

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-K

March 01, 2012

[Table of Contents](#)

**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, 2011

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)

Edgar Filing: VIRTUS INVESTMENT PARTNERS, INC. - Form 10-K

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

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

Share Purchase Rights)

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

## Edgar Filing: VIRTUS INVESTMENT PARTNERS, INC. - Form 10-K

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 \$350,165,796. 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 7,702,447 shares of the registrant's common stock outstanding on February 16, 2012.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement which will be filed with the SEC in connection with the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**Table of Contents**

**Virtus Investment Partners, Inc.**

**Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2011**

	<b>Page</b>
<b>PART I</b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	19
Item 2. <u>Properties</u>	19
Item 3. <u>Legal Proceedings</u>	19
Item 4. <u>Mine Safety Disclosures</u>	19
<b>PART II</b>	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
Item 6. <u>Selected Financial Data</u>	22
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 8. <u>Financial Statements and Supplementary Data</u>	45
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	45
Item 9A. <u>Controls and Procedures</u>	45
Item 9B. <u>Other Information</u>	46
<b>PART III</b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	47
Item 11. <u>Executive Compensation</u>	47
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	48
Item 14. <u>Principal Accounting Fees and Services</u>	48
<b>PART IV</b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	49

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

---

**Table of Contents**

**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, excluding the net assets and business of the Company's former subsidiary, Goodwin Capital Advisers, Inc. ( "Goodwin" ), which had historically been a wholly owned subsidiary of the Company. 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 shares 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 sub-advisors, each having its own distinct investment style, autonomous investment process and brand. We believe our customers 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 investment management fees charged on these various products. 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 mutual funds, variable insurance funds and closed-end funds, and provide investment management services for institutional and separately managed accounts. Our investment management services are provided by our affiliated managers as well as by unaffiliated external managers through 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. For certain of our open-end mutual funds and variable insurance funds, we complement our affiliated managers' skills with those of unaffiliated boutique sub-advisors who offer strategies that we believe also appeal to investors. At December 31, 2011, \$10.9 billion or 31.4% of our assets under management were managed by unaffiliated sub-advisors. We monitor the quality of the managers' products by assessing their performance, style, consistency and the discipline with which they apply their investment process.

**Table of Contents**

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

	Affiliated Managers			
	Duff & Phelps Investment Management	Newfleet Asset Management	Kayne Anderson Rudnick Investment Management	Zweig/Euclid Advisors
<b>AUM at</b>				
<b>December 31, 2011</b>				
<i>(\$ in billions)</i>	\$8.6	\$8.0	\$5.4	\$1.7
<b>Location</b>	Chicago, IL	Hartford, CT and San Francisco, CA	Los Angeles, CA	New York, NY
<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
<b>Investment Types</b>				
Equities	REITs Utilities/  Infrastructure Passive Equity		Small Cap: Core/  Growth/Value Mid Cap Core Small-Mid Cap:  Core/Value Large Cap:  Core/Growth/Value	Large Cap Core Tactical Asset  Allocation
Fixed Income	Tax Advantaged High Grade Core  Municipals	Multi-sector Core  Core Plus Bank Loans  High Yield Municipals	California  Municipals Intermediate  Total Return & Government	U.S. Government  grade agencies Investment grade  corporates
<b>Products</b>				
Open-End Funds	ü	ü	ü	ü
Closed-End Funds	ü	ü		ü
Variables Insurance Funds	ü	ü	ü	
Separately Managed Accounts			ü	ü
Institutional	ü	ü	ü	

**Table of Contents****Our Investment Products**

Our assets under management are comprised of mutual fund assets (open- and closed-end), 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, 2011*

(\$ in billions)

<b>Retail Products</b>	
<i>Mutual fund assets</i>	
Long term open-end funds	\$ 16.9
Closed-end funds	5.7
Money market funds	2.3
Total mutual fund assets	24.9
<i>Variable Insurance Funds</i>	
	1.3
<i>Separately managed accounts</i>	
Intermediary sponsored programs	2.0
Private client accounts	1.9
Total managed account assets	3.9
<b>Total retail assets</b>	<b>30.1</b>
<b>Institutional Products</b>	
Institutional accounts	3.5
Structured finance products	1.0
<b>Total institutional assets</b>	<b>4.5</b>
<b>Total AUM</b>	<b>\$ 34.6</b>

***Open-End Mutual Funds***

As of December 31, 2011, we managed 43 open-end funds, in a variety of equity and fixed income styles, including money market, asset allocation and alternative investments, with total assets of \$19.2 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 individual money market funds focused on corporate, tax-exempt and government securities.

**Table of Contents**

Our family of open-end mutual funds as of December 31, 2011 is comprised of the following:

<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>Alternatives</b>				
Virtus Real Estate Securities Fund	1995	\$ 1,113.3	0.75-0.65	21.42
Virtus Global Infrastructure Fund	2004	70.6	0.65-0.55	11.86
Virtus Alternatives Diversifier Fund (3)	2005	54.9	n/a	9.15
Virtus Market Neutral Fund	1998	28.6	1.50-1.40	n/a
Virtus Global Commodities Stock Fund	2011	20.2	1.00-0.90	n/a
Virtus International Real Estate Securities Fund	2007	20.2	1.00-0.90	14.03
Virtus Global Real Estate Securities Fund	2009	6.7	0.85-0.75	n/a
<b>Asset Allocation</b>				
Virtus Balanced Fund	1975	578.8	0.55-0.45	11.87
Virtus Tactical Allocation Fund	1940	179.8	0.70-0.60	11.16
Virtus Allocator Premium AlphaSector Fund (3)	2011	131.0	1.10-1.00	n/a
Virtus Balanced Allocation Fund	1997	72.3	0.50-0.45	11.56
<b>Equity</b>				
Virtus Premium AlphaSector Fund (3)	2010	2,658.2	1.10	n/a
Virtus AlphaSector Rotation Fund (3)	2003	441.1	0.45-0.40	12.74
Virtus Strategic Growth Fund	1995	375.2	0.70-0.60	15.01
Virtus Mid-Cap Value Fund	1997	339.4	0.75-0.70	19.03
Virtus Quality Small-Cap Fund	2006	284.9	0.70	17.70
Virtus Small-Cap Core Fund	1996	173.6	0.75	20.05
Virtus Value Equity Fund	1996	129.3	0.70-0.65	10.70
Virtus Small-Cap Sustainable Growth Fund	2006	105.1	0.90-0.80	21.91
Virtus Growth & Income Fund	1997	104.5	0.75-0.65	10.98
Virtus Mid-Cap Growth Fund	1975	78.1	0.80-0.70	17.81
Virtus Core Equity Fund	1996	74.6	0.70-0.65	11.23
Virtus Quality Large-Cap Value Fund	2005	42.7	0.75-0.65	12.12
Virtus Mid-Cap Core Fund	2009	2.1	0.80-0.70	n/a
<b>Fixed Income</b>				
Virtus Multi-Sector Short Term Bond Fund	1992	4,669.4	0.55-0.45	13.84
Virtus Senior Floating Rate Fund	2008	390.1	0.60-0.50	14.99
Virtus Multi-Sector Fixed Income Fund	1989	271.8	0.55-0.45	18.49
Virtus Tax-Exempt Bond Fund	1996	229.3	0.45	10.20
Virtus Bond Fund	1996	158.0	0.45-0.40	8.91
Virtus Short/Intermediate Bond Fund	1996	94.3	0.55-0.45	7.78
Virtus High Yield Fund	1980	92.6	0.65-0.55	15.04
Virtus CA Tax-Exempt Bond Fund	1983	57.4	0.45-0.35	