

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-K

February 24, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2013

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from                      to

Commission file number 1-10994

**VIRTUS INVESTMENT PARTNERS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4191764**  
(I.R.S. Employer  
Identification No.)

**100 Pearl St., Hartford, CT 06103**  
(Address of principal executive offices)

**Registrant's telephone number, including area code**

**(800) 248-7971**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$.01 par value</b> (including attached Preferred Share Purchase Rights)	<b>The NASDAQ Stock Market LLC</b>

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold (based on the closing share price as quoted on the NASDAQ Global Market) as of the last business day of the registrant's most recently completed second fiscal quarter was \$490,056,156. For purposes of this calculation, shares of common stock held or controlled by executive officers and directors of the registrant have been treated as shares held by affiliates.

There were 9,105,521 shares of the registrant's common stock outstanding on February 13, 2014.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement which will be filed with the SEC in connection with the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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**Virtus Investment Partners, Inc.**

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We, us, our, the Company and Virtus as used in this Annual Report on Form 10-K ( Annual Report ), refer to Virtus Investment Partners, L.P., a Delaware corporation, and its subsidiaries.

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**PART I**

**Item 1. Business.  
Organization**

Virtus Investment Partners, Inc. (the Company) commenced operations on November 1, 1995 through a reverse merger with Duff & Phelps Corporation. The Company was a majority-owned subsidiary of The Phoenix Companies, Inc. (PNX) from 1995 to 2001, and a wholly-owned subsidiary of PNX from 2001 until 2008. In 2008, PNX commenced a plan to spin off the Company to existing shareholders. As part of that plan, a subsidiary of the Bank of Montreal (BMO) acquired convertible preferred stock of the Company in October 2008. On December 31, 2008, PNX distributed 100% of Virtus common stock to PNX stockholders in a spin-off transaction.

**Our Business**

We are a provider of investment management and related services to individuals and institutions. We use a multi-manager, multi-style approach, offering investment strategies from affiliated managers and select unaffiliated subadvisers, each having its own distinct investment style, autonomous investment process and individual brand. By offering a broad array of products, we believe we can appeal to a greater number of investors which allows us to have opportunities across market cycles and through changes in investor preferences.

We provide our products in a number of forms and through multiple distribution channels. Our retail products include open-end mutual funds, closed-end funds, variable insurance funds and separately managed accounts. Our open-end mutual funds are distributed through intermediaries. Our closed-end funds trade on the New York Stock Exchange. Our variable insurance funds are available as investment options in variable annuities and life insurance products distributed by third-party life insurance companies. Separately managed accounts are comprised of intermediary programs, sponsored and distributed by unaffiliated brokerage firms, and private client accounts, which are offerings to the high net-worth clients of our affiliated managers. We also manage institutional accounts for corporations, multi-employer retirement funds, public employee retirement systems, foundations and endowments. Our earnings are primarily driven by asset-based fees charged for services relating to these products including investment management, fund administration, distribution and shareholder services. These fees are based on a percentage of assets under management (AUM) and are calculated using daily or weekly average assets, quarter-end assets, or average month-end assets.

**Our Investment Managers**

Our investment management services are provided by investment managers who are registered investment advisers under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act). The investment managers are responsible for portfolio management activities for our retail and institutional products operating under advisory or subadvisory agreements. We provide our affiliated managers with distribution, operational and administrative support, thereby allowing each affiliated manager to focus on investment management. We also engage select unaffiliated subadvisers for certain of our open-end mutual funds and variable insurance funds. At December 31, 2013, \$24.1 billion or 41.8% of our assets under management were managed by unaffiliated subadvisers. We monitor the quality of our managers' services by assessing their performance, style, consistency and the discipline with which they apply their investment process.

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Our investment managers and their respective assets under management, styles and strategies are as follows:

AUM at	Affiliated Managers						
	Duff & Phelps Investment Management	Newfleet Asset Management	Kayne Anderson Rudnick Investment Management	Zweig/Euclid Advisors	Rampart Investment Management	Newfound Investments	Cliffwater Investments (1)
<b>December 31, 2013</b>							
<i>(\$ in billions)</i>	\$9.2	\$12.2	\$9.1	\$1.7	\$1.4	\$0.0	\$0.0
<b>Location</b>	Chicago, IL	Hartford, CT	Los Angeles, CA	New York, NY	Boston, MA	Hartford, CT	Hartford, CT
<b>Investment Style</b>	Quality-oriented, equity income; high quality fixed income	Multi-sector, value-driven fixed income	Quality at a reasonable price	Growth at a reasonable price, high quality fixed income	Systematic, disciplined options solutions	Quantitative, tactical model driven portfolios	Multi-manager Alternative Portfolios
<b>Investment Types</b>							
Equities	Utilities		Large, Mid & Small Cap Core/ Growth/Value	Large Cap Core Tactical Asset Allocation	Low Volatility	Domestic and International	Global Income
			International & Emerging Markets Small-Cap	International			
Fixed Income	Tax Advantaged High Grade Core Municipals	Multi-sector Core Core Plus Bank Loans High Yield Municipals Emerging Markets	California Municipals Intermediate Total Return & Government	U.S. Government Grade Agencies Investment Grade Corporates Sovereign		Core Plus	Emerging Markets Inflation Linked
Alternative	REITs Infrastructure MLPs				Options Strategies		REITs MLPs Long/Short Strategies Event Driven Credit Infrastructure Convertible Arbitrage Global Macro Commodities
<b>Products</b>							
Open-End Mutual Funds	ü	ü	ü	ü		ü	
Closed-End Funds	ü	ü		ü			

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Variable Insurance Funds	ü	ü	ü		
Separately Managed Accounts		ü	ü	ü	ü
Institutional	ü	ü	ü	ü	ü

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- (1) On October 28, 2013, the Company established Cliffwater Investments in partnership with Cliffwater, LLC., a leading advisory firm that provides institutional investors with portfolio diversification through alternative investments.

**Our Investment Products**

Our assets under management are comprised of open-end mutual funds, closed-end funds, variable insurance funds, separately managed accounts (intermediary sponsored and private client) and institutional accounts (traditional institutional mandates and structured products).

*Assets Under Management By Product as of December 31, 2013*

*(\$ in billions)*

<b>Retail Products</b>	
<i>Mutual fund assets</i>	
Open-end mutual funds	\$ 37.9
Closed-end funds	6.5
<b>Total mutual fund assets</b>	<b>44.4</b>
Variable insurance funds	1.3
Separately managed accounts	7.4
<b>Total retail assets</b>	<b>53.1</b>
<b>Total institutional assets</b>	<b>4.6</b>
<b>Total AUM</b>	<b>\$ 57.7</b>



**Table of Contents****Open-End Mutual Funds**

As of December 31, 2013, we managed 49 U.S. domiciled open-end mutual funds with total assets of \$37.9 billion. Our U.S. domiciled, open-end mutual funds are in a variety of asset classes (equity, fixed income, money market, asset allocation and alternative investments), in all market capitalizations (large, mid and small), in different styles (growth, blend and value) and with various investment approaches (fundamental, quantitative and thematic). In 2013, we established an Ireland domiciled open-end mutual fund platform under the European Union framework for Undertakings for Collective Investment in Transferable Securities ( UCITS ), which we refer to as Global Funds, to offer select investment strategies to non-US investors and launched our initial Global Fund. At December 31, 2013, assets under management in this fund were \$20.1 million.

Our open-end mutual funds as of December 31, 2013 are as follows:

<b>Fund Type/Name</b>	<b>Inception</b>	<b>Assets</b> <i>(\$ in millions)</i>	<b>Advisory Fee (1)</b> <i>(%)</i>	<b>3-Year Return (2)</b> <i>(%)</i>
<b>Alternatives</b>				
Virtus Dynamic Alpha-Sector Fund	1998	\$ 2,883.4	1.50-1.40	9.01
Virtus Real Estate Securities Fund	1995	1,325.4	0.75-0.65	8.57
Virtus Global Dividend Fund	2004	144.2	0.65-0.55	12.77
Virtus Alternatives Diversifier Fund (3)	2005	49.4	0.00	2.87
Virtus Global Real Estate Securities Fund	2009	42.9	0.85-0.75	8.13
Virtus International Real Estate Securities Fund	2007	41.2	1.00-0.90	7.14
Virtus Global Commodities Stock Fund	2011	24.4	1.00-0.90	n/a
Virtus Herzfeld Fund	2012	13.0	1.00-0.95	n/a
<b>Asset Allocation</b>				
Virtus Allocator Premium AlphaSector Fund	2011	674.1	1.10-1.00	n/a
Virtus Balanced Fund	1975	610.0	0.55-0.45	9.51
Virtus Tactical Allocation Fund	1940	197.7	0.70-0.60	10.11
<b>Equity</b>				
Virtus Premium AlphaSector Fund	2010	6,970.4	1.10	12.64
Virtus AlphaSector Rotation Fund	2003	765.6	0.45-0.40	14.48
Virtus Small-Cap Core Fund	1996	528.4	0.75	16.19
Virtus Mid-Cap Value Fund	1997	435.5	0.75-0.70	16.35
Virtus Strategic Growth Fund	1995	432.0	0.70-0.60	11.86
Virtus Quality Small-Cap Fund	2006	287.3	0.70	16.84
Virtus Growth & Income Fund	1997	149.7	0.75-0.65	12.96
Virtus Small-Cap Sustainable Growth Fund	2006	132.8	0.90-0.80	22.28
Virtus Mid-Cap Growth Fund	1975	92.7	0.80-0.70	10.07
Virtus Wealth Masters Fund	2012	83.0	0.85-0.80	n/a
Virtus Quality Large-Cap Value Fund	2005	67.7	0.75-0.65	13.04
Virtus Mid-Cap Core Fund	2009	4.5	0.80-0.70	14.60
Virtus Low Volatility Equity Fund	2013	1.8	0.95-0.85	n/a
Virtus Disciplined Equity Style Fund	2012	1.7	1.00-0.90	n/a
<b>Fixed Income</b>				
Virtus Multi-Sector Short Term Bond Fund	1992	8,335.7	0.55-0.45	4.61
Virtus Senior Floating Rate Fund	2008	1,060.5	0.60-0.50	5.42
Virtus Multi-Sector Intermediate Bond Fund	1989	363.1	0.55-0.45	6.35
Virtus Tax-Exempt Bond Fund	1996	201.0	0.45	4.80
Virtus Low Duration Income Fund	1996	117.2	0.55-0.45	3.53
Virtus High Yield Fund	1980	97.1	0.65-0.55	8.36
Virtus Bond Fund	1998	80.0	0.45-0.40	4.74
Virtus CA Tax-Exempt Bond Fund	1983	46.1	0.45-0.35	5.66
Virtus Emerging Markets Debt Fund	2012	27.6	0.75-0.70	n/a
Virtus Disciplined Select Bond Fund	2012	1.0	0.80-0.70	n/a

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<b>Fund Type/Name</b>	<b>Inception</b>	<b>Assets (\$ in millions)</b>	<b>Advisory Fee (1) (%)</b>	<b>3-Year Return (2) (%)</b>
<b>International/Global</b>				
Virtus Emerging Markets Opportunities Fund	1997	7,711.0	1.00-0.95	2.92
Virtus Foreign Opportunities Fund	1990	1,888.7	0.85-0.75	8.45
Virtus Global Premium AlphaSector Fund	2011	175.0	1.10-1.00	n/a
Virtus Global Opportunities Fund	1960	118.2	0.85-0.75	13.41
Virtus Emerging Markets Equity Income Fund	2012	89.5	1.05-1.00	n/a
Virtus International Small-Cap Fund	2012	38.0	1.00-0.95	n/a
Virtus Greater European Opportunities Fund	2009	18.3	0.85-0.80	12.42
Virtus Greater Asia ex Japan Opportunities Fund	2009	10.3	1.00-0.95	2.46
Virtus International Equity Fund	2010	6.2	0.85-0.75	9.55
Virtus Emerging Markets Small Cap Fund	2013	3.0	1.20-1.15	n/a
Virtus Disciplined Select Country Fund	2012	1.3	1.10-1.00	n/a
<b>Global Fund (4)</b>				
Virtus GF Multi-Sector Short Duration Fund	2013	20.1	0.65-0.55	n/a
<b>Money Market Funds</b>				
Virtus Insight Government Money Market Fund	1988	1,047.0	0.14-0.10	0.01
Virtus Insight Money Market Fund	1988	361.9	0.14-0.10	0.01
Virtus Insight Tax-Exempt Money Market Fund	1988	147.7	0.14-0.10	0.01
		\$ 37,924.3		

- (1) Percentage of average daily net assets of each fund. The percentages listed represent the range of management advisory fees paid by the funds, from the highest to the lowest. A range indicates that the fund has breakpoints at which management advisory fees decrease as assets in the funds increase. We pay subadvisory fees on funds managed by unaffiliated subadvisers, which are not reflected in the percentages listed.
- (2) Represents average annual total return performance of the largest share class as measured by net assets for which performance data is available.
- (3) This fund invests in other Virtus open-end mutual funds as well as unaffiliated exchange traded funds. The related assets invested in other Virtus open-end mutual funds are reflected only in the balances of the respective funds.
- (4) In 2013, we established an Ireland domiciled open-end mutual fund platform under the European Union framework for UCITS, which we refer to as Global Funds, to offer select investment strategies to non-US investors and launched our initial Global Fund.

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.

**Table of Contents****Closed-End Funds**

We managed eight closed-end funds as of December 31, 2013, each of which is traded on the New York Stock Exchange, with total assets of \$6.5 billion. Closed-end funds do not continually offer to sell and redeem their shares; rather, daily liquidity is provided by the ability to trade the shares of these funds at prices that may be above or below the shares' net asset value. Our closed-end funds are comprised of various fixed income and equity strategies provided by three of our affiliated managers.

Our closed-end funds as of December 31, 2013 are as follows:

Fund Type/Name	Assets (\$ in billions)	Advisory Fee %
<b>Balanced</b>		
DNP Select Income Fund Inc.	\$ 3.4	0.60-0.50 (1)
Zweig Total Return Fund Inc.	0.5	0.70(2)
Virtus Total Return Fund	0.2	0.85(2)
<b>Equity</b>		
Duff & Phelps Global Utility Income Fund Inc.	1.1	1.00 (1)(3)
Zweig Fund Inc.	0.4	0.85(2)
<b>Fixed Income</b>		
Duff & Phelps Utility and Corporate Bond Trust Inc.	0.4	0.50(1)
Virtus Global Multi-Sector Income Fund	0.3	0.95(2)
DTF Tax-Free Income Inc.	0.2	0.50(1)
<b>Total Closed-End Funds</b>	<b>\$ 6.5</b>	

- (1) Percentage of average weekly net assets. The percentage listed represents the range of management advisory fees paid by the funds, from the highest to the lowest. A range indicates that the fund has breakpoints at which management advisory fees decrease as assets in the fund increase.
- (2) Percentage of average daily net assets of each fund.
- (3) The adviser has contractually agreed to waive a portion of its fee for a period of time, which is not reflected in the percentage listed.

**Separately Managed Accounts**

Separately managed accounts are individually owned portfolios. Separately managed accounts include intermediary sponsored programs, whereby an intermediary assists individuals in identifying their investment objectives and hires investment managers that have been approved by the broker-dealer to fulfill those objectives and private client accounts that are accounts of high net-worth individuals who are direct clients of our affiliated managers. Separately managed account assets totaled \$7.4 billion at December 31, 2013.

**Institutional Accounts**

We offer a variety of equity and fixed income strategies to institutional clients, including corporations, multi-employer retirement funds, public employee retirement systems, foundations and endowments. We also act as the collateral manager for structured finance products, such as collateralized loan obligations and collateralized bond obligations, collectively referred to as collateralized debt obligations ( CDOs ). Our institutional assets under management totaled \$4.6 billion as of December 31, 2013.

**Variable Insurance Funds**

Our variable insurance funds are available as investment options in variable annuities and life insurance products distributed by third-party life insurance companies.



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Our variable insurance funds as of December 31, 2013 are as follows:

<b>Fund Type/Name</b>	<b>Assets (\$ in billions)</b>	<b>Advisory Fee (1) %</b>
<b>Equity</b>		
Virtus International Series	\$ 0.3	0.75-0.65
Virtus Capital Growth Series	0.2	0.70-0.60
Virtus Growth and Income Series	0.2	0.70-0.60
Virtus Small-Cap Growth Series	0.1	0.85
Virtus Real Estate Securities Series	0.1	0.75-0.65
Virtus Small-Cap Value Series	0.1	0.90
<b>Fixed Income</b>		
Virtus Multi-Sector Fixed Income Series	0.2	0.50-0.40
<b>Asset Allocation</b>		
Virtus Strategic Allocation Series	0.1	0.60-0.50
<b>Total Variable Insurance Funds</b>	<b>\$ 1.3</b>	

- (1) Percentage of average daily net assets of each fund. The percentage listed represents the range of management advisory fees paid by the funds, from the highest to the lowest. A range indicates that the fund has breakpoints at which management advisory fees decrease as assets in the fund increase. Subadvisory fees paid on funds managed by unaffiliated subadvisers are not reflected in the percentages listed.

**Our Investment Management, Administration and Transfer Agent Fees**

Our net investment management fees, administration fees and net transfer agent fees earned in each of the last three years were as follows:

(\$ in thousands)	Years Ended December 31,		
	2013	2012	2011
Investment management fees, net:			
Open-end mutual funds	\$ 166,596	\$ 109,327	\$ 68,831
Closed-end funds	39,921	35,361	26,345
Variable insurance funds	7,347	6,388	6,125
Separately managed accounts	31,510	23,245	19,166
Institutional accounts	15,183	13,554	14,596
<b>Total investment management fees, net</b>	<b>260,557</b>	<b>187,875</b>	<b>135,063</b>
Administration fees	33,736	23,646	16,695
Transfer agent fees	14,449	10,133	7,183
<b>Total</b>	<b>\$ 308,742</b>	<b>\$ 221,654</b>	<b>\$ 158,941</b>

**Investment Management Fees**

We provide investment management services pursuant to investment management agreements with one of our affiliated investment advisers (each, an Adviser). With respect to our open-end mutual funds, closed-end funds and variable insurance funds, the Adviser provides overall management services to a fund, subject to supervision by the fund's board of directors, pursuant to agreements that must be approved annually by each fund's board of directors and which may be terminated by either party upon written notice, or automatically, in certain situations, such as a change in control of the Adviser. We earn fees based on each fund's average daily or weekly net assets with most fee schedules providing for rate declines or breakpoints as asset levels increase to certain thresholds. For funds managed by a subadviser, the agreement provides that the

subadviser manage the

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day-to-day operations of the fund's portfolio and receive a management fee from the Adviser based on the percentage of average daily net assets in the funds they subadvise or a percentage of the Adviser's management fee. Each fund bears all expenses associated with its operations. In some cases, to the extent total fund expenses exceed a specified percentage of a fund's average net assets, the Adviser has agreed to reimburse the funds for such excess expenses or voluntarily waive a portion of its fee for a period of time.

For separately managed accounts and institutional accounts, fees are negotiated and are based primarily on asset size, portfolio complexity and individual client requests.

We act as the collateral manager for structured finance products, which are comprised of CDOs. Fees consist of both senior and subordinated management fees. Senior management fees are calculated at a contractual fee rate applied against the current par value of the total collateral being managed. Subordinated management fees, also calculated against the current par value of the total collateral being managed, are recognized only after certain portfolio criteria are met.

### ***Administration Fees***

We provide fund administration services to our open-end mutual funds, variable insurance funds and certain of our closed-end funds. We earn fees based on each fund's average daily or weekly net assets. Administrative services include recordkeeping, preparing and filing documents required to comply with federal and state securities laws, legal administration and compliance services, supervising the activities of the funds other service providers, providing assistance with fund shareholder meetings, as well as providing office space, equipment and personnel that may be necessary for managing and administering the business affairs of the funds.

### ***Transfer Agent Fees***

We provide shareholder services to our open-end mutual funds. We earn fees based on each fund's average daily or weekly net assets. Shareholder services include maintaining shareholder accounts, processing shareholder transactions, preparing filings and performing necessary reporting, among other things. We engage third-party service providers to perform certain aspects of the shareholder services.

### **Our Distribution Services**

We distribute our open-end mutual funds through financial intermediaries. We have broad access in the retail market, with distribution partners that include national and regional broker-dealers and independent financial advisory firms. Our sales efforts are supported by regional sales professionals, a national account relationship group, and separate teams for the retirement and insurance markets.

Our separately managed accounts are distributed through financial intermediaries and directly by teams at our affiliated managers. Our institutional distribution strategy is an affiliate-centric model. Through relationships with consultants, they target key market segments, including foundations and endowments, corporate, and public and private pension plans.

### **Our Broker-Dealer Services**

VP Distributors, LLC ( VPD ), a wholly-owned subsidiary of the Company, is a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the Exchange Act ) and is a member of the Financial Industry Regulatory Authority ( FINRA ). VPD serves as principal underwriter and distributor of our open-end mutual funds and our separately managed accounts. Open-end mutual fund shares are distributed by VPD under sales agreements with unaffiliated financial intermediaries. VPD also markets advisory services to sponsors of separately managed account programs.

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### **Our Competition**

We face significant competition from a wide variety of financial institutions, including other investment management companies, as well as from proprietary products offered by our distribution partners such as banks, broker-dealers and financial planning firms. Competition in our businesses is based on several factors including investment performance, access to distribution channels, service to financial advisers and their clients and fees charged. Our competitors, many of which are larger than we are, often offer similar products, use similar distribution sources, offer less expensive products, have greater access to key distribution channels and have greater resources than we do.

### **Our Regulatory Matters**

We are subject to regulation by the Securities and Exchange Commission ( SEC ), FINRA and other federal and state agencies and self-regulatory organizations. Each affiliated manager and unaffiliated subadviser, is registered with the SEC under the Investment Advisers Act. Each open-end mutual fund, closed-end fund, and each series of our variable insurance fund is registered with the SEC under the Investment Company Act of 1940. Our Global Fund is subject to regulation by the Central Bank of Ireland ( CBI ). The Global Fund and each investment manager and sub-investment manager to the Global Fund is registered with the CBI.

The financial services industry is highly regulated and failure to comply with related laws and regulations can result in the revocation of registrations, the imposition of censures or fines, and the suspension or expulsion of a firm and/or its employees from the industry. All of our U.S.-domiciled open-end mutual funds are currently available for sale and are qualified in all 50 states, Washington, D.C., Puerto Rico, Guam and the U.S. Virgin Islands. Our Global Fund is available for sale in Ireland and may be sold through financial intermediaries to investors who are not citizens of or residents in the United States. Most aspects of our investment management business, including the business of the unaffiliated subadvisers, are subject to various U.S. federal and state laws and regulations.

Our officers, directors, and employees may, from time to time, own securities that are also held by one or more of our funds. Our internal policies with respect to personal investments are established pursuant to the provisions of the Investment Company Act and/or the Investment Advisers Act. Employees, officers and directors who, in the function of their responsibilities to us, meet the requirements of the Investment Company Act, Investment Advisers Act, and/or of FINRA regulations, must disclose personal securities holdings and trading activity. Those employees, officers and directors with investment discretion or access to investment decisions are subject to additional restrictions with respect to the pre-clearance of the purchase or sale of securities over which they have investment discretion or beneficial interest. Other restrictions are imposed upon supervised persons with respect to personal transactions in securities held, recently sold or contemplated for purchase by our mutual funds. All supervised persons are required to report holdings and transactions on an annual and quarterly basis pursuant to the provisions of the Investment Company Act and Investment Advisers Act. In addition, certain transactions are restricted so as to seek to avoid the possibility of improper use of information relating to the management of client accounts.

### **Our Employees**

As of December 31, 2013, we had 376 full time equivalent employees. None of our employees is represented by a union.

### **Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as proxy statements, will be available free of charge on our website located at [www.virtus.com](http://www.virtus.com) as soon as reasonably practicable after they are filed with or furnished to the SEC. You may also read and copy any



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document we file at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Reports, proxy statements and other information regarding issuers that file electronically with the SEC, including our filings, are also available to the public on the SEC's website at <http://www.sec.gov>.

A copy of our Corporate Governance Principles, our Code of Conduct, and the charters of our Audit Committee, Compensation Committee, Governance Committee and Risk and Finance Committee are posted on our website, [www.virtus.com](http://www.virtus.com), under About Us, Investor Relations, Corporate Governance and are available in print to any person who requests copies by contacting Investor Relations by email to: [investor.relations@virtus.com](mailto:investor.relations@virtus.com) or by mail to Virtus Investment Partners, Inc., c/o Investor Relations, 100 Pearl Street, Hartford, CT 06103. Information contained on the website is not incorporated by reference or otherwise considered part of this document.

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### **Item 1A. Risk Factors**

*This section describes some of the potential risks relating to our business, such as market, liquidity, operational, reputation and regulatory. The risks described below are some of the more important factors that could affect our business. You should carefully consider the risks described below, together with all of the other information included in this Annual Report on Form 10-K, in evaluating the Company and our common stock. If any of the risks described below actually occur our business, revenues, profitability, results of operations, financial condition, cash flows, reputation and stock price could be materially adversely affected.*

***We earn substantially all of our revenues based on assets under management and therefore a reduction in assets under management would reduce our revenues and profitability. Assets under management fluctuate based on many factors including: market conditions, investment performance and client withdrawals.***

The majority of our revenues are generated from asset-based fees from investment management products and services to individuals and institutions. Therefore, if the assets under management decline, our fee revenues decline reducing profitability as some of our expenses are fixed. There are several reasons that assets under management could decline as discussed below:

Domestic and global market conditions in the equity and credit markets, which have experienced significant volatility and uncertainty, can influence assets under management. The value of assets under management can decline due to price declines in specific securities, in the securities markets generally, or in specific market segments or geographic areas where those assets are invested. Funds and portfolios that we manage related to certain geographic markets and industry sectors are also vulnerable to political, social and economic events. If the security markets decline or experience volatility, this could have a negative impact on our assets under management and our revenues. Increases in interest rates from their present, historically low levels also may adversely affect the net asset values of our assets under management. Decreases in interest rates could lead to outflows in our fixed income assets as investors may seek higher yields. In the event of extreme circumstances, including economic, political, or business crises, such as a widespread systemic failure in the global financial system or failures of firms that have significant obligations as counterparties on financial instruments, we may suffer significant declines in assets under management and severe liquidity or valuation issues.

The performance of our investment strategies is critical to the maintenance and growth of assets under management. Net flows related to our investment strategies can be affected by investment performance relative to other competing investment strategies or to established benchmarks. Investment management strategies are rated, ranked or assessed by independent third-parties, distribution partners, and industry periodicals and services. These assessments often influence the investment decisions of our clients. If the performance or assessment of our investment strategies is seen as underperforming relative to peers, it could result in an increase in the withdrawal of assets by existing clients and the inability to attract additional investments from existing and new clients. In addition, certain of our investment strategies have capacity constraints, as there is a limit to the number of securities available for the strategy to operate effectively. In those instances, we may choose to limit access to new or existing investors.

Our clients include the boards of directors for our sponsored mutual funds, managed account program sponsors, private clients, and institutional clients. Our investment management agreements with these clients may be terminated upon short notice without penalty. As a result, there would be little impediment to these sponsors or clients terminating our agreements. Investment contracts are generally terminated for factors including sustained investment performance, regulatory or compliance issues. The directors of our sponsored funds may deem it to be in the best interests of a fund's shareholders to make decisions adverse to us, such as reducing the compensation paid to us, requesting that we subsidize fund expenses over certain thresholds, or imposing restrictions on our management of the fund. Under the Investment Company Act, investment advisory agreements automatically terminate in the event of an assignment, which may occur if, among other events, the Company undergoes a change in control, such as any person acquiring 25% voting rights of our common stock. If an assignment were to occur, we could continue to act as adviser to a fund only if that fund's board of directors

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and its stockholders approved a new investment advisory agreement. In addition, investment advisory agreements for the separate accounts we manage may not be assigned without the consent of the client. If an assignment occurs, we cannot be certain that the Company will be able to obtain the necessary fund approvals or the necessary consents from our clients. The termination of any investment management contract relating to a material portion of assets under management would adversely affect our revenues and earnings.

***Any damage to our reputation could harm our business and lead to a reduction in our revenues and profitability.***

Maintaining a strong reputation with the investment community is critical to our success. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate even if they are without merit or satisfactorily addressed. Our reputation may be impacted by many factors, including but not limited to, poor performance, litigation and conflicts of interests. Any damage to our reputation could impede our ability to attract and retain clients and key personnel, and lead to a reduction in the amount of our assets under management, any of which could have a material adverse effect on our revenues and profitability.

***We may be required to, or elect to, support the stable net asset values of our money market funds, which could negatively affect our revenues and profitability.***

As of December, 31, 2013, we managed \$1.5 billion of money market assets representing 2.6% of our total assets under management. Although money market funds seek to preserve a stable net asset value, and our money market funds maintained this stable net asset value, there is no guarantee that this stable net asset value will be achieved in the future. Market conditions domestically and globally, which may include significant volatility and uncertainty, could lead to severe liquidity or security pricing issues, which could impact money market net asset values. If the net asset value of our money market funds was to fall below its stable net asset value, we would likely experience significant redemptions in money market assets under management, loss of shareholder confidence, and reputational harm, which could have a material adverse effect on our revenues and profitability.

If a money market fund's stable net asset value comes under pressure, we may elect to provide credit, liquidity, or other support to the fund. We are not legally required to support any money market fund, and there can be no assurance that any support would be sufficient to avoid an adverse impact. A decision to provide support may arise from factors specific to our funds or from industry-wide factors. If we elect to provide support, we could incur losses from the support we provide and incur additional costs, including financing costs, in connection with the support. These losses and additional costs could be material and could adversely affect our profitability. If we were to take such actions we may also restrict our corporate assets, limiting our flexibility to use these assets for other purposes, and may be required to raise additional capital.

***We manage client assets under agreements that have established investment guidelines or other contractual requirements and any failure to comply could result in claims, losses or regulatory sanctions, which could negatively impact our revenues and profitability.***

The agreements under which we manage client assets often have established investment guidelines or other contractual requirements that we are required to comply with in providing our investment management services. Although we maintain various compliance procedures and other controls to prevent, detect, and correct such errors, any failure or allegation of a failure to comply with these guidelines or other requirement could result in client claims, reputational damage, withdrawal of assets, and potential regulatory sanctions, any of which could negatively impact our revenues and profitability.

***Our business relies on the ability to attract and retain key employees, and the loss of such employees could negatively affect financial performance.***

The success of our business is dependent to a large extent on our ability to attract and retain key employees such as senior executives, portfolio managers, securities analysts and sales personnel. Competition in the job

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market for these professionals is generally intense and compensation levels in the industry are highly competitive. The market for investment managers is also characterized by the movement of investment managers among different firms.