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Virtus Investment Partners, Inc. (VRTS)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Deedee and I will be your conference operator today. I would like to welcome everyone to the Virtus Investment Partners Quarterly Conference Call. The slide presentation for this call is available in the Investor Relations section of the Virtus website, www.virtus.com. This call is being recorded and will be available for replay on the Virtus website. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period and instructions will follow at that time.

I will now turn the conference to your host, Sean Rourke.

Sean P. Rourke

Vice President-Investor Relations, Virtus Investment Partners, Inc.

Thank you, Deedee. And good morning, everyone. On behalf of Virtus Investment Partners, I'd like to welcome you to the discussions of our operating and financial results for the third quarter of 2024. Our speakers today are George Aylward, President and CEO; and Mike Angerthal, Chief Financial Officer. Following their prepared remarks, we will have a Q&A period.

Before we begin, please note the disclosures on page 2 of the slide presentation. Certain matters discussed on this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and as such, are subject to known and unknown risks and uncertainties, including, but not limited to those factors set forth in today's news release and discussed in our SEC filings.

These risks and uncertainties may cause actual results to differ materially from those discussed in the statements. In addition to results presented on a GAAP basis, we have certain non-GAAP measures to evaluate our financial results. Our non-GAAP financial measures are not substitutes for GAAP financial results and should be read in conjunction with the GAAP results. Reconciliations of these non-GAAP financial measures to the applicable

GAAP measures are included in today's news release and financial supplement, which are available on our website.

Now, I would like to turn the call over to George. George?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Thank you, Sean. And good morning, everyone. So, I'll start today with an overview of the results reported this morning and then turn it over to Mike to give a little more in detail. We had strong operating and financial performance in the third quarter, which included higher sequential sales in all products, continued positive net flows in retail separate accounts, ETFs and global funds. Attractive long-term as well as recent investment performance across strategies and operating margin at the highest level in two years, increased return of capital, including our seventh consecutive annual dividend increase, investments in the business, including for a CLO issuance and in the equity of an affiliate, and repayment of debt ending the quarter with modest net leverage and significant financial flexibility.

While we had overall net outflows in the quarter, we were pleased with sales growth and momentum as well as the improvement in net flows, which were reflective of a more favorable market environment for our strategies. As I noted, recent investment performance was strong across products, with 62% of assets outperforming peers in the third quarter. Quality coming back in favor particularly benefited our equity managers with 82% of our equity assets outperforming peers in the quarter.

We continue to be active in introducing new products and offerings. We recently introduced or filed to launch several new products, including an actively managed ETF from Kayne Anderson Rudnick focused on high quality mid-cap equities and an actively managed private credit CLO ETF from Seix. We filed a second quarter introduction of AlphaSimplex Managed Futures ETF.

Turning now to a review of the results. Total assets under management increased 6% to \$183.7 billion due to market performance and positive net flows in retail separate accounts, ETFs and global funds. The strong contribution from market performance was favorably impacted by our meaningful exposure to small, mid and mid-caps, which represented 61% of equity AUM. Sales increased 7% with growth in each product category and momentum building throughout the quarter with September having our highest level of sales since January.

Net outflows of \$1.7 billion improved from \$2.6 billion in the prior quarter, with sequential improvements in both open-end funds and institutional, and again with September being the best month of flows of the quarter. Our institutional net outflows of \$1.1 billion improved sequentially from \$1.7 billion. The net outflows were largely driven by redemptions of lower fee mandates, with the average fee rate on redemptions meaningfully lower than the rate on inflows.

Institutional flows also included the issuance of a new \$0.3 billion Seix CLO. Seix, which launched its leveraged loan strategy nearly 20 years ago, now manages 10 CLOs with approximately \$3.4 billion in assets that generate an attractive return and meaningful cash flow. Retail separate accounts generated positive net flows of \$0.4 billion and have delivered 5% organic growth rate over the past year with consistent positive net flows in the intermediary sold channel and in private client, which is our wealth management business at Kayne Anderson Rudnick.

The balance had \$8.7 billion of AUM – the business had \$8.7 billion of AUM at September 30 and has generated over five years of positive net flows, more than doubling its assets under management over the period. Kayne's

wealth management business is ranked 7th on the Forbes Top RIA firms list for 2024 and for Barron's top 100 independent advisors, they had rankings of 3rd for 2024 and have been in the top 10 for 12 consecutive years. Open-end fund net outflows of \$1 billion improved from \$1.3 billion in the second quarter primarily due to fixed income strategies, which generated positive net flows.

In terms of what we're seeing so far on October, retail separate accounts, global funds and ETFs continue to be positive in net flows, and US retail funds are tracking similarly to the third quarter. For institutional, while known redemptions for the fourth quarter currently exceed known wins, the revenue impact would be essentially neutral given the redemptions would be from lower fee mandates.

In terms of our financial results, the third quarter reflected modestly higher average AUM levels and our ongoing management of expenses. The operating margin was 34.4%, up sequentially from 32.5% due to higher investment management fees and lower employment and other operating expenses. The operating margin reached its highest level in two years, benefiting from higher revenues and the leverage ability of our business, as well as the disciplined management of discretionary expenses.

We have maintained other operating expenses in a consistent range, despite inflationary pressure reflecting various initiatives including the streamlining of investment systems and data usage that have delivered run rate cost savings. Earnings per share of adjusted of \$6.92 increased 6% from the second quarter to the highest level since the first quarter of 2022.

Turning now to capital. Our business generates a significant amount of quarterly cash flow that supports our consistent return of capital to shareholders and investment in growth of the business. In the third quarter, we increased our share buyback to \$15 million, raised our quarterly dividend for the seventh consecutive year, immediate discretionary payment on our term loan, ending the quarter with a very modest net debt position of 0.1 times EBITDA. Our solid balance sheet and cash flow generation provide flexibility, continue to balance all elements of our capital management strategy.

We have consistently applied a balanced approach to capital management. Over the past five years, we have repurchased 1.4 million shares for approximately \$265 million reducing the share count by 12% on a net basis and have consistently raised the quarterly dividend by double digits each year. We also invested meaningfully in the growth of the business, [ph] adding four new managers, seeding (00:17:02) new products and strategies that have supported our AUM growth over the period and that positions us for continued growth over time.

With that, I'll turn the call over to Mike. Mike?

Michael A. Angerthal

Executive Vice President & Chief Financial Officer, Virtus Investment Partners, Inc.

Thank you, George. Good to be with you all this morning. Starting with our results on slide 7, assets under management. Our total assets under management benefited from market appreciation during the third quarter, rising 6% to \$183.7 billion at September 30, primarily due to \$12.6 billion of favorable market performance. Average assets under management increased slightly to \$176 billion with ending assets 4.4% above the quarter's average.

Compared with the prior year period, AUM increased 13%, driven by market performance and consistent organic growth in retail separate accounts, global funds and ETFs. Over the past year, retail separate account AUM increased 31% with 5% organic growth, including consistent positive net flows in both the intermediary sold channel and in our wealth management business.

Global funds AUM increased 29% over the prior year with 7% organic growth, and ETF AUM grew 88% with 65% organic growth. We continue to have compelling long-term relative investment performance across products and strategies. As of September 30, 58% of rated retail fund assets and 28 funds had four or five stars, and 90% were in three-, four- or five-star funds.

In addition, 63% of fund AUM outperformed the median of their peer groups over the five-year period and 84% of retail separate account assets have beaten benchmarks over the same five-year period. ETFs have also had strong performance with 95% of ETF assets outperforming the median of peer groups over the three-year period. And five of our 14 rated ETFs rated four or five stars. Across all products, 57% of AUM at September 30 were beating their benchmarks over the five-year period.

Turning to slide 8, asset flows. Total sales increased 7% to \$6.6 billion, with growth in each product category. Compared with the prior year quarter, sales increased 14%. Institutional sales of \$1.2 billion increased 3% sequentially and included the issuance of the new \$0.3 billion CLO. Retail separate account sales increased 4% to \$2.3 billion due to higher sales in the intermediary sold channel. Strong investment performance from our retail separate account strategies has generated consistently strong demand for the product.

Open-end fund sales increased 12% sequentially to \$3.1 billion due to fixed income and alternative strategies. Total net outflows improved to \$1.7 billion from \$2.6 billion last quarter, and net flows continued to be positive in retail separate accounts, ETFs and global funds. Reviewing by product, institutional net outflows of \$1.1 billion improved from \$1.7 billion sequentially and included the CLO issuance.

Institutional net outflows were primarily driven by two larger low fee accounts with an average fee rate of approximately 8 basis points. As always, institutional flows will fluctuate depending on the timing of client actions. Retail separate accounts continue to generate positive net flows in both the intermediary sold and wealth management channels, totaling \$0.4 billion in the quarter.

For open-end funds, net outflows were \$1 billion compared with \$1.3 billion in the second quarter with the improvement primarily due to fixed income strategies. Within open-end funds, fixed income, mid-cap and global equity strategies generated positive net flows. I would also note that for fixed income in total across products, net flows were positive in the quarter.

Turning to slide 9, investment management fees as adjusted of \$185.5 million increased \$1.8 million or 1%, reflecting the modest increase in average assets under management and a relatively flat fee rate. The average fee rate of 41.9 basis points compared with 42.2 basis points in the prior quarter. Excluding performance fees, the average fee rate in the third quarter was 41.8 basis points, essentially unchanged from last quarter.

Our average fee rate, excluding performance fees, has remained in a very narrow 1 basis point range over the past few years. The resiliency of our fee rate reflects solid investment performance and the differentiated nature of our products, such as high conviction and high-quality strategies as well as small caps, emerging markets, liquid alternatives, and several fixed income strategies such as bank loans. Looking ahead, we believe the third quarter average fee rate is reasonable for modeling purposes. And as always, the fee rate will be impacted by markets and the mix of assets.

Slide 10 shows the five-quarter trend in employment expenses. Total employment expenses as adjusted of \$102.5 million decreased 1% sequentially due to lower fixed costs. And as a percentage of revenues, they were down 50% – they were 50% down 100 basis points. Looking ahead, we believe employment expenses as a

percentage of revenues in a range of 49% to 51% remains reasonable, though as always, it will be variable based on market performance in particular as well as profits and sales.

Turning to slide 11, other operating expenses as adjusted were \$29.8 million down \$1.5 million or 5%, reflecting ongoing expense management and the annual grant to the Board of Directors in the prior quarter. As a percentage of revenues, other operating expenses declined 90 basis points sequentially and by 80-basis points over the comparable prior year period.

Other operating expenses were at the lowest level since the first quarter of 2023 even though we added the costs of a new affiliated manager during the period. As George mentioned, in addition to maintaining discipline around discretionary spending, we have continued to streamline our cost structure, including the consolidation of portfolio management support systems. Looking ahead, the third quarter level of other operating expenses as adjusted is reasonable for modeling purposes all else being equal.

Slide 12 illustrates the trend in earnings. Operating income as adjusted of \$70.5 million increased \$4.5 million or 7% sequentially, primarily due to higher average assets under management and lower operating expenses. The operating margin, as adjusted of 34.4%, increased from 32.5% in the second quarter and reached the highest level since the third quarter of 2022. On a year-to-date basis, the operating margin increased 60 basis points over the prior year period.

With respect to non-operating items, interest and dividend income decreased by \$1.8 million, primarily reflecting the prior quarter impact of elevated interest income on a CLO we issued last year. For modeling purposes, an average of the past two quarters of interest and dividend income is reasonable.

Non-controlling interests, which reflect affiliate minority interests were lower sequentially by \$0.4 million, primarily due to the increase in our ownership of affiliate during the quarter. Net income as adjusted of \$6.92 per diluted share increased from \$6.53 in the second quarter. On a year-to-date basis, diluted earnings per share increased 19% over the prior year period.

In terms of GAAP results, net income per share of \$5.71 increased from \$2.43 per share in the second quarter and included \$0.64 of expense related to the increase in fair value of minority interests and \$0.10 of acquisition and integration costs, partially offset by \$0.41 of fair value adjustments to contingent consideration.

Slide 13 shows the trend of our capital liquidity and select balance sheet items. Working capital was \$108.5 million at September 30, down sequentially from \$143 million as cash generated was more than offset by the equity investment in an affiliated manager, return of capital to shareholders, sponsorship of the new CLO and a debt repayment.

Cash and equivalents increased sequentially to \$195.5 million from \$183 million at June 30. During the third quarter, we repurchased 72,850 shares of common stock for \$14.9 million. We also made a \$10.7 million payment on our term loan. At September 30 gross debt to EBITDA was 0.8 times and net debt at September 30 was \$46 million or 0.1 times EBITDA. We generated \$84 million of EBITDA in the third quarter, up 2% sequentially due to higher average AUM and lower operating expenses and up 3% from the prior year level.

Other uses of capital during the quarter included \$24.4 million to sponsor the new CLO as well as \$28.6 million for a planned increase in equity of a majority-owned affiliate. We have adequate levels of working capital and modest leverage, providing meaningful financial flexibility to continue to invest in the business, return capital and repay debt.

And with that, let me turn the call back over to George. George?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Thank you, Mike. So, we'll now take your questions. Deedee, would you open up the lines, please?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Crispin Love of Piper Sandler. Your line is open.

Crispin Love

Analyst, Piper Sandler & Co.

Q

Thank you and good morning, everyone. Hope you're well. First, can you just give a little bit more detail on what you're seeing in the fourth quarter as it pertains to flows? I know it's early, but you did mention that you had the highest level of sales in September for the third quarter that you assume was partly driven by some of the market moves we saw. Kind of first one, how does that compare to October? And then, just how are the trends running relative to the third quarter for sales and cash flows? And are there any significant flows that you expect in the last two months of the year that are worth calling out?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Yeah. Well, on the last piece, the last two months of the year in general can have a lot of volatility. You have tax considerations. And we're in a cycle with an election. So, it will be hard for – it's hard to be comfortable what November and December will look like. It could be a lot of volatility, either positive or negative for a lot of reasons. So, I'll kind of put that on the side.

So, in terms of what we're seeing in October versus September, so as we indicated continue to see that, continued positive flows and the retail separate the – and the ETFs and the global funds, we're pleased to see with that. The ETF business, which we had launched products over the years to build track records. And it's really very good to see some of the flows starting to come into some of those products as they've reached a three-year mark in terms of their performance, et cetera. So, we're very pleased to see that kind of business.

On the fund side, again, we had an interesting market of the year with momentum leading the markets earlier in the year in large caps. But we're happy in the third quarter to have a little bit of an inflection back to the quality managers, which again we're generally on the equity side, overweight on the quality side. So, a lot of our management performed really well.

The real question is, is the risk appetite of investors and currently what they're seeing. So we've been very happy with fixed income. And as we noted across all products, we've been seeing positive flows on fixed income. I think we expect to continue to see that in the October and then subject to what else happens there. So, we feel good about how that's positioned. But again, there are a lot of factors at the end of the year that could have implications either negatively or positively.

Crispin Love*Analyst, Piper Sandler & Co.*

Q

Thanks, George, and I definitely appreciate that there's – could be a lot of volatility in the coming weeks and coming months for the election. But second question from me just on adjusted other OpEx came in below your prior \$32 million guide. Just curious, if you can dig a little bit deeper there? Mike, based on your comments, seems like the run rate for the fourth quarter should be about that \$30 million level. Do you think that \$30 million level makes sense for the next several quarters as we move into 2025? Or – and also, is there any more room for costs remaining in that line? Thank you.

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Yeah. I mean, quick response and Mike will go through in detail. So, as we've – as we tried to communicate on that line, that line has had a lot of cost increases and inflationary pressure over the last few years. And as you've seen, our number has been actually very stable and to your point now actually tipping down a little bit. So, really what you've been seeing is the net of two things is the increase in costs from many of the service providers that is common in our industry. But then simultaneously, the plans and the actions we've had in place to try to do some optimizing and rationalizations of costs are you're seeing the net of those in terms of the flatness of that line. Mike?

Michael A. Angerthal*Executive Vice President & Chief Financial Officer, Virtus Investment Partners, Inc.*

A

Yeah. And Crispin, I appreciate the commentary. We certainly think the level this quarter is appropriate for modeling purposes looking ahead. As George alluded to, we do have inflationary considerations as we look further out. But certainly for the short run some of the actions that we've been talking about over quarters now around streamlining of investment support systems and data feeds and providers have really taken hold in the result. So reducing the number of data feeds, consolidating systems is having a positive impact. So, we think this is appropriate for modeling. We'll update that outlook further on, if we see anything different going further out.

Crispin Love*Analyst, Piper Sandler & Co.*

Q

Great. Thank you both. I appreciate taking my questions.

Operator: Thank you.

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Thank you.

Operator: Our next question comes from Michael Cyprys of Morgan Stanley. Your line is open.

Annalei E. Davis*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. This is Annalei Davis on for Mike Cyprys. My question is on how you guys are thinking about inorganic growth. Just wondering color you guys can share on M&A conversations you've been having. And then, what are you guys evaluating when you're considering an opportunity? Thanks.

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Sure. So, on the first part on the inorganic growth, we continue to see the best organic growth opportunities currently where we've been seeing them, which is in the retail separate accounts, ETFs and the global funds we think those are particularly strong opportunities for us in all of those categories that that broader product category is growing. Open-end funds, in the industry are having their challenges, particularly on the asset side. So, that I would put it in a different area.

We continue to see a lot of opportunity on the institutional side. It's very lumpy. And it's very impacted by institutional investors making different repositioning decisions quarter-to-quarter. So, we expect that to continue to be lumpy.

But we do believe, the based upon, the breadth of the pipeline, which is really just sort of indicative of where we're having conversations and where we're making presentation. We do feel good about that and what that opportunity set is for us, particularly outside the US, which we continue to see as a higher value opportunity for us for organic growth.

On the M&A, as we said before, for us, it's critical that we do not require M&A for growth and that we have an organic growth strategy. But for M&A strategy, we continue to look at ways to add additional capabilities that are not currently within – on the family of managers that we have. The recent ones have been focused in on the more less correlated parts of the markets in terms of the AlphaSimplex and the Westchester transaction.

We continue to see that as the area of interest, as we're well-represented across the traditional asset classes and private markets in particular like everyone. We continue to see that as a great opportunity set. That is an area where we are spending time and we ultimately believe that expanding our offerings to include those types of offerings, possibly even in combination with public securities is an opportunity that we're focused in on.

Annalei E. Davis*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks. And then, maybe just another one on the capital allocation. How much do you guys anticipate allocating and how do you see the seed book today? And then, just wondering if there's any more opportunity to introduce additional new products? Thanks.

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

On the last piece on the new products, we absolutely continue to see opportunities. And we have a lot of things that are currently under development. Much of the activity, recently over the last year or two has been really focused in on the ETFs and the global funds. As well as certain strategies available in CIP for markets that prefer that type of a vehicle for that. So, we have a very active agenda of items and things that we'll be putting in for filings in those areas. And again, correlated to where we see the growth, right, so most of our product development activity is on the retail separate, it's on the ETFs, it's on the global funds. So, we'll continue to do that where we're kind of well represented. In the open-end funds, we have a pretty broad representation.

Annalei E. Davis*Analyst, Morgan Stanley & Co. LLC*

Q

Awesome. Thank you.

Operator: Thank you. Our next question comes from Bill Katz of TD Cowen. Your line is open.

Bill Katz

Analyst, TD Securities (USA) LLC

Q

Thank you very much. Good morning, everybody. Appreciate you taking the questions. I was wondering if you could expand a little bit on the affiliate step up in the quarter. When did it happen? How should we think about the residual impact maybe to NCI? And I don't know if you want to talk about which affiliate it is, but how do you think about the pipeline for other opportunities to sort of deepen your ownership of your existing footprint? And maybe what multiple we should be thinking about you're paying on that incremental equity? Thank you.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

I'll just do a brief intro to that, Mike can go through it. So, most of our affiliates are actually wholly-owned. We do only have one that's majority owned and we have a minority interest in another. So, Mike will go through that. So, I would really look at that as the descriptions that Mike is going to give related to the predetermined structural changes that we made in that transaction really only relate to one.

Michael A. Angerthal

Executive Vice President & Chief Financial Officer, Virtus Investment Partners, Inc.

A

Yeah. And Bill, good morning. The affiliate that George is alluding to, we came on in 2018 and as part of the original transaction structure, we have had increases in our majority ownership in each of the last. This would be – was the third year of a four-year sequence where as part of the original structure, we increased our ownership and will conclude in these staged equity purchases as we created them at the onset next year in a similar timing in the third quarter.

So, ownership did increase to approximately 80% in this quarter, which is what impacted the change in the NCI as you noted. It did happen in the midst of the quarter, so you could expect all else being equal because it will be impacted by the operating results of that entity. But all else being equal, you could expect the NCI balance to tick down modestly in the quarter next year and that would be sort of the state based on our ownership for that result.

Bill Katz

Analyst, TD Securities (USA) LLC

Q

Okay. That's super helpful. I [ph] didn't recall that as you're sort of chatting, sort of waste the question. The – maybe turning back (00:41:54-00:42:00), just following up on some of the M&A discussion, there has been a ton of transactions, both large and small, over the last many quarters as the shelf space, the arms race, whatever you want to call it, to sort of either get retail democratization or get access to some of the faster growth areas, like you mentioned, in terms of private markets. Does this change the urgency or the sort of financial discipline or maybe framework, maybe a better way to think about it, of how you're thinking about incremental growth? Because it's nice to see the flows getting a little bit better, but you're still sort of grinding along in the sort of modestly negative with puts and takes from your updates. So, how do you really break into some of the really fast growth areas here economically?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Yeah. So I think for traditional managers, again, right now currently the experience and the opportunity set on traditional managers is different than the alternatives in the private markets, which have gone through a cycle of

really strong attractiveness. For those of us who've been around a really long time, it used to be the opposite in terms of the privates having more of the volatility than the traditionals. So, I do think there continues to be the opportunity for the convergence of those two.

And I think that's why there are a lot of firms that are having conversations are looking to do transactions in terms of trying to bring the publics and the privates closer together in terms of offerings to clients. So, allowing – using the democratization of private markets or alternatives into the retail space. So, I think there are a lot of conversations that are going around in that space. I think we do it as well and as much as anyone else is currently doing that. I think, really there is a diversified set of offerings that every client is needing. So, I think those of us like us who offer multiple strategies are continuing to look to sort of build out those various sets of offerings.

Bill Katz

Analyst, TD Securities (USA) LLC

Can I squeeze one more in?

Q

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Yeah. Sure.

A

Bill Katz

Analyst, TD Securities (USA) LLC

Okay. Thank you. Sorry to belabor. Separate topic, promise. On the institutional pipeline you mentioned that the known outflow is a little bit better than no inflows a little bit. Talk a little bit about what's been the gating issue here for a better flow outlook in institutional? Is it – it doesn't sound like it's performance. Is it product breadth? Is it reallocations? What seems to be some of the underlying, sort of, any kind of commonality or headwinds to sort of getting that business back into positive territory? Thank you.

Q

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Yeah, yeah. No, it's a great question. Part of it has been the reallocation, the positioning of clients, right? So, there have been instances where you've heard us referring to some of the outflows, because most of our outflows have not actually been account or mandate terminations. They've generally been rebalancing or paring back, right? So, in – for certain of our equity strategies, if you sort of think through it, if they blow through the target allocation due to either strong performance in the markets or from the manager, there will be a rebalancing.

A

So, as we kind of look at that, it's frustrating and a little bit because the outflows we're seeing are not generally driven by the termination of mandates. They're usually by, to your comment, to the reallocations in the positionings.

So, I think like a lot of managers, we really do have to sort of meet the needs of institutional clients as they continue to manage their overall asset allocation and finding out where we can fit in that allocation. So, we have seen some of those outflows driven by the allocations or the down-ticking of an equity allocation. We're hopeful that a lot of our fixed income and our other non-correlated offerings will then take up some of that. But it's a longer tailed business.

And I think there's a lot of institutional clients that have probably been spending more time on rebalancing their allocations, as opposed to bringing in new things. But our pipeline is quite strong. I mean, when we look at where

we're either in dialogues or in processes or in finals, it continues to be across managers, across strategies and across geographies. But now, it's a very competitive space, so it takes a lot to be ultimately successful.

Bill Katz

Analyst, TD Securities (USA) LLC

Okay. Thank you for taking all my questions this morning.

Q

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Yeah. No problem.

A

Operator: Thank you. Our next question comes from Ben Budish of Barclays. Your line is open.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Hi. Good morning and thanks for taking the question. Maybe first, I just want to ask on the ETF side, maybe a two-parter. I guess, what are your thoughts on the product pipeline for 2025? And then, I think in the not too long ago, you kind of commented that your ETFs were not available to all of your intermediaries. So, just curious if the distribution is now kind of fully baked in. Just seems like there's a lot of momentum there. Curious how much could be either continued from an expansion of distribution and then thoughts on the new product side?

Q

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Yeah. No. On – we're really excited on the new product side. So, again, we referenced a few of the recent offerings as well as the filings that we've had, which covered three of our managers. We – actively managed ETFs are increasingly becoming a more and more part of the book of business of a lot of financial advisors. So, the previous growth that had really been more in the passive space where a lot of assets have been raised, we see increasing interest on the actively managed side, particularly originally on the fixed income, which is where we launched several funds, not this year, but last year in the fixed income space.

A

Some of them have now accumulated a long enough track record that we're actually starting to see some inflows like our – the Seix leveraged loan ETF. We're very happy to see that that's getting some of the flows that it currently deserves. And as we indicated, we did an ETF for AlphaSimplex. We're doing one for Seix in the CLO space, the private credit space. And then Kayne, which has an incredible strength in the midcap space, will now have an offering in the ETF. So, we think that is really just meeting a need an increasing number of [ph] FAS (00:48:43) or just preferring to use the ETF vehicle as part of their portfolio.

So, we'll continue along that vein, looking for those things that we can do. We're also looking in terms of more solution-oriented products where we can take the building blocks of either our individual ETFs and also provide them in the form of an ETF managed model portfolio. So, we have a lot of things in those areas that we think ultimately can be very attractive.

In terms of availability, part of the availability does relate to the size of the ETF. So some of the ETFs, if they're at a certain size, may not have the access that we want them to now that they're actually starting to grow and gather assets that does then increase the availability of that. So, our hope is as the funds build those track records have gained those assets. We've already seen continued growth probably as of yesterday or the day before. We were probably just were shy of \$3 billion, \$2.8 billion or somewhere around there continue to see good opportunity for

that and it's a great fit with the diversity of our offerings on the open-end side. But the open-ends are a little out of favor in terms of a structure and we see a lot more interest on the ETF side.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Got it. Very helpful. Maybe one separate question kind of coming back to capital allocation. You announced another pretty healthy dividend increase not too long ago. So just curious how you're thinking about what that looks like over the next several years? It looks like the sort of the payout rate versus five, six years ago has really picked up from like a teens level to a low-30s level. So, as time goes on, are you thinking about more – at what point do you come a little bit more constrained by your overall EPS growth? Are you thinking about – so, how are you thinking about this in terms of either payout ratio or providing investors with steady dividend increases? How do you kind of think about balancing those as the payout ratio has increased over the last several years?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Yeah. No. And absolutely both of those need to be balanced. I think we have – we do believe when we've said philosophically, we do think that having investors have an expectation that we do value continued expectations of growth in the dividend is part of how we do want to approach that. So we think that is something that from a strategy perspective we think is an important part of that.

The absolute level of that increase, again, will also be evaluated against other alternatives, right? We have generally done our increases probably in the double-digit range or above that, but it will always be balanced as we do with our level of stock buybacks or other activities that we're doing. But we have had seven years of annual dividend increases, and we do think that that is an underlying element of our strategy. Mike, anything you'd add to that?

Michael A. Angerthal

Executive Vice President & Chief Financial Officer, Virtus Investment Partners, Inc.

A

No. I think you covered it.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Okay. Great. Well, thank you for taking my questions.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Absolutely. No, thank you.

Operator: Thank you. This concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Aylward.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Great. Thank you so much. And I want to thank everyone today for joining us. And as always, if you have any other questions, please feel free to reach out and have a great day. Thank you.

Operator: That concludes today's call. Thank you for participating. You may now disconnect.

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