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)

Delaware	**95-4191764**
(State or other jurisdiction of incorporation or organization)	**(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	Name of each exchange on which registered
Common Stock, $.01 par value (including attached Preferred Share Purchase Rights)	**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 x 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 x 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. x 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). x 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. x

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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x 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

We, us, our, the Company and Virtus as used in this Annual Report on Form 10-K (Annual Report), refer to Virtus Investment Partners, I 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**
AUM at December 31, 2011 *($ in billions)*	$8.6	$8.0	$5.4	$1.7
Location	Chicago, IL	Hartford, CT and San Francisco, CA	Los Angeles, CA	New York, NY
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
Investment Types				
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 Municpals	Multi-sector Core Core Plus Bank Loans High Yield Municipals	California Municipals Intermediate Total Return & Government	U.S. Government grade agencies Investment grade corporates
Products				
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)

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

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:

Fund Type/Name	Inception	Assets ($ in millions)	Advisory Fee (1) (%)	3-Year Return (2) (%)
Alternatives				
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
Asset Allocation				
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
Equity				
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
Fixed Income				
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	7.83
Virtus High Yield Income Fund	2002	54.1	0.45	16.29
International/Global				
Virtus Emerging Markets Opportunities Fund	1997	2,611.9	1.00-0.95	22.71
Virtus Foreign Opportunities Fund	1990	1,013.5	0.85-0.75	11.62
Virtus Global Opportunities Fund	1960	68.8	0.85-0.75	12.68
Virtus Global Premium AlphaSector Fund (3)	2011	66.7	1.10-1.00	n/a
Virtus International Equity Fund	2010	18.6	0.85-0.75	n/a
Virtus Greater Asia ex Japan Opportunities Fund	2009	9.4	1.00-0.95	n/a
Virtus Greater European Opportunities Fund	2009	5.4	0.85-0.80	n/a
Money Market Funds				
Virtus Insight Government Money Market Fund	1988	1,422.3	0.14-0.10	0.12
Virtus Insight Money Market Fund	1988	693.2	0.14-0.10	0.28
Virtus Insight Tax-Exempt Money Market Fund	1988	179.4	0.14-0.10	0.04

Total Open-End Funds	**$**	**19,191.4**

(1) Percentage of average daily net assets of each fund. A range indicates that the fund has breakpoints at which management advisory fees decrease as assets in the funds increase. Percentage listed represents the range of gross management advisory fees paid by the funds, from the highest to the lowest. We pay sub-advisory fees on funds managed by unaffiliated advisors, 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) These funds invest in other Virtus open-end mutual funds as well as electronically traded funds. The related assets invested in other Virtus open-end funds are reflected only in the balances of the respective funds.

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.

Closed-End Funds

We managed the assets of seven closed-end funds as of December 31, 2011, each of which is traded on the New York Stock Exchange, with total assets of $5.7 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 family of closed-end funds as of December 31, 2011, is comprised of the following:

Fund Type/Name	**Assets** *($ in billions)*	**Advisory Fee** *%*
Balanced		
DNP Select Income Fund Inc.	$ 3.1	0.60-0.50 (1)
Zweig Total Return	0.5	0.70(2)
Virtus Total Return Fund	0.1	0.85(2)
Equity		
Duff & Phelps Global Utility Income Fund Inc.	1.0	1.00(3)
Zweig Fund	0.3	0.85(2)
Fixed		
Duff & Phelps Utility and Corporate Bond Trust Inc.	0.5	0.50(1)
DTF Tax-Free Income Inc.	0.2	0.50(1)
Total Closed-End Funds	**$ 5.7**	

(1) Percentage of average weekly net assets. A range indicates that the fund has breakpoints at which management advisory fees decrease as assets in the fund increase. Percentage listed represents the range of gross management advisory fees paid by the funds, from the highest to the lowest.
(2) Percentage of average daily net assets of each fund.
(3) Percentage of average weekly net assets. The adviser has contractually agreed to reimburse the fund for certain expenses for a specified percentage ranging from 0.25% in the first year and gradually decreasing to zero after the sixth year, which is not reflected in the percentage listed.

Table of Contents

Variable Insurance Trust

We established a Variable Insurance Trust (VIT) in the quarter ended December 31, 2010. On November 5, 2010, we acquired the rights to advise and distribute the former Phoenix Edge Series Funds (excluding certain of the funds to be merged into a third-party variable insurance trust) from Phoenix Variable Advisors, Inc. (PVA). Our variable insurance trust provides investment options in variable annuities and life insurance products distributed by third-party life insurance companies. Our family of variable insurance funds as of December 31, 2011, is comprised of the following:

Fund Type/Name	Assets ($ in billions)	Advisory Fee (1) %
Equity		
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 International Series	0.3	0.75-0.65
Virtus Duff & Phelps Real Estate Series	0.1	0.75-0.65
Virtus Small-Cap Value Series	0.1	0.90
Fixed Income		
Virtus Multi-Sector Fixed Income Series	0.2	0.50-0.40
Asset Allocation		
Virtus Strategic Allocation Series	0.1	0.60-0.50
Total Variable Products Funds	**$ 1.3**	

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

Separately Managed Accounts

Separately managed accounts are individually owned portfolios that are managed by an investment manager. Separately managed accounts include broker-dealer 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 affiliates. Intermediary sponsored programs and private client account assets totaled $3.9 billion at December 31, 2011.

Institutional Accounts

We offer a variety of equity, fixed income and real estate investment trust strategies to institutional clients, including corporations, multi-employer retirement funds, public employee retirement systems, foundations and endowments and special purpose funds. 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 $4.5 billion as of December 31, 2011.

Table of Contents

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:

	Years Ended December 31,		
($ in thousands)	2011	2010	2009
Investment management fees			
Open-end funds	$ 68,831	$ 42,090	$ 31,377
Closed-end funds	26,345	22,131	20,766
Separately managed accounts	19,166	17,057	14,800
Institutional products	11,273	10,299	10,224
Structured finance products	3,323	4,581	2,484
Variable insurance funds	6,125	1,838	
Total investment management fees	135,063	97,996	79,651
Administration fees	16,695	10,502	9,819
Transfer agent fees	7,183	4,822	2,845
Total	$ 158,941	$ 113,320	$ 92,315

Investment Management Fees

We provide investment management services to funds and accounts pursuant to investment management agreements. With respect to open-end funds, closed-end funds and variable insurance funds, we receive fees based on each fund s average daily or weekly net assets. Most fee schedules provide for rate declines as asset levels increase to certain thresholds. For those funds for which we have sub-advisory agreements, the sub-advisors receive a management fee based on the percentage of average daily net assets in the funds they sub-advise. For separately managed accounts and institutional accounts, fees are negotiated and are based primarily on asset size, portfolio complexity and individual client requests.

Each of our sponsored open-end, closed-end and variable insurance funds has an investment management agreement with one of the Company s advisors (each, an Adviser). Although specific terms of agreements vary, the basic terms are similar. Pursuant to the agreements, the Adviser provides overall management services to a fund, subject to supervision by the fund s board of directors. The investment management agreements are approved initially by fund shareholders and must be approved annually by each fund s board of directors, including a majority of the directors who are not interested persons of the Adviser. Generally, agreements may be terminated by either party upon written notice, and may terminate automatically in certain situations, such as a change in control of the Adviser. In arrangements where our funds are managed by a sub-advisor, the agreement calls for the sub-advisor to manage the day-to-day operations of the fund s portfolio.

Each fund bears all expenses associated with its operations, including the costs associated with the issuance and redemption of securities, where applicable. The funds do not bear compensation expenses of directors or officers of the fund who are employed by the Company or its subsidiaries. In some cases, to the extent total expenses exceed a specified percentage of a fund s or a portfolio s average net assets for a given year, the Adviser has agreed to reimburse the funds for such excess expenses.

We act as the collateral manager for structured finance products, which include 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. The underlying collateral is primarily comprised of high yield, asset-backed and mortgage-backed securities and loans. The Company has no financial or operational obligations with respect to the underlying performance of the collateral. For the investment management services being provided for existing structured finance products, this revenue will decline over time as CDOs have finite lives and can experience redemptions and liquidations. Structured finance product assets under management totaled $1.0 billion at December 31, 2011.

Administration Fees

We provide fund administration services to our open-end funds, variable insurance funds and certain of the closed-end funds. 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 transfer agent services to our open-end funds and certain of the closed-end funds. Transfer agent services include maintaining shareholder accounts; receiving and processing orders for purchases, exchanges and redemptions of fund shares; conveying payments; withholding taxes on shareholder accounts; preparing and filing required forms for dividends and distributions; preparing and mailing transaction confirmation and periodic statements; and providing shareholder account information. We delegate the performance of certain aspects of the transfer agent services to a third-party service provider and oversee their performance.

Our Distribution Services

Our principal means of distribution of our long-term open-end mutual funds and separately managed accounts is through financial intermediaries to individuals. We have broad access in this marketplace, with distribution partners that include national and regional broker-dealers, independent broker-dealers and independent financial advisory firms. We support these distribution partners with a team of regional sales professionals (wholesalers), a national account relationship group, an internal sales desk and separate teams for the retirement market and the registered investment advisor market. Our sales and marketing professionals serve as a resource to financial advisors seeking to help clients address wealth management issues and support the marketing of our products and services tailored to this marketplace.

We also have separate resources dedicated to serving high net-worth clients who access investment advice outside of traditional retail broker-dealer channels. Specialized teams at our affiliated managers develop relationships in this market and deal directly with these clients.

Our institutional distribution strategy combines both a coordinated and affiliate-centric model. Our product specialists, who are part of the portfolio management teams at our affiliated managers, team with sales generalists and consultant relationship personnel, representing all of our investment strategies. Through relationships with consultants, they target key market segments, including foundations and endowments, corporate, public and private pension plans.

Our Broker-Dealer Services

VP Distributors, LLC (VPD), a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), serves as principal underwriter and national wholesale distributor of our open-end mutual funds and managed accounts. Mutual fund shares are distributed by VPD under sales agreements with unaffiliated national and regional broker-dealers and financial institutions. VPD also markets advisory services of affiliated managers to sponsors of managed account programs.

Table of Contents

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 advisors 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), Financial Industry Regulatory Authority (FINRA) and other federal and state agencies and self-regulatory organizations. Each advisor, including unaffiliated sub-advisors, is registered with the SEC under the Investment Advisers Act. Each closed-end mutual fund, open-end mutual fund, and each series of the variable insurance trust is registered with the SEC under the Investment Company Act of 1940 (the Investment Company Act). VPD is registered with the SEC under the Exchange Act and is a member of FINRA.

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 open-end mutual funds are currently available for sale and are qualified in all 50 states, Washington, D.C., Puerto Rico and the U.S. Virgin Islands. Most aspects of our investment management business, including the business of the sub-advisors, are subject to various 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, meet the requirements of the Investment Company Act or Investment Advisers Act, 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 the Company s open-end and closed-end 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, 2011, we had 299 full time equivalent employees. None of our employees is a union member. We consider our relations with our employees to be good.

Relationship with BMO

Pursuant to an Investment and Contribution Agreement dated as of October 30, 2008 (the Investment Agreement), Phoenix Investment Management Company, a wholly-owned subsidiary of PNX (PIM), sold BMO 9,783 shares of our Series A Preferred Stock on October 31, 2008 and in connection with the spin-off of the Company, on December 31, 2008, BMO and PIM exchanged the Series A Preferred Stock for an equal number of shares of our Series B. PIM then sold an additional 35,217 shares of our Series B to BMO for $35.0 million.

Table of Contents

On August 6, 2010, the Company converted the original 9,783 shares of the Series B, and related dividends, into 378,446 shares of our common stock, pursuant to a call option in the Investment Agreement. As of December 31, 2011, BMO held the remaining 35,217 shares of our Series B. On October 27, 2011, the Company entered into an agreement with BMO to convert all 35,217 outstanding shares of Series B into 1,349,300 shares of common stock. In connection with this agreement, the Company made a special dividend payment of $8.1 million on October 31, 2011, which included accrued dividends of $0.9 million. The Series B was converted to common shares on January 6, 2012. As a result of the conversion, all of the shares of Series B have been retired and BMO s right to elect one director to our board of directors pursuant to the Series B Certificate of Designations has ceased and the current Series B director resigned effective October 31, 2011. In addition, as a condition of the Investment Agreement, BMO has the right to nominate one director to our board of directors for election by our common shareholders, so long as it beneficially owns at least 10.0% of our common stock.

For additional information on BMO s rights under the Investment Agreement and Series B Certificate of Designations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Series B Convertible Preferred Stock.

Available Information

The Company s 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 will be available free of charge on the Company s website located at 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 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 the Company s Corporate Governance Principles, its Code of Conduct, and the charters of the Audit Committee, the Compensation Committee and the Governance Committee are posted on the Company s website, www.virtus.com, under Investor Relations, and are available in print to any person who requests copies by contacting Investor Relations by email to: 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.

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this Annual Report, in evaluating the Company and our common stock. If any of the risks described below actually occurs, our business, results of operations, financial condition and stock price could be materially adversely affected.

Assets under management are impacted by market conditions, and adverse market conditions could reduce our assets under management and our revenue.

Our revenues are based on assets under management, which are directly correlated to domestic and global market conditions in the equity and credit markets. 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. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

The economic environment has a direct impact on the investing activities of both retail and institutional investors, which could impact asset flows, and on the value of assets under management. The financial markets continue to experience significant volatility globally. 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 continue to 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. Increases in interest rates may result in reduced prices in equity and credit markets. Conversely, decreases in interest rates could lead to outflows in fixed income or liquidity assets that we manage as investors seek higher yields. Any of these effects could lower our assets under management and revenues. The current historically low interest rate environment affects the yields of money market funds, which are based on the income from the underlying securities less the operating costs of the funds. With short term interest rates at or near zero, the operating expenses of money market funds may become greater than the income from the underlying securities.

Poor relative investment performance of our products could adversely affect our assets under management, sales, revenues and earnings.

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. Investment management strategies are rated, ranked or assessed by independent third-parties, distribution partners, and industry periodicals and services. These assessments often affect 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, the inability to attract additional investments from existing and new clients, and an increased risk of litigation and regulatory action. Lower assets under management would result in a reduction of fee revenue, and, if our revenues decline without a commensurate reduction in our expenses, our earnings will be reduced.

Our clients could terminate or amend their contracts with us on short notice, which could reduce our revenues and earnings.

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 investment performance or regulatory or compliance issues.

Our sponsored funds are governed by an independent board of directors. These directors 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, the investment advisory agreements for our mutual funds 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 and 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 investment management fee revenues and earnings and could require an impairment charge to the goodwill or intangible assets associated with our asset managers or investment advisory agreements.

Any damage to our reputation could harm our business and lead to a loss of assets under management, revenues and income.

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. 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 income.

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 or earnings.

Approximately $2.3 billion or 6.6% of our total assets under management is managed in money market funds. Although money market funds seek to preserve a stable net asset value, and our money market funds have always 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 could lead to severe liquidity or security pricing issues, which could impact their net asset values. If the net asset value of our money market fund were 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 or net income.

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 earnings. 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.

Table of Contents

Any failure to comply with established client investment guidelines or other contractual requirements could result in claims from clients and regulatory sanctions.

The agreements under which we manage assets often have established investment guidelines or other contractual requirements that we are required to comply with in providing our investment management services. Any allegation of a failure to comply with these guidelines or other requirement could result in client claims, hurt reputation, withdrawal of assets, and potential regulatory sanctions, any of which may negatively impact our revenues and earnings.

Our business utilizes third-party service providers, and any inadequate performance by those providers could adversely impact our revenues and earnings.

We are dependent on certain third-party relationships to maintain essential business operations. These services include, but are not limited to, information technology infrastructure, investment accounting services, transfer agent and cash management services, custodial services, security pricing services, and subadvisory agreements with unaffiliated investment managers for 31.4% of our assets under management at December 31, 2011.

The services provided by these third-parties are critical to our business. While we operate under contractual arrangements which address fulfillment of services, and we have the ability to terminate providers, any material disruption or deficiency in these contracted services could materially affect our business operations 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 market for these professionals is generally intense. Most of our employees are not subject to employment contracts or non-compete agreements so they may voluntarily terminate their employment at any time. In certain circumstances, the departure of key employees could cause higher redemption rates for certain assets under management, or the loss of certain client accounts. Any inability to retain our key employees, attract qualified employees, or replace key employee positions in a timely manner when vacated, could have a negative impact on our business. There could be additional costs to replace, retain or attract new talent which would result in a decrease in net income.

We face strong competition in our businesses, and if we are not able to compete effectively, it could impair our ability to retain existing customers, attract new customers and maintain our profitability.

We face strong competition in our businesses from mutual fund companies, banks and investment management firms, many of which have advantages over us. We believe that our ability to compete is based on a number of factors, including, but not limited, to investment performance, service, reputation, distribution capabilities, product offerings, and fees charged. Industry consolidation has resulted in larger competitors with financial resources, marketing and distribution capabilities, and brand identities that are stronger than ours. Larger firms also may be able to offer, due to economies of scale, lower cost products. In addition, new or alternative product offerings frequently emerge or may increase in popularity, which could create additional competition and could result in decreased demand for our historical product offerings. If we do not compete effectively in this environment, our profitability and financial condition would be materially adversely affected.

We are subject to an extensive and complex regulatory environment and adverse changes in regulations could materially affect our business.

We are subject to extensive regulation, primarily at the federal level, in conjunction with our investment management business, and we may be adversely affected as a result of new or revised legislation, regulations or standards, or by changes in the interpretation or enforcement of existing laws and regulations.

The Company is registered with the SEC, our investment advisers are registered with the SEC under the Investment Advisers Act, our sponsored funds are registered with the SEC under the Investment Company Act and our broker-dealer is registered with the SEC under the Exchange Act and is a member of FINRA. Most aspects of our investment management business, including the business of the sub-advisors, are subject to various federal and state laws and regulations.

These laws generally grant supervisory agencies the power to limit or restrict us and any sub-adviser from carrying on its investment management business in the event that it fails to comply with applicable laws and regulations. Sanctions may include the suspension of individual employees, limitations on our investment management activities for specified periods of time, the revocation of the advisors registrations as investment advisors or other censures and fines.

Although we spend substantial time and resources on compliance with laws and regulations, our inability to timely and properly modify and update our compliance procedures in this changing and highly complex regulatory environment could result in our being subject to sanctions, fines, and various other penalties and even expulsion from particular activities or markets.

Because of the inherent difficulty of predicting the outcome of any legal claims or regulatory inquiries or other matters, we cannot provide assurance as to the outcome of pending or future matters, or if ultimately determined adversely to us, monetary or reputational implications. The resolution of such matter or matters, if unfavorable, could have a material adverse effect on our operating results and financial condition.

While we maintain insurance that we believe is appropriate relative to our business, we cannot be assured that insurance will cover all of our potential liabilities or losses. Some regulatory and other liabilities or penalties are not generally covered by insurance. In addition, insurance coverage may become more costly and require higher deductibles or co-insurance arrangements. Should this occur, it would expose us to greater non-insured losses, increase our expenses and negatively impact our earnings.

We have potentially significant tax attributes, and any changes in tax laws or limitations on our tax attributes could have a material impact on our financial condition, results of operations and liquidity.

We are subject to federal and state income taxes in the United States. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the appropriateness of our tax positions and reporting. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could be unfavorable. In addition, our ability to use net operating loss carryforwards and other tax attributes available to us will be dependent on our ability to generate taxable income.

Our ability to utilize tax attributes currently available to us is limited under Section 382 of the Internal Revenue Code of 1986, as amended (Section 382). Section 382 imposes annual limitations on the amount of net operating loss carryforwards and other tax attributes that can be used to offset taxable income in the event an ownership change has occurred, as defined as substantial changes in ownership. We currently have limitations as a result of Section 382 due to changes in the Company s stockholder base that occurred in 2009, and could experience additional, more restrictive limitations in the event another ownership change occurs.

Changes in tax law or tax rulings could materially impact our effective tax rate, increase the amount of taxes we are required to pay and have a significant adverse affect on our future results of operations and net income.

Table of Contents

We have a significant amount of deferred tax assets, a large portion of which related to the dissolution of an inactive subsidiary and the application of Internal Revenue Code Section 165(g). In connection with the 165(g), the Company has recorded an ordinary loss related to the dissolution of an inactive subsidiary.

Related to the dissolution, the Company received a private letter ruling that relies on certain facts, assumptions and representations from management regarding the past conduct of the Company s businesses and other matters. If any of these facts, assumptions or representations are determined to be incorrect, the Company may not be able to rely on the ruling and could be subject to significant tax liabilities in the event we utilize the related deferred tax assets.

We distribute through intermediaries, and changes in key distribution relationships could reduce our revenues or increase our costs.

Our primary source of distribution for our retail products is through intermediaries that include national, regional and independent broker-dealers, financial planners and registered investment advisors. Our success is highly dependent on access to these various distribution systems. There can be no assurance that we will be able to retain access to these channels at all or at similar pricing. The inability to have such access could have a material adverse effect on our business.

In addition, these intermediaries generally offer their customers a significant array of investment products which are in addition to, and which compete with, our own investment products. The intermediaries or their customers may favor competing investment products over those we offer. To the extent that existing or future intermediaries prefer to do business with our competitors, the sales of our products as well as our market share, revenue and net income could decline.

We and our third-party service providers rely on numerous technology systems, and a temporary business interruption or security breach could negatively impact our operations, operating expenses and earnings.

Our technology systems are critical to our operations and any failure or interruption of those systems or of our operations, whether resulting from technology or infrastructure breakdowns, defects or external causes such as fire, natural disaster or power disruptions, could result in financial loss, impact our reputation, and affect our ability to do business. Although we have in place disaster recovery plans, we may experience temporary interruptions if a natural disaster or prolonged power outages were to occur which could have a material negative impact on operations.

We and certain of our third-party vendors receive and store personal information as well as non-public business information. Although we and our third-party vendors take precautions to password protect and encrypt our networks, laptops and mobile electronic hardware, it may still be vulnerable to hacking or other unauthorized use. A breach of the systems or hardware could result in an unauthorized release of this type of data which may result in fines or penalties as well as other costly mitigation activities, and harm to our reputation.

Our common stock has relatively limited trading volume, and ownership is concentrated with a small number of shareholders, which could increase the volatility in our stock trading and dramatically affect our share price.

A large percentage of our stock is held by a limited number of shareholders. If our larger shareholders decide to liquidate their positions, it could cause significant fluctuation in the share price of our common stock. Public companies with a relatively concentrated level of institutional shareholders, such as we have, often have difficulty generating trading volume in their stock. This illiquidity and our size can result in relative price discounts as compared to industry peers or to the stock s inherent value. It can also result in limited or no research analyst coverage, the absence of which may make it difficult for a company to establish and hold a market following.

Table of Contents

We have certain intangible assets, which could become impaired and have an adverse impact on our results of operations.

At December 31, 2011, the Company had total assets of $286.4 million, which included $56.9 million of goodwill and other net intangible assets. We cannot be certain that we will ever realize the value of such intangible assets. It could be necessary to recognize impairment of these assets should we experience significant decreases in assets under management, the termination of one or more material investment management contracts or material outflows if clients withdraw their assets following the departure of a key employee or for any other reasons.

We may need to raise additional capital or refinance existing debt in the future, and resources may not be available to us in sufficient amounts or on acceptable terms.

Our ability to meet the future cash needs of the Company is dependent upon our ability to generate cash or obtain financing. Although the Company has been successful in generating sufficient cash in the past, it may not be successful in the future. We may need to raise additional capital to fund current operations or new business initiatives, or refinance existing debt, and financing may not be available to us in sufficient amounts, on acceptable terms, or at all. Our ability to access capital markets efficiently depends on a number of factors, including the state of credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our common stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely impacted.

Our shareholder rights plan could be interpreted to discourage takeovers and business combinations that our stockholders might consider to be in their best interests.

Under our stockholders rights agreement, if any person or group, acquires, or begins a tender or exchange offer that could result in acquiring 15% or more of our common stock, or, in the case of BMO, any additional shares, without approval by our board under specified circumstances, our other stockholders will have the right to purchase shares of our common stock, or shares of the acquiring company, at a substantial discount to the public market price. In addition, provisions of Section 203 of the Delaware General Corporation Law also restrict certain business combinations with interested stockholders. The Delaware General Corporation Law and our stockholders rights agreement may discourage takeovers and business combinations that our stockholders might consider to be in their best interests.

Table of Contents

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report contains statements, including under the captions Business, Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations, that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as expect, estimate, plan, intend, believe, anticipate, may, s could, continue, project or similar statements or variations of such terms and relate to, among other things:

The expected impact of pending legal and regulatory matters.

Our future capital requirements, the anticipated uses of our cash and the sufficiency of our cash resources.

Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company, are not guarantees of future results or performance, and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows, and future credit facilities, for all forward periods. All of our forward-looking statements contained in this Annual Report are as of the date of this Annual Report only.

The Company can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially. The Company does not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Annual Report, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If there are any future public statements or disclosures by us which modify or impact any of the forward-looking statements contained in or accompanying this Annual Report, such statements or disclosures will be deemed to modify or supersede such statements in this Annual Report.

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report, as well as the following risks and uncertainties: (a) the effects of changes and volatility in political, economic or industry conditions, the interest rate environment, or financial and capital markets; (b) any poor relative investment performance of our asset management strategies and any resulting outflows of assets; (c) mutual fund sales in any period may be through a limited number of financial intermediaries, from a limited number of investment strategies, and impacted by relative performance and the breadth and type of investment products we offer; (d) any lack of availability of additional and/or replacement financing, as may be needed, on satisfactory terms or at all; (e) any inadequate performance of third-party relationships; (f) the withdrawal of assets from under our management; (g) our ability to attract and retain key personnel in a competitive environment; (h) the ability of independent trustees of our mutual funds and closed-end funds, and other clients, to terminate their relationships with us; (i) the possibility that our goodwill or intangible assets could become impaired, requiring a charge to earnings; (j) the competition we face in our business, including competition related to investment products and fees; (k) potential adverse regulatory and legal developments; (l) the difficulty of detecting misconduct by our employees, sub-advisors and distribution partners; (m) changes in accounting or regulatory standards or rules, including the impact of proposed rules which may be promulgated relating to Rule 12b-1 fees; (n) the ability to satisfy the financial covenants under existing debt agreements; and (o) certain other risks and uncertainties described in this Annual Report or in any of our other filings with the SEC, which are available on our website at www.virtus.com under Investor Relations.

Table of Contents

An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this Annual Report or included in our other periodic reports filed with the SEC could materially and adversely affect our operations, financial results, cash flows, prospects, and liquidity. You are urged to carefully consider all such factors.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal offices are located at 100 Pearl St., Hartford, CT 06103 and our customer support call center is located in Greenfield, Massachusetts. In addition, we lease office space in Illinois, California, Connecticut and New York. We believe our office facilities are suitable and adequate for our business as it is presently conducted. Given the service nature of our business and the fact that we do not own real property, we do not anticipate that compliance with federal, state and local provisions regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon our capital expenditures, revenue or competitive position.

Item 3. Legal Proceedings.

The Company is regularly involved in litigation and arbitration as well as