VIRTUS FUNDS

Virtus Stone Harbor Local Markets Fund

A: VSHEX (92828Y524) | I: SHLMX (92828Y516)

MARKET REVIEW

Sector Review "Broad Market"

Following strong gains in the fourth quarter of last year, the global backdrop was more challenging for fixed income investors in the first quarter of 2024. Upside surprises to U.S. economic growth and inflation readings led to upwards pressure on core bond yields, as market participants scaled back expectations for Federal Reserve (Fed) easing over the balance of 2024. However, despite higher core bond yields, external debt returns in emerging markets remained positive, largely due to a continued compression in risk premia for high yield emerging markets (EM) sovereign and corporate issuers. EM fundamentals have been supported by continued disinflation, together with on-going policy easing, which have in turn supported an improvement in growth prospects. Local currency EM debt returns were hurt by renewed strength in the U.S. dollar, although local yields were broadly unchanged during the quarter, notwithstanding the increase in U.S. Treasury yields.

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

Currencies

EM currencies depreciated relative to the U.S. dollar by -2.8%, on average. Currencies from the Middle East and Africa region were the largest underperformers and depreciated by -4.9%, on average. Egypt was the largest underperformer as the central bank devalued the currency in pursuit of an IMF deal. Egypt exited the index at the end of February. Currencies from Chile (-11.0%) and Turkey (-8.7%) also depreciated. Currencies from Latin America outperformed the index average FX returns, with Latin American currencies depreciating by 1.1%. The top performing currencies were from Mexico, Colombia, and Uruguay whose currencies appreciated by 1.9%, 0.2% and 3.9%, respectively and were the only currencies to post positive returns for the quarter.

Interest Rates

The benchmark yield followed U.S. Treasury yields higher, increasing by 9 bps to 6.27%, on average. Bond yields from Asia declined by 11 bps, led by China and Malaysia whose yields declined by 23 bps and 1 bp, respectively. Yields increased in all other regions for the quarter. The largest increase in benchmark yield was in Turkey, where yields increased by 314 bps as the central bank remains committed to a restoration of orthodox monetary policy. South Africa's yields increased by 83 bps.

FUND PERFORMANCE REVIEW

The Fund (Class I) returned -2.50% (net of fees) and -2.26% (gross of fees) in the first quarter versus the J.P. Morgan GBI-EM Global Diversified Index return of -2.12%. Duration decisions and issue selection detracted from excess returns, while currency selection enhanced performance.

Positive Contributors

> **Currencies:** Underweights in Chile and Czech Republic; overweights in India and Mexico

> **Interest Rate Duration:** Underweights in Chile, China, Hungary, and Turkey

> **Issue Selection, Taxes and Other:** Colombia, Egypt*, South Africa, and Turkey

Negative Contributors

> **Currencies:** Overweights in Brazil and Thailand

> **Interest Rate Duration:** Overweights in Brazil, Mexico, and South Africa

> **Issue Selection, Taxes and Other:** Brazil, China, and Thailand

OUTLOOK & STRATEGY

Our base Case (40% probability) assumes a soft-enough landing that will enable the U.S. Fed to cut interest rates as the economy and inflation slow in response to higher interest rates. We currently expect between two to three reduction in the Fed funds rate over the balance of the year. The ECB is also likely to cut rates in response to a sluggish domestic economy and lower inflation rates. China is likely to continue its gradual easing policy to sustain growth, although largescale bailouts are unlikely due to moral hazard issues. The three main risks that we have identified include a sharper-than-expected fall in inflation, a sharper-than-expected fall in global growth, and also a more resilient U.S. economy leaving the Fed on hold for an extended period of time.

For external markets, in our base case, we see spreads as being more or less fairly priced at current levels, but lower core interest rates supporting overall total return gains. The major downside for EM risk premia is posed by the global recession scenario—when core rates would likely fall significantly. Total return expectations would also be lower than the Base Case in a scenario where the Fed remains on-hold, as core rates would likely continue their recent move higher.

Within the local currency space, we continue to see scope for local interest rates to fall as easing cycles are maintained. There may also be scope for some weakening of the U.S. dollar once the Fed starts to ease interest rates. Again, the global recession scenario and the Fed on-hold scenario would likely see renewed dollar strength, potentially damaging returns.

***The portfolio sold its position in Egypt on 9 May 2023,** but local FX inconvertibility prevented repatriation of proceeds, which were marked to market by index provider JP Morgan beginning in December 2023 using an alternative FX rate. This remarking of the benchmark led to a decline in the index value of Egypt.

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PERFORMANCE ATTRIBUTION BREAKDOWN as of 03/31/2024

Portfolio (gross basis - USD)	-2.26
JPM GBI-EMG DIV	-2.12
Difference	**-0.14**
Breakdown	
FX Attribution	0.18
Duration Attribution	-0.24
Issue, Taxes & Other Attribution	-0.04
Miscellaneous Difference	-**0.04**

REGIONAL ALLOCATION

REGIONAL ALLOCATION	% Fund	Benchmark
Africa	10.16	8.22
Asia	29.10	39.78
Europe	19.73	22.86
Latin America	37.32	29.14
Middle East	0.00	0.00
Net Cash	3.69	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.

TOP 5 FX EXPOSURES

TOP 5 FX EXPOSURES	% Fund	Benchmark
Brazilian real	11.94	10.00
Mexican peso	10.89	10.00
Indonesian rupiah	10.33	10.00
Malaysian ringgit	9.71	10.00
Thai bhat	9.31	9.78

TOP 5 DURATION CONTRIBUTION BY COUNTRIES (YEARS)

	Fund	Index
Mexico	0.74	0.47
South Africa	0.66	0.48
Malaysia	0.57	0.67
Indonesia	0.57	0.56
Thailand	0.47	0.64

CURRENT FUND STRATEGY

Positioning

> **FX:** Overweights in Brazil, India, and Mexico; underweights in China, Czech Republic, and Romania

> **Duration:** Overweights in Brazil, Colombia, and Mexico; underweights in China, Malaysia, and Thailand

	YIELD (%)		RATING**		NOTABLE DEVIATIONS			
Strategy	Portfolio	Relative*	Portfolio	Benchmark	O/W		U/W	
EM Local Currency Sovereign Debt	7.41	0.84	BBB+	BBB+	Duration:	Mexico, Brazil, South Africa	Duration:	Thailand, China, Malaysia
					FX:	BRL,INR, MXN	FX:	CNY, RON, CZK
					Credit:	Poland	Credit:	N/A†

*Relative to **JPMorgan GBI-EM 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 GBI-EM Global Diversified
Benchmark: **JPMorgan GBI-EM Global Diversified Index**.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/24

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 06/30/10
Class I	-2.50	-2.50	5.55	-1.69	-0.17	-1.29	-0.20
JPMorgan GBI-EM Global Diversified Index	-2.12	-2.12	4.91	-1.60	0.13	-0.32	1.05

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 1.26%. The net expense ratio is 1.00%, which reflects a contractual expense reimbursement in effect through 9/30/2024.

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

Index: The **J.P. Morgan GBI-EM Global Diversified Index** consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index. 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

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

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

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

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

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