may use interest rate, foreign currency, dividend, volatility or index futures contracts. An interest rate, foreign currency, dividend, volatility or index futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument, foreign currency, dividend basket or the cash value of an index at a specified price and time. A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of an index might be a function of the value of certain specified securities, no physical delivery of these securities is made. A public market exists in futures contracts covering several indexes as well as a number of financial instruments and foreign currencies, and it is expected that other futures contracts will be developed and traded in the future. Interest rate and volatility futures contracts currently are traded in the United States primarily on the floors of the Chicago Board of Trade and the International Monetary Market of the Chicago Mercantile Exchange. Interest rate futures also are traded on foreign exchanges such as the London International Financial Futures Exchange and the Singapore International Monetary Exchange. Volatility futures also are traded on foreign exchanges such as Eurex. Dividend futures are also traded on foreign exchanges such as Eurex, NYSE Euronext Liffe, London Stock Exchange and the Singapore International Monetary Exchange.

The Fund may purchase and write call and put options on futures. Futures options possess many of the same characteristics as options on securities and indexes discussed above. A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of option. Upon exercise of a

call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true.

Except as otherwise described in this SAI, the Fund will limit their use of futures contracts and futures options to hedging transactions and in an attempt to increase total return, in accordance with Federal regulations. The costs of, and possible losses incurred from, futures contracts and options thereon may reduce the Fund's current income and involve a loss of principal. Any incremental return earned by the Fund resulting from these transactions would be expected to offset anticipated losses or a portion thereof.

The Fund will only enter into futures contracts and futures options which are standardized and traded on a U.S. or foreign exchange, board of trade, or similar entity, or quoted on an automated quotation system.

When a purchase or sale of a futures contract is made by the Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of cash or U.S. Government securities ("initial margin"). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract which is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. The Fund expect to earn interest income on their initial margin deposits. A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by the Fund but is instead a settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing daily NAV, the Fund will mark to market its open futures positions.

The Fund are also required to deposit and maintain margin with respect to put and call options on futures contracts written by them. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the Fund.

Futures contracts are designed by boards of trade which are designated "contracts markets" by the CFTC. Futures contracts trade on contracts markets in a manner that is similar to the way a stock trades on a stock exchange and the boards of trade, through their clearing corporations, guarantee performance of the contracts. The Fund's ability to claim an exclusion or exemption from the definition of a commodity pool may be limited when the Fund invests in futures contracts. (See "Commodity Interests" in this SAI.)

The requirements of the Code for qualification as a regulated investment company also may limit the extent to which the Fund may enter into futures, futures options or forward contracts.

Although some futures contracts call for making or taking delivery of the underlying securities, generally these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). If an offsetting purchase price is less than the original sale price, the Fund realizes a capital gain, or if it is more, the Fund realizes a capital loss. Conversely, if an offsetting sales price is more than the original purchase price, the Fund realizes a capital gain, or if it is less, the Fund realizes a capital loss. The transaction costs must also be included in these calculations.

Positions in futures contracts and related options may be closed out only on an exchange which provides a secondary market for such contracts or options. The Fund will enter into an option or futures position only if there appears to be a liquid secondary market. However, there can be no assurance that a liquid secondary market will exist for any particular option or futures contract at any specific time. Thus, it may not be possible to close out a futures or related option position. In the case of a futures position, in the event of adverse price movements the Fund would continue to be required to make daily margin payments. In this situation, if the Fund has insufficient cash to meet daily margin requirements it may have to sell portfolio securities to meet its margin obligations at a time when it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the securities underlying the futures contracts it holds. The inability to close out futures positions also could have an adverse impact on the Fund's ability to hedge its portfolio effectively.

There are several risks in connection with the use of futures contracts as a hedging device. While hedging can provide protection against an adverse movement in market prices, it can also limit a hedger's opportunity to benefit fully from a favorable market movement. In addition, investing in futures contracts and options on futures contracts will cause the Fund to incur additional brokerage commissions and may cause an increase in the Fund's portfolio turnover rate.

The successful use of futures contracts and related options may also depend on the ability of the Fund's subadviser to forecast correctly the direction and extent of market movements, interest rates and other market factors within a given time frame. To the extent market prices remain stable during the period a futures contract or option is held by the Fund or such prices move in a direction opposite to that anticipated, the Fund may realize a loss on the transaction which is not offset by an increase in the value of its portfolio securities. Options and futures may also fail as a hedging technique in cases where the movements of the securities underlying the options and futures do not follow the price movements of the hedged portfolio securities. As a result, the Fund's total return for the period may be less than if it had not engaged in the hedging transaction. The loss from investing in futures transactions is potentially unlimited.

Utilization of futures contracts by the Fund involves the risk of imperfect correlation in movements in the price of futures contracts and movements in the price of the securities which are being hedged. If the price of the futures contract moves more or less than the price of the securities being hedged, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the securities. It is possible that, where the Fund has sold futures contracts to hedge its portfolio against a decline in the market, the market may advance and the value of securities held in the Fund's portfolio may decline. If this occurred, the Fund would lose money on the futures contract and would also experience a decline in value in its portfolio securities. Where futures are purchased to hedge against a possible increase in the prices of securities before the Fund is able to invest its cash (or cash equivalents) in securities (or options) in an orderly fashion, it is possible that the market may decline; if the Fund then determines not to invest in securities (or options) at that time because of concern as to possible further market decline or for other reasons, the Fund will realize a loss on the futures that would not be offset by a reduction in the price of the securities purchased.

The market prices of futures contracts may be affected if participants in the futures market elect to close out their contracts through off- setting transactions rather than to meet margin deposit requirements. In such case, distortions in the normal relationship between the cash and futures markets could result. Price distortions could also result if investors in futures contracts opt to make or take delivery of the underlying securities rather than to engage in closing transactions because such action would reduce the liquidity of the futures market. In addition, from the point of view of speculators, because the deposit requirements in the futures markets are less onerous than margin requirements in the cash market, increased participation by speculators in the futures market could cause temporary price distortions. Due to the possibility of price distortions in the futures market and because of the imperfect correlation between movements in the prices of securities and movements in the prices of futures contracts, a correct forecast of market trends may still not result in a successful hedging transaction.

Compared to the purchase or sale of futures contracts, the purchase of put or call options on futures contracts involves less potential risk for the Fund because the maximum amount at risk is the premium paid for the options plus transaction costs. However, there may be circumstances when the purchase of an option on a futures contract would result in a loss to the Fund while the purchase or sale of the futures contract would not have resulted in a loss, such as when there is no movement in the price of the underlying securities.

For additional information about options transactions, see "Options" under "Derivative Investments" in this section of the SAI.

### ***Mortgage-Related and Other Asset- Backed Securities***

The Fund may purchase mortgage-related and other asset-backed securities, which collectively are securities backed by mortgages, installment contracts, credit card receivables or other financial assets. Asset-backed securities represent interests in "pools" of assets in which payments of both interest and principal on the securities are made periodically, thus in effect "passing through" such payments made by

the individual borrowers on the assets that underlie the securities, net of any fees paid to the issuer or guarantor of the securities. The average life of asset-backed securities varies with the maturities of the underlying instruments, and the average life of a mortgage-backed instrument, in particular, is likely to be less than the original maturity of the mortgage pools underlying the securities as a result of mortgage prepayments, where applicable. For this and other reasons, an asset-backed security's stated maturity may be different, and the security's total return may be difficult to predict precisely.

If an asset-backed security is purchased at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Conversely, if an asset-backed security is purchased at a discount, faster than expected prepayments will increase yield to maturity, while slower than expected prepayments will decrease yield to maturity.

Prepayments of principal of mortgage-related securities by mortgagors or mortgage foreclosures affect the average life of the mortgage-related securities in the Fund's portfolio. Mortgage prepayments are affected by the level of interest rates and other factors, including general economic conditions and the underlying location and age of the mortgage. In periods of rising interest rates, the prepayment rate tends to decrease, lengthening the average life of a pool of mortgage-related securities. The longer the remaining maturity of a security the greater the effect of interest rate changes will be. Changes in the ability of an issuer to make payments of interest and principal and in the market's perception of its creditworthiness also affect the market value of that issuer's debt securities.

In periods of falling interest rates, the prepayment rate tends to increase, shortening the average life of a pool. Because prepayments of principal generally occur when interest rates are declining, it is likely that the Fund, to the extent that it retains the same percentage of debt securities, may have to reinvest the proceeds of prepayments at lower interest rates than those of its previous investments. If this occurs, that Fund's yield will correspondingly decline. Thus, mortgage-related securities may have less potential for capital appreciation in periods of falling interest rates than other fixed income securities of comparable duration, although they may have a comparable risk of decline in market value in periods of rising interest rates. To the extent that the Fund purchases mortgage-related securities at a premium, unscheduled prepayments, which are made at par, result in a loss equal to any unamortized premium.

Duration is one of the fundamental tools used by the Fund's subadviser in managing interest rate risks including prepayment risks. Traditionally, a debt security's "term to maturity" characterizes a security's sensitivity to changes in interest rates. "Term to maturity," however, measures only the time until a debt security provides its final payment, taking no account of prematurity payments. Most debt securities provide interest ("coupon") payments in addition to a final ("par") payment at maturity, and some securities have call provisions allowing the issuer to repay the instrument in full before maturity date, each of which affect the security's response to interest rate changes. "Duration" therefore is generally considered a more precise measure of interest rate risk than "term to maturity." Determining duration may involve a subadviser's estimates of future economic parameters, which may vary from actual future values. Generally fixed income securities with longer effective durations are more responsive to interest rate fluctuations than those with shorter effective durations. For example, if interest rates rise by 1%, the value of securities having an effective duration of three years will generally decrease by approximately 3%.

Descriptions of some of the different types of mortgage-related and other asset-backed securities most commonly acquired by the Fund are provided below. In addition to those shown, other types of mortgage-related and asset-backed investments are, or may become, available for investment by the Fund.

#### *Collateralized Mortgage Obligations ("CMOs")*

CMOs are hybrid instruments with characteristics of both mortgage-backed and mortgage pass-through securities. Interest and prepaid principal on a CMO are paid, in most cases, monthly. CMOs may be collateralized by whole mortgage loans but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by entities such as GNMA, FHLMC, or FNMA, and their income streams.

CMOs are typically structured in multiple classes, each bearing a different stated maturity. Actual maturity and average life will depend upon the prepayment experience of the collateral. CMOs provide for a

modified form of call protection through a de facto breakdown of the underlying pool of mortgages according to how quickly the loans are repaid. Monthly payment of principal received from the pool of underlying mortgages, including prepayments, is first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes typically receive principal only after the first class has been retired. An investor may be partially guarded against a sooner than desired return of principal because of the sequential payments.

FHLMC CMOs are debt obligations of FHLMC issued in multiple classes having different maturity dates and are secured by the pledge of a pool of conventional mortgage loans purchased by FHLMC. The amount of principal payable on each monthly payment date is determined in accordance with FHLMC's mandatory sinking fund schedule. Sinking fund payments in the CMOs are allocated to the retirement of the individual classes of bonds in the order of their stated maturities. Payments of principal on the mortgage loans in the collateral pool in excess of the amount of FHLMC's minimum sinking fund obligation for any payment date are paid to the holders of the CMOs as additional sinking-fund payments. Because of the "pass-through" nature of all principal payments received on the collateral pool in excess of FHLMC's minimum sinking fund requirement, the rate at which principal of the CMOs is actually repaid is likely to be such that each class of bonds will be retired in advance of its scheduled maturity date. If collection of principal (including prepayments) on the mortgage loans during any semiannual payment period is not sufficient to meet FHLMC's minimum sinking fund obligation on the next sinking fund payment date, FHLMC agrees to make up the deficiency from its general funds.

#### *CMO Residuals*

CMO residuals are derivative mortgage securities issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans. As described above, the cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses of the issuer. The "residual" in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Each payment of such excess cash flow to a holder of the related CMO residual represents income and/or a return of capital. The amount of residual cash flow resulting from a CMO will depend on, among other things, the characteristics of the mortgage assets, the coupon rate of each class of CMO, prevailing interest rates, the amount of administrative expenses and, in particular, the prepayment experience on the mortgage assets. In addition, if a series of a CMO includes a class that bears interest at an adjustable rate, the yield to maturity on the related CMO residual will also be extremely sensitive to changes in the level of the index upon which interest rate adjustments are based. In certain circumstances the Fund may fail to recoup fully its initial investment in a CMO residual.

CMO residuals are generally purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. The CMO residual market currently may not have the liquidity of other more established securities trading in other markets. CMO residuals may be subject to certain restrictions on transferability, may be deemed illiquid.

#### *Mortgage Pass-through Securities*

Mortgage pass-through securities are interests in pools of mortgage loans, assembled and issued by various governmental, government-related, and private organizations. Unlike other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates, these securities provide a monthly payment consisting of both interest and principal payments. In effect, these payments are a "pass-through" of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs. "Modified pass-through" securities (such as securities issued by GNMA) entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The principal governmental guarantor of U.S. mortgage-related securities is GNMA. GNMA is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment

of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of Federal Housing Administration insured or Veterans Administration guaranteed mortgages. Government-related guarantors whose obligations are not backed by the full faith and credit of the United States Government include FNMA and FHLMC. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. FHLMC issues Participation Certificates that represent interests in conventional mortgages from FHLMC's national portfolio. FNMA and FHLMC guarantee the timely payment of interest and ultimate collection of principal on securities they issue, but the securities they issue are neither issued nor guaranteed by the United States Government.

Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators and/ or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments for such securities. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit. The insurance and guarantees are issued by governmental entities, private insurers and the mortgage poolers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets the Fund's investment quality standards. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. The Fund may buy mortgage-related securities without insurance or guarantees if, through an examination of the loan experience and practices of the originator/servicers and poolers, the Fund's subadviser determines that the securities meet the Fund's quality standards. Securities issued by certain private organizations may not be readily marketable.

Mortgage-backed securities that are issued or guaranteed by the U.S. Government, its agencies or instrumentalities, are not subject to the Fund's industry concentration restrictions set forth in the "Investment Restrictions" section of this SAI by virtue of the exclusion from the test available to all U.S. Government securities. The assets underlying such securities may be represented by a portfolio of first lien residential mortgages (including both whole mortgage loans and mortgage participation interests) or portfolios of mortgage pass-through securities issued or guaranteed by GNMA, FNMA or FHLMC. Mortgage loans underlying a mortgage-related security may in turn be insured or guaranteed by the Federal Housing Administration or the Department of Veterans Affairs.

The Fund will consider the assets underlying privately-issued, mortgage-related securities, and other asset-backed securities, when determining the industry of such securities for purposes of the Fund's industry concentration restrictions set forth in the "Investment Restrictions" section of this SAI, and as a result such securities may not be deemed by the Fund to represent the same industry or group of industries. In the case of private issue mortgage-related securities whose underlying assets are neither U.S. Government securities nor U.S. Government-insured mortgages, to the extent that real properties securing such assets may be located in the same geographical region, the security may be subject to a greater risk of default than other comparable securities in the event of adverse economic, political or business developments that may affect such region and, ultimately, the ability of residential homeowners to make payments of principal and interest on the underlying mortgages.

It is possible that the availability and the marketability (that is, liquidity) of the securities discussed in this section could be adversely affected by the actions of the U.S. Government to tighten the availability of its credit. On September 7, 2008, the FHFA, an agency of the U.S. Government, placed FNMA and FHLMC into conservatorship, a statutory process with the objective of returning the entities to normal business operations. FHFA will act as the conservator to operate FNMA and FHLMC until they are stabilized. The conservatorship is still in effect as of the date of this SAI and has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated or whether FNMA or FHLMC will continue to exist following the conservatorship or what their respective business structures will be

during or following the conservatorship. FHFA, as conservator, has the power to repudiate any contract entered into by FNMA or FHLMC prior to its appointment if it determines that performance of the contract is burdensome and repudiation of the contract promotes the orderly administration of FNMA's or FHLMC's affairs. Furthermore, FHFA has the right to transfer or sell any asset or liability of FNMA or FHLMC without any approval, assignment or consent. If FHFA were to transfer any such guarantee obligation to another party, holders of FNMA or FHLMC mortgage-backed securities would have to rely on that party for satisfaction of the guarantee obligation and would be exposed to the credit risk of that party.

#### *Other Asset-Backed Securities*

Through trusts and other special purpose entities, various types of securities based on financial assets other than mortgage loans are increasingly available, in both pass-through structures similar to mortgage pass-through securities described above and in other structures more like CMOs. As with mortgage-related securities, these asset-backed securities are often backed by a pool of financial assets representing the obligations of a number of different parties. They often include credit-enhancement features similar to mortgage-related securities.

Financial assets on which these securities are based include automobile receivables; credit card receivables; loans to finance boats, recreational vehicles, and mobile homes; computer, copier, railcar, and medical equipment leases; and trade, healthcare, and franchise receivables. In general, the obligations supporting these asset-backed securities are of shorter maturities than mortgage loans and are less likely to experience substantial prepayments. However, obligations such as credit card receivables are generally unsecured and the obligors are often entitled to protection under a number of consumer credit laws granting, among other things, rights to set off certain amounts owed on the credit cards, thus reducing the balance due. Other obligations that are secured, such as automobile receivables, may present issuers with difficulties in perfecting and executing on the security interests, particularly where the issuer allows the servicers of the receivables to retain possession of the underlying obligations, thus increasing the risk that recoveries on defaulted obligations may not be adequate to support payments on the securities.

#### *Stripped Mortgage-backed Securities ("SMBS")*

SMBS are derivative multi-class mortgage securities. They may be issued by agencies or instrumentalities of the U.S. Government, or by private originators of, or investors in, mortgage loans. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive all of the principal (the principal-only or "PO" class). The yield to maturity on an IO class security is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on the Fund's yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Fund may fail to recoup fully its initial investment in these securities even if the security is in one of the highest rating categories. The market value of the PO class generally is unusually volatile in response to changes in interest rates.

Although SMBS are purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers, these securities were only recently developed. As a result, established trading markets have not yet developed and, accordingly, these securities may be deemed illiquid.

The Fund may invest in other mortgage-related securities with features similar to those described above, to the extent consistent with the Fund's investment objectives and policies.

#### *Options*

The Fund may purchase or sell put and call options on securities, indices and other financial instruments. Options may relate to particular securities, foreign and domestic securities indices, financial instruments, volatility, credit default, foreign currencies or the yield differential between two securities. Such options may or may not be listed on a domestic or foreign securities exchange and may or may not be issued by the OCC.

A call option for a particular security gives the purchaser of the option the right to buy, and a writer the obligation to sell, the underlying security at the stated exercise price before the expiration of the option, regardless of the market price of the security. A premium is paid to the writer by the purchaser in consideration for undertaking the obligation under the option contract. A put option for a particular security gives the purchaser the right to sell and a writer the obligation to buy the security at the stated exercise price before the expiration date of the option, regardless of the market price of the security.

If the only derivatives in which the Fund invests are covered options, options written by the Fund will be covered and will remain covered as long as the Fund is obligated as a writer. A call option is “covered” if the Fund owns the underlying security or its equivalent covered by the call or has an absolute and immediate right to acquire that security without additional cash consideration (or for additional cash consideration if such cash is segregated) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Fund holds on a share-for-share or equal principal amount basis a call on the same security as the call written where the exercise price of the call held is equal to or less than the exercise price of the call written or greater than the exercise price of the call written if appropriate liquid assets representing the difference are segregated by the Fund. A put option is “covered” if the Fund maintains appropriate liquid securities with a value equal to the exercise price, or owns on a share-for-share or equal principal amount basis a put on the same security as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written.

The Fund’s obligation to sell an instrument subject to a covered call option written by it, or to purchase an instrument subject to a secured put option written by it, may be terminated before the expiration of the option by the Fund’s execution of a closing purchase transaction. This means that the Fund buys an option of the same series (i.e., same underlying instrument, exercise price and expiration date) as the option previously written. Such a purchase does not result in the ownership of an option. A closing purchase transaction will ordinarily be effected to realize a profit on an outstanding option, to prevent an underlying instrument from being called, to permit the sale of the underlying instrument or to permit the writing of a new option containing different terms on such underlying instrument. The cost of such a closing purchase plus related transaction costs may be greater than the premium received upon the original option, in which event the Fund will experience a loss. There is no assurance that a liquid secondary market will exist for any particular option. If the Fund that has written an option and is unable to effect a closing purchase transaction it will not be able to sell the underlying instrument (in the case of a covered call option) or liquidate the segregated assets (in the case of a secured put option) until the option expires or the optioned instrument is delivered upon exercise. The Fund will be subject to the risk of market decline or appreciation in the instrument during such period.

Options purchased are recorded as an asset and written options are recorded as liabilities to the extent of premiums paid or received. The amount of this asset or liability will be subsequently marked-to-market to reflect the current value of the option purchased or written. The current value of the traded option is the last sale price or, in the absence of a sale, the current bid price. If an option purchased by the Fund expires unexercised, the Fund will realize a loss equal to the premium paid. If the Fund enters into a closing sale transaction on an option purchased by it, the Fund will realize a gain if the premium received by the Fund on the closing transaction is more than the premium paid to purchase the option, or a loss if it is less. If an option written by the Fund expires on the stipulated expiration date or if the Fund enters into a closing purchase transaction, it will realize a gain (or loss if the cost of a closing purchase transaction exceeds the net premium received when the option is sold), and the liability related to such option will be eliminated. If an option written by the Fund is exercised, the proceeds of the sale will be increased by the net premium originally received and the Fund will realize a gain or loss.

Options trading is a highly specialized activity that entails more complex and potentially greater than ordinary investment risk. Options may be more volatile than the underlying instruments and, therefore, on a percentage basis, an investment in options may be subject to greater fluctuation than an investment in the underlying instruments themselves.

There are several other risks associated with options. For example, there are significant differences among the securities, currency, volatility, credit default and options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives. In addition, a liquid secondary market for particular options, whether traded over-the-counter or on an exchange, may be

absent for reasons that include the following: there may be insufficient trading interest in certain options; restrictions may be imposed by an exchange on opening transactions or closing transactions or both; trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities or currencies; unusual or unforeseen circumstances may interrupt normal operations on an exchange; the facilities of an exchange or the OCC may not at all times be adequate to handle current trading value; or one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

#### *Options on Indexes and “Yield Curve” Options*

The Fund may enter into options on indexes or options on the “spread,” or yield differential, between two fixed income securities, in transactions referred to as “yield curve” options. Options on indexes and yield curve options provide the holder with the right to make or receive a cash settlement upon exercise of the option. With respect to options on indexes, the amount of the settlement will equal the difference between the closing price of the index at the time of exercise and the exercise price of the option expressed in dollars, times a specified multiple. With respect to yield curve options, the amount of the settlement will equal the difference between the yields of designated securities.

With respect to yield curve options, a call or put option is covered if the Fund holds another call or put, respectively, on the spread between the same two securities and maintains in a segregated account liquid assets sufficient to cover the Fund’s net liability under the two options. Therefore, the Fund’s liability for such a covered option is generally limited to the difference between the amount of the Fund’s liability under the option it wrote less the value of the option it holds. The Fund may also cover yield curve options in such other manner as may be in accordance with the requirements of the counterparty with which the option is traded and applicable laws and regulations.

The trading of these types of options is subject to all of the risks associated with the trading of other types of options. In addition, however, yield curve options present risk of loss even if the yield of one of the underlying securities remains constant, if the spread moves in a direction or to an extent which was not anticipated.

#### *Reset Options*

In certain instances, the Fund may purchase or write options on U.S. Treasury securities, which provide for periodic adjustment of the strike price and may also provide for the periodic adjustment of the premium during the term of each such option. Like other types of options, these transactions, which may be referred to as “reset” options or “adjustable strike” options grant the purchaser the right to purchase (in the case of a call) or sell (in the case of a put), a specified type of U.S. Treasury security at any time up to a stated expiration date (or, in certain instances, on such date). In contrast to other types of options, however, the price at which the underlying security may be purchased or sold under a “reset” option is determined at various intervals during the term of the option, and such price fluctuates from interval to interval based on changes in the market value of the underlying security. As a result, the strike price of a “reset” option, at the time of exercise, may be less advantageous than if the strike price had been fixed at the initiation of the option. In addition, the premium paid for the purchase of the option may be determined at the termination, rather than the initiation, of the option. If the premium for a reset option written by the Fund is paid at termination, the Fund assumes the risk that (i) the premium may be less than the premium which would otherwise have been received at the initiation of the option because of such factors as the volatility in yield of the underlying Treasury security over the term of the option and adjustments made to the strike price of the option, and (ii) the option purchaser may default on its obligation to pay the premium at the termination of the option. Conversely, where the Fund purchases a reset option, it could be required to pay a higher premium than would have been the case at the initiation of the option.

#### *Swaptions*

The Fund may enter into swaption contracts, which give the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date. Over-the-counter

swaptions, although providing greater flexibility, may involve greater credit risk than exchange-traded options as they are not backed by the clearing organization of the exchanges where they are traded, and as such, there is a risk that the seller will not settle as agreed. The Fund's financial liability associated with swaptions is linked to the marked-to-market value of the notional underlying investments. Purchased swaption contracts are exposed to a maximum loss equal to the price paid for the option/swaption (the premium) and no further liability. Written swaptions, however, give the right of potential exercise to a third party, and the maximum loss to the Fund in the case of an uncovered swaption is unlimited.

### *Swap Agreements*

The Fund may enter into swap agreements on, among other things, interest rates, indices, securities and currency exchange rates. The Fund's subadviser may use swaps in an attempt to obtain for the Fund a particular desired return at a lower cost to the Fund than if the Fund had invested directly in an instrument that yielded that desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods typically ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The "notional amount" of the swap agreement is only a fictive basis on which to calculate the obligations the parties to a swap agreement have agreed to exchange. The Fund's obligations (or rights) under a swap agreement will generally be equal only to the amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount").

Because swap agreements are two-party contracts and may have terms of greater than seven days, they may be considered to be illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Fund's subadviser will cause the Fund to enter into swap agreements only with counterparties that would be eligible for consideration as repurchase agreement counterparties under the Fund's repurchase agreement guidelines. (See "Repurchase Agreements" in this section of the SAI.) Certain restrictions imposed on the Fund by the Code may limit the Fund's ability to use swap agreements. The swaps market is a relatively new market and is largely unregulated. It is possible that developments in the swaps market, including potential government regulation, could adversely affect the Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements.

Certain swap agreements are exempt from most provisions of the CEA and, therefore, are not regulated as futures or commodity option transactions under the CEA, pursuant to regulations of the CFTC. To qualify for this exemption, a swap agreement must be entered into by eligible participants and must meet certain conditions (each pursuant to the CEA and regulations of the CFTC). However, CFTC rule amendments dictate that certain swap agreements be considered commodity interests for purposes of the CEA. (See "Commodity Interests" in this section of the SAI for additional information regarding the implications of investments being considered commodity interests under the CEA.)

The SEC and the CFTC have developed rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act to create a comprehensive regulatory framework for swap transactions. Under the regulations, certain swap transactions will be required to be executed on a regulated trading platform and cleared through a derivatives clearing organization. Additionally, the regulations impose other requirements on the parties entering into swap transactions, including requirements relating to posting margin, and reporting and documenting swap transactions. The Fund engaging in swap transactions may incur additional expenses as a result of these regulatory requirements. The Adviser is continuing to monitor the implementation of these regulations and to assess their impact on the Fund.

### *Credit Default Swap Agreements*

The Fund may enter into credit default swap agreements. A credit default swap is a bilateral financial contract in which one party (the protection buyer) pays a periodic fee in return for a contingent payment by the protection seller following a credit event of a reference issuer. The protection buyer must either sell

particular obligations issued by the reference issuer for its par value (or some other designated reference or strike price) when a credit event occurs or receive a cash settlement based on the difference between the market price and such reference price. A credit event is commonly defined as bankruptcy, insolvency, receivership, material adverse restructuring of debt, or failure to meet payment obligations when due. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no event of default occurs, the Fund loses its investment and recovers nothing; however, if an event of default occurs, the Fund receives full notional value for a reference obligation that may have little or no value. As a seller, the Fund receives a periodic fee throughout the term of the contract, provided there is no default event; if an event of default occurs, the Fund must pay the buyer the full notional value of the reference obligation. The value of the reference obligation received by the Fund as a seller, coupled with the periodic payments previously received, may be less than the full notional value the Fund pays to the buyer, resulting in a loss of value to the Fund.

Credit default swaps involve greater risks than if the Fund had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risks. The Fund will enter into swap agreements only with counterparties deemed creditworthy by the Fund's subadviser.

#### *Dividend Swap Agreements*

A dividend swap agreement is a financial instrument where two parties contract to exchange a set of future cash flows at set dates in the future. One party agrees to pay the other the future dividend flow on a stock or basket of stocks in an index, in return for which the other party gives the first call options. Dividend swaps generally are traded over the counter rather than on an exchange.

#### *Inflation Swap Agreements*

Inflation swap agreements are contracts in which one party agrees to pay the cumulative percentage increase in a price index (e.g., the Consumer Price Index with respect to CPI swaps) over the term of the swap (with some lag on the inflation index), while the other pays a compounded fixed rate. Inflation swap agreements may be used by the Fund to hedge the inflation risk associated with non-inflation indexed investments, thereby creating "synthetic" inflation-indexed investments. One factor that may lead to changes in the values of inflation swap agreements is a change in real interest rates, which are tied to the relationship between nominal interest rates and the rate of inflation. If nominal interest rates increase at a faster rate than inflation, real interest rates may rise, which may lead to a decrease in value of an inflation swap agreement.

#### *Total Return Swap Agreements*

"Total return swap" is the generic name for any non-traditional swap where one party agrees to pay the other the "total return" of a defined underlying asset, usually in return for receiving a stream of cash flows based upon an agreed rate. A total return swap may be applied to any underlying asset but is most commonly used with equity indices, single stocks, bonds and defined portfolios of loans and mortgages. A total return swap is a mechanism for the user to accept the economic benefits of asset ownership without utilizing the balance sheet. The other leg of the swap, which is often LIBOR, is spread to reflect the non-balance sheet nature of the product. Total return swaps can be designed with any underlying asset agreed between the two parties. No notional amounts are exchanged with total return swaps.

#### *Variance and Correlation Swap Agreements*

Variance swap agreements are contracts in which two parties agree to exchange cash payments based on the difference between the stated level of variance and the actual variance realized on an underlying asset or index. "Actual variance" as used here is defined as the sum of the square of the returns on the reference asset or index (which in effect is a measure of its "volatility") over the length of the contract term. In other words, the parties to a variance swap can be said to exchange actual volatility for a contractually stated rate of volatility. Correlation swap agreements are contracts in which two parties agree to exchange cash payments based on the differences between the stated and the actual correlation realized on the underlying equity securities within a given equity index. "Correlation" as used here is defined as the weighted average of the correlations between the daily returns of each pair of securities within a given equity index. If two

assets are said to be closely correlated, it means that their daily returns vary in similar proportions or along similar trajectories. The Fund may enter into variance or correlation swaps in an attempt to hedge equity market risk or adjust exposure to the equity markets.

### **Equity Securities**

The Fund may invest in equity securities. Equity securities include common stocks, preferred stocks and preference stocks; securities such as bonds, warrants or rights that are convertible into stocks; and depositary receipts for those securities.

Common stockholders are the owners of the company issuing the stock and, accordingly, usually have the right to vote on various corporate governance matters such as mergers. They are not creditors of the company, but rather, in the event of liquidation of the company, would be entitled to their pro rata shares of the company's assets after creditors (including fixed income security holders) and, if applicable, preferred stockholders are paid. Preferred stock is a class of stock having a preference over common stock as to dividends or upon liquidation. A preferred stockholder is a shareholder in the company and not a creditor of the company as is a holder of the company's fixed income securities. Dividends paid to common and preferred stockholders are distributions of the earnings or other surplus of the company and not interest payments, which are expenses of the company. Equity securities owned by the Fund may be traded in the over-the-counter market or on a securities exchange and may not be traded every day or in the volume typical of securities traded on a major U.S. national securities exchange. As a result, disposition by the Fund of a portfolio security may require the Fund to sell the security at less than the reported value of the security, to sell during periods when disposition is not desirable, or to make many small sales over a lengthy period of time. The market value of all securities, including equity securities, is based upon the market's perception of value and not necessarily the book value of an issuer or other objective measure of a company's worth.

Stock values may fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions. Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than other types of securities. Smaller or newer issuers may be more likely to realize more substantial growth or suffer more significant losses. Investments in these companies can be both more volatile and more speculative. Fluctuations in the value of equity securities in which the Fund invests will cause the NAV of the Fund to fluctuate.

### **Equipment Trust Certificates**

Equipment trust certificates are debt certificates issued by a company in order to buy mechanical equipment, with the equipment serving as the debt's collateral.

### **Foreign Investing**

The Fund may invest in a broad range of securities of foreign issuers, including equity, debt and convertible securities and foreign government securities. The Fund may purchase the securities of issuers from various countries, including countries commonly referred to as "emerging markets" or "frontier markets." The Fund may also invest in domestic securities denominated in foreign currencies.

Investing in the securities of foreign companies involves special risks and considerations not typically associated with investing in U.S. companies. These include differences in accounting, auditing and financial reporting standards, generally higher commission rates on foreign portfolio transactions, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, political instability which could affect U.S. investments in foreign countries, and potential restrictions on the flow of international capital. Foreign issuers may become subject to sanctions imposed by the United States or another country, which could result in the immediate freeze of the foreign issuers' assets or securities. The imposition of such sanctions could impair the market value of the securities of such foreign issuers and limit the Fund's ability to buy, sell, receive or deliver the securities. Additionally, dividends payable on foreign securities may be subject to foreign taxes withheld prior to distribution. Foreign securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility. Changes in foreign exchange rates will affect the value of those securities which are denominated or quoted in currencies other than the U.S. dollar. Many of the foreign securities held by the Fund will not be

registered with, nor will the issuers thereof be subject to the reporting requirements of, the SEC. Accordingly, there may be less publicly available information about the securities and about the foreign company or government issuing them than is available about a domestic company or government entity. Moreover, individual foreign economies may differ favorably or unfavorably from the United States economy in such respects as growth of Gross National Product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payment positions. Finally, the Fund may encounter difficulty in obtaining and enforcing judgments against issuers of foreign securities.

Securities of U.S. issuers denominated in foreign currencies may be less liquid and their prices more volatile than securities issued by domestic issuers and denominated in U.S. dollars. In addition, investing in securities denominated in foreign currencies often entails costs not associated with investment in U.S. dollar-denominated securities of U.S. issuers, such as the cost of converting foreign currency to U.S. dollars, higher brokerage commissions, custodial expenses and other fees. Non-U.S. dollar denominated securities may be subject to certain withholding and other taxes of the relevant jurisdiction, which may reduce the yield on the securities to the Fund and which may not be recoverable by the Fund or their investors.

The Fund may use an eligible foreign custodian in connection with its purchases of foreign securities and may maintain cash and cash equivalents in the care of a foreign custodian. The amount of cash or cash equivalents maintained in the care of eligible foreign custodians will be limited to an amount reasonably necessary to effect the Fund's foreign securities transactions. The use of a foreign custodian invokes considerations which are not ordinarily associated with domestic custodians. These considerations include the possibility of expropriations, restricted access to books and records of the foreign custodian, inability to recover assets that are lost while under the control of the foreign custodian, and the impact of political, social or diplomatic developments.

Settlement procedures relating to the Fund's investments in foreign securities and to the Fund's foreign currency exchange transactions may be more complex than settlements with respect to investments in debt or equity securities of U.S. issuers, and may involve certain risks not present in the Fund's domestic investments. For example, settlement of transactions involving foreign securities or foreign currency may occur within a foreign country, and the Fund may be required to accept or make delivery of the underlying securities or currency in conformity with any applicable U.S. or foreign restrictions or regulations, and may be required to pay any fees, taxes or charges associated with such delivery. Such investments may also involve the risk that an entity involved in the settlement may not meet its obligations. Settlement procedures in many foreign countries are less established than those in the United States, and some foreign country settlement periods can be significantly longer than those in the United States.

To the extent the Fund that has significant exposure to certain countries, it can be expected to be impacted by the political and economic conditions within such countries. There is continuing uncertainty around the future of the euro and the European Union (EU) following the United Kingdom's vote to exit the EU in June 2016. In March 2017, the United Kingdom invoked a treaty provision that sets out the basics of a withdrawal from the EU and provides that negotiations must be completed within two years, unless all EU member states agree on an extension. The United Kingdom left the EU on January 31, 2020, followed by a transition period during which businesses and others prepared for the new post-Brexit rules that took effect on January 1, 2021. While a limited deal was reached prior to December 31, 2020, many aspects are still to be determined, including those related to financial services. Significant uncertainty remains in the market regarding the ramifications of the withdrawal of the United Kingdom from the European Union, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. Continuing Brexit issues and negotiations may cause greater market volatility and illiquidity, currency fluctuations, deterioration in economic activity, a decrease in business confidence, and increased likelihood of a recession in the United Kingdom. While it is not possible to determine the precise impact these events may have on the Fund, during this period and beyond, the impact on the United Kingdom, EU countries, other countries or parties that transact with the United Kingdom and EU, and the broader global economy could be significant and could adversely affect the value and liquidity of the Fund's investments. In addition, if one or more countries were to exit the EU or abandon the use of the euro as a currency, the value of investments tied to those countries or the euro could decline significantly and unpredictably.

## ***Depository Receipts***

The Fund may hold ADRs, ADSs, GDRs and EDRs. ADRs and ADSs typically are issued by an American bank or trust company and evidence ownership of underlying securities issued by a foreign corporation. EDRs, which are sometimes referred to as CDRs, are issued in Europe typically by foreign banks and trust companies and evidence ownership of either foreign or domestic securities. GDRs are similar to EDRs and are designed for use in several international financial markets. Generally, ADRs and ADSs in registered form are designed for use in United States securities markets and EDRs in bearer form are designed for use in European securities markets. For purposes of the Fund's investment policies, its investments in ADRs, ADSs, GDRs and EDRs will be deemed to be investments in the underlying foreign securities.

Depository Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities traded in the form of Depository Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depository Receipts. For purposes of the Fund's investment policies, investments in Depository Receipts will be deemed to be investments in the underlying securities. Thus, a Depository Receipt representing ownership of common stock will be treated as common stock.

Depository Receipts are generally subject to the same sort of risks as direct investments in a foreign country, such as currency risk, political and economic risk, and market risk, because their values generally depend on the performance of a foreign security denominated in its home currency. (The risks of foreign investing are addressed above in this section of the SAI under the heading "Foreign Investing.") In addition to risks associated with the underlying portfolio of securities, receipt holders also must consider credit standings of the custodians and broker/dealer sponsors. The receipts are not registered with the SEC and qualify as Rule 144A securities which may make them more difficult and costly to sell. (For information about Rule 144A securities, see "Restricted Securities and Securities with Limited Trading Markets (Rule 144A)" in this section of the SAI.)

## ***Emerging Market Securities***

The Fund may invest in countries or regions with relatively low gross national product per capita compared to the world's major economies, and in countries or regions with the potential for rapid economic growth (emerging markets). Emerging markets will include any country: (i) having an "emerging stock market" as defined by the International Finance Corporation; (ii) with low-to-middle-income economies according to the World Bank; (iii) listed in World Bank publications as developing; or (iv) determined by the subadviser to be an emerging market as defined above.

Certain emerging market countries are either comparatively underdeveloped or are in the process of becoming developed and may consequently be economically dependent on a relatively few or closely interdependent industries. A high proportion of the securities of many emerging market issuers may also be held by a limited number of large investors trading significant blocks of securities. While the Fund's subadviser will strive to be sensitive to publicized reversals of economic conditions, political unrest and adverse changes in trading status, unanticipated political and social developments may affect the values of the Fund's investments in such countries and the availability of additional investments in such countries.

The risks of investing in foreign securities may be intensified in the case of investments in emerging markets. Securities of many issuers in emerging markets may be less liquid and more volatile than securities of comparable domestic issuers. Emerging markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in temporary periods when a portion of the assets of the Fund is uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to the Fund due to subsequent declines in value of portfolio

securities or, if the Fund has entered into a contract to sell the security, in possible liability to the purchaser. Securities prices in emerging markets can be significantly more volatile than in the more developed nations of the world, reflecting the greater uncertainties of investing in less established markets and economies. In particular, countries with emerging markets may have relatively unstable governments, present the risk of nationalization of businesses, restrictions on foreign ownership, or prohibitions of repatriation of assets, and may have less protection of property rights than more developed countries.

Certain emerging markets may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, a country could impose temporary restrictions on foreign capital remittances, whether because deterioration occurs in an emerging market's balance of payments or for other reasons. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Fund of any restrictions on investments.

Investments in certain foreign emerging market debt obligations may be restricted or controlled to varying degrees. These restrictions or controls may at times preclude investment in certain foreign emerging market debt obligations and increase the expenses of the Fund.

Regulatory regimes outside of the US may not require or enforce corporate governance standards comparable to that of the US, which may result in less protections for investors in such issuers and make such issuers more susceptible to actions not in the best interest of the issuer or its investors.

In December 2020, the Holding Foreign Companies Accountable Act (the "HFCAA") was signed into law. The HFCAA directs the SEC to prohibit securities of a registrant from being listed on any US stock exchanges if, for three consecutive years, the PCAOB determines it was unable to inspect the auditor of the registrant's financial statements. The HFCAA also requires a foreign registrant to provide certain disclosures if the registrant files an annual report that includes an audit report from an auditor that was not subject to Public Company Accounting Oversight Board inspection. In December 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA. The potential impact of the HFCAA is unclear at this time, but it may limit the securities in which the Fund may invest.

#### *China Investment via China Bond Connect*

The Fund currently does or is permitted to invest in mainland China. Such investments are or are intended to be made through the China Interbank Bond Market ("CIBM") by way of Bond Connect. Bond Connect is a bond trading link between China and Hong Kong which allows foreign institutional investors to invest in onshore Chinese bonds and other debt instruments traded on the CIBM. The Fund may invest directly in the instruments traded on the CIBM via the Bond Connect.

#### *China Interbank Bond Market Risk*

Investment in the CIBM by the Fund is subject to regulatory risks. The relevant rules and regulations on investments in the CIBM are subject to changes which may have potential retrospective effect. In the event that the relevant Chinese authorities suspend accounts opening or trading in CIBM, the Fund's ability to invest in CIBM will be limited and, after exhausting other trading alternatives, the Fund may suffer a loss of the investment in the CIBM. In addition, any suspension to trading in CIBM may result in the Fund being unable to dispose of securities and may introduce difficulties in repatriating sales proceeds. In turn, this may increase liquidity risk. Moreover, although there is no quota restriction under the CIBM investment regulations, relevant information about the Fund's investments (such as the anticipated investment size and investment term) needs to be filed with People's Bank of China ("PBoC") and an updating filing will be required if there is any significant change to the filed information. It cannot be predicted whether PBoC will make any comments on or require any changes with respect to such information for the purpose of the filing. If so required, the Fund will need to follow PBoC instructions and make the relevant changes accordingly, which, may not be in the best interests of the Fund and the Shareholders from a commercial perspective.

Market volatility and potential lack of liquidity due to low trading volume of certain instruments in the CIBM may result in prices of such instruments traded on such market fluctuating significantly. In

addition, certain instruments may rely on market makers to provide liquidity. The Fund investing in such instruments is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Fund may therefore incur significant trading and realization costs in respect of the investment made in the CIBM and may even suffer losses when disposing of such investments.

### ***Foreign Currency Transactions***

When investing in securities denominated in foreign currencies, the Fund will be subject to the additional risk of currency fluctuations. An adverse change in the value of a particular foreign currency as against the U.S. dollar, to the extent that such change is not offset by a gain in other foreign currencies, will result in a decrease in the Fund's assets. Any such change may also have the effect of decreasing or limiting the income available for distribution. Foreign currencies may be affected by revaluation, adverse political and economic developments, and governmental restrictions. Further, no assurance can be given that currency exchange controls will not be imposed on any particular currency at a later date.

As a result of its investments in foreign securities, the Fund may receive interest or dividend payments, or the proceeds of the sale or redemption of such securities, in the foreign currencies in which such securities are denominated. In that event, the Fund may convert such currencies into dollars at the then current exchange rate. Under certain circumstances, however, such as where the Fund's subadviser believes that the applicable rate is unfavorable at the time the currencies are received or the Fund's subadviser anticipates, for any other reason, that the exchange rate will improve, the Fund may hold such currencies for an indefinite period of time.

In addition, the Fund may be required to receive delivery of the foreign currency underlying forward foreign currency contracts it has entered into. This could occur, for example, if an option written by the Fund is exercised or the Fund is unable to close out a forward contract. The Fund may hold foreign currency in anticipation of purchasing foreign securities.

The Fund may also elect to take delivery of the currencies' underlying options or forward contracts if, in the judgment of the Fund's subadviser, it is in the best interest of the Fund to do so. In such instances as well, the Fund may convert the foreign currencies to dollars at the then current exchange rate, or may hold such currencies for an indefinite period of time.

While the holding of currencies will permit the Fund to take advantage of favorable movements in the applicable exchange rate, it also exposes the Fund to risk of loss if such rates move in a direction adverse to the Fund's position. Such losses could reduce any profits or increase any losses sustained by the Fund from the sale or redemption of securities, and could reduce the dollar value of interest or dividend payments received. In addition, the holding of currencies could adversely affect the Fund's profit or loss on currency options or forward contracts, as well as its hedging strategies.

When the Fund effects foreign currency exchange transactions on a spot (i.e., cash) basis at the spot rate prevailing in the foreign exchange market, the Fund incurs expenses in converting assets from one currency to another. The Fund may also effect other types of foreign currency exchange transactions, which have their own risks and costs. For information about such transactions, please see "Foreign Currency Forward Contracts, Futures and Options" under "Derivatives" in this section of the SAI.

### ***Foreign Investment Companies***

Some of the countries in which the Fund may invest may not permit, or may place economic restrictions on, direct investment by outside investors. Investments in such countries may be permitted only through foreign government-approved or -authorized investment vehicles, which may include other investment companies. These funds may also invest in other investment companies that invest in foreign securities. Investing through such vehicles may involve frequent or layered fees or expenses and may also be subject to limitation under the 1940 Act. As a shareholder of another investment company, the Fund would bear, along with other shareholders, its pro rata portion of the other investment company's expenses, including advisory fees. Those expenses would be in addition to the advisory and other expenses that the Fund bears directly in connection with its own operations. For additional information, see "Other Investment Companies" in this section of the SAI.

## ***Privatizations***

The governments of some foreign countries have been engaged in programs of selling part or all of their stakes in government owned or controlled enterprises (“privatizations”). Privatizations may offer opportunities for significant capital appreciation. In certain foreign countries, the ability of foreign entities such as the Fund to participate in privatizations may be limited by local law, or the terms on which the Fund may be permitted to participate may be less advantageous than those for local investors. There can be no assurance that foreign governments will continue to sell companies currently owned or controlled by them or that privatization programs will be successful.

## **Inflation-Protected Securities**

The Fund may invest in inflation-protected securities, which are freely transferable securities that are structured to provide protection against inflation. The principal or interest components of inflation-protected securities are adjusted periodically according to the general movements of inflation in the country of issue. U.S. Treasury Inflation Protected Securities (“U.S. TIPS”) are freely transferable inflation-indexed debt securities issued by the U.S. Department of Treasury that are structured to provide protection against inflation. The U.S. Treasury Department currently uses the Consumer Price Index for Urban Consumers, non-seasonally adjusted, as its inflation measure. Inflation-indexed bonds issued by a non-U.S. government are generally adjusted to reflect a comparable inflation index calculated by that government.

## **Market Volatility Risk**

The Fund could lose money over short periods due to short-term market movements and over longer periods during more prolonged market downturns. The value of a security or other instrument may decline due to changes in general market conditions, economic trends or events that are not specifically related to the issuer of the security or other instrument, or factors that affect a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class. During a general market downturn, multiple asset classes may be negatively affected. Changes in market conditions and interest rates generally do not have the same impact on all types of securities and instruments.

Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) that occur from time to time will create uncertainty and may have significant impacts on issuers, industries, governments and other systems, including the financial markets, to which the Fund and the issuers in which it invests are exposed. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, impact issuers in other countries, regions or markets, including in established markets such as the United States. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat.

Uncertainty can result in or coincide with: increased volatility in the global financial markets, including those related to equity and debt securities, loans, credit, derivatives and currency; a decrease in the reliability of market prices and difficulty in valuing assets; greater fluctuations in currency exchange rates; increased risk of default (by both government and private issuers); further social, economic, and political instability; nationalization of private enterprises; greater governmental involvement in the economy or in social factors that impact the economy; greater, less or different governmental regulation and supervision of the securities markets and market participants and increased, decreased or different processes for and approaches to monitoring markets and enforcing rules and regulations by governments or self-regulatory organizations; limited, or limitations on the, activities of investors in such markets; controls or restrictions on foreign investment, capital controls and limitations on repatriation of invested capital; inability to purchase and sell assets or otherwise settle transactions (i.e., a market freeze); unavailability of currency hedging techniques; substantial, and in some periods extremely high, rates of inflation, which can last many years and have substantial negative effects on markets as well as the economy as a whole; recessions; and difficulties in obtaining and/or enforcing legal judgments.

For example, an outbreak of infectious respiratory illness caused by a novel coronavirus known as COVID-19 was first detected in China in December 2019 and eventually detected globally. This coronavirus

resulted in travel restrictions, closed international borders, enhanced health screenings at ports of entry and elsewhere, disruption of and delays in healthcare service preparation and delivery, prolonged quarantines, cancellations, supply chain disruptions, and lower consumer demand, as well as general concern and uncertainty. The impact of COVID-19 adversely affected the economies of many nations and the entire global economy, individual issuers and capital markets. Future infectious illness outbreaks could affect the economies of many nations or the entire global economy in ways that cannot necessarily be foreseen. In addition, the impact of infectious illnesses in emerging market countries may be greater due to generally less established healthcare systems. Public health crises may exacerbate other pre-existing political, social and economic risks in certain countries or globally.

Although it is impossible to predict the precise nature and consequences of these events, or of any political or policy decisions and regulatory changes occasioned by emerging events or uncertainty on applicable laws or regulations that impact the Fund's investments, it is clear that these types of events will impact the Fund and the issuers in which each invests. The government response to these events, including emergency health measures, welfare benefit programs, fiscal stimulus, industry support programs, and measures that impact interest rates, among other responses, is also a factor that may impact the financial markets and the value of the Fund's holdings. The issuers in which the Fund invests could be significantly impacted by emerging events and uncertainty of this type. The Fund will also be negatively affected if the operations and effectiveness of any of its key service providers are compromised or if necessary or beneficial systems and processes are disrupted.

### **Money Market Instruments**

The Fund may invest in money market instruments, which are high-quality short-term investments. The types of money market instruments most commonly acquired by the Fund are discussed below, although the Fund is also permitted to invest in other types of money market instruments to the extent consistent with the Fund's investment limitations and restrictions.

#### ***Banker's Acceptances***

A banker's acceptance is a time draft drawn on a commercial bank by a borrower usually in connection with an international commercial transaction (to finance the import, export, transfer or storage of goods). The borrower, as well as the bank, is liable for payment, and the bank unconditionally guarantees to pay the draft at its face amount on the maturity date. Most acceptances have maturities of six months or less and are traded in secondary markets prior to maturity.

#### ***Certificates of Deposit***

Certificates of deposit are generally short-term, interest-bearing negotiable certificates issued by banks or savings and loan associations against funds deposited in the issuing institution. They generally may be withdrawn on demand but may be subject to early withdrawal penalties which could reduce the Fund's yield.

#### ***Commercial Paper***

Commercial paper refers to short-term, unsecured promissory notes issued by corporations to finance short-term credit needs. Commercial paper is usually sold on a discount basis and has a maturity at the time of issuance not exceeding nine months.

#### ***Obligations of Foreign Banks and Foreign Branches of U.S. Banks***

The money market instruments in which the Fund may invest include negotiable certificates of deposit, bankers' acceptances and time deposits of foreign branches of U.S. banks, foreign banks and their non-U.S. branches (Eurodollars), U.S. branches and agencies of foreign banks (Yankee dollars), and wholly-owned banking-related subsidiaries of foreign banks. For the purposes of the Fund's investment policies with respect to money market instruments, obligations of foreign branches of U.S. banks and of foreign banks are obligations of the issuing bank and may be general obligations of the parent bank. Such obligations, however, may be limited by the terms of a specific obligation and by government regulation. As with investment in non-U.S. securities in general, investments in the obligations of foreign branches of U.S. banks and of foreign

banks may subject the Fund to investment risks that are different in some respects from those of investments in obligations of domestic issuers.

### ***Time Deposits***

Time deposits are deposits in a bank or other financial institution for a specified period of time at a fixed interest rate for which a negotiable certificate is not received.

### ***U.S. Government Obligations***

Securities issued or guaranteed as to principal and interest by the United States Government include a variety of Treasury securities, which differ only in their interest rates, maturities, and times of issuance. Treasury bills have maturities of one year or less. Treasury notes have maturities of one to ten years, and Treasury bonds generally have maturities of greater than ten years.

Agencies of the United States Government which issue or guarantee obligations include, among others, Export-Import Bank of the United States, Farmers Home Administration, Federal Housing Administration, GNMA, Maritime Administration, Small Business Administration and The Tennessee Valley Authority. Obligations of instrumentalities of the United States Government include securities issued or guaranteed by, among others, FNMA, Federal Home Loan Banks, FHLMC, Federal Intermediate Credit Banks, Banks for Cooperatives, and the U.S. Postal Service. Some of these securities are supported by the full faith and credit of the U.S. Government, others are supported by the right of the issuer to borrow from the Treasury, while still others are supported only by the credit of the instrumentality. There is no guarantee that the U.S. Government will provide financial support to its agencies or instrumentalities, now or in the future, if it is not obligated to do so by law. Accordingly, although these securities have historically involved little risk of loss of principal if held to maturity, they may involve more risk than securities backed by the full faith and credit of the U.S. Government because the Fund must look principally to the agency or instrumentality issuing or guaranteeing the securities for repayment and may not be able to assert a claim against the United States if the agency or instrumentality does not meet its commitment.

### ***Other Investment Companies***

The Fund is authorized to invest in the securities of other investment companies subject to the limitations contained in the 1940 Act.

Investment companies in which the Fund may invest may include ETFs. An ETF is an investment company classified as an open-end investment company or unit investment trust that is traded similarly to a publicly traded company. Most ETFs seek to achieve the same return as a particular market index. That type of ETF is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index. An index-based ETF will invest in all of the securities included in the index, a representative sample of the securities included in the index, or other investments expected to produce returns substantially similar to that of the index. Other types of ETFs include leveraged or inverse ETFs, which are ETFs that seek to achieve a daily return that is a multiple or an inverse multiple of the daily return of a securities index. An important characteristic of these ETFs is that they seek to achieve their stated objectives on a daily basis, and their performance over longer periods of time can differ significantly from the multiple or inverse multiple of the index performance over those longer periods of time. ETFs also include actively managed ETFs that pursue active management strategies and publish their portfolio holdings on a frequent basis.

In certain countries, investments by the Fund may only be made through investments in other investment companies that, in turn, are authorized to invest in the securities that are issued in such countries. (See “Foreign Investment Companies” under “Foreign Investing” in this section of the SAI.)

Under the 1940 Act, the Fund generally may not own more than 3% of the outstanding voting stock of an investment company, invest more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in the securities of investment companies. In some instances, the Fund may invest in an investment company in excess of these limits; for instance, with respect to investments made pursuant to exemptive rules adopted and/or orders granted by the SEC. The SEC has adopted exemptive rules

to permit funds of funds to exceed these limits when complying with certain conditions, which differ depending upon whether the funds in which the Fund invests are affiliated or unaffiliated with the fund of funds. The Fund may rely on these exemptive rules and/or orders to invest in affiliated or unaffiliated mutual funds and/or unaffiliated ETFs.

The risks associated with investing in other investment companies generally reflect the risks of owning shares of the underlying securities in which those investment companies invest, although lack of liquidity in an investment company could result in its value being more volatile than the underlying portfolio of securities. For purposes of complying with investment policies requiring the Fund to invest a percentage of its assets in a certain type of investments (e.g., stocks of small capitalization companies), the Fund generally will look through an investment company in which it invests, to categorize the investment company in accordance with the types of investments the investment company holds.

Certain investment companies in which the Fund may invest may be considered commodity pools under the CEA and applicable CFTC regulations. If the Fund invests in such an investment company, the Fund will be required to treat some or all of its holding of the investment company's shares as a commodity interest for the purposes of determining whether the Fund is qualified to claim exclusion or exemption from regulation by the CFTC. (See "Commodity Interests" in this section of the SAI for additional information regarding the implications to the Fund of investing in commodity interests.)

Investors in the Fund should recognize that when the Fund invests in another investment company, the Fund will bear its pro rata portion of the other investment company's expenses, including advisory fees, in addition to the expenses the Fund bears directly in connection with its own operations.

### **Real Estate Investment Trusts ("REITs")**

The Fund may invest in REITs. REITs pool investors' funds for investment primarily in income producing commercial real estate or real estate related loans. A REIT is not taxed on income distributed to shareholders if it complies with several requirements relating to its organization, ownership, assets, and income and a requirement that it distribute to its shareholders at least 90% of its taxable income (other than net capital gains) for each taxable year.

REITs can generally be classified as follows:

- Equity REITs, which invest the majority of their assets directly in real property and derive their income primarily from rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value.
- Mortgage REITs, which invest the majority of their assets in real estate mortgages and derive their income primarily from interest payments.
- Hybrid REITs, which combine the characteristics of both equity REITs and mortgage REITs.

REITs are structured similarly to closed-end investment companies in that they are essentially holding companies. An investor should realize that by investing in REITs indirectly through the Fund, he will bear not only his proportionate share of the expenses of the Fund, but also, indirectly, similar expenses of the underlying REITs. (See "Mutual Fund Investing" in this section of the SAI.)

Selecting REITs requires an evaluation of the merits of each type of asset a particular REIT owns, as well as regional and local economics. Due to the proliferation of REITs in recent years and the relative lack of sophistication of certain REIT managers, the quality of REIT assets has varied significantly. The risks associated with REITs are similar to those associated with the direct ownership of real estate. These include declines in the value of real estate, risks related to general and local economic conditions, dependence on management skill, cash flow dependence, possible lack of availability of long-term mortgage funds, overbuilding, extended vacancies of properties, decreased occupancy rates and increased competition, increases in property taxes and operating expenses, changes in neighborhood values and the appeal of the properties to tenants and changes in interest rates.

Equity REITs may be affected by changes in the value of the underlying properties they own, while mortgage REITs may be affected by the quality of any credit extended. Further, equity and mortgage

REITs are dependent upon management skills and generally are not diversified. Equity and mortgage REITs are also subject to potential defaults by borrowers, self-liquidation, and the possibility of failing to qualify for tax-free status of income under the Code and failing to maintain exemption from the 1940 Act. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments. In addition, investment in REITs could cause the Fund to possibly fail to qualify as a regulated investment company.

### **Repurchase Agreements**

The Fund may enter into repurchase agreements by which the Fund purchases portfolio securities subject to the seller's agreement to repurchase them at a mutually agreed-upon time and price. The repurchase price may be higher than the purchase price, the difference being income to the Fund, or the purchase and repurchase price may be the same, with interest payable to the Fund at a stated rate together with the repurchase price on repurchase. In either case, the income to the Fund is unrelated to the interest rate on the security.

A repurchase agreement must be collateralized by obligations that could otherwise be purchased by the Fund (except with respect to maturity), and these must be maintained by the seller in a segregated account for the Fund. The value of such collateral will be monitored throughout the term of the repurchase agreement in an attempt to ensure that the market value of the collateral always equals or exceeds the repurchase price (including accrued interest). If the value of the collateral dips below such repurchase price, additional collateral will be requested and, when received, added to the account to maintain full collateralization.

Repurchase agreements will be entered into with commercial banks, brokers and dealers considered by the Fund's subadviser to be creditworthy. However, the use of repurchase agreements involves certain risks such as default by, or insolvency of, the other party to the transaction. The Fund also might incur disposition costs in connection with liquidating the underlying securities or enforcing its rights.

Typically, repurchase agreements are in effect for one week or less, but they may be in effect for longer periods of time.

### **Restricted Securities and Securities with Limited Trading Markets (Rule 144A)**

The Fund may purchase securities for which there is a limited trading market or which are subject to restrictions on resale to the public. If the Fund were to acquire substantial positions in securities with limited trading markets, the activities of the Fund could have an adverse effect upon the liquidity and marketability of such securities and the Fund might not be able to dispose of its holdings in those securities at then current market prices. Circumstances could also exist portfolio securities might have to be sold by the Fund at times which otherwise might be considered to be disadvantageous so that the Fund might receive lower proceeds from such sales than it had expected to realize. Investments in securities which are "restricted" may involve added expenses to the Fund should the Fund be required to bear registration costs with respect to such securities and could involve delays in disposing of such securities which might have an adverse effect upon the price and timing of sales of such securities. Restricted securities and securities for which there is a limited trading market may be significantly more difficult to value due to the unavailability of reliable market quotations for such securities, and investment in such securities may have an adverse impact on NAV. The Fund may purchase Rule 144A securities for which there may be a secondary market of qualified institutional buyers as contemplated by Rule 144A under 1933 Act.

### **Reverse Repurchase Agreements**

Reverse repurchase agreements are transactions in which the Fund sells a security and simultaneously commits to repurchase that security from the buyer, such as a bank or broker-dealer, at an agreed-upon price on an agreed-upon future date. The resale price in a reverse repurchase agreement reflects a market rate of interest that is not related to the coupon rate or maturity of the sold security. For certain demand agreements, there is no agreed-upon repurchase date and interest payments are calculated daily, often based upon the prevailing overnight repurchase rate.

Generally, a reverse repurchase agreement enables the Fund to recover for the term of the reverse repurchase agreement all or most of the cash invested in the portfolio securities sold and to keep the interest

income associated with those portfolio securities. Such transactions are only advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the cost of obtaining the cash otherwise. In addition, interest costs on the money received in a reverse repurchase agreement may exceed the return received on the investments made by the Fund with those monies. Using reverse repurchase agreements to earn additional income involves the risk that the interest earned on the invested proceeds is less than the expense of the reverse repurchase agreement transaction.

The Fund will enter into reverse repurchase agreements only with parties that the Fund's subadviser deems creditworthy, but such investments are still subject to the risks of leverage discussed above.

### **Securities Lending**

Subject to certain investment restrictions, the Fund may lend securities from its portfolio to brokers, dealers and financial institutions deemed creditworthy and receive, as collateral, cash or cash equivalents which at all times while the loan is outstanding will be maintained in amounts equal to at least 100% of the current market value of the loaned securities. Any cash collateral will be invested in short-term securities that will increase the current income of the Fund lending its securities.

The Fund will have the right to regain record ownership of loaned securities to exercise beneficial rights such as voting rights and subscription rights. While a securities loan is outstanding, the Fund is to receive an amount equal to any dividends, interest or other distributions with respect to the loaned securities. The Fund may pay reasonable fees to persons unaffiliated with the Fund for services in arranging such loans.

Even though securities lending usually does not impose market risks on the lending Fund, as with any extension of credit, there are risks of delay in recovery of the loaned securities and in some cases loss of rights in the collateral should the borrower of the securities fail financially. In addition, the value of the collateral taken as security for the securities loaned may decline in value or may be difficult to convert to cash in the event that the Fund must rely on the collateral to recover the value of the securities. Moreover, if the borrower of the securities is insolvent, under current bankruptcy law, the Fund could be ordered by a court not to liquidate the collateral for an indeterminate period of time. If the borrower is the subject of insolvency proceedings and the collateral held might not be liquidated, the result could be a material adverse impact on the liquidity of the lending Fund.

The Fund will not lend securities having a value in excess of 33 $\frac{1}{3}$ % of its assets, including collateral received for loaned securities (valued at the time of any loan).

### **Short Sales**

The Fund may sell securities short as part of its overall portfolio management strategies involving the use of derivative instruments and to offset potential declines in long positions in similar securities. A short sale is a transaction in which the Fund sells a security it does not own or have the right to acquire, or that it owns but does not wish to deliver, in anticipation that the market price of that security will decline. A short sale is "against the box" to the extent the Fund contemporaneously owns, or has the right to obtain at no added cost, securities identical to those sold short. All other short sales are commonly referred to as "naked" short sales.

When the Fund makes a short sale, the broker-dealer through which the short sale is made must borrow the security sold short and deliver it to the party purchasing the security. The Fund is required to make a margin deposit in connection with such short sales; the Fund may have to pay a fee to borrow particular securities and will often be obligated to pay over any dividends and accrued interest on borrowed securities. If the price of the security sold short increases between the time of the short sale and the time the Fund covers its short position, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

If the Fund sells securities short against the box, it may protect unrealized gains, but will lose the opportunity to profit on such securities if the price rises. If the Fund engages in naked short sales, the

Fund's risk of loss could be as much as the maximum attainable price of the security (which could be limitless) less the price paid by the Fund for the security at the time it was borrowed.

### **Special Situations**

The Fund may invest in special situations that the Fund's subadviser believes present opportunities for capital growth. Such situations most typically include corporate restructurings, mergers, and tender offers.

A special situation arises when, in the opinion of the Fund's subadviser, the securities of a particular company will, within a reasonably estimable period of time, be accorded market recognition at an appreciated value solely by reason of a development particularly or uniquely applicable to that company and regardless of general business conditions or movements of the market as a whole. Developments creating special situations might include, among others, the following: liquidations, reorganizations, recapitalizations, mergers, or tender offers; material litigation or resolution thereof; technological breakthroughs; and new management or management policies. Although large and well-known companies may be involved, special situations often involve much greater risk than is inherent in ordinary investment securities.

### **Step-Up Securities**

Step-up securities are securities which pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which may increase at stated intervals during the life of the security. Step-up securities allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash.

### **Structured Notes**

Included among the issuers of emerging market country debt securities in which the Fund may invest are entities organized and operated solely for the purpose of restructuring the investment characteristics of various securities. These entities are typically organized by investment banking firms which receive fees in connection with establishing each entity and arranging for the placement of its securities. This type of restructuring involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments, such as Brady Bonds (see "Brady Bonds" in this section of the SAI), and the issuance by that entity of one or more classes of securities ("Structured Notes") backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued Structured Notes to create securities with different investment characteristics such as varying maturities, payment priorities or interest rate provisions; the extent of the payments made with respect to Structured Notes is dependent on the extent of the cash flow on the underlying instruments. Because Structured Notes of the type in which the Fund anticipates investing typically involve no credit enhancement, their credit risk will depend upon that of the underlying instruments and the terms of the Structured Note.

The Fund is permitted to invest in a class of Structured Notes that is either subordinated or unsubordinated to the right of payment of another class. Subordinated Structured Notes typically have higher yields and present greater risks than unsubordinated Structured Notes. Although in some circumstances the Fund's purchase of subordinated Structured Notes may have a similar economic effect to that of borrowing against the underlying securities, the purchase will not be deemed to be borrowing for purposes of the limitations placed on the extent of the Fund's assets that may be used for borrowing.

As with any debt obligation, Structured Notes involve the risk that the issuer will become insolvent or otherwise default on its payment obligations. This risk is in addition to the risk that the issuer's obligations (and thus the value of the Fund's investment) will be reduced because of adverse changes in the external factor or factors to which the obligations are linked. The value of structured notes will in many cases be more volatile (that is, will change more rapidly or severely) than the value of traditional debt instruments. Volatility will be especially high if the issuer's obligations are determined by reference to some multiple of the change in the external factor or factors. Many Structured Notes have limited or no liquidity, so that the Fund would be unable to dispose of the investment prior to maturity. As with all investments, successful use of structured notes depends in significant part of the accuracy of the Adviser's or Subadviser's analysis of the issuer's creditworthiness and financial prospects, and of the Adviser's or Subadviser's forecast as to changes in relevant economic and financial market conditions and factors. In instances where the issuer of a

Structured Investment is a non-U.S. entity, the usual risks associated with investments in non-U.S. securities apply. Structured Notes may be considered derivative securities.

*1940 Act Limitations.* Certain issuers of Structured Notes may be deemed to be “investment companies” as defined in the 1940 Act. As a result, the Fund’s investment in these Structured Notes may be limited by the restrictions contained in the 1940 Act described under “Other Investment Companies.” Structured Notes are typically sold in private placement transactions, and there currently is no active trading market for Structured Notes.

### **Supranational Organizations**

The Fund may invest in debt securities issued by supranational organizations such as promissory notes, bonds and debentures. Supranational organizations are entities designated or supported by a government or governmental entity to promote economic development, and include, among others, the Asian Development Bank, the European Communities, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, the United Nations, World Bank and the European Bank for Reconstruction and Development. These organizations have no taxing authority and are dependent upon their members for payments of interest and principal. Moreover, the lending activities of such supranational entities are limited to a percentage of their total capital (including “callable capital” contributed by members at an entity’s call), reserves and net income.

### **Warrants or Rights to Purchase Securities**

The Fund may invest in or acquire warrants or rights to purchase equity or fixed income securities at a specified price during a specific period of time. The Fund will make such investments only if the underlying securities are deemed appropriate by the Fund’s subadviser for inclusion in the Fund’s portfolio. Included are warrants and rights whose underlying securities are not traded on principal domestic or foreign exchanges. Warrants and stock rights are almost identical to call options in their nature, use and effect except that they are issued by the issuer of the underlying security, rather than an option writer, and they generally have longer expiration dates than call options. (See “Options” in this section of the SAI for information about call options.)

Bonds with warrants attached to purchase equity securities have many characteristics of convertible bonds and their prices may, to some degree, reflect the performance of the underlying stock. However, unlike convertible securities and preferred stocks, warrants do not pay a fixed dividend. Bonds also may be issued with warrants attached to purchase additional fixed income securities at the same coupon rate. A decline in interest rates would permit the Fund holding such warrants to buy additional bonds at the favorable rate or to sell the warrants at a profit. If interest rates rise, the warrants would generally expire with no value.

The Fund may purchase put warrants and call warrants whose values vary depending on the change in the value of one or more specified securities indices (“index warrants”). Index warrants are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at any time when, in the case of a call warrant, the exercise price is greater than the value of the underlying index or, in the case of a put warrant, the exercise price is less than the value of the underlying index. If the Fund were not to exercise an index warrant prior to its expiration, then the Fund would lose the amount of the purchase price paid by it for the warrant.

The Fund will normally use index warrants in a manner similar to its use of options on securities indices. The risks of the Fund’s use of index warrants are generally similar to those relating to its use of index options. (See “Options” in this section of the SAI for information about index options.) Unlike most

index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Although the Fund will normally invest only in exchange-listed warrants, index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit the Fund's ability to exercise the warrants at such time, or in such quantities, as the Fund would otherwise wish to do.

### **When-Issued and Delayed Delivery Transactions**

The Fund may purchase securities on a when-issued or forward commitment basis. These transactions are also known as delayed delivery transactions. (The phrase "delayed delivery" is not intended to include purchases where a delay in delivery involves only a brief period required by the selling party solely to locate appropriate certificates and prepare them for submission for clearance and settlement in the customary way.) Delayed delivery transactions involve a commitment by the Fund to purchase or sell securities at a future date (ordinarily up to 90 days later). The price of the underlying securities (usually expressed in terms of yield) and the date when the securities will be delivered and paid for (the settlement date) are fixed at the time the transaction is negotiated. When-issued purchases and forward commitments are negotiated directly with the selling party.

When-issued purchases and forward commitments enable the Fund to lock in what is believed to be an attractive price or yield on a particular security for a period of time, regardless of future changes in interest rates. For example, in periods of rising interest rates and falling bond prices, the Fund might sell debt securities it owns on a forward commitment basis to limit its exposure to falling prices. In periods of falling interest rates and rising prices, the Fund might sell securities it owns and purchase the same or similar securities on a when-issued or forward commitment basis, thereby obtaining the benefit of currently higher yields. The Fund will not enter into such transactions for the purpose of leverage.

The value of securities purchased on a when-issued or forward commitment basis and any subsequent fluctuations in their value will be reflected in the Fund's NAV starting on the first business day after the date of the agreement to purchase the securities. The Fund will be subject to the rights and risks of ownership of the securities on the agreement date. However, the Fund will not earn interest on securities it has committed to purchase until they are paid for and received. A seller's failure to deliver securities to the Fund could prevent the Fund from realizing a price or yield considered to be advantageous and could cause the Fund to incur expenses associated with unwinding the transaction.

When the Fund makes a forward commitment to sell securities it owns, the proceeds to be received upon settlement will be included in the Fund's assets. Fluctuations in the market value of the underlying securities will not be reflected in the Fund's NAV as long as the commitment to sell remains in effect. Settlement of when-issued purchases and forward commitment transactions generally takes place up to 90 days after the date of the transaction, but the Fund may agree to a longer settlement period.

The Fund will make commitments to purchase securities on a when-issued basis or to purchase or sell securities on a forward commitment basis only with the intention of completing the transaction and actually purchasing or selling the securities. If deemed advisable as a matter of investment strategy, however, the Fund may dispose of or renegotiate a commitment after it is entered into. The Fund also may sell securities it has committed to purchase before those securities are delivered to the Fund on the settlement date. The Fund may realize a capital gain or loss in connection with these transactions.

## TRUSTEES AND OFFICERS

The Board is responsible for the overall supervision of the Acquiring Fund, including establishing the Acquiring Fund's policies and general supervision and review of their investment activities, and performs the various duties imposed on Trustees by the 1940 Act and Massachusetts business trust law. The officers, who administer the Acquiring Fund's daily operations, are appointed by the Board and generally are employees of the Administrator or one of its affiliates. The current Trustees and officers of the Acquiring Fund performing a policy-making function and their affiliations and principal occupations for the past five years are set forth below. The Fund has no employees.

Unless otherwise noted, each Trustee of the Acquiring Fund also serves as a Trustee of other Virtus Funds and the address of each individual is c/o the Fund, 101 Munson Street, Suite 104, Greenfield, MA 01301. There is no stated term of office for officers of the Acquiring Fund. Each Trustee currently serves a one- to three-year term concurrent with the class of Trustees for which he or she serves.

### Independent Trustees\*

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>			
Burke, Donald C. YOB: 1960 Portfolios Overseen: 107	Class II Trustee of EDF since 2022, term expires at the 2025 Annual Meeting	Private investor (since 2009). Formerly, President and Chief Executive Officer, BlackRock U.S. Funds (2007 to 2009); Managing Director, BlackRock, Inc. (2006 to 2009); and Managing Director, Merrill Lynch Investment Managers (1990 to 2006).	Trustee (since May 2023) and Advisory Board Member (May 2023), Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Dividend, Interest & Premium Strategy Fund and Virtus Equity & Convertible Income Fund; Advisory Board Member (since May 2023), Virtus Convertible & Income 2024 Target Term Fund, Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II and Virtus Diversified Income & Convertible Fund; Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Director (2020 to 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2020), Virtus Total Return Fund Inc.; Trustee (since 2020), Virtus Global Multi-Sector Income Fund; Trustee (since 2016), Virtus Mutual Fund Family (56 portfolios), Virtus Variable Insurance Trust

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
Cogan, Sarah E. YOB: 1956 Portfolios Overseen: 104	Class II Trustee of EDF since 2022, term expires at the 2025 Annual Meeting	Retired Partner, Simpson Thacher & Bartlett LLP (“STB”) (law firm) (since 2019); Director, Girl Scouts of Greater New York (since 2016); Trustee, Natural Resources Defense Council, Inc. (since 2013); and formerly, Partner, STB (1989 to 2018).	(8 portfolios) and Virtus Alternative Solutions Trust (4 portfolios); Director (since 2014) closed-end funds managed by Duff & Phelps Investment Management Co. (3 funds); Director, Avista Corp. (energy company) (since 2011); Trustee, Goldman Sachs Fund Complex (2010 to 2014); and Director, BlackRock Luxembourg and Cayman Funds (2006 to 2010). Trustee (since 2022) and Advisory Board Member (2021 to 2022), Virtus Alternative Solutions Trust (4 portfolios), Virtus Mutual Fund Family (56 portfolios) and Virtus Variable Insurance Trust (8 portfolios); Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund®, The Merger Fund® VL, Virtus Event Opportunities Trust (2 portfolios) and Virtus Global Multi-Sector Income Fund; Advisory Board Member (February 2021 to June 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2021), Virtus Total Return Fund Inc.; Trustee (since 2019), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Trustee (since 2019), Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Convertible & Income 2024 Target Term Fund, Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Diversified Income & Convertible Fund, Virtus Equity & Convertible Income Fund, and Virtus Dividend, Interest & Premium Strategy Fund; and Trustee (since 2019), PIMCO Closed-End Funds <sup>(2)</sup> (26 portfolios).

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
DeCotis, Deborah A. YOB: 1952 Portfolios Overseen: 104	Class I Trustee of EDF since 2022, term expires at the 2024 Annual Meeting	Director, Cadre Holdings Inc. (since 2022); Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Member, Circle Financial Group (since 2009); Member, Council on Foreign Relations (since 2013); and Trustee, Smith College (since 2017). Formerly, Director, Watford Re (2017 to 2021); Co-Chair Special Projects Committee, Memorial Sloan Kettering (2005 to 2015); and Trustee, Stanford University (2010 to 2015).	Trustee (since 2022) and Advisory Board Member (2021 to 2022), Virtus Alternative Solutions Trust (4 portfolios), Virtus Mutual Fund Family (56 portfolios) and Virtus Variable Insurance Trust (8 portfolios); Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), and Virtus Global Multi-Sector Income Fund; Advisory Board Member (February 2021 to June 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2021), Virtus Total Return Fund Inc.; Trustee (since 2019), Virtus Artificial Intelligence & Technology Opportunities Fund; Trustee (since 2017), Virtus Convertible & Income 2024 Target Term Fund; Trustee (since 2015), Virtus Diversified Income & Convertible Fund; Trustee (since 2014), Virtus Investment Trust (13 portfolios); Trustee (since 2011), Virtus Strategy Trust (8 portfolios); Trustee (since 2011), Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Equity & Convertible Income Fund, and Virtus Dividend, Interest & Premium Strategy Fund; and Trustee (since 2011), PIMCO Closed-End Funds <sup>(2)</sup> (26 portfolios).
Drummond, F. Ford YOB: 1962 Portfolios Overseen: 104	Class III Trustee of EDF since 2022, term expires at the 2026 Annual Meeting	President (since 1998), F.G. Drummond Ranches, Inc.; and Director (since 2015), Texas and Southwestern Cattle Raisers Association. Formerly, Chairman, Oklahoma Nature Conservancy (2019 to 2020); Board Member (2006 to 2020) and Chairman (2016 to 2018),	Trustee (since 2022) and Advisory Board Member (2021 to 2022), Virtus Alternative Solutions Trust (4 portfolios), Virtus Mutual Fund Family (56 portfolios), and Virtus Variable Insurance Trust (8 portfolios); Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
		Oklahoma Water Resources Board; Trustee (since 2014), Frank Phillips Foundation; Director (1998 to 2008), The Cleveland Bank; and General Counsel (1998 to 2008), BMIHealth Plans (benefits administration).	2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, and Virtus Event Opportunities Trust (2 portfolios); Advisory Board Member (February 2021 to June 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Trustee (since 2021), Virtus Global Multi-Sector Income Fund; Director (since 2021), Virtus Total Return Fund Inc.; Trustee (since 2019), Virtus Artificial Intelligence & Technology Opportunities Fund; Trustee (since 2017), Virtus Convertible & Income 2024 Target Term Fund; Trustee (since 2015), Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Diversified Income & Convertible Fund, Virtus Dividend, Interest & Premium Strategy Fund and Virtus Equity & Convertible Income Fund; Trustee (since 2014), Virtus Strategy Trust (8 portfolios); Director (since 2011), Bancfirst Corporation; and Trustee (since 2006), Virtus Investment Trust (13 portfolios).
Harris, Sidney E. YOB: 1949 Portfolios Overseen: 97	Class III Trustee of EDF since 2022, term expires at the 2026 Annual Meeting	Private Investor (since 2021); Dean Emeritus (since 2015), Professor (2015 to 2021 and 1997 to 2014), and Dean (1997 to 2004), J. Mack Robinson College of Business, Georgia State University.	Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Director (2020 to 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2020), Virtus Total Return Fund Inc.; Trustee (since 2020), Virtus Global Multi-Sector Income Fund; Trustee (since 2019), Mutual Fund Directors Forum; Trustee (since 2017), Virtus Mutual Fund Family (56 portfolios), Virtus Variable Insurance Trust (8 portfolios), and Virtus Alternative Solutions Trust (4 portfolios);

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
Mallin, John R. YOB: 1950 Portfolios Overseen: 97	Class I Trustee of EDF since 2022, term expires at the 2024 Annual Meeting	Partner/Attorney (since 2003), McCarter & English LLP (law firm) Real Property Practice Group; and Member (2014 to 2022), Counselors of Real Estate.	Trustee (2013 to 2020) and Honorary Trustee (since 2020), KIPP Metro Atlanta; Director (1999 to 2019), Total System Services, Inc.; Trustee (2004 to 2017), RidgeWorth Funds; Chairman (2012 to 2017), International University of the Grand Bassam Foundation; Trustee (since 2012), International University of the Grand Bassam Foundation; and Trustee (2011 to 2015), Genspring Family Offices, LLC.  Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Director (2020 to 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2020), Virtus Total Return Fund Inc.; Trustee (since 2020), Virtus Global Multi-Sector Income Fund; Trustee (since 2016), Virtus Mutual Fund Family (56 portfolios) and Virtus Alternative Solutions Trust (4 portfolios); Director (since 2019), 1892 Club, Inc. (non-profit); Director (2013 to 2020), Horizons, Inc. (non-profit); and Trustee (since 1999), Virtus Variable Insurance Trust (8 portfolios).
McDaniel, Connie D. YOB: 1958 Portfolios Overseen: 104	Class II Trustee of EDF since 2022, term expires at the 2025 Annual Meeting	Retired (since 2013). Vice President, Chief of Internal Audit, Corporate Audit Department (2009 to 2013); Vice President Global Finance Transformation (2007 to 2009); and Vice President and Controller (1999 to 2007), The Coca-Cola Company.	Trustee (since May 2023) and Advisory Board Member (May 2023), Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Convertible & Income 2024 Target Term Fund, Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Diversified Income & Convertible Fund, Virtus Dividend, Interest & Premium Strategy Fund and Virtus Equity &

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
McLoughlin, Philip R. YOB: 1946 Portfolios Overseen: 107	Class III Trustee of EDF since 2022, term expires at the 2026 Annual Meeting	Private investor since 2010.	<p>Convertible Income Fund; Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund<sup>®</sup>, The Merger Fund<sup>®</sup> VL, Virtus Event Opportunities Trust (4 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Director (2020 to 2021), Duff &amp; Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2020), Virtus Total Return Fund Inc.; Trustee (since 2020), Virtus Global Multi-Sector Income Fund; Director (since 2019), Global Payments Inc.; Chairperson (since 2021), Governance &amp; Nominating Committee, Global Payments Inc; Trustee (since 2017), Virtus Mutual Fund Family (56 portfolios), Virtus Variable Insurance Trust (8 portfolios), and Virtus Alternative Solutions Trust (4 portfolios); Director (since 2021), North Florida Land Trust; Director (2014 to 2019), Total System Services, Inc.; Member (2011 to 2022) and Chair (2014 to 2016), Georgia State University, Robinson College of Business Board of Advisors; and Trustee (2005 to 2017), RidgeWorth Funds.</p> <p>Trustee and Chairman (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund<sup>®</sup>, The Merger Fund<sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Chairman (since 2023) and Trustee (since 2021), Virtus Artificial Intelligence &amp; Technology Opportunities Fund, Virtus Convertible &amp; Income Fund II, Virtus Diversified Income &amp; Convertible Fund, Virtus</p>

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
McNamara, Geraldine M. YOB: 1951 Portfolios Overseen: 107	Class III Trustee of EDF since 2022, term expires at the 2026 Annual Meeting	Private investor (since 2006); and Managing Director, U.S. Trust Company of New York (1982 to 2006).	<p>Equity &amp; Convertible Income Fund and Virtus Dividend, Interest &amp; Premium Strategy Fund; Chairman (since 2023), Trustee (since 2022) and Advisory Board Member (2021), Virtus Convertible &amp; Income 2024 Target Term Fund and Virtus Convertible &amp; Income Fund; Director and Chairman (since 2016), Virtus Total Return Fund Inc.; Director and Chairman (2016 to 2019), the former Virtus Total Return Fund Inc.; Director and Chairman (2014 to 2021), Duff &amp; Phelps Select MLP and Midstream Energy Fund Inc.; Trustee and Chairman (since 2013), Virtus Alternative Solutions Trust (4 portfolios); Trustee and Chairman (since 2011), Virtus Global Multi-Sector Income Fund; Chairman and Trustee (since 2003), Virtus Variable Insurance Trust (8 portfolios); Director (since 1995), closed-end funds managed by Duff &amp; Phelps Investment Management Co. (3 funds); Director (1991 to 2019) and Chairman (2010 to 2019), Lazard World Trust Fund (closed-end investment firm in Luxembourg); and Trustee (since 1989) and Chairman (since 2002), Virtus Mutual Fund Family (56 portfolios).</p> <p>Trustee (since May 2023) and Advisory Board Member (January 2023 to May 2023), Virtus Convertible &amp; Income Fund, Virtus Convertible &amp; Income Fund II, Virtus Diversified Income &amp; Convertible Fund and Virtus Dividend, Interest &amp; Premium Strategy Fund; Trustee (since 2023), Virtus Artificial Intelligence &amp; Technology Opportunities Fund and Virtus Equity &amp; Convertible Income Fund; Advisory Board Member (since 2023), Virtus Convertible &amp; Income 2024 Target Term Fund; Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income</p>

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
Walton, R. Keith YOB: 1964 Portfolios Overseen: 104	Class I Trustee of EDF since 2022, term expires at the 2024 Annual Meeting	Senior Adviser (since 2022), Brightwood Capital LLC; Venture and Operating Partner (since 2020), Plexo Capital, LLC; Venture Partner (since 2019) and Senior Adviser (2018 to 2019), Plexo, LLC; and Partner (since 2006), Global Infrastructure Partners. Formerly, Managing Director (2020 to 2021), Lafayette Square Holding Company LLC; Senior Adviser (2018 to 2019), Vatic Labs, LLC; Executive Vice President, Strategy (2017 to 2019), Zero Mass Water, LLC; and Vice President, Strategy (2013 to 2017), Arizona State University.	Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Director (2020 to 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Director (since 2020), Virtus Total Return Fund Inc.; Trustee (since 2020), Virtus Global Multi-Sector Income Fund; Trustee (since 2016) Virtus Alternative Solutions Trust (4 portfolios); Trustee (since 2015), Virtus Variable Insurance Trust (8 portfolios); Director (since 2003), closed-end funds managed by Duff & Phelps Investment Management Co. (3 funds); and Trustee (since 2001), Virtus Mutual Fund Family (56 portfolios). Trustee (since 2023) and Advisory Board Member (2022 to 2023), Virtus Convertible & Income Fund II and Virtus Dividend, Interest & Premium Strategy Fund; Trustee (since 2022) and Advisory Board Member (January 2022 to July 2022), Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Convertible & Income Fund and Virtus Equity & Convertible Income Fund; Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2022), Virtus Diversified Income & Convertible Fund; Trustee (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Trustee (since 2020) Virtus Alternative Solutions Trust (4 portfolios), Virtus Variable

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
Zino, Brian T. YOB: 1952 Portfolios Overseen: 104	Class II Trustee of EDF since 2022, term expires at the 2025 Annual Meeting	Retired. Various roles (1982 to 2009), J. & W. Seligman & Co. Incorporated, including President (1994 to 2009).	<p>Insurance Trust (8 portfolios) and Virtus Mutual Fund Family (56 portfolios); Director (since 2017), certain funds advised by Bessemer Investment Management LLC; Director (2016 to 2021), Duff &amp; Phelps Select MLP and Midstream Energy Fund Inc.; Trustee (since 2016), Virtus Global Multi-Sector Income Fund; Director (2006 to 2019), Systematica Investments Limited Funds; Director (2006 to 2017), BlueCrest Capital Management Funds; Trustee (2014 to 2017), AZ Service; Director (since 2004), Virtus Total Return Fund Inc.; and Director (2004 to 2019), the former Virtus Total Return Fund Inc.</p> <p>Trustee (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Trustee (since 2021), The Merger Fund<sup>®</sup>, The Merger Fund<sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Trustee (since 2022) and Advisory Board Member (2021), Virtus Artificial Intelligence &amp; Technology Opportunities Fund, Virtus Convertible &amp; Income 2024 Target Term Fund, Virtus Convertible &amp; Income Fund, Virtus Convertible &amp; Income Fund II, Virtus Diversified Income &amp; Convertible Fund, Virtus Equity &amp; Convertible Income Fund, and Virtus Dividend, Interest &amp; Premium Strategy Fund; Trustee (since 2020) Virtus Alternative Solutions Trust (4 portfolios), Virtus Variable Insurance Trust (8 portfolios) and Virtus Mutual Fund Family (56 portfolios); Director (2016 to 2021), Duff &amp; Phelps Select MLP and Midstream Energy Fund Inc.; Trustee (since 2016), Virtus Global Multi-Sector</p>

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
			Income Fund; Director (since 2014), Virtus Total Return Fund Inc.; Director (2014 to 2019), the former Virtus Total Return Fund Inc.; Trustee (since 2011), Bentley University; Director (1986 to 2009) and President (1994 to 2009), J&W Seligman Co. Inc.; Director (1998 to 2009), Chairman (2002 to 2004) and Vice Chairman (2000 to 2002), ICI Mutual Insurance Company; Member, Board of Governors of ICI (1998 to 2008).

\* Those Trustees listed as “Independent Trustees” are not “interested persons” of the Acquiring Fund, as that term is defined in the 1940 Act.

- (1) The “Virtus Fund Complex” includes those registered investment companies that hold themselves out to investors as related companies for purposes of investment and investor services or for which the Adviser or an affiliate of the Adviser, including the Subadviser, serves as investment adviser.
- (2) The PIMCO Closed-End Funds, which are not part of the Virtus Fund Complex, are as follows: PCM Fund, Inc.; PIMCO Access Income Fund; PIMCO California Flexible Municipal Income Fund; PIMCO California Municipal Income Fund; PIMCO California Municipal Income Fund II; PIMCO California Municipal Income Fund III; PIMCO Corporate & Income Opportunity Fund; PIMCO Corporate & Income Strategy Fund; PIMCO Dynamic Income Fund; PIMCO Dynamic Income Opportunities Fund; PIMCO Energy and Tactical Credit Opportunities Fund; PIMCO Flexible Credit Income Fund; PIMCO Flexible Emerging Markets Income Fund; PIMCO Flexible Municipal Income Fund; PIMCO Global StocksPLUS<sup>®</sup> & Income Fund; PIMCO High Income Fund; PIMCO Income Strategy Fund; PIMCO Income Strategy Fund II; PIMCO Managed Accounts Trust (5 portfolios); PIMCO Municipal Income Fund; PIMCO Municipal Income Fund II; PIMCO Municipal Income Fund III; PIMCO New York Municipal Income Fund; PIMCO New York Municipal Income Fund II; PIMCO New York Municipal Income Fund III; and PIMCO Strategic Income Fund, Inc.

## Interested Trustee

Name, Year of Birth and Number of Portfolios in Funds Complex Overseen by Trustee <sup>(1)</sup>	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships/Trusteeships Held by Trustee During the Past Five Years
Aylward, George R.* YOB: 1964 Portfolios Overseen: 110	Class I Trustee of EDF since 2022, term expires at the 2024 Annual Meeting	Director, President and Chief Executive Officer (since 2008), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various senior officer positions with Virtus affiliates (since 2005).	Trustee, President and Chief Executive Officer (since 2022), Virtus Stone Harbor Emerging Markets Income Fund and Virtus Stone Harbor Emerging Markets Total Income Fund; Member, Board of Governors of the Investment Company Institute (since 2021); Trustee and President (since 2021), The Merger Fund <sup>®</sup> , The Merger Fund <sup>®</sup> VL, Virtus Event Opportunities Trust (2 portfolios), Virtus Investment Trust (13 portfolios) and Virtus Strategy Trust (8 portfolios); Trustee, President and Chief Executive Officer (since 2021), Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Convertible & Income 2024 Target Term Fund, Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Diversified Income & Convertible Fund, Virtus Equity & Convertible Income Fund, and Virtus Dividend, Interest & Premium Strategy Fund; Chairman and Trustee (since 2015), Virtus ETF Trust II (6 portfolios); Director, President and Chief Executive Officer (2014 to 2021), Duff & Phelps Select MLP and Midstream Energy Fund Inc.; Trustee and President (since 2013), Virtus Alternative Solutions Trust (4 portfolios); Director (since 2013), Virtus Global Funds, plc (5 portfolios); Trustee (since 2012) and President (since 2010), Virtus Variable Insurance Trust (8 portfolios); Trustee, President and Chief Executive Officer (since 2011), Virtus Global Multi-Sector Income Fund; Trustee and President (since 2006) and Executive Vice President (2004 to 2006), Virtus Mutual Fund Family (56 portfolios); Director, President and Chief Executive Officer (since 2006), Virtus Total Return Fund Inc.; and Director, President and Chief Executive Officer (2006 to 2019), the former Virtus Total Return Fund Inc.

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- (1) The “Virtus Fund Complex” includes those registered investment companies that hold themselves out to investors as related companies for purposes of investment and investor services or for which the Adviser or an affiliate of the Adviser, including the Subadviser, serves as investment adviser.

Mr. Aylward is an “interested person” as defined in the 1940 Act, by reason of his position as President and Chief Executive Officer of Virtus, the ultimate parent company of the Adviser, and various positions with its affiliates including the Adviser.

## Officers of the Acquiring Fund Who Are Not Trustees

Name and Year of Birth	Position(s) held with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years
Batchelar, Peter J. YOB: 1970	Senior Vice President (since 2022), EDF	Senior Vice President, Product Development (since 2017), Vice President, Product Development (2008 to 2017) and various officer positions (since 2008), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various officer positions (since 2008) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Bradley, W. Patrick YOB: 1972	Executive Vice President, Chief Financial Officer and Treasurer (since 2022), EDF	Executive Vice President, Fund Services (since 2016), Senior Vice President, Fund Services (2010 to 2016) and various officer positions (since 2004), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; various officer positions (since 2006) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.; and Member (since 2022), BNY Mellon Asset Servicing Client Advisory Board.
Branigan, Timothy YOB: 1976	Vice President and Fund Chief Compliance Officer (since 2022), Assistant Vice President and Deputy Fund Chief Compliance Officer (April to May 2022), EDF	Various officer positions (since 2019) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Chisolm, Daphne YOB: 1969	Vice President, Counsel and Assistant Secretary (since 2023), EDF	Vice President and Senior Counsel (since 2023), Virtus Investment Partners, Inc.; Attorney at Law engaged in private practice as a solo practitioner (2018 to 2023); and various officer positions (since 2023) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Fromm, Jennifer YOB: 1973	Vice President, Chief Legal Officer, Counsel and Secretary (since 2022), EDF	Vice President (since 2016) and Senior Counsel, Legal (since 2007) and various officer positions (since 2008), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various officer positions (since 2008) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Hackett, Amy YOB: 1968	Vice President and Assistant Treasurer (since 2022), EDF	Vice President (since 2010) and Assistant Vice President, (2007 to 2010), Fund Services, Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various officer positions (since 2007) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Krishnan, Suneeta YOB: 1965	Vice President and Assistant Treasurer (since 2022), EDF	Vice President (since 2017) and Assistant Treasurer (since 2007), Mutual Fund Administration, Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various officer positions (since 2009) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.
Rahman, Mahmood YOB: 1967	Assistant Vice President (since 2022), EDF	Vice President (since 2023), Tax Director (since 2020) and Assistant Vice President (2020 to 2023), Fund Administration, Virtus Investment Partners, Inc.; Assistant Vice President (since 2021) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.; and Assistant Treasurer and Tax Director, Grantham, Mayo, Van Otterloo & Co. LLC (2007 to 2019).

<b>Name and Year of Birth</b>	<b>Position(s) held with the Fund and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Short, Julia R. YOB: 1972	Senior Vice President (since 2022), EDF	Senior Vice President, Product Development (since 2017), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; Senior Vice President (since 2017) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.; and Managing Director, Product Manager, RidgeWorth Investments (2004 to 2017).
Smirl, Richard W. YOB: 1967	Executive Vice President (since 2022), EDF	Chief Operating Officer (since 2021), Virtus Investment Partners, Inc.; Executive Vice President (since 2021), Virtus Investment Partners, Inc. and/or certain of its subsidiaries; Executive Vice President (since 2021) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.; Chief Operating Officer (2018 to 2021), Russell Investments; Executive Director (Jan. to July 2018), State of Wisconsin Investment Board; and Partner and Chief Operating Officer (2004 to 2018), William Blair Investment Management.
Thaker, Nikita K. YOB: 1978	Vice President, Controller and Assistant Treasurer (since 2022), EDF	Vice President (since 2021) and Assistant Vice President (2016 to 2021), Mutual Fund Administration, Virtus Investment Partners, Inc. and/or certain of its subsidiaries; and various officer positions (since 2013) of various registered funds advised by subsidiaries of Virtus Investment Partners, Inc.

### **Leadership Structure and the Board of Trustees**

The Board is currently composed of 12 trustees, including 11 Independent Trustees. In addition to five regularly scheduled meetings per year, the Board holds special meetings either in person or via telephone to discuss specific matters that may require consideration prior to the next regular meeting. As discussed below, the Board has established several standing committees to assist the Board in performing its oversight responsibilities, and each such committee has a chairperson. The Board may also designate working groups or ad hoc committees as it deems appropriate.

The Trustees of the Acquiring Fund believe that an effective board should have perspectives informed by a range of viewpoints, skills, expertise, experiences and backgrounds. The Trustees endorse a diverse, inclusive and equitable environment for the Board where all members are respected, valued and engaged. As a result, when identifying and recruiting new Trustees and considering Board composition, committee composition and leadership roles, the Governance and Nominating Committee shall consider, among other attributes, diversity of race, ethnicity, color, religion, national origin, age, gender, disability, sexuality, culture, thought and geography, as well as numerous other dimensions of human diversity.

The Board has appointed Mr. McLoughlin, an Independent Trustee, to serve in the role of Chairman. The Chairman's primary role is to participate in the preparation of the agenda for meetings of the Board and the identification of information to be presented to the Board with respect to matters to be acted upon by the Board. The Chairman also presides at all meetings of the Board and between meetings generally acts as a liaison with the Fund's service providers, officers, legal counsel, and the other Trustees. The Chairman may perform such other functions as may be requested by the Board from time to time. Except for any duties specified herein or pursuant to the Fund's Declaration of Trust or By-laws, or as assigned by the Board, the designation of Chairman does not impose on such Independent Trustee any duties, obligations or liability that is greater than the duties, obligations or liability imposed on such person as a member of the Board, generally.

The Board believes that this leadership structure is appropriate because it allows the Board to exercise informed and independent judgment over matters under its purview, and it allocates areas of responsibility among committees or working groups of Trustees and the full Board in a manner that enhances effective

oversight. Mr. McLoughlin previously served as the Chairman and Chief Executive Officer of the company that is now Virtus; however, he is now an Independent Trustee due to (a) the fact that Virtus is no longer affiliated with The Phoenix Companies, Inc. (which was its parent company when Mr. McLoughlin retired) and (b) the passage of time. As a result of this balance, it is believed that Mr. McLoughlin has the ability to provide independent oversight of the Acquiring Fund's operations within the context of his detailed understanding of the perspective of the Adviser and the Acquiring Fund's other service providers. The Board therefore considers leadership by Mr. McLoughlin as enhancing the Board's ability to provide effective independent oversight of the Acquiring Fund's operations and meaningful representation of the shareholders' interests.

The Board also believes that having a super-majority of Independent Trustees is appropriate and in the best interest of the Acquiring Fund's shareholders. Nevertheless, the Board also believes that having an interested person serve on the Board brings corporate and financial viewpoints that are, in the Board's view, crucial elements in its decision-making process. In addition, the Board believes that Mr. Aylward, who is currently the Chairman and President of the Adviser, and the President and Chief Executive Officer of Virtus, and serves in various executive roles with other affiliates of the Adviser who provide services to the Acquiring Fund, provides the Board with the Adviser's perspective in managing and sponsoring the Virtus Funds as well as the perspective of other service providers to the Acquiring Fund. The leadership structure of the Board may be changed at any time and in the discretion of the Board, including in response to changes in circumstances or the characteristics of the Acquiring Fund.

The Board has established several standing committees to oversee particular aspects of the Acquiring Fund's management. The members of each Committee are set forth below:

#### ***The Audit Committee***

The Audit Committee is responsible for overseeing the Acquiring Fund's accounting and auditing policies and practices. The Audit Committee reviews the Acquiring Fund's financial reporting procedures, their system of internal control, the independent audit process, and the Acquiring Fund's procedures for monitoring compliance with investment restrictions and applicable laws and regulations and with the Code of Ethics. The Audit Committee is composed entirely of Independent Trustees; its members are Connie D. McDaniel, Chairperson, Donald C. Burke, Deborah A. DeCotis, John R. Mallin and Brian T. Zino. The Audit Committee met seven times during the Acquiring Fund's last fiscal year.

#### ***The Compliance Committee***

The Compliance Committee is responsible for overseeing the Acquiring Fund's compliance matters. The Compliance Committee oversees and reviews (1) information provided by the Acquiring Fund's officers, including the Acquiring Fund's CCO, the Fund's investment adviser and other principal service providers, and others as appropriate; (2) the codes of ethics; (3) whistleblower reports; and (4) distribution programs. The Compliance Committee is composed entirely of Independent Trustees; its members are R. Keith Walton, Chairperson, Sarah E. Cogan, F. Ford Drummond, Sidney E. Harris, and Geraldine M. McNamara. The Compliance Committee met four times during the Acquiring Fund's last fiscal year.

#### ***The Executive Committee***

The function of the Executive Committee is to serve as a delegate of the full Board, as well as act on behalf of the Board when it is not in session, subject to limitations as set by the Board. The Executive Committee is composed entirely of Independent Trustees; its members are Philip R. McLoughlin, Chairperson, Donald C. Burke, Deborah A. DeCotis, Sidney E. Harris and Brian T. Zino. The Executive Committee met three times during the Acquiring Fund's last fiscal year.

#### ***The Governance and Nominating Committee***

The Governance and Nominating Committee is responsible for developing and maintaining governance principles applicable to the Acquiring Fund, for nominating individuals to serve as Trustees, including as Independent Trustees, and annually evaluating the Board and Committees. The Governance and Nominating Committee is composed entirely of Independent Trustees; its members are Brian T. Zino, Chairperson,

Sarah E. Cogan, F. Ford Drummond, Sidney E. Harris, Philip R. McLoughlin and R. Keith Walton. The Governance and Nominating Committee met four times during the Acquiring Fund's last fiscal year.

The Governance and Nominating Committee considers candidates for trusteeship and makes recommendations to the Board with respect to such candidates. There are no specific required qualifications for trusteeship. The committee considers all relevant qualifications of candidates for trusteeship, such as industry knowledge and experience, financial expertise, current employment and other board memberships, and whether the candidate would be qualified to be considered an Independent Trustee. The Board believes that having among its members a diversity of viewpoints, skills and experience and a variety of complementary skills enhances the effectiveness of the Board in its oversight role. The committee considers the qualifications of candidates for trusteeship in this context.

The Board has adopted a policy for consideration of Trustee nominees recommended by shareholders. With regards to such policy, an individual shareholder or shareholder group submitting a nomination must hold either individually or in the aggregate for at least one full year as of the date of nomination 5% of the shares of a series of the Acquiring Fund, among other qualifications and restrictions. Shareholders or shareholder groups submitting nominees must comply with all requirements set forth in the Acquiring Fund's policy for consideration of Trustee nominees recommended by shareholders and any such submission must be in writing, directed to the attention of the Governance and Nominating Committee in care of the Acquiring Fund's Secretary, and should include biographical information, including business experience for the past ten years and a description of the qualifications of the proposed nominee, along with a statement from the proposed nominee that he or she is willing to serve and meets the requirements to be an Independent Trustee, if applicable. Shareholder nominees for Trustee will be given the same consideration as any candidate provided the nominee meets certain minimum requirements.

#### ***Information about Each Trustee's Qualification, Experience, Attributes or Skills***

The following provides further information about each Trustee's specific experience, qualifications, attributes or skills. The information in this section should not be understood to mean that any Trustee is an "expert" within the meaning of the federal securities laws.

#### ***George R. Aylward***

In addition to his positions with the Acquiring Fund, Mr. Aylward is a Director and the President and Chief Executive Officer of Virtus, the ultimate parent company of the Adviser. He also holds various executive positions with the Adviser, the Acquiring Fund's Subadviser, the Distributor and the Administrator to the Acquiring Fund, and various of their affiliates, and previously held such positions with the former parent company of Virtus. He therefore has experience in all aspects of the development and management of registered investment companies, and the handling of various financial, staffing, regulatory and operational issues. Mr. Aylward is a certified public accountant and holds an MBA, and he also serves as an officer and director/trustee of several open-end and closed-end funds managed by the Adviser and its affiliates.

#### ***Donald C. Burke***

Mr. Burke has extensive financial and business experience in the investment management industry. He was employed by BlackRock, Inc. (2006 to 2009) and Merrill Lynch Investment Managers (1990 to 2006) where he held a number of roles including Managing Director and President and Chief Executive Officer of the BlackRock U.S. mutual funds. In this role, Mr. Burke was responsible for the accounting, tax and regulatory reporting requirements for over 300 open and closed-end funds. He also served as a trustee for numerous global funds that were advised by BlackRock, Inc. Mr. Burke currently serves as a director and Audit Committee Chairman of Avista Corp., a public company involved in the production, transmission and distribution of energy. Mr. Burke started his career at Deloitte & Touche (formerly Deloitte Haskins & Sells) and is a certified public accountant. He has also served on a number of nonprofit boards. He is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

#### ***Sarah E. Cogan***

Ms. Cogan has substantial legal background and experience in the investment management industry. She was a partner at Simpson Thacher & Bartlett LLP, a large international law firm, in the corporate

department for over 25 years and former head of the registered funds practice. She has extensive experience in oversight of investment company boards through her prior experience as counsel to the former Independent Trustees of the funds now known as Virtus Artificial Intelligence & Technology Opportunities Fund, Virtus Convertible & Income 2024 Target Term Fund, Virtus Convertible & Income Fund, Virtus Convertible & Income Fund II, Virtus Diversified Income & Convertible Fund, Virtus Dividend, Interest & Premium Strategy Fund and Virtus Equity & Convertible Income Fund and the series of the trusts now known as Virtus Investment Trust and Virtus Strategy Trust and as counsel to other independent trustees, investment companies and asset management firms. She is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

***Deborah A. DeCotis***

Ms. DeCotis has substantial senior executive experience in the investment banking industry, having served as a Managing Director for Morgan Stanley. She has extensive board experience and/or experience in oversight of investment management functions through her experience as a trustee of Stanford University and Smith College and as a director of Cadre Holdings Inc., Armor Holdings and The Helena Rubinstein Foundation, Stanford Graduate School of Business. Ms. DeCotis is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

***F. Ford Drummond***

Mr. Drummond has substantial legal background and experience in the oversight and management of regulated companies through his work as General Counsel of BMI Health Plans, a benefits administrator. He has substantial board experience in the banking sector as a director of BancFirst Corporation, Oklahoma's largest state chartered bank, and as a former director of The Cleveland Bank. Mr. Drummond also previously served as a member and chairman of the Oklahoma Water Resources Board, which provides tax exempt financing for water infrastructure projects in the state. He is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

***Sidney E. Harris***

Dr. Sidney Harris has extensive knowledge of best practices in executive management, familiarity with international business practices and expertise in corporate strategy implementation, risk management, technology, asset management compliance and investments. Dr. Harris is Dean Emeritus and, until recently, was a Professor at the J. Mack Robinson College of Business at Georgia State University. He was affiliated with the J. Mack Robinson College of Business from 1997 to 2021, including serving as Professor (2015 to 2021 and 1997 to 2014) and Dean (1997 to 2004). Most recently, Dr. Harris was Professor of Computer Information Systems, Management and International Business. Prior to joining Georgia State University, Dr. Harris was Professor (1987 to 1996) and former Dean (1991 to 1996) of the Peter F. Drucker Graduate School of Management at Claremont Graduate University (currently Peter F. Drucker and Masatoshi Ito Graduate School of Management). He served as Independent Trustee of the RidgeWorth Funds Board of Trustees (2004 to 2017) and as Independent Chairman (2007 to 2017). He served as a member of the RidgeWorth Funds Governance and Nominating Committee (2004 to 2017) and Audit Committee (2006 to 2017). Dr. Harris previously served on the Board of Transamerica Investors (1995 to 2005). Dr. Harris previously served as a Director of Total System Services, Inc. (1999 to 2019). He served on the Board of Directors of KIPP Metro Atlanta, served as Chairman of the International University of the Grand-Bassam ("IUGB") Foundation (2012 to 2017), and serves on the Board of Directors of the IUGB Foundation (since 2012). Dr. Harris also serves as a Trustee of the Mutual Funds Directors Forum (since 2019). He is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

***John R. Mallin***

Mr. Mallin is a real estate partner and former practice group leader for the Real Property Practice Group at McCarter & English LLP. During his career, he has been involved in all aspects of real estate development and financial transactions related to real estate. Mr. Mallin also has oversight and corporate governance experience as a director, including as a chair, of non-profit entities. Mr. Mallin is also a trustee of several other open-end funds managed by Virtus affiliates.

### ***Connie D. McDaniel***

Ms. McDaniel, currently retired, has extensive domestic and international business experience, particularly with respect to finance, strategic planning, risk management and risk assessment functions. She is retired from The Coca-Cola Company, where she served as Vice President and Chief of Internal Audit, Corporate Audit Department (2009 to 2013), Vice President, Global Finance Transformation (2007 to 2009), Vice President and Controller (1999 to 2007), and held various management positions (1989 to 1999). While at The Coca-Cola Company, Ms. McDaniel chaired that company's Ethics and Compliance Committee (2009 to 2013) and developed a knowledge of corporate governance matters. Prior to The Coca-Cola Company, she was associated with Ernst & Young (1980 to 1989). Ms. McDaniel served as Independent Trustee of the RidgeWorth Funds Board of Trustees from 2005 to 2017. She was Chairman of the RidgeWorth Funds Audit Committee (2008 to 2017), designated Audit Committee Financial Expert (2007 to 2017) and a member of the RidgeWorth Funds Governance and Nominating Committee (2015 to 2017). Ms. McDaniel also served as a Director of Total System Services, Inc. (2014 to 2019). She currently serves as a Director and Governance and Nominating Committee Chairperson of Global Payments Inc. (since 2019) and as a Director of North Florida Land Trust (since 2021). Ms. McDaniel served as Chair of the Georgia State University Robinson College of Business Board of Advisors (2014 to 2016) and served as a member of the Georgia State University Robinson College of Business Board of Advisors (2011 to 2021). Ms. McDaniel is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

### ***Philip R. McLoughlin***

Mr. McLoughlin has an extensive legal, financial and asset management background. In 1971, he joined Phoenix Investment Partners, Ltd. (then, Phoenix Equity Planning Corp.), the predecessor of Virtus Investment Partners, Inc., as Assistant Counsel with responsibility for various compliance and legal functions. During his tenure, Mr. McLoughlin assumed responsibility for most functions in the firm's advisory, broker-dealer and fund management operations, and eventually ascended to the role of President. Mr. McLoughlin then served as General Counsel, and later Chief Investment Officer, of Phoenix Mutual Life Insurance Company, the parent company of Phoenix Investment Partners. Among other functions, he served as the senior management liaison to the boards of directors of the insurance company's mutual funds and closed-end funds, and had direct oversight responsibility for the Fund's portfolio managers. In 1994, Mr. McLoughlin was named Chief Executive Officer of Phoenix Investment Partners, and continued in that position, as well as Chief Investment Officer of Phoenix Mutual Life Insurance Company, until his retirement in 2002. He is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates, including serving as the chairman of the board of several such funds.

### ***Geraldine M. McNamara***

Ms. McNamara was an executive at U.S. Trust Company of New York for 24 years, where she rose to the position of Managing Director. Her responsibilities at U.S. Trust included the oversight of U.S. Trust's personal banking business. In addition to her managerial and banking experience, Ms. McNamara has experience in advising individuals on their personal financial management, which has given her an enhanced understanding of the goals and expectations that individual investors may have. Ms. McNamara is also a trustee of several open-end and closed-end funds managed by Virtus affiliates.

### ***R. Keith Walton***

Mr. Walton's business and legal background, and his extensive service with other boards, provide valuable insight to the Board and its committees regarding corporate governance and best practices. He is an honors graduate of Yale University and the Harvard Law School. Mr. Walton was a Director of Systematica Investments Limited Funds (2006 to 2019) and a Director of BlueCrest Capital Management Funds (2006 to 2017). He is also the founding Principal and Chief Administrative Officer at Global Infrastructure Partners (since 2006) and Senior Adviser at Brightwood Capital, LLC (since 2022). He served as the Managing Director at Lafayette Square Holding Company LLC (2020 to 2021). Mr. Walton is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

### ***Brian T. Zino***

Mr. Zino, currently retired, was employed by J. & W. Seligman and Co. Inc., a privately held New York City investment firm managing Closed End Investment Companies, a family of mutual funds, institutional accounts and operating a trust company (1982 to 2009). For the last 15 of those years, he served as president and CEO of Seligman. His extensive mutual fund, financial and business background and years of service as a director of a large non-affiliated family of both open- and closed-end funds bring valuable skills and business judgment to the Board and its committees. Mr. Zino is also a certified public accountant and has an extensive background in accounting matters relating to investment companies. He also served as a Director (1998 to 2009), Chairman (2002 to 2004) and Vice Chairman (2000 to 2002) on the board of the ICI Mutual Insurance Company and as a Member of the Board of Governors of ICI (1998 to 2008). Mr. Zino is also a director/trustee of open-end and closed-end funds managed by Virtus affiliates.

### ***Board Oversight of Risk Management***

As a registered investment company, the Acquiring Fund is subject to a variety of risks, including investment risks, financial risks, compliance risks and regulatory risks. As part of its overall activities, the Board oversees the management of the Acquiring Fund's risk management structure by the Acquiring Fund's Adviser, Subadviser, Administrator, officers and others. The responsibility to manage the Acquiring Fund's risk management structure on a day-to-day basis is subsumed within the other responsibilities of these parties.

The Board considers risk management issues as part of its general oversight responsibilities throughout the year at regular meetings of the Board and its committees, and within the context of any ad hoc communications with the Acquiring Fund's service providers and officers. The Acquiring Fund's Adviser, Subadviser, Administrator, officers and legal counsel prepare regular reports to the Board that address certain investment, valuation, compliance and other matters, and the Board as a whole or its committees may also receive special written reports or presentations on a variety of risk issues at the request of the Board, a committee, the Chairman or a senior officer.

The Board receives regular written reports describing and analyzing the investment performance of the Acquiring Fund. In addition, the portfolio managers of the Acquiring Fund and senior management of the Acquiring Fund's Subadviser meets with the Board periodically to discuss portfolio performance and answer the Board's questions with respect to portfolio strategies and risks.

The Board receives regular written reports from the Acquiring Fund's Chief Financial Officer that enable the Board to monitor the number of fair valued securities in the Acquiring Fund's portfolio, the reasons for the fair valuation and the methodology used to arrive at the fair value. The Board and/or the Audit Committee may also review valuation procedures and pricing results with the Acquiring Fund's independent auditors in connection with the review of the results of the audit of the Acquiring Fund's year-end financial statements.

The Board also receives regular compliance reports prepared by the compliance staff of the Adviser and meets regularly with the Acquiring Fund's CCO to discuss compliance issues, including compliance risks. As required under applicable rules, the Independent Trustees meet regularly in executive session with the CCO, and the CCO prepares and presents an annual written compliance report to the Board. The CCO, as well as the compliance staff of the Adviser and Virtus, provide the Board with reports on their examinations of functions and processes within the Adviser and the Subadviser that affect the Acquiring Fund. The Board also adopts compliance policies and procedures for the Acquiring Fund and approves such procedures for the Acquiring Fund's service providers. The compliance policies and procedures are specifically designed to detect and prevent violations of the federal securities laws.

In its annual review of the Acquiring Fund's advisory, subadvisory and administration agreements, the Board reviews information provided by the Adviser, the Subadviser and the Administrator relating to their operational capabilities, financial conditions and resources. The Board may also discuss particular risks that are not addressed in its regular reports and processes.

The Board recognizes that it is not possible to identify all of the risks that may affect the Acquiring Fund or to develop processes and controls to eliminate or mitigate their occurrence or effects. The Board

periodically reviews the effectiveness of its oversight of the Acquiring Fund and the other funds in the Virtus Funds family, and the processes and controls in place to limit identified risks. The Board may, at any time and in its discretion, change the manner in which it conducts its risk oversight role.

### Trustees' Fund Holdings as of March 31, 2023

As of March 31, 2023, the Trustees beneficially owned shares of the Acquiring Fund as set forth in the table below.

Independent Trustees	Dollar Range of Equity Securities in the Acquiring Fund	Aggregate Dollar Range of Trustee Ownership in all Funds Overseen by Trustee in Family of Investment Companies*
Donald C. Burke . . . . .	\$1 – \$10,000	Over \$100,000
Sarah E. Cogan . . . . .	None	Over \$100,000
Deborah A DeCotis . . . . .	None	Over \$100,000
F. Ford Drummond . . . . .	\$1 – \$10,000	Over \$100,000
Sidney E. Harris . . . . .	None	Over \$100,000
John R. Mallin . . . . .	\$10,001 – \$50,000	Over \$100,000
Connie D. McDaniel . . . . .	None	Over \$100,000
Philip McLoughlin . . . . .	None	Over \$100,000
Geraldine M. McNamara . . . . .	None	Over \$100,000
R. Keith Walton . . . . .	None	Over \$100,000
Brian T. Zino . . . . .	None	Over \$100,000

\* Holdings exclude any exposure through the Deferred Compensation Plan, which may be counted towards the Trustee Ownership Policy but are not considered ownership for any other purpose.

Interested Trustee	Dollar Range of Equity Securities in the Acquiring Fund	Aggregate Dollar Range of Trustee Ownership in all Funds Overseen by Trustee in Family of Investment Companies
George R. Aylward . . . . .	None	Over \$100,000

As of October 24, 2023, the Trustees and Officers of the Acquiring Fund as a whole owned less than 1% of the outstanding shares of the Acquiring Fund.

### Trustee Compensation

Trustees who are not employed by the Adviser or its affiliates receive an annual retainer and fees and expenses for attendance at Board and Committee meetings. Officers and employees of the Adviser of the Acquiring Fund who are interested persons are compensated for their services by the Adviser of the Acquiring Fund, or an affiliate of the Adviser of the Acquiring Fund, and receive no compensation from the Acquiring Fund. The Fund does not have any retirement plan for its Trustees.

For the fiscal year ended November 30, 2022, the current Trustees received the following compensation:

Independent Trustees	Aggregate Compensation from EDF	Total Compensation From Trust and Fund Complex Paid to Trustees
Donald C. Burke . . . . .	\$1,392	\$436,500
Sarah E. Cogan <sup>(*)</sup> . . . . .	\$1,392	\$365,000
Deborah A. DeCotis <sup>(*)</sup> . . . . .	\$1,392	\$355,000
F. Ford Drummond <sup>(*)</sup> . . . . .	\$1,392	\$360,000
Sidney E. Harris . . . . .	\$1,392	\$340,000

<b>Independent Trustees</b>	<b>Aggregate Compensation from EDF</b>	<b>Total Compensation From Trust and Fund Complex Paid to Trustees</b>
John R. Mallin . . . . .	\$1,392	\$340,000
Connie D. McDaniel . . . . .	\$1,392	\$385,000
Philip R. McLoughlin . . . . .	\$4,097	\$644,125
Geraldine M. McNamara . . . . .	\$1,392	\$466,500
R. Keith Walton . . . . .	\$1,392	\$355,000
Brian T. Zino . . . . .	\$1,392	\$400,000
<b>Interested Trustees</b>	<b>Aggregate Compensation from EDF</b>	<b>Total Compensation From Trust and Fund Complex Paid to Trustees</b>
George R. Aylward . . . . .	None	None

(\*) Became Trustee of the Fund on July 1, 2022.

## PORFOLIO TRANSACTIONS

### Acquiring Fund Portfolio Transactions

In effecting transactions for the Acquiring Fund, the adviser or subadviser (throughout this section, “Subadviser”) adheres to the Acquiring Fund’s policy of seeking best execution and price, determined as described below, except to the extent it is permitted to pay higher brokerage commissions for “brokerage and research services” as defined herein. The determination of what may constitute best execution and price in the execution of a securities transaction by a broker involves a number of considerations including, without limitation, the overall direct net economic result to the Acquiring Fund (involving both price paid or received and any commissions and other costs paid), the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, availability of the broker to stand ready to execute possibly difficult transactions in the future, the financial strength and stability of the broker and its ability to provide research services. Such considerations are judgmental and are weighed by the Subadviser in determining the overall reasonableness of brokerage commissions paid by the Acquiring Fund.

The Subadviser may cause the Acquiring Fund to pay a broker an amount of commission for effecting a securities transaction in excess of the amount of commission which another broker or dealer would have charged for effecting that transaction if the Subadviser determines in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by such broker. As provided in Section 28(e) of the Securities Exchange Act of 1934, “brokerage and research services” include advising as to the value of securities, the advisability of investing in, purchasing or selling securities, the availability of securities or purchasers or sellers of securities; furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts, and effecting securities transactions and performing functions incidental thereto (such as clearance and settlement). Brokerage and research services provided by brokers to the Acquiring Fund is considered to be in addition to and not in lieu of services required to be performed by the Subadviser under its contract with the Acquiring Fund and may benefit the Acquiring Fund and other accounts of the Subadviser. Conversely, brokerage and research services provided by brokers to other accounts of the Subadviser may benefit the Acquiring Fund.

If the securities in which the Acquiring Fund invests are traded primarily in the over-the-counter market, where possible the Acquiring Fund will deal directly with the dealers who make a market in the securities involved unless better prices and executions are available elsewhere. Such securities may be purchased directly from the issuer. Bonds and money market instruments are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes.

The Acquiring Fund has adopted a policy governing the execution of aggregated advisory client orders (“bunching policy”) in an attempt to lower commission costs on a per-share and per-dollar basis. According to the bunching policy, no Subadviser shall aggregate transactions unless it believes in its sole discretion that such aggregation is consistent with its duty to seek best execution (which shall include the duty to seek best price) for the Acquiring Fund. No advisory account of the Subadviser is to be favored over any other account and each account that participates in an aggregated order is expected to participate at the average share price for all transactions of the Subadviser in that security on a given business day, with all transaction costs shared pro rata based on the Acquiring Fund’s participation in the transaction. If the aggregated order is filled in its entirety, it shall be allocated among the Subadviser’s accounts in accordance with the allocation order, and if the order is partially filled, it shall be allocated pro rata based on the allocation order. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the allocation order if good reason for such different allocation is provided and approved in accordance with the Subadviser’s policies and procedures adopted in accordance with the Acquiring Fund’s policy. The Board will review the bunching policy from time to time as they deem appropriate.

For the fiscal years ended November 30, 2020, November 30, 2021 and November 30, 2022, the Acquiring Fund did not pay brokerage commissions.

## CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

As of the date of this SAI, the following persons owned of record the number of common shares noted below, representing the indicated percentage of the Acquiring Fund's outstanding equity securities as of such date. To the knowledge of the Acquiring Fund, no other person owned of record or beneficially 5% or more of the Acquiring Fund's outstanding equity securities on such date.

Shareholder	Number of Common Shares	Percentage of the Acquiring Fund's outstanding shares as of October 31, 2023
Morgan Stanley. . . . . 1585 Broadway New York, New York 10036	1,161,270 <sup>(1)</sup>	6.70%

(1) Based on June 30, 2023 Section 13 filing.

### Code of Ethics

The Acquiring Fund, its Adviser and subadviser have each adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act. Personnel subject to the Codes of Ethics may purchase and sell securities for their personal accounts, including securities that may be purchased, sold or held by the Acquiring Fund, subject to certain restrictions and conditions. Generally, personal securities transactions are subject to preclearance procedures, reporting requirements and holding period rules. The Codes also restrict personal securities transactions in private placements, initial public offerings and securities in which the Acquiring Fund has a pending order. The Acquiring Fund has also adopted a Code of Ethics for Chief Executive and Senior Financial Officers as required by Section 406 of the Sarbanes-Oxley Act of 2002.

### PROXY VOTING POLICIES

The Acquiring Fund has adopted a Policy Regarding Proxy Voting (the "Policy") stating the Acquiring Fund's intention to exercise stock ownership rights with respect to portfolio securities in a manner that is reasonably anticipated to further the best economic interests of shareholders of the Acquiring Fund. The Acquiring Fund or its voting delegates will endeavor to analyze and vote all proxies that are likely to have financial implications, and where appropriate, to participate in corporate governance, shareholder proposals, management communications and legal proceedings. The Acquiring Fund or its voting delegates must also identify potential or actual conflicts of interest in voting proxies and must address any such conflict of interest in accordance with the Policy.

In the absence of a specific direction to the contrary from the Board, the Adviser or the Subadviser that is managing the Acquiring Fund is responsible for voting proxies for the fund, or for delegating such responsibility to a qualified, independent organization engaged by the Adviser or respective Subadviser to vote proxies on its behalf. The applicable voting party will vote proxies in accordance with the Policy or its own policies and procedures, which must be reasonably designed to further the best economic interests of the affected fund shareholders. Because the Policy and the applicable voting party's policies and procedures used to vote proxies for the fund both are designed to further the best economic interests of the affected fund shareholders, they are not expected to conflict with one another although the types of factors considered by the applicable voting party under its own policies and procedures may be in addition to or different from the ones listed below for the Policy.

The Policy specifies the types of factors to be considered when analyzing and voting proxies on certain issues when voting in accordance with the Policy, including, but not limited to:

- Anti-takeover measures — the overall long-term financial performance of the target company relative to its industry competition.
- Corporate Governance Matters — tax and economic benefits of changes in the state of incorporation; dilution or improved accountability associated with changes in capital structure.

- Contested elections — the qualifications of all nominees; independence and attendance record of board and key committee members; entrenchment devices in place that may reduce accountability.
- Stock Option and Other Management Compensation Issues — executive pay and spending on perquisites, particularly in conjunction with sub-par performance and employee layoffs.
- Shareholder proposals — whether the proposal is likely to enhance or protect shareholder value; whether identified issues are more appropriately or effectively addressed by legal or regulatory changes; whether the issuer has already appropriately addressed the identified issues; whether the proposal is unduly burdensome or prescriptive; whether the issuer's existing approach to the identified issues is comparable to industry best practice.

The Acquiring Fund and its voting delegates seek to avoid actual or perceived conflicts of interest of Acquiring Fund shareholders, on the one hand, and those of the Adviser, Subadviser, other voting delegate, Distributor, or any affiliated person of the Acquiring Fund, on the other hand.

Depending on the type and materiality, the Board or its delegates may take the following actions, among others, in addressing any material conflicts of interest that arise with respect to voting (or directing voting delegates to vote): (i) rely on the recommendations of an established, independent third party proxy voting vendor; (ii) vote pursuant to the recommendation of the proposing delegate; (iii) abstain; (iv) where two or more delegates provide conflicting requests, vote shares in proportion to the assets under management of each proposing delegate; (v) vote shares in the same proportion as the vote of all other shareholders of such issuer; or (vi) the Adviser may vote proxies where the Subadviser has a direct conflict of interest. The Policy requires each Adviser/Subadviser that is a voting delegate to notify the Chief Compliance Officer of the Acquiring Fund (or, in the case of a Subadviser, the Chief Compliance Officer of the Adviser) of any actual or potential conflict of interest that is identified, and provide a recommended course of action for protecting the best interests of the affected fund's shareholders. No Adviser/Subadviser or other voting delegate may waive any conflict of interest or vote any conflicted proxies without the prior written approval of the Board (or the Executive Committee thereof) or the Chief Compliance Officer of the Acquiring Fund.

The Policy further imposes certain record-keeping and reporting requirements on each Adviser/Subadviser or other voting delegate.

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 will be available, no later than August 31 of each year, free of charge by calling, toll-free, (800) 243-1574, or on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

Following is information about the policies and procedures followed by the Subadviser to the Fund in voting proxies for the Fund.

In voting proxies, Stone Harbor is responsible for making investment decisions that seek to add value to its client assets and that are in the best interest of its clients. Stone Harbor has adopted proxy voting policies, general guidelines and procedures. As an adviser that primarily invests in fixed-income securities, Stone Harbor does not frequently have to vote proxies on behalf of its clients. In voting proxies, Stone Harbor is guided by general fiduciary principles. Stone Harbor's goal is to act prudently, solely in the best interest of the beneficial owners of the accounts it manages. Stone Harbor attempts to consider all factors of its vote that could affect the value of the investment and will vote proxies in the manner that it believes will be consistent with efforts to maximize such value.

It is anticipated that Stone Harbor will generally follow its proxy voting general guidelines. If deemed to be in the best interests of a client, a portfolio manager may override the general guidelines without consultation with Stone Harbor's Compliance & Risk Committee, unless the situation involves a conflict of interest. All overrides are subject to review by the Stone Harbor Compliance & Risk Committee.

In voting client proxies, Stone Harbor may encounter various potential conflicts of interest, such as when voting proxies pertaining to existing clients, potential clients, existing vendors, or lenders. In any case involving a potential or known conflict of interest, Stone Harbor personnel will consult with the Stone Harbor Compliance & Risk Committee in an attempt to resolve an actual or potential conflict. In addition, the

Stone Harbor Compliance & Risk Committee reviews the proxy voting guidelines and portfolio manager overrides on at least an annual basis.

A complete copy of Stone Harbor's current Proxy Voting Policies, Procedures and Guidelines may be obtained by sending a written request to Stone Harbor Investment Partners, LLC, Attn: Compliance, 31 West 52nd Street, 16th Floor, New York, New York 10019.

## **INVESTMENT ADVISORY AND OTHER SERVICES**

### **Investment Adviser**

The investment adviser to the Acquiring Fund is VAIA, located at One Financial Plaza, Hartford, Connecticut 06103. VAIA, an indirect, wholly-owned subsidiary of Virtus, had approximately \$988 million in assets under management as of December 31, 2022.

### **Investment Advisory Agreement and Expense Limitation Agreement**

The investment advisory agreement, approved by the Board, provides that the Acquiring Fund will bear all costs and expenses (other than those specifically referred to as being borne by the Adviser) incurred in the operation of the Acquiring Fund. Such expenses include, but shall not be limited to, all expenses incurred in the operation of the Acquiring Fund and public offering of its shares, including, among others, interest, taxes, brokerage fees and commissions, fees of Trustees who are not employees of the Adviser, the Subadviser or any of their affiliated persons, expenses of Trustees' and shareholders' meetings including the cost of printing and mailing proxies, expenses of Adviser personnel attending Trustee meetings as required, expenses of insurance premiums for fidelity and other coverage, expenses of repurchase and redemption of shares, expenses of issue and sale of shares (to the extent not borne by its underwriter(s) pursuant to an agreement with the Acquiring Fund), expenses of printing and mailing share certificates representing shares of the Acquiring Fund, association membership dues, charges of custodians, transfer agents, dividend disbursing agents and financial agents, bookkeeping, auditing and legal expenses. The Acquiring Fund will also pay the fees and bear the expense of registering and maintaining the registration of the Acquiring Fund and its shares with the SEC to the extent required by law, listing its shares on any exchange, and registering or qualifying its shares under state or other securities laws and the expense of preparing and mailing prospectuses and reports to shareholders to the extent required by law. Additionally, if authorized by the Trustees, the Acquiring Fund shall pay for extraordinary expenses and expenses of a nonrecurring nature which may include, but not be limited to the reasonable and proportionate cost of any reorganization or acquisition of assets and the cost of legal proceedings to which the Acquiring Fund is a party.

As compensation for its services to the Acquiring Fund, the Adviser receives a fee at an annual rate of 1.00% of the average daily value of the Acquiring Fund's total assets (including any assets attributable to any leverage used) minus the Acquiring Fund's accrued liabilities (other than the Acquiring Fund liabilities incurred for any leverage) ("Managed Assets") provided that the Adviser fee does not exceed 1.50% of the Acquiring Fund's net assets.

VAIA has contractually agreed to limit the Acquiring Fund's annual operating expenses other than the management fees, subject to the exclusions listed below, so that such expenses do not exceed, on an annualized basis, 0.58% of average daily net assets through April 10, 2025. Following the contractual period, the Adviser may discontinue these expense reimbursement arrangements at any time.

The exclusions include investment advisory fees, interest, any other fees or expenses relating to financial leverage, preferred shares (such as dividends on preferred shares, auction agent fees and commissions and rating agency fees) or borrowing (such as interest, commitment, amendment and renewal expenses on credit or redemption facilities), taxes, extraordinary, unusual or infrequently occurring expenses (such as litigation), costs related to share offerings, brokerage commissions, expenses incurred in connection with any merger or reorganization, underlying fund expenses and dividend expenses, if any (each expressed as a percentage of average daily net assets attributable to common shares).

Under certain conditions, the Adviser may recapture operating expenses reimbursed or fees waived under these arrangements within three years after the date on which such amounts were incurred or waived.

The Acquiring Fund must pay its ordinary operating expenses before the Adviser is entitled to any reimbursement and must remain in compliance with any applicable expense limitations or, if none, the expense limitation in effect at the time of the waiver or reimbursement.

The investment advisory agreement also provides that the Adviser shall not be liable to the Acquiring Fund or to any shareholder of the Acquiring Fund for any error of judgment or mistake of law or for any loss suffered by the Acquiring Fund or by any shareholder of the Acquiring Fund in connection with the matters to which the agreement relates, except a loss resulting from willful misfeasance, bad faith, gross negligence or reckless disregard on the part of such Adviser in the performance of its duties thereof.

The investment advisory agreement shall remain in effect for a period of two years from the date of the advisory agreement, and continues from year to year with respect to the Acquiring Fund provided that (1) such continuance is approved at least annually by either the Trustees or by a vote of the majority of the outstanding shares of the Acquiring Fund and (2) the terms and any continuation of the advisory agreement have been approved by the vote of a majority of the Trustees who are not parties to the agreement or interested persons, as that term is defined in the 1940 Act, of the Acquiring Fund or the Adviser, cast in person (or otherwise, as consistent with applicable laws, regulations and related guidance and relief) at a meeting called for the purpose of voting on such approval. On sixty days' written notice to the Adviser and without penalty, the Acquiring Fund may terminate the agreement by a vote of the majority of the outstanding securities of the Acquiring Fund. The Adviser may terminate the agreement upon sixty days' notice to the Acquiring Fund, without the payment of any penalty. The Agreement automatically terminates upon its assignment (within the meaning of the 1940 Act). The agreement provides that upon its termination, or at the request of the Adviser, the Acquiring Fund will eliminate all reference to Virtus from its name and will not thereafter transact business in a name using the word Virtus.

### Advisory Fees

The following table shows the dollar amount of fees received by the Adviser for services to the Acquiring Fund, the amount of expenses reimbursed by the Adviser, and the actual fee received by the Adviser, during the fiscal years ended November 30, 2020, 2021 and 2022 under the investment advisory agreement in effect.

Fund	Gross Advisory Fee (\$) <sup>(*)</sup>			Advisory Fee Waived and/or Expenses Reimbursed (\$) <sup>(*)</sup>			Net Advisory Fee (\$) <sup>(*)</sup>		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Stone Harbor									
Emerging Markets									
Income Fund . . . .	\$1,606,000	\$1,614,000	\$1,209,000	—	—	\$(1,000)	\$1,606,000	\$1,614,000	\$1,208,000

(\*) For periods prior to April 11, 2022, Stone Harbor Investment Partners LLC (or its predecessor, Stone Harbor Investment Partners LP) served as adviser to the Fund. VAIA replaced Stone Harbor Investment Partners LLC and became the Fund's adviser effective on April 11, 2022. All advisory fees paid prior to April 11, 2022, were paid to Stone Harbor Investment Partners LLC (or its predecessor, Stone Harbor Investment Partners LP) and all advisory fees paid from April 11, 2022 through November 30, 2022 were paid to VAIA.

### Subadviser and Subadvisory Agreement

The Adviser has entered into a subadvisory agreement with respect to the Acquiring Fund. The subadvisory agreement provides that the Adviser will delegate to the Subadviser the performance of certain of its investment management services under the Investment Advisory Agreement with respect to the Fund. The Subadviser furnishes at its own expense the office facilities and personnel necessary to perform such services. The Adviser remains responsible for the supervision and oversight of the Subadviser's performance. The subadvisory agreement is initially scheduled to remain in effect for two years, and will continue in effect from year to year if specifically approved by the Trustees, including a majority of the Independent Trustees. The subadvisory fees are paid by the Adviser out of its advisory fees from the Acquiring Fund.

VFIA, an affiliate of VAIA, has its principal office at One Financial Plaza, Hartford, CT 06103. VFIA operates through its division, Stone Harbor, in subadvising the Fund. Stone Harbor is located at 31 West 52nd Street, 16th Floor, New York, New York 10019. As of December 31, 2022, the three divisions that make up VFIA managed approximately \$33.1 billion in aggregate assets under management.

The predecessor to Stone Harbor Investment Partners, LLC, which merged with and into VFIA on July 1, 2022, and the former portfolio management team of which now operates as the Stone Harbor division of VFIA, was established in 2006. As of December 31, 2022, the Stone Harbor division of VFIA managed approximately \$10.8 billion in assets under management.

### **Subadvisory Fees**

The following table shows the dollar amount of fees payable to the Subadviser for managing the Acquiring Fund, the amount of expenses reimbursed by the Subadviser, and the actual fee received by the Subadviser for the fiscal year ended November 30, 2022. The Fund did not have a subadviser before April 11, 2022.

<b>Fund</b>	<b>Gross Subadvisory Fee (\$)</b>	<b>Subadvisory Fee Waived and/or Expenses Reimbursed (\$)</b>	<b>Net Subadvisory Fee (\$)</b>
	<b>4/11/2022 – 11/30/2022<sup>(*)</sup></b>	<b>4/11/2022 – 11/30/2022<sup>(*)</sup></b>	<b>4/11/2022 – 11/30/2022<sup>(*)</sup></b>
Stone Harbor Emerging Markets Income Fund . . . . .	\$331,642	—	\$331,642

(\*) Stone Harbor became subadviser to the Fund on April 11, 2022.

## **OTHER SERVICE PROVIDERS**

### **Administrator**

VFS is the administrator of the Acquiring. VFS is an indirect, wholly-owned subsidiary of Virtus and an affiliate of the Adviser. For its services as administrator, the Fund pays the administrator an asset-based fee calculated on the Acquiring Fund's average daily Managed Assets. This fee is calculated daily and paid monthly.

The following table shows the dollar amount of fees paid to the Administrator for the fiscal years ended November 30, 2020, 2021 and 2022, for its administrative services.

<b>Fund</b>	<b>Administration Fee (\$)<sup>(*)</sup></b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Stone Harbor Emerging Markets Income Fund . . . . .	\$253,000	\$255,000	\$153,000

(\*) VFS became administrator to the fund effective on April 11, 2022. All administrative fees paid prior to April 11, 2022 were paid to ALPS Fund Services, Inc. and all administrative fees paid from April 11, 2022 through November 30, 2022 were paid to VFS.

### **Custodian**

The Bank of New York Mellon ("BNYM"), 240 Greenwich Street, New York, NY 10286, serves as the Custodian of the Acquiring Fund's assets. The Custodian designated by the Board holds the securities in the Acquiring Fund's portfolios and other assets for safe keeping. The Custodian does not and will not participate in making investment decisions for the Acquiring Fund. The Acquiring Fund has authorized the Custodian to appoint one or more sub-custodians for the assets of the Fund held outside the United States.

### **Transfer Agent and Sub-Transfer Agent**

Computershare Trust Company, N.A. ("Computershare") acts as transfer agent for the Acquiring Fund. Computershare's business address is P.O. Box 43078 Providence, RI 02940-3078.

## Legal Counsel to the Acquiring Fund

Dechert LLP, One Bush Street, Suite 1600, San Francisco, CA, 94104, acts as legal counsel to the Acquiring Fund and reviews certain legal matters for the Acquiring Fund in connection with the shares offered by the Information Statement/Prospectus.

## Independent Registered Public Accounting Firm

PwC serves as the independent registered public accounting firm for the Fund. Deloitte previously served as the independent registered public accounting firm for the Fund and audited the Fund's most recent annual financial statements and expressed an opinion thereon. The independent registered public accounting firm or one of its affiliates also provides other accounting and tax-related services as requested by the Fund from time to time. PwC's business address is Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103. Deloitte's business address is 1601 Wewatta Street, Suite 400, Denver, Colorado 80202.

## PORTFOLIO MANAGERS

### Other Accounts Managed by Portfolio Managers and Potential Conflicts of Interest

There may be certain inherent conflicts of interest that arise in connection with the portfolio managers' management of the Acquiring Fund's investments and the investments of any other accounts they manage. Such conflicts could include the aggregation of orders for all accounts managed by a particular portfolio manager, the allocation of purchases across all such accounts, the allocation of IPOs and any soft dollar arrangements that the Subadviser may have in place that could benefit the Acquiring Fund and/or such other accounts. The Board has adopted on behalf of the Acquiring Fund policies and procedures designed to address any such conflicts of interest to ensure that all transactions are executed in the best interest of the Acquiring Fund's shareholders. The Subadviser is required to certify its compliance with these procedures to the Board on a quarterly basis. There have been no material compliance issues with respect to any of these policies and procedures during the Acquiring Fund's most recent fiscal year. Additionally, any conflicts of interest between the investment strategies of the Acquiring Fund and the investment strategies of other accounts managed by portfolio managers are not expected to be material since portfolio managers generally manage funds and other accounts having similar investment strategies.

The following tables provide information as of November 30, 2022, regarding all accounts managed by the portfolio managers and portfolio management team members for the Fund as named in the Information Statement/Prospectus. In the tables, Registered Investment Companies include all open and closed-end mutual funds. Pooled Investment Vehicles include, but are not limited to, securities of issuers exempt from registration under Section 3(c) of the Investment Company Act, such as private placements and hedge funds. Other accounts would include, but are not limited to, individual managed accounts, separate accounts, institutional accounts, pension funds, collateralized bond obligations and collateralized debt obligations. The portfolio managers managing the Fund may also manage or be members of management teams for other Virtus Funds or other similar accounts.

Name of Portfolio Manager or Team Member	Type of Accounts	Total No. of Accounts Managed	Total Assets (in millions)	No. of Accounts where Advisory Fee is Based on Performance	Total Assets in Accounts where Advisory Fee is Based on Performance (in millions)
Peter J. Wilby . . . . .	Registered Investment Companies:	10	\$1,257	1	\$ 37
	Other Pooled Investment Vehicles:	30	\$4,125	1	\$ 167
	Other Accounts:	22	\$5,460	1	\$1,375
James E. Craige . . . . .	Registered Investment Companies:	8	\$1,204	0	0
	Other Pooled Investment Vehicles:	23	\$1,853	1	\$ 167
	Other Accounts:	16	\$3,861	0	0

Name of Portfolio Manager or Team Member	Type of Accounts	Total No. of Accounts Managed	Total Assets (in millions)	No. of Accounts where Advisory Fee is Based on Performance	Total Assets in Accounts where Advisory Fee is Based on Performance (in millions)
Kumaran Damodaran . . . .	Registered Investment Companies:	7	\$1,105	0	0
	Other Pooled Investment Vehicles:	17	\$1,742	1	\$ 167
	Other Accounts:	13	\$3,730	0	0
Stuart Sclater-Booth . . . . .	Registered Investment Companies:	7	\$1,105	0	0
	Other Pooled Investment Vehicles:	17	\$1,742	1	\$ 167
	Other Accounts:	13	\$3,730	0	\$ 0
David A. Oliver . . . . .	Registered Investment Companies:	7	\$1,105	0	0
	Other Pooled Investment Vehicles:	17	\$1,742	1	\$ 167
	Other Accounts:	13	\$3,730	0	0

### Portfolio Manager Compensation

Virtus, along with certain of its affiliated investment management firms, including Stone Harbor (collectively, “Virtus”), believe that the firm’s compensation program is adequate and competitive to attract and retain high-caliber investment professionals. Investment professionals at Virtus receive a competitive base salary, an incentive bonus opportunity, and a benefits package. Certain professionals who supervise and manage others also participate in a management incentive program reflecting their personal contribution and team performance. Certain key individuals also have the opportunity to take advantage of a long-term incentive compensation program, including potential awards of Virtus restricted stock units (“RSUs”) with multi-year vesting, subject to Virtus board of directors’ approval.

Following is a more detailed description of the compensation structure:

- *Base Salary:* Each portfolio manager is paid a fixed based salary, which is designed to be competitive in light of the individual’s experience and responsibilities. Base salary is determined using compensation survey results of investment industry compensation conducted by an independent third party in evaluating competitive market compensation for its investment management professionals.
- *Incentive Bonus:* Annual incentive payments are based on targeted compensation levels, adjusted based on profitability investment performance factors and a subjective assessment of contribution to the team effort. The short-term incentive payment is generally paid in cash, but a portion may be payable in RSUs and mutual fund investments that appreciate or depreciate in value based on the returns of one or more mutual funds managed by the investment professional. Individual payments are assessed using comparisons of actual investment performance with specific peer group or index measures. Performance of funds managed is generally measured over one-, three-, and five-year periods and an individual manager’s participation is based on the performance of each fund/account managed.
- *Other Benefits:* Portfolio managers are also eligible to participate in broad-based plans offered generally to employees of Virtus and its affiliates, including 401(k), health, and other employee benefit plans.

While portfolio managers compensation contains a performance component, this component is adjusted to reward investment personnel for managing within the stated framework and for not taking unnecessary risk. This approach helps ensure that investment management personnel remain focused on managing and acquiring securities that correspond to a fund’s mandate and risk profile and are discouraged from taking on more risk and unnecessary exposure to chase performance for personal gain. Virtus believes it has appropriate controls in place to handle any potential conflicts that may result from a substantial portion of portfolio manager compensation being tied to performance.

## Securities Ownership

For the most recently completed fiscal year ended November 30, 2022, beneficial ownership of shares of the Acquiring Fund by Messrs. Wilby, Craige, Damodaran, Oliver, and Sclater-Booth, are as follows. Beneficial ownership was determined in accordance with rule 16a-1(a)(2) under the Securities Exchange Act of 1934 (17 CFR 240.161-1(a)(2)).

Name of Portfolio Manager or Team Member	Dollar (\$) Range of Acquiring Fund Shares Beneficially Owned
Peter J. Wilby, CFA . . . . .	\$100,001 – \$500,000
James E. Craige, CFA . . . . .	\$500,001 – \$1,000,000
Kumaran Damodaran, PhD . . . . .	\$0
David A. Oliver, CFA . . . . .	\$0
Stuart Sclater-Booth . . . . .	\$0

## CALCULATION OF NET ASSET VALUE

The NAV per share of the Acquiring Fund generally is determined as of the close of regular trading (normally 4:00 PM Eastern time) on days when the NYSE is open for trading. The Acquiring Fund will not calculate its NAV per share on days when the NYSE is closed for trading.

The NYSE will be closed on the following observed national holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Juneteenth, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Since the Acquiring Fund does not price securities on weekends or United States national holidays, the NAV of the Acquiring Fund's foreign assets may be significantly affected on days when the investor may not be able to purchase or sell shares of the Acquiring Fund. The NAV per share of the Acquiring Fund is determined by adding the values of all securities and other assets of the Acquiring Fund, subtracting liabilities, and dividing by the total number of outstanding shares of the Acquiring Fund. Assets and liabilities are determined in accordance with generally accepted accounting principles and applicable rules and regulations of the SEC.

A security that is listed or traded on more than one exchange generally is valued at the official closing price on the exchange representing the principal exchange for such security. Because of the need to obtain prices as of the close of trading on various exchanges throughout the world, the calculation of NAV may not take place for the Acquiring Fund which invests in foreign securities contemporaneously with the determination of the prices of the majority of the portfolio securities of the Acquiring Fund. The foreign currency exchange rate used to price the currency in which foreign securities are denominated is generally the 4:00 PM Eastern time spot rate. If at any time the Acquiring Fund has investments where market quotations are not readily available or are determined not to be reliable indicators of the value of the securities priced, such investments are valued at the fair value thereof as determined by the Adviser pursuant to policies and procedures approved by the Board.

Security valuation procedures for the Acquiring Fund, include nightly price variance as well as back-testing such as bi-weekly unchanged price, monthly secondary source and transaction analysis. All internally fair valued securities are approved by a valuation committee (the "Valuation Committee") appointed by the Adviser. The Valuation Committee is comprised of certain Trust officers and/or representatives of the Adviser and/or Administrator. All internally fair valued securities, referred to below, are updated daily and reviewed in detail by the Valuation Committee monthly unless changes occur within the period. The Valuation Committee reviews the validity of any model inputs and any changes to the model when applicable.

The Acquiring Fund utilizes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

- Level 1 — quoted prices in active markets for identical securities
- Level 2 — prices determined using other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

- Level 3 — prices determined using significant unobservable inputs (including the valuation committee's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

A description of the valuation techniques applied to the Acquiring Fund's major categories of assets and liabilities measured at fair value on a recurring basis is as follows:

Equity securities are valued at the official closing price (typically last sale) on the exchange on which the securities are primarily traded, or if no closing price is available, at the last bid price and are categorized as Level 1 in the hierarchy. Restricted equity securities and private placements that are not widely traded, are illiquid or are internally fair valued by the valuation committee, are generally categorized as Level 3 in the hierarchy.

Certain non-U.S. securities may be fair valued in cases where closing prices are not readily available or are deemed not reflective of readily available market prices. For example, significant events (such as movement in the U.S. securities market, or other regional and local developments) may occur between the time that non-U.S. markets close (where the security is principally traded) and the time that the Acquiring Fund calculates its NAV that may impact the value of securities traded in these non-U.S. markets. In such cases the Acquiring Fund fair values non-U.S. securities using an independent pricing service which considers the correlation of the trading patterns of the non-U.S. security to the intraday trading in the U.S. markets for investments such as ADRs, financial futures, exchange traded funds, and certain indexes as well as prices for similar securities. Such fair valuations are categorized as Level 2 in the hierarchy. Because the frequency of significant events is not predictable, fair valuation of certain non-U.S. common stocks may occur on a frequent basis.

Debt securities, including restricted securities, are valued based on evaluated quotations received from independent pricing services or from convertible bonds and dealers who make markets in such securities. For most bond types, the pricing service utilizes matrix pricing which considers one or more of the following factors: yield or price of bonds of comparable quality, coupon, maturity, current cash flows, type, and current day trade information, as well as dealer supplied prices. These valuations are generally categorized as Level 2 in the hierarchy. Structured debt instruments such as mortgage-backed and asset-backed securities may also incorporate collateral analysis and utilize cash flow models for valuation and are generally categorized as Level 2 in the hierarchy. Pricing services do not provide pricing for all securities and therefore indicative bids from dealers are utilized which are based on pricing models used by market makers in the security and are generally categorized as Level 2 in the hierarchy. Debt securities that are not widely traded, are illiquid, or are internally fair valued by the valuation committee are generally categorized as Level 3 in the hierarchy.

Listed derivatives, such as options and futures, that are actively traded are valued at the last posted settlement price from the exchange where they are principally traded and are categorized as Level 1 in the hierarchy. Over-the-counter ("OTC") derivative contracts, which include forward currency contracts, swaps, swaptions, options and equity linked instruments, are valued based on model prices provided by independent pricing services or from dealer quotes. Depending on the derivative type and the specific terms of the transaction, these models vary and include observable inputs in actively quoted markets including but not limited to: underlying reference entity details, indices, spreads, interest rates, yield curves, dividend and exchange rates. These instruments are generally categorized as Level 2 in the hierarchy. Centrally cleared swaps listed or traded on a bilateral or trade facility platform, such as a registered exchange, are valued at the last posted settlement price determined by the respective exchange. These securities are generally categorized as Level 2 within the hierarchy.

Short-term notes having a remaining maturity of 60 days or less are valued at amortized cost, which approximates market, and are generally categorized as Level 2 in the hierarchy.

## **TAXATION**

The following discussion is a brief summary of U.S. federal income tax considerations generally applicable to the Acquiring Fund and the ownership and disposition of the Acquiring Fund's common shares. Except as otherwise noted, this discussion assumes you are a taxable U.S. person (as defined for U.S. federal income tax purposes) and that you hold your common shares as capital assets for U.S. federal income tax purposes (generally, assets held for investment).

The tax information set forth in the Information Statement/Prospectus and the information in this section relates solely to Federal income tax law and assumes that the Acquiring Fund qualifies as a RIC (as discussed below). Such information is only a summary of certain key Federal income tax considerations affecting the Acquiring Fund and its shareholders and is in addition to the information provided in the Information Statement/Prospectus. No attempt has been made to present a complete explanation of the Federal tax treatment of the Acquiring Fund or the tax implications to shareholders. The discussions here and in the Information Statement/Prospectus are not intended as substitutes for careful tax planning.

This "Taxation" section is subject to the qualifications set forth in the Information Statement/Prospectus and is based on the Internal Revenue Code of 1986, as amended (the "Code") and applicable regulations in effect on the date of the Information Statement/Prospectus. Future legislative or administrative changes or court decisions may significantly change the tax rules applicable to the Acquiring Fund and its shareholders. Any of these changes or court decisions may have a retroactive effect.

All investors should consult their own tax advisors as to the Federal, state, local and foreign tax consequences of an investment in the Acquiring Fund.

### **Qualification as a RIC**

The Fund intends, for each tax year, to qualify as a "regulated investment company" under the Code.

### **Federal Income Tax Consequences of Qualification**

As a RIC, the Acquiring Fund will generally not be subject to Federal income tax on the portion of its investment company taxable income (that is, taxable interest, dividends, net short-term capital gains and other taxable ordinary income, net of expenses) and net capital gain (that is, the excess of net long-term capital gains over net short-term capital losses) that it distributes to shareholders. To be subject to tax as a RIC, generally the Acquiring Fund must satisfy the following requirements:

- The Fund must distribute an amount at least equal to the sum of 90% of its investment company taxable income, determined without regard to any deduction for dividends paid, and 90% of its net tax-exempt interest, if any, each tax year (certain distributions made by the Acquiring Fund after the close of its tax year are considered distributions attributable to the previous tax year for purposes of satisfying this requirement ("Distribution Requirement")).
- The Fund must derive at least 90% of its gross income each tax year from dividends, interest, payments with respect to securities loans, and gains from the sale or other disposition of securities, or other income (including gains from options and futures contracts) derived from its business of investing in securities and net income derived from interests in qualified publicly traded partnerships ("Qualifying RIC Income").
- The Fund must satisfy the following asset diversification test at the close of each quarter of the Acquiring Fund's tax year: (1) at least 50% of the value of the Acquiring Fund's assets must consist of cash, cash items, U.S. Government securities, securities of other RICs, and securities of other issuers (as to which the Acquiring Fund has not invested more than 5% of the value of the Acquiring Fund's total assets in securities of an issuer and as to which the Acquiring Fund does not hold more than 10% of the outstanding voting securities of the issuer); and (2) no more than 25% of the value of the Acquiring Fund's total assets may be invested in the securities (other than U.S. Government securities and securities of other RICs) of any one issuer, or in two or more issuers which the Acquiring Fund controls and which are engaged in the same or similar trades or businesses or in the securities of one or more qualified publicly traded partnerships.

While the Acquiring Fund presently intends to make cash distributions (including distributions reinvested in Fund shares) for each tax year in an aggregate amount sufficient to satisfy the Distribution Requirement and eliminate Federal income tax, the Acquiring Fund may use “equalization accounting” (in lieu of making some or all cash distributions) for those purposes. To the extent that the Acquiring Fund uses equalization accounting it will allocate a portion of its undistributed investment company taxable income and net capital gain to repurchases of Fund shares and will correspondingly reduce the amount of such income and gain that it distributes in cash. If the IRS determines that the Acquiring Fund’s allocation is improper and that the Acquiring Fund has under-distributed its income and gain for any tax year, the Acquiring Fund may be liable for Federal income and/or excise tax, and, if the Distribution Requirement has not been met, may also be unable to continue to qualify for treatment as a RIC (see discussion below on what happens if the Acquiring Fund fails to qualify for that treatment).

### **Failure to Qualify**

If for any tax year the Acquiring Fund does not qualify as a RIC, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for dividends paid to shareholders, and the dividends will generally be taxable to the shareholders as ordinary income to the extent of the Acquiring Fund’s current and accumulated earnings and profits. In addition, the Acquiring Fund could be required to recognize unrealized gains, pay taxes and make distributions (any of which could be subject to interest charges) before re-qualifying for taxation as a RIC. If the Acquiring Fund fails to satisfy either the income test or asset diversification test described above, in certain cases, however, the Acquiring Fund may be able to avoid losing its status as a RIC by timely providing notice of such failure to the IRS, curing such failure and possibly paying an additional tax or penalty.

Failure to qualify as a RIC would thus have a negative impact on the Acquiring Fund’s income and performance. It is possible that the Acquiring Fund will not qualify as a RIC in any given tax year.

### **Fund Distributions**

The Fund anticipates distributing substantially all of its investment company taxable income and net tax-exempt interest (if any) for each tax year. Distributions paid to you out of such income generally would be characterized as ordinary income. A portion of these distributions may qualify for the dividends-received deduction when paid to certain corporate shareholders to the extent of dividends received by the Acquiring Fund from U.S. corporations, provided that certain holding period and other requirements are met.

A portion of the Acquiring Fund’s distributions paid to individuals may be treated as “qualified dividend income,” which is subject to a reduced maximum Federal income tax rate. A properly reported distribution is treated as qualified dividend income to the extent that the Acquiring Fund receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that holding period and other requirements are met by the Acquiring Fund and the shareholder. To the extent the Acquiring Fund’s distributions are attributable to other sources, such as interest or capital gains, such distributions are not treated as qualified dividend income.

Given the Acquiring Fund’s investment strategies, it is not expected that a significant portion of the Acquiring Fund’s dividends will be eligible to be designated as qualified dividend income or the dividends-received deduction.

Certain distributions reported by the Acquiring Fund as Section 163(j) interest dividends may be treated as interest income by shareholders for purposes of the tax rules applicable to interest expense limitations under Section 163(j) of the Code. Such treatment by the shareholder is generally subject to holding period requirements and other potential limitations, although the holding period requirements are generally not applicable to dividends declared by money market funds and certain other funds that declare dividends daily and pay such dividends on a monthly or more frequent basis. The amount that the Acquiring Fund is eligible to report as a Section 163(j) dividend for a tax year is generally limited to the excess of the Acquiring Fund’s business interest income over the sum of the Acquiring Fund’s (i) business interest expense and (ii) other deductions properly allocable to the Acquiring Fund’s business interest income.

An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Acquiring Fund and net gains from repurchases or other taxable dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts.

The Fund anticipates distributing substantially all of its net capital gain for each tax year. These distributions generally are made only once a year, usually in November or December, but the Acquiring Fund may make additional distributions of net capital gain at any time during the year. These distributions to you generally would be characterized as long-term capital gain, regardless of how long you have held shares. These distributions do not qualify for the dividends-received deduction.

The Acquiring Fund is generally permitted to carry forward a net capital loss in any taxable year to offset its own capital gains, if any. These amounts are available to be carried forward to offset future capital gains to the extent permitted by the Code and applicable tax regulations. Any such loss carryforwards will retain their character as short-term or long-term. In the event that the Acquiring Fund were to experience an ownership change as defined under the Code, the capital loss carryforwards and other favorable tax attributes of the Acquiring Fund, if any, may be subject to limitation.

In determining its net capital gain, including in also connection with determining the amount available to support a capital gain dividend, its taxable income and its earnings and profits, the Acquiring Fund generally may also elect to treat part or all of any post-October capital loss (defined as any net capital loss attributable to the portion, if any, of the taxable year after October 31 or, if there is no such loss, the net long-term capital loss or net short-term capital loss attributable to any such portion of the taxable year) or late-year ordinary loss (generally, the sum of its (i) net ordinary loss, if any, from the sale, exchange or other taxable disposition of property, attributable to the portion, if any, of the taxable year after October 31, and its (ii) other net ordinary loss, if any, attributable to the portion, if any, of the taxable year after December 31) as if incurred in the succeeding taxable year.

The Acquiring Fund intends to operate, each year, using a fiscal and taxable year ending November 30.

Distributions by the Acquiring Fund that do not constitute ordinary income dividends, qualified dividend income or capital gain dividends generally will be treated as a return of capital. Return of capital distributions reduce your tax basis in the shares and are treated as gain from the sale of the shares to the extent your basis would be reduced below zero.

All distributions by the Acquiring Fund will be treated in the manner described above regardless of whether the distribution is paid in cash or reinvested in additional shares of the Acquiring Fund (or of another fund). If you receive distributions in the form of additional shares, you will be treated as receiving a distribution in an amount equal to the amount of cash that could have been received instead of shares.

You may purchase shares with a NAV at the time of purchase that reflects undistributed net investment income or recognized capital gain, or unrealized appreciation in the value of the assets of the Acquiring Fund. Distributions of these amounts are taxable to you in the manner described above, although the distribution economically constitutes a return of capital to you.

Ordinarily, you are required to take distributions by the Acquiring Fund into account in the year in which they are made. A distribution declared in October, November or December of any calendar year and payable to shareholders of record on a specified date in those months, however, is deemed to be paid by the Acquiring Fund and received by you on December 31 of that calendar year if the distribution is actually paid in January of the following year.

The Fund will send you information annually as to the Federal income tax consequences of distributions made (or deemed made) during the year.

The Fund will be treated as a "publicly offered regulated investment company" (within the meaning of Section 67 of the Code) if either (i) shares of the Acquiring Fund are held by at least 500 persons at all times during a taxable year, (ii) shares of the Acquiring Fund are treated as regularly traded on an established securities market or (iii) shares of the Acquiring Fund are continuously offered pursuant to a public offering

(within the meaning of section 4 of the 1933 Act). If the Acquiring Fund is not treated as a publicly offered RIC for any calendar year, for purposes of computing the taxable income of shareholders that are individuals, trusts or estates, (i) the Acquiring Fund's earnings will be computed without taking into account such shareholders' allocable shares of the management fees paid to the Acquiring Fund's investment adviser and certain of the Acquiring Fund's other expenses, (ii) each such shareholder will be treated as having received or accrued a dividend from the Acquiring Fund in the amount of such shareholder's allocable share of these fees and expenses for the calendar year, (iii) each such shareholder will be treated as having paid or incurred such shareholder's allocable share of these fees and expenses for the calendar year, and (iv) each such shareholder's allocable share of these fees and expenses will be treated as miscellaneous itemized deductions by such shareholder. Miscellaneous itemized deductions are not deductible for taxable years that begin before January 1, 2026, and thereafter generally (i) will be deductible only to the extent that they exceed 2% of the adjusted gross income of the taxpayer, (ii) will not be deductible for purposes of the alternative minimum tax, and (iii) will be subject to the overall limitation on itemized deductions under Section 68 of the Code.

The IRS requires that a RIC that has two or more classes of stock allocate to each class proportionate amounts of each type of its income (such as ordinary income, capital gains and dividends qualifying for the dividends-received deduction) based upon the percentage of total dividends paid to each class for the tax year. Accordingly, if the Acquiring Fund issues preferred shares, the Acquiring Fund will allocate capital gain dividends and dividends qualifying for the dividends-received deduction, if any, between its Common Shares and shares of preferred stock in proportion to the total dividends paid to each class with respect to such tax year.

Although the Acquiring Fund currently does not intend to do so, the Acquiring Fund has the ability to declare a large portion of a distribution in shares. The Fund is not subject to restrictions on the circumstances in which it may declare a portion of a distribution in shares but would generally anticipate doing so only in unusual situations, such as, for example if the Acquiring Fund does not have sufficient cash to meet its RIC distribution requirements under the Code. Generally, were the Acquiring Fund to declare such a distribution, the Acquiring Fund would allow shareholders to elect payment in cash and/or shares of equivalent value. Under published IRS guidance, the entire distribution by a publicly offered RIC will generally be treated as a taxable distribution for U.S. federal income tax purposes, and count towards the Acquiring Fund's RIC distribution requirements under the Code, if certain conditions are satisfied. Among other things, the aggregate amount of cash available to be distributed to all shareholders is required to be at least 20% of the aggregate declared distribution. If too many shareholders elect to receive cash, the cash available for distribution is required to be allocated among the shareholder electing to receive cash (with the balance of the distribution paid in shares) under a formula provided in the applicable IRS guidance. Each shareholder electing to receive cash could be entitled to receive cash in an amount equal to at least the lesser of (1) the portion of the distribution such shareholder elected to receive in cash and (2) such shareholder's entire distribution multiplied by the percentage limitation on cash available for distribution. The number of shares distributed would thus depend on the applicable percentage limitation on cash available for distribution, the shareholder's individual elections to receive cash or stock, and the value of the shares. Each shareholder generally would be treated as having received a taxable distribution on the date the distribution is received in an amount equal to the cash that such shareholder would have received if the entire distribution had been paid in cash, even if the shareholder received all or most of the distribution in shares. This may result in shareholders having to pay tax on such distribution, even if no cash is received.

#### **Certain Tax Rules Applicable to Fund Transactions**

For Federal income tax purposes, when put and call options purchased by the Acquiring Fund expire unexercised, the premiums paid by the Acquiring Fund give rise to short- or long-term capital losses at the time of expiration (depending on the length of the respective exercise periods for the options). When put and call options written by the Acquiring Fund expire unexercised, the premiums received by the Acquiring Fund give rise to short-term capital gains at the time of expiration. When the Acquiring Fund exercises a call, the purchase price of the underlying security is increased by the amount of the premium paid by the Acquiring Fund. When the Acquiring Fund exercises a put, the proceeds from the sale of the underlying security are decreased by the premium paid. When a put or call written by Fund is exercised, the purchase

price (selling price in the case of a call) of the underlying security is decreased (increased in the case of a call) for tax purposes by the premium received.

Some of the debt securities that may be acquired by the Acquiring Fund may be treated as debt securities that are issued with original issue discount ("OID"). Generally, the amount of the OID is treated as interest income and is included in income over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. Additionally, some of the debt securities that may be acquired by the Acquiring Fund in the secondary market may be treated as having market discount. Generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt security having market discount is treated as ordinary income to the extent the gain, or principal payment, does not exceed the "accrued market discount" on such debt security. The Acquiring Fund may make one or more of the elections applicable to debt securities having market discount, which could affect the character and timing of recognition of income. The Acquiring Fund generally will be required to distribute dividends to shareholders representing discount on debt securities that is currently includable in income, even though cash representing such income may not have been received by the Acquiring Fund. Cash to pay such dividends may be obtained from sales proceeds of securities held by the Acquiring Fund.

The Acquiring Fund may invest a portion of its net assets in below investment grade instruments. Investments in these types of instruments may present special tax issues for the Acquiring Fund. U.S. federal income tax rules are not entirely clear about issues such as when the Acquiring Fund may cease accruing interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt obligations in a bankruptcy or workout context are taxable. These and other issues will be addressed by the Acquiring Fund to the extent necessary to seek to ensure that it distributes sufficient income that it does not become subject to U.S. federal income or excise tax.

Certain listed options, regulated futures contracts and forward currency contracts are considered "Section 1256 contracts" for Federal income tax purposes. Section 1256 contracts held by the Acquiring Fund at the end of each tax year are "marked to market" and treated for Federal income tax purposes as though sold for fair market value on the last business day of the tax year. Gains or losses realized by the Acquiring Fund on Section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses. The Acquiring Fund can elect to exempt its Section 1256 contracts that are part of a "mixed straddle" (as described below) from the application of Section 1256 of the Code.

Any option, futures contract or other position entered into or held by the Acquiring Fund in conjunction with any other position held by the Acquiring Fund may constitute a "straddle" for Federal income tax purposes. A straddle of which at least one, but not all, the positions are Section 1256 contracts, may constitute a "mixed straddle." In general, straddles are subject to certain rules that may affect the character and timing of the Acquiring Fund's gains and losses with respect to straddle positions by requiring, among other things, that: (1) the loss realized on disposition of one position of a straddle may not be recognized to the extent that the Acquiring Fund has unrealized gains with respect to the other position in such straddle; (2) the Acquiring Fund's holding period in straddle positions being suspended while the straddle exists (possibly resulting in a gain being treated as short-term capital gain rather than long-term capital gain); (3) the losses recognized with respect to certain straddle positions which are part of a mixed straddle and which are non-Section 1256 contracts being treated as 60% long-term and 40% short-term capital loss; (4) losses recognized with respect to certain straddle positions which would otherwise constitute short-term capital losses be treated as long-term capital losses; and (5) the deduction of interest and carrying charges attributable to certain straddle positions may be deferred. Various elections are available to the Acquiring Fund, which may mitigate the effects of the straddle rules, particularly with respect to mixed straddles. In general, the straddle rules described above do not apply to any straddles held by the Acquiring Fund if all of the offsetting positions consist of Section 1256 contracts.

Under the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time the Acquiring Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Acquiring Fund actually collects such receivables or pays such liabilities are treated as ordinary income or ordinary loss. Similarly, gains or losses from the disposition of foreign currencies, from the disposition of debt securities denominated in a foreign currency, or from the disposition of a forward contract, futures contract or similar financial instrument denominated in a

foreign currency which are attributable to fluctuations in the value of the foreign currency between the date of acquisition of the asset and the date of disposition also are treated as ordinary income or loss. These gains or losses, referred to under the Code as “Section 988” gains or losses, increase or decrease the amount of the Acquiring Fund’s investment company taxable income available to be distributed to its shareholders as ordinary income, rather than increasing or decreasing the amount of the Acquiring Fund’s net capital gain.

The Acquiring Fund may invest in shares of foreign corporations (including equity interests in certain CLOs) which may be treated as passive foreign investment companies (“PFICs”) under the Code. In general, a foreign corporation is treated as a PFIC if at least one-half of its assets constitute investment-type assets or 75% or more of its gross income is investment-type income. If the Acquiring Fund receives a so-called “excess distribution” with respect to PFIC stock, the Acquiring Fund itself may be subject to a tax on a portion of the excess distribution, whether or not the corresponding income is distributed by the Acquiring Fund to shareholders. In general, under the PFIC rules, an excess distribution is treated as having been realized ratably over the period during which the Acquiring Fund held the PFIC shares. The Acquiring Fund itself will be subject to tax on the portion, if any, of an excess distribution that is so allocated to prior Fund tax years and an interest factor will be added to the tax, as if the tax had been payable in such prior tax years. Certain distributions from a PFIC as well as gain from the sale of PFIC shares are treated as excess distributions. Excess distributions are characterized as ordinary income even though, absent application of the PFIC rules, certain excess distributions might have been characterized as capital gain.

The Acquiring Fund may be eligible to elect alternative tax treatment with respect to PFIC shares. Under an election that currently is available in some circumstances, the Acquiring Fund generally would be required to include in its gross income its share of the earnings of a PFIC on a current basis, regardless of whether distributions are received from the PFIC in a given tax year. If this election were made, the special rules, discussed above, relating to the taxation of excess distributions, would not apply.

Alternatively, the Acquiring Fund may elect to mark-to-market its PFIC shares at the end of each taxable year, with the result that unrealized gains would be treated as though they were realized and reported as ordinary income. Any mark-to-market losses would be deductible as ordinary losses to the extent of any net mark-to-market gains included in income in prior tax years.

Because the application of the PFIC rules may affect, among other things, the character of gains, the amount of gain or loss and the timing of the recognition of income with respect to PFIC shares, as well as subject the Acquiring Fund itself to tax on certain income from PFIC shares, the amount that must be distributed to shareholders, and which will be taxed to shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not invest in PFIC shares. Treasury regulations generally would treat the Acquiring Fund’s income inclusion with respect to a PFIC with respect to which the Acquiring Fund has made a QEF election as Qualifying RIC Income either if (i) there is a current distribution out of the earnings and profits of the PFIC that are attributable to such income inclusion or (ii) such inclusion is derived with respect to the Acquiring Fund’s business of investing in stock, securities, or currencies.

If the Acquiring Fund holds more than 10% of the interests treated as equity for U.S. federal income tax purposes in a foreign corporation that is treated as a controlled foreign corporation (“CFC”) (including equity tranche investments and certain debt tranche investments in a CLO treated as CFC), the Acquiring Fund may be treated as receiving a deemed distribution (taxable as ordinary income) each tax year from such foreign corporation in an amount equal to the Acquiring Fund’s pro rata share of the corporation’s income for the tax year (including both ordinary earnings and capital gains), whether or not the corporation makes an actual distribution during such year. In general, a foreign corporation will be classified as a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by U.S. shareholders. A “U.S. shareholder,” for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power or value of all classes of shares of a corporation. If the Acquiring Fund is treated as receiving a deemed distribution from a CFC, the Acquiring Fund will be required to include such distribution in the Acquiring Fund’s investment company taxable income regardless of whether the Acquiring Fund receives any actual distributions from such CFC, and the Acquiring Fund must distribute such income to satisfy the distribution requirements applicable to RICs. Treasury regulations generally would treat the Acquiring Fund’s income inclusion with respect to a CFC as Qualifying RIC Income either if (i) there is a distribution out of the

earnings and profits of the CFC that are attributable to such income inclusion or (ii) such inclusion is derived with respect to the Acquiring Fund's business of investing in stock, securities, or currencies.

The Acquiring Fund might invest directly or indirectly in residual interests in real estate mortgage investment conduits ("REMICs") or equity interests in taxable mortgage pools ("TMPs"). Under a notice issued by the IRS in October 2006 and Treasury regulations that have not yet been issued (but may apply with retroactive effect) a portion of the Acquiring Fund's income from a REMIC or a TMP, or from real estate investment trust ("REIT") that is attributable to the REIT's residual interest in a REMIC or a TMP (referred to in the Code as an "excess inclusion"), will be subject to Federal income tax in all events. This notice also provides, and the regulations are expected to provide, that excess inclusion income of a RIC, such as the Acquiring Fund, will generally be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC or TMP residual interest directly.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions) and (ii) will constitute unrelated business taxable income ("UBTI") to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income. In addition, because the Code provides that excess inclusion income is ineligible for treaty benefits, a RIC must withhold tax on excess inclusions attributable to its foreign shareholders at a 30% rate of withholding, regardless of any treaty benefits for which a shareholder is otherwise eligible.

#### **Federal Excise Tax**

A 4% nondeductible excise tax is imposed on a RIC that fails to distribute in each calendar year an amount at least equal to the sum of: (1) 98% of its ordinary taxable income (taking into account certain deferrals and elections) for the calendar year; (2) 98.2% of its capital gain net income (adjusted for certain ordinary losses) for the one-year period ended on October 31 of the calendar year; and (3) all ordinary taxable income and capital gains for previous years that were not distributed or taxed during such years and on which the RIC did not incur any Federal income tax. The balance of the Acquiring Fund's income must be distributed during the next calendar year. The Acquiring Fund will be treated as having distributed any amount on which it is subject to income tax for any tax year ending in the calendar year.

The Acquiring Fund intends to make sufficient distributions of its ordinary taxable income and capital gain net income prior to the end of each calendar year to avoid liability for the excise tax. Investors should note, however, that the Acquiring Fund might in certain circumstances be required to liquidate portfolio investments to make sufficient distributions to avoid the imposition of any excise tax liability.

#### **Sale, Exchange or Repurchase of Shares**

In general, you will recognize gain or loss on the sale, exchange or repurchase of Fund shares (including in connection with a termination of the Acquiring Fund) in an amount equal to the difference between the proceeds of the sale, exchange or repurchase and your adjusted tax basis in the shares. All or a portion of any loss so recognized may be disallowed if you purchase (for example, by reinvesting dividends) shares of the Acquiring Fund within 30 days before or after the sale, exchange or repurchase (a "wash sale"). If disallowed, the loss will be reflected in an upward adjustment to the basis of the shares purchased. In general, any gain or loss arising from the sale, exchange or repurchase of Fund shares will be considered capital gain or loss and will be long-term capital gain or loss if the shares were held for longer than one year. Any capital loss arising from the sale, exchange or repurchase of shares held for six months or less, however, will be treated as a long-term capital loss to the extent of the amount of distributions of net capital gain received on such shares. In determining the holding period of such shares for this purpose, any period during which your risk of loss is offset by means of options, short sales or similar transactions is not counted. Capital losses in any tax year are deductible only to the extent of capital gains plus, in the case of a non-corporate taxpayer, \$3,000 of ordinary income.

Different tax consequences may apply for tendering and non-tendering shareholders in connection with a repurchase offer. For example, if a shareholder does not tender all of his or her shares (including shares deemed owned by shareholders under constructive ownership rules) or does not meet certain other requirements, such repurchase may not be treated as a sale or exchange for U.S. federal income tax purposes (and instead would be treated as a dividend to the extent of the Acquiring Fund's earnings and profits), and may result in deemed distributions to non-tendering shareholders. On the other hand, shareholders holding shares as capital assets who tender all of their shares (including shares deemed owned by shareholders under constructive ownership rules) or meet certain other requirements will be treated as having sold their shares and generally will recognize capital gain or loss. The amount of the gain or loss will be equal to the difference between the amount received for the shares and the shareholder's adjusted tax basis in the relevant shares. Such gain or loss generally will be a long-term capital gain or loss if the shareholder has held such shares as capital assets for more than one year. Otherwise, the gain or loss will be treated as short-term capital gain or loss.

The Acquiring Fund (or its administrative agent) is required to report to the IRS and furnish to shareholders the cost basis information for sale transactions of shares. Shareholders should consult with their tax advisors to determine the best cost basis method for their tax situation. Shareholders that hold their shares through a financial intermediary should contact such financial intermediary with respect to reporting of cost basis and available elections for their accounts.

### **Backup Withholding**

The Acquiring Fund will be required in certain cases to withhold and remit to the U.S. Treasury "backup withholding" on taxable distributions and the proceeds of repurchases of shares paid to you if you: (1) have failed to provide your correct taxpayer identification number; (2) are otherwise subject to backup withholding by the IRS for failure to report the receipt of interest or dividend income properly; or (3) have failed to certify to the Acquiring Fund that you are not subject to backup withholding or that you are a C corporation or other "exempt recipient." Backup withholding is not an additional tax; rather any amounts so withheld may be credited against your Federal income tax liability or refunded if proper documentation is provided.

### **State and Local Taxes**

The tax rules of the various states of the U.S. and their local jurisdictions with respect to an investment in the Acquiring Fund can differ from the Federal income taxation rules described above. These state and local rules are not discussed herein. You are urged to consult your tax advisor as to the consequences of state and local tax rules with respect to an investment in the Acquiring Fund.

### **Foreign Income Tax**

Investment income received by the Acquiring Fund from sources within foreign countries as well as gains or the proceeds from the sale or other disposition of foreign securities may be subject to foreign income taxes withheld at the source. The United States has entered into tax treaties with many foreign countries that may entitle the Acquiring Fund to a reduced rate of such taxes or exemption from taxes on such income. It is impossible to know the effective rate of foreign tax in advance since the amount of the Acquiring Fund's assets to be invested within various countries cannot be determined. If more than 50% of the value of the Acquiring Fund's total assets at the close of its tax year consists of stocks or securities of foreign corporations, the Acquiring Fund will be eligible and intends to file an election with the IRS to pass through to its shareholders the amount of foreign taxes paid by the Acquiring Fund subject to certain exceptions. However, there can be no assurance that the Acquiring Fund will be able to do so. Pursuant to this election, you will be required to: (1) include in gross income (in addition to taxable dividends actually received) your pro rata share of foreign taxes paid by the Acquiring Fund; (2) treat your pro rata share of such foreign taxes as having been paid by you and (3) either deduct such pro rata share of foreign taxes in computing your taxable income or treat such foreign taxes as a credit against Federal income taxes. You may be subject to rules which limit or reduce your ability to fully deduct, or claim a credit for, your pro rata share of the foreign taxes paid by the Acquiring Fund.

## **Foreign Shareholders**

The foregoing discussion relates only to U.S. Federal income tax law as applicable to U.S. persons (i.e., U.S. citizens and residents and U.S. domestic corporations, trusts and estates). Shareholders who are not U.S. persons (“foreign shareholders”) should consult their tax advisers regarding U.S. and foreign tax consequences of ownership of shares of the Acquiring Fund including the likelihood that taxable distributions to them would be subject to withholding of U.S. tax at a rate of 30% (or a lower treaty rate for eligible investors). An investment in the Acquiring Fund may also be included in determining a foreign shareholder’s U.S. estate tax liability.

Properly designated dividends received by a foreign shareholder from a RIC are generally exempt from U.S. Federal withholding tax when they (i) were paid in respect of the RIC’s “qualified net interest income” (generally, the RIC’s U.S. source interest income, reduced by expenses that are allocable to such income), or (ii) are paid in connection with the RIC’s “qualified short-term capital gains” (generally, the excess of the RIC’s net short-term capital gain over the RIC’s long-term capital loss for such taxable year). There can be no assurance that the Acquiring Fund may designate all, some or none of the Acquiring Fund’s potentially eligible dividends as derived from such qualified net interest income or as qualified short-term capital gains, and a portion of the Acquiring Fund’s distributions (e.g., interest from non-U.S. sources or any foreign currency gains) would be ineligible for this potential exemption from withholding. Furthermore, in the case of Fund shares held through an intermediary, the intermediary may have withheld U.S. Federal income tax, even if the Acquiring Fund designated all or a portion of such potentially eligible dividends as having been derived from qualified net interest or income or from qualified short-term capital gains.

If we declare a large portion of a distribution in shares of our stock (as described above), each foreign shareholder generally would be treated as having received a taxable distribution (including for purposes of the application of the withholding tax rules discussed above) on the date the distribution is received in an amount equal to the cash that such foreign shareholder would have received if the entire distribution had been paid in cash, even if such foreign shareholder received all or most of the distribution in shares of our stock. In such a circumstance, all or substantially all of the cash that would otherwise be distributed to a foreign shareholder may be withheld or shares of our stock may be withheld and sold to fund the applicable withholding.

Withholding of U.S. tax (at a 30% rate) is required on payments of taxable dividends made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts. The information required to be reported includes the identity and taxpayer identification number of each account holder and transaction activity within the holder’s account. Shareholders may be requested to provide additional information to the Acquiring Fund to enable the Acquiring Fund to determine whether withholding is required.

## **OTHER INFORMATION**

### **Shareholder Liability**

Under Massachusetts law, shareholders could, in certain circumstances, be held personally liable for the obligations of the Acquiring Fund. However, the Acquiring Fund’s Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Acquiring Fund or the Trustees. The Acquiring Fund’s Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Acquiring Fund would be unable to meet its obligations. The Acquiring Fund believes that the likelihood of such circumstances is remote.

### **Anti-Takeover Provisions**

The Acquiring Fund’s Declaration of Trust and the Bylaws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status.

The Acquiring Fund's Trustees are divided into three classes. At each annual meeting of shareholders, the term of one class expires and each Trustee elected to that class holds office for a term of three years. The classification of the Board in this manner could delay for an additional year the replacement of a majority of the Board. In addition, the Acquiring Fund's Declaration of Trust provides that a Trustee may be removed only for cause and only (i) by action of at least 75% of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by at least 75% of the remaining Trustees.

The Acquiring Fund's Declaration of Trust grants special approval rights with respect to certain matters to members of the Board who qualify as "Continuing Trustees," which means Trustees who either (i) have been members of the Board for a period of at least thirty-six months, or since the commencement of the Fund's operations, if less than thirty-six months, or (ii) were nominated to serve as members of the Board by a majority of the Continuing Trustees then members of the Board.

The Acquiring Fund's Declaration of Trust requires the affirmative vote or consent of at least 75% of the Trustees and holders of at least 75% of the Fund's common shares to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation, issuance or transfer by the Fund of the Fund's shares, except as may be pursuant to a public offering, the Fund's dividend reinvestment plan or upon exercise of any stock subscription rights, a sale, transfer or other disposition of Fund assets, or any shareholder proposal regarding specific investment decisions, unless the transaction is authorized by both a majority of the Trustees and 75% of the Continuing Trustees, in which case no shareholder authorization would be required by the Acquiring Fund's Declaration of Trust, but may be required in certain cases under the 1940 Act.

The Acquiring Fund's Declaration of Trust also requires the affirmative vote or consent of holders of at least 75% of the Fund's common shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the Trustees and 75% of the Continuing Trustees, in which case shareholders would have only the minimum voting rights required by the 1940 Act with respect to the conversion. Also, the Acquiring Fund's Declaration of Trust provides that the Fund may be terminated at any time by vote or consent of at least 75% of the Fund's shares or, alternatively, by vote or consent of both a majority of the Trustees and 75% of the Continuing Trustees.

The Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters in the Bylaws, certain of which are required by the 1940 Act.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. These provisions also provide, however, the advantage of potentially requiring persons seeking control of the Acquiring Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objective and policies. The provisions of the Acquiring Fund's Declaration of Trust and Bylaws described above could have the effect of discouraging a third party from seeking to obtain control of the Acquiring Fund in a tender offer or similar transaction. The Board has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Acquiring Fund and its shareholders.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Acquiring Fund's Declaration of Trust and the Bylaws, both of which are on file with the SEC.

### **Liability of Trustees**

The Acquiring Fund's Declaration of Trust provides that the obligations of the Acquiring Fund are not binding upon the Trustees of the Acquiring Fund individually, but only upon the assets and property of the Acquiring Fund, and that the Trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Acquiring Fund's Declaration of Trust, however, protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

## **Repurchase of Common Shares; Conversion to Open-End Fund**

The Acquiring Fund is a closed-end investment company and as such common shareholders do not have the right to cause the Fund to redeem their common shares. Instead, the common shares trade in the open market at a price that is a function of several factors, including dividend levels, NAV, call protection, portfolio credit quality, relative demand for and supply of such shares in the market, general market and economic conditions, conditions affecting individual issuers and other factors. Shares of a closed-end investment company may frequently trade at prices lower than NAV. To the extent permitted under applicable law, the Board reserves the right to purchase its common shares on the open market at any time. For example, the Board regularly monitors the relationship between the market price and NAV of the common shares. If the common shares were to trade at a substantial discount to NAV for an extended period of time, the Board may consider the repurchase of its common shares on the open market or in private transactions, the making of a tender offer for such shares, or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that the Board will decide to take or propose any of these actions, or that share repurchases or tender offers will actually reduce market discount.

If the Acquiring Fund were to convert to an open-end company, it would be required to redeem all preferred shares and other preferred shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the common shares would no longer be listed on the NYSE. In addition, the Fund may have to close out any credit default swaps that it had written. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV, less any redemption charge that is in effect at the time of redemption. In addition, if the Fund were to convert to an open-end company, it would not be able to invest more than 15% of its net assets in illiquid investments, which may necessitate a substantial repositioning of the Fund's investment portfolio, which may in turn generate substantial transaction costs, which would be borne by common shareholders, and may adversely affect the Fund's performance and common share dividends.

Before deciding whether to take any action to convert the Fund to an open-end investment company, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the effect of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund's common shares should trade at a discount, the Board may determine that, in the interest of the Fund and its shareholders, no action should be taken.

## **Registration Statement**

This SAI and the Information Statement/Prospectus do not contain all the information included in the registration statement filed with the SEC under the 1933 Act with respect to the securities offered hereby. The registration statement, including the exhibits filed therewith, are available on the SEC's website at [www.sec.gov](http://www.sec.gov) or may be examined at the office of the SEC in Washington, D.C.

## **FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL INFORMATION**

The audited financial statements and related report of Deloitte contained in the Acquiring Fund's November 30, 2022 Annual Report are hereby incorporated by reference. The audited financial statements and report of Deloitte contained in the Acquired Fund's November 30, 2022 Annual Report are hereby incorporated by reference. Such financial statements have been incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The unaudited financial statements contained in the Acquiring Fund's May 31, 2023 Semiannual Report are hereby incorporated by reference. The unaudited financial statements contained in the Acquired Fund's May 31, 2023 Semiannual Report are hereby incorporated by reference. No other parts of any Annual and Semiannual Report are incorporated by reference herein.

The Acquiring Fund shall be the accounting and performance survivor in the Reorganization.

A table showing the fees and expenses of the Acquiring Fund and Acquired Fund and the fees and expenses of the Fund on a pro forma basis after giving effect to the Reorganization is included in the section titled "Fees and Expense Table" of the Information Statement/ Prospectus.

The Reorganization will not result in any material changes to the Acquired Fund's investment portfolio due to the investment restrictions of the Acquiring Fund.

There are no material differences in accounting, valuation and taxation policies of the Acquired Fund as compared to those of the Acquiring Fund.

## APPENDIX A — DESCRIPTION OF RATINGS

### A-1 and P-1 Commercial Paper Ratings

Commercial paper rated A-1 by Standard & Poor's Corporation ("S&P") has the following characteristics: Liquidity ratios are adequate to meet cash requirements. Long-term senior debt is rated "A" or better. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry. The reliability and quality of management are unquestioned.

The rating P-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (1) evaluation of the management of the issuer; (2) economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; (3) evaluation of the issuer's products in relation to competition and customer acceptance; (4) liquidity; (5) amount and quality of long-term debt; (6) trend of earnings over a period of ten years; (7) financial strength of a parent company and the relationship which exists with the issuer; and (8) recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations.

Moody's Investors Service, Inc.

Aaa — Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edge." Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa — Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A — Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa — Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba — Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B — Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa — Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca — Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C — Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

## Standard and Poor's Corporation Corporate Bond Ratings

**AAA** — Bonds rated AAA have the highest rating assigned by Standard & Poor's Corporation. Capacity to pay interest and repay principal is extremely strong.

**AA** — Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from AAA issues only in small degree.

**A** — Bonds rated A have a very strong capacity to pay interest and repay principal, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories.

**BBB** — Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories.

**BB, B, CCC, CC** — Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

**D** — Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

S&P's top ratings for municipal notes issued after July 29, 1984 are SP-1 and SP-2. The designation SP-1 indicates a very strong capacity to pay principal and interest. A "+" is added for those issues determined to possess overwhelming safety characteristics. An "SP-2" designation indicates a satisfactory capacity to pay principal and interest.

Commercial paper rated A-2 or better by S&P is described as having a very strong degree of safety regarding timeliness and capacity to repay. Additionally, as a precondition for receiving an S&P commercial paper rating, a bank credit line and/or liquid assets must be present to cover the amount of commercial paper outstanding at all times.

## Fitch

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns and insurance companies, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity's relative vulnerability to default on financial obligations. The "threshold" default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default. For historical information on the default experience of Fitch-rated issuers, please consult the transition and default performance studies available from the Fitch Ratings website.

**AAA** — Bonds rated AAA are considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

**AA** — Bonds rated AA are considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds

rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.

**A** — Bonds rated A are considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

**BBB** — Bonds rated BBB are considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have an adverse impact on these bonds and, therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

**BB** — Bonds rated BB are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

**B** — Bonds rated B are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

**CCC** — Bonds rated CCC have certain identifiable characteristics, which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

**CC** — Bonds rated CC are minimally protected. Default in payment of interest and/or principal seems probable over time.

**C** — Bonds rated C are in imminent default in payment of interest or principal.

**DDD, DD and D** — Bonds rated DDD, DD and D are in actual default of interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. DDD represents the highest potential for recovery on these bonds and D represents the lowest potential for recovery.

Plus (+) and minus (–) signs are used with a rating symbol to indicate the relative position of a credit within the rating categories.