

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-K

March 01, 2013

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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, 2012

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)

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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:

Title of each class
Common Stock, \$.01 par value
(including attached Preferred Share Purchase Rights)

Name of each exchange on which registered
The NASDAQ Stock Market LLC

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 ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☒
Smaller reporting company ☐

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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 7,831,584 shares of the registrant's common stock outstanding on February 14, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement which will be filed with the SEC in connection with the 2013 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	
Delaware corporation, and its subsidiaries.	

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PART I

Item 1. Business. Organization

Virtus Investment Partners, Inc. commenced operations on November 1, 1995 through a reverse merger with Duff & Phelps Corporation. From 1995 to 2001, we were a majority-owned indirect subsidiary of The Phoenix Companies, Inc. ("PNX"). On January 11, 2001, a subsidiary of PNX acquired the outstanding shares of the Company not already owned and the Company became an indirect wholly-owned subsidiary of PNX. On October 31, 2008, after the sale of convertible preferred stock to a subsidiary of the Bank of Montreal ("BMO") we became an indirect, majority-owned subsidiary of PNX. On December 31, 2008, PNX distributed 100% of Virtus common stock to PNX stockholders in a spin-off transaction. Following the spin-off, BMO owned 100% of the Company's outstanding shares of Series B Convertible Preferred Stock (the "Series B"). All of the outstanding Series B was converted to shares of Virtus common stock on January 6, 2012. As a result of the conversion, all of the preferred stock have been retired.

Our Business

We are a provider of investment management products and services to individuals and institutions. We operate a multi-manager investment management business, comprised of affiliated managers and unaffiliated subadvisers, each having its own distinct investment style, autonomous investment process and brand. We believe our clients value this approach and appreciate individual managers with distinctive cultures and styles.

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 fund family of open-end funds is distributed primarily 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. Retail 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 and special purpose funds. Our earnings are primarily driven by asset-based fees charged on these various products for services 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 or assets at the end of the preceding quarter.

Our Investment Managers

Our investment management services are provided by investment managers who are registered investment advisors 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 sub-advisory agreements. We provide our affiliated managers with distribution, operational and administrative support, thereby allowing each affiliated manager to focus on investment management. Our affiliated managers participate in the earnings they generate through compensation arrangements that include incentive bonus pools based primarily on their profits. We also engage select unaffiliated subadvisers for certain of our open-end mutual funds and variable insurance funds. At December 31, 2012, \$16.1 billion or 35.4% of our assets under management were managed by unaffiliated subadvisers. We monitor the quality of the affiliated managers and unaffiliated subadvisers products by assessing their performance, style, consistency and the discipline with which they apply their investment process.

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Our affiliated firms and their respective assets under management, styles and products are as follows:

	Affiliated Managers Kayne					
	Duff & Phelps Investment Management	Newfleet Asset Management	Anderson Rudnick Investment Management	Zweig/Euclid Advisors	Rampart Investment Management(1)	Newfound Investments (2)
AUM at						
December 31, 2012						
(\$ in billions)	\$8.9	\$10.7	\$6.7	\$1.7	\$1.3	\$0.0
Location	Chicago, IL	Hartford, CT	Los Angeles, CA	New York, NY	Boston, MA	Hartford, CT
Investment Style	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
Investment Types						
Equities	REITs		Small Cap: Core/ Growth/Value Mid Cap: Core	Large Cap Core	Equity overlay	Domestic and International Equity
	Utilities/ Infrastructure Passive Equity		Small-Mid Cap: Core/Value Large Cap: Core/ Growth/Value	Allocation International	Low Volatility	
Fixed Income	Tax Advantaged	Multi-sector	California	U.S. Government		Core Plus
	High Grade Core Municipals	Core Core Plus Bank Loans High Yield Municipals Emerging Market	Municipals Intermediate Total Return & Government	grade agencies Investment grade corporates Sovereign		
Products						
Open-End Funds						ü
	ü	ü	ü	ü		
Closed-End Funds	ü	ü		ü		
Variable Insurance Funds	ü	ü	ü			
Separately Managed Accounts		ü	ü	ü	ü	

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Institutional

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- (1) On October 18, 2012, the Company completed the acquisition of the business and assets of Rampart Investment Management Company, Inc.
- (2) On October 4, 2012, the Company established Newfound Investments in partnership with Newfound Research, a financial technology firm that provides access to proprietary research and asset allocation models.

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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, 2012**(\$ in billions)*

Retail Products	
<i>Mutual fund assets</i>	
Long-term open-end funds	\$ 25.8
Closed-end funds	6.2
Money market funds	2.0
Total mutual fund assets	34.0
<i>Variable Insurance Funds</i>	1.3
<i>Separately managed accounts</i>	
Intermediary sponsored programs	3.7
Private client accounts	2.1
Total managed account assets	5.8
Total retail assets	41.1
Institutional Products	
Institutional accounts	3.7
Structured finance products	0.7
Total institutional assets	4.4
Total AUM	\$ 45.5

Open-End Mutual Funds

As of December 31, 2012, we managed 48 open-end funds, in a variety of equity and fixed income styles, including money market, asset allocation and alternative investments, with total assets of \$27.8 billion.

Our equity fund offerings encompass a number of market caps and investment styles, including large-, mid- and small-cap funds offered in value, core and growth styles, and including international, global, emerging market and sector-specific funds. Our fixed income fund offerings cover a broad range of fixed income asset classes, including core, multi-sector, tax-exempt and high yield. We also offer separate money market funds focused on corporate, tax-exempt and government securities.

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Our family of open-end mutual funds as of December 31, 2012 is comprised of the following:

Fund Type/Name	Inception	Assets (\$ in millions)	Advisory Fee (1) (%)	3-Year Return (2) (%)
Alternatives				
Virtus Real Estate Securities Fund	1995	\$ 1,306.2	0.75-0.65	17.67
Virtus Dynamic AlphaSector Fund	1998	485.7	1.50-1.40	(1.76)
Virtus Global Dividend Fund	2004	100.8	0.65-0.55	10.15
Virtus Alternatives Diversifier Fund (3)	2005	51.0	n/a	5.73
Virtus International Real Estate Securities Fund	2007	36.1	1.00-0.90	12.94
Virtus Global Real Estate Securities Fund	2009	24.9	0.85-0.75	15.46
Virtus Global Commodities Stock Fund	2011	23.0	1.00-0.90	n/a
Virtus Herzfeld Fund	2012	1.5	1.00-0.95	n/a
Asset Allocation				
Virtus Balanced Fund	1975	587.7	0.55-0.45	8.35
Virtus Allocator Premium AlphaSector Fund	2011	385.3	1.10-1.00	n/a
Virtus Tactical Allocation Fund	1940	185.9	0.70-0.60	8.17
Equity				
Virtus Premium AlphaSector Fund	2010	3,574.1	1.10	n/a
Virtus AlphaSector Rotation Fund	2003	472.0	0.45-0.40	9.01
Virtus Strategic Growth Fund	1995	374.5	0.70-0.60	7.95
Virtus Mid-Cap Value Fund	1997	370.7	0.75-0.70	12.46
Virtus Small-Cap Core Fund	1996	248.8	0.75	14.16
Virtus Quality Small-Cap Fund	2006	213.7	0.70	11.67
Virtus Growth & Income Fund	1997	129.3	0.75-0.65	8.14
Virtus Mid-Cap Growth Fund	1975	81.5	0.80-0.70	9.49
Virtus Quality Large-Cap Value Fund	2005	80.2	0.75-0.65	8.29
Virtus Small-Cap Sustainable Growth Fund	2006	78.9	0.90-0.80	13.71
Virtus Mid-Cap Core Fund	2009	2.5	0.80-0.70	12.14
Virtus Wealth Masters Fund	2012	1.1	0.85-0.80	n/a
Virtus Disciplined Equity Style Fund	2012	1.0	1.00-0.90	n/a