Virtus Stone Harbor Emerging Markets Debt Income Fund

A: VSHCX (92828Y565) | I: SHMDX (92828Y557)

MARKET REVIEW

Sector Review "Broad Market"

Gains from emerging markets (EM) debt moderated somewhat during the second quarter, as market participants continued to scale back expectations for the pace of U.S. Federal Reserve (Fed) easing in light of still-stubborn U.S. inflation readings. Core U.S. Treasury yields rose as the markets adjusted to a higher-for-longer level of U.S. short term interest rates. Total returns for emerging market hard currency sovereign securities remained positive, despite higher core rates and some widening of risk premia for the high yield sector of the market following two quarters of strong gains. Hard currency emerging market corporates outperformed during the quarter, supported by improving growth conditions in several key countries. Local currency emerging market debt underperformed, as the repricing of U.S. rate expectations supported the dollar on the foreign exchanges, and local yields also rose modestly, as tighter monetary conditions in the U.S. led to some scaling back of rate-cutting expectations. There was some improvement in the U.S. inflation data towards the end of the quarter, and—importantly—other developed markets central banks began their rate-cutting cycles, with easing by the European Central Bank (ECB), Swiss National Bank, Bank of Canada, and the Swedish Central Bank.

The J.P. Morgan EMBI Global Diversified posted a total return of 0.30% during Q2 2024. Total returns were driven by spread compression and carry, which contributed 0.32%, while rising U.S. Treasury yields detracted moderately from the benchmark's total return. Average EM spreads excluding Venezuela—Venezuela was added to the index in April and contributed to a technical increase in average benchmark spread—declined by 7 basis points (bps). Spreads in all regions, aside from the technical increase in Latin America due to Venezuela, declined. The U.S. Treasury 10-year yield increased by 20 bps to 4.40%.

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

Investment Grade

The investment grade (IG) segment of the benchmark delivered a total return of 0.32% and the average IG spread declined by 5 bps. The top performing IG countries were Panama, Kazakhstan, and India, which had total returns of 2.2%, 2.0%, and 1.0%, respectively. Mexico, Malaysia, and Urugay were the largest underperformers with total returns of -1.4%, -0.5% and -0.3%, respectively.

Non-Investment Grade

Non-investment grade (HY) bonds in the benchmark performed in line with investment grade bonds and returned 0.28% during the quarter. South Africa (+3.7%), Turkey, (+1.8%) and Argentina (+4.0%) were the largest contributors to total return, while Ecuador (-3.8%), Ukraine (-4.0%), and Venezuela (-8.0%) were the largest detractors.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned 0.45% (net of fees) and 0.63% (gross of fees) in the second quarter versus the J.P. Morgan EMBI Global Diversified Index return of 0.30%. Out-of-benchmark exposure to hard currency corporate debt contributed most to performance. Country and issue selection to hard currency sovereign debt also contributed positively to relative returns.

Positive Contributors

> **Hard Currency Sovereign Debt:** overweights and issue selection in Venezuela and Mexico, as well as issue selection in Argentina and Angola

> **Hard Currency Corporate Debt:** out-of-benchmark exposures in Brazil, China, Colombia, and Mexico

Negative Contributors

> **Hard Currency Sovereign Debt:** overweights and issue selection in Ecuador and Iraq, as well as issue selection in Egypt, Romania, and Russia

> **Local Currency Sovereign Debt:** out-of-benchmark local currency debt exposures in Brazil and Indonesia

OUTLOOK & STRATEGY

Our Base Case (40% probability) assumes that inflation will continue to gradually decline, opening up the path for a data-dependent Fed to begin cutting interest rates this year, with further cuts also from the ECB and emerging market central banks. China is expected to enact further stimulus measures to reach their GDP growth forecast of 5% for this year. The major risks we have identified consist of inflation remaining stubborn, but we have also tried to analyze the risks in both declining and sticky inflation environments under a potentially new Administration following the U.S. Presidential election. The likely implementation of widespread tariffs under a Trump presidency would likely occur both in the declining and stubborn inflation environments, leading to some lowering of growth expectations if they were to be implemented.

For external markets, returns in the Base Case will likely be driven primarily by lower U.S. Treasury yields in a benign environment, with modest scope for tighter risk premia in an environment of improving credit quality among emerging market sovereigns. Total return expectations would be pared back if still-high inflation keep the Fed on hold for a longer period of time, and the imposition of widespread tariffs would also lead to somewhat higher risk premia, as there would be greater uncertainty and downside to global growth expectations.

Within the local currency space, the Base Case of Fed interest rate reduction would likely open the path for some modest currency appreciation of emerging currencies versus the U.S. dollar. At the same time, ongoing monetary easing in EMs would remain intact, bringing yields somewhat lower. Again, the main risk from a total return viewpoint would be a lack of action from the Fed, especially if combined with the introduction of tariffs, which would likely incentivize local governments to weaken their currencies in order to maintain competitiveness of their exports.

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

PERFORMANCE ATTRIBUTION BREAKDOWN as of 06/30/2024

Portfolio (gross basis – USD)	0.63
JPM EMBIG DIV	0.30
Difference	**0.33**
Breakdown	
Hard Currency Sovereign Allocation	**0.05**
Country Selection	0.01
Issue Selection	**0.04**
Local Currency Allocation	**0.00**
FX Exposure	0.01
Yield & Yield Change	0.00
Hard Currency Corporate Allocation	**0.24**
Country Selection	0.24
Issue Selection	0.00
Treasury Attribution	**0.00**
Miscellaneous Difference	**0.03**

REGIONAL ALLOCATION

	% Fund	Benchmark
Africa	16.34	11.91
Asia	7.40	16.79
Europe	19.16	16.55
Latin America	38.31	33.30
Middle East	17.47	21.46
Net Cash	1.31	0.00

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

SECTOR DISTRIBUTION

	% Fund	Benchmark
Sovereign Hard Currency	83.70	100.00
Corporate Hard Currency	14.04	0.00
Sovereign Local Currency	0.95	0.00
Corporate Local Currency	0.00	0.00
Net Cash	1.31	0.00

Sector weights are subject to change.

TOP 5 COUNTRIES (%)

	Sovereign-Hard		Sovereign-Local		Corporate-Hard		Total	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Mexico	4.35	4.99	0.14	0.00	3.30	0.00	7.79	4.99
Turkey	5.50	4.46	0.00	0.00	0.55	0.00	6.05	4.46
Saudi Arabia	4.66	5.12	0.00	0.00	0.04	0.00	4.70	5.12
Chile	3.54	3.18	0.01	0.00	0.19	0.00	3.74	3.18
Brazil	2.38	3.18	0.11	0.00	1.24	0.00	3.72	3.18

CURRENT FUND STRATEGY

Positioning

> Overweight non-investment grade bonds vs investment grade debt

> Regional overweights in Latin America, Africa, and Europe; underweights in Asia and Middle East

> Off-benchmark exposure in select local currency debt markets, particularly in Brazil, Indonesia, and Mexico, and U.S. dollar-denominated emerging market corporate debt, particularly in Brazil, Colombia, and Mexico.

	YIELD (%)		RATING**		NOTABLE DEVIATIONS	
Strategy	Portfolio	Relative*	Portfolio	Benchmark	O/W	U/W
Sovereign Hard Currency	7.96	1.10	BB	BB+	Angola, Iraq, Ecuador	China, Indonesia, Malaysia
Corporate Hard Currency	9.44	N/A	BB	N/A	Mexico, Brazil, Uzbekistan	N/A†
Sovereign Local Currency	7.57	N/A	BBB+	N/A	Mexico, Malaysia, Indonesia	N/A†

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

AVERAGE ANNUAL TOTAL RETURNS (%) as of 06/30/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 08/16/07
Class I	0.45	3.50	13.21	-2.13	0.42	2.28	4.85
J.P. Morgan EMBI Global Diversified Index	0.30	2.34	9.23	-2.60	-0.03	2.60	5.09

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 0.82%. The net expense ratio is 0.74%, which reflects a contractual expense reimbursement in effect through 9/30/2024.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

Index: The **J.P. Morgan EMBI Global Diversified Index (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. The index limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Stone Harbor Investment Partners

PORTFOLIO MANAGERS

Peter J. Wilby, CFA
Industry start date: 1980
Start date as Fund Portfolio Manager: 2011

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

Stuart Sclater-Booth
Industry start date: 19992
Start date as Fund Portfolio Manager: 2017

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

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

Notes on Risk: Emerging Markets Investing: Emerging markets securities may be more volatile, or more greatly affected by negative conditions, than those of their counterparts in more established foreign markets. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **Credit & Interest:** Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Counterparty:** There is risk that a party upon whom the portfolio relies to complete a transaction will default. **Currency Rate:** Fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the portfolio's shares. **Derivatives:** Derivatives may include, among other things, futures, options, forwards and swap agreements and may be used in order to hedge portfolio risks, create leverage, or attempt to increase returns. Investments in derivatives may result in increased volatility and the portfolio may incur a loss greater than its principal investment. **High Yield Fixed Income Securities (Junk Bonds):** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities thaninvestment grade securities. **Liquidity:** Certain instruments may be difficult or impossible to sell at a time and price beneficial to the portfolio. **Income:** Income received from the portfolio may vary widely over the short- and long-term and/or be less than anticipated if the proceeds from maturing securities in the portfolio are reinvested in lower-yielding securities. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial professional, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.