VIRTUS INVESTMENT PARTNERS, INC.
Form 10-K
February 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
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	The NASDAQ Stock Market LLC
(including attached Preferred Share Purchase Rights)	

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes 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 $409,657,058. 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 6,819,003 shares of the registrant's common stock outstanding on February 9, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement which will be filed with the SEC in connection with the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Virtus Investment Partners, Inc.
Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2016

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

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PART I

Item 1. Business.
Organization
Virtus Investment Partners, Inc. (the “Company”) commenced operations on November 1, 1995 through a reverse merger with Duff & Phelps Corporation. The Company was a majority-owned subsidiary of The Phoenix Companies, Inc. (“PNX”) from 1995 to 2001 and a wholly-owned subsidiary of PNX from 2001 until 2008. On December 31, 2008, PNX distributed 100% of Virtus common stock to PNX stockholders in a spin-off transaction.
Our Business
We are a provider of investment management and related services to individuals and institutions. We use a multi-manager, multi-style approach, offering investment strategies from affiliated managers and select unaffiliated subadvisors, each having its own distinct investment style, autonomous investment process and individual brand. By offering a broad array of products, we believe we can appeal to a greater number of investors which allows us to have opportunities across market cycles and through changes in investor preferences.
We provide our products in a number of forms and through multiple distribution channels. Our retail products include open-end mutual funds, closed-end funds, exchange traded funds ("ETFs"), variable insurance funds, Undertakings for Collective Investments in Transferable Securities ("UCITS") and separately managed accounts. Our open-end mutual funds and exchange traded funds are marketed through financial intermediaries. Our closed-end funds trade on the New York Stock Exchange, and our exchange traded funds are traded on either the New York Stock Exchange or NASDAQ. Our variable insurance funds are available as investment options in variable annuities and life insurance products distributed by life insurance companies. Separately managed accounts are comprised of intermediary programs, sponsored and distributed by unaffiliated brokerage firms and private client accounts which are offered to the high net-worth clients of one of our affiliated managers. We also manage institutional accounts for corporations, multi-employer retirement funds, public employee retirement systems, foundations, endowments and as a subadviser to unaffiliated mutual funds. Our earnings are primarily driven by asset-based fees charged for services relating to these products including investment management, fund administration, distribution and shareholder services. These fees are based on a percentage of assets under management (“AUM”) and are calculated using daily or weekly average assets, quarter-end assets or average month-end assets.

Our Investment Managers

Our investment management services are provided by investment managers who are registered investment advisers under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”). The investment managers are responsible for portfolio management activities for our retail and institutional products operating under advisory or subadvisory agreements. We provide our affiliated managers with distribution, operational and administrative support, thereby allowing each affiliated manager to focus primarily on investment management. We also engage select unaffiliated subadvisers for certain of our open-end mutual funds and exchange traded funds. At December 31, 2016, \$8.8 billion or 19.3% of our assets under management were managed by unaffiliated subadvisers. We monitor the quality of our managers’ services by assessing their performance, style, consistency and the discipline with which they apply their investment process.

On December 16, 2016, we entered into an agreement to acquire RidgeWorth Investments (the "RidgeWorth Acquisition"), a multi-boutique asset management firm with \$40.2 billion (as of December 31, 2016) in assets managed by affiliated investment managers and unaffiliated subadvisers. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the agreement to acquire RidgeWorth Investments.

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

	Affiliated Managers			
	Duff & Phelps Investment Management	Newfleet Asset Management	Kayne Anderson Rudnick Investment Management	Rampart Investment Management
Assets Under Management at December 31, 2016 ($ in billions)	$10.2	$11.6	$12.7	$3.2 (1)
Location	Chicago, IL	Hartford, CT	Los Angeles, CA	Boston, MA
Core Strategy	Income oriented equities	Multi-sector fixed income	Quality focused equities	Quantitative strategies
Products				
Open-End Funds	ü	ü	ü	ü
Closed-End Funds	ü	ü	ü	
Exchange traded funds		ü		
Variable Insurance Funds	ü	ü	ü	
UCITs		ü	ü	
Separately Managed Accounts	ü		ü	ü
Institutional	ü	ü	ü	ü

(1) Includes $1.2 billion (notional) of option overlay strategies and $1.3 billion of assets from the Virtus Trend Funds, which Rampart investment professionals implement on behalf of other Virtus affiliates in their capacity as officers of those affiliates. A portion of the $1.2 billion (notional) of option overlay strategies is also reflected in the assets under management of other affiliates.

Our Investment Products

Our assets under management are comprised of open-end funds, closed-end funds, exchange traded 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, 2016
($ in billions)

Retail Products	
Mutual fund assets	
Open-end funds	$23.4
Closed-end funds	6.8
Exchange traded funds	0.6
Total fund assets	30.8
Separately managed accounts	8.5
Total retail assets	39.3
Total institutional assets	6.1
Total Assets Under Management	$45.4

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Open-End Funds

As of December 31, 2016, we managed 67 open-end funds, comprised of U.S. domiciled open-end mutual funds ("open-end mutual funds") variable insurance funds and UCITS, with total assets of $23.4 billion. Our open-end mutual funds are offered in a variety of asset classes (equity, fixed income and alternative investments), in all market capitalizations (large, mid and small), in different styles (growth, blend and value) and with various investment approaches (fundamental, quantitative and thematic). Our variable insurance funds are available as investment options in variable annuities and life insurance products distributed by life insurance companies. Our Ireland domiciled UCITS, which we refer to as the Global Funds, are offered in select investment strategies to non-US investors. At December 31, 2016, assets under management in these funds were $48.9 million.

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Our open-end funds as of December 31, 2016 are as follows:

Fund Type/Name	Inception	Assets	Advisory Fee (1)
Open-End Funds		($ in millions)	(%)
Alternatives			
Virtus Real Estate Securities Fund	1995	$ 1,086.8	0.75-0.65
Virtus Global Real Estate Securities Fund	2009	179.8	0.85-0.75
Virtus Multi-Strategy Target Return Fund	2015	131.7	1.30-1.25
Virtus Global Infrastructure Fund	2004	107.4	0.65-0.55
Virtus Herzfeld Fund	2012	54.8	1.0-0.95
Virtus International Real Estate Securities Fund	2007	30.0	1.0-0.90
Virtus Select MLP and Energy Fund	2015	5.6	1.00
Virtus Essential Resources Fund	2015	4.8	1.10
Virtus Alternatives Diversifier Fund (2)	2005	—	—
Asset Allocation			
Virtus Strategic Allocation Fund	1975	454.1	0.55-0.45
Virtus Tactical Allocation Fund	1940	137.6	0.70-0.60
Virtus Multi-Asset Trend Fund	2011	115.6	1.00-0.90
Virtus DFA 2035 Target Date Retirement Income Fund	2016	1.4	0.30
Virtus DFA 2020 Target Date Retirement Income Fund	2016	1.3	0.30
Virtus DFA 2025 Target Date Retirement Income Fund	2016	1.3	0.30
Virtus DFA 2030 Target Date Retirement Income Fund	2016	1.3	0.30
Virtus DFA 2060 Target Date Retirement Income Fund	2016	1.2	0.30
Virtus DFA 2040 Target Date Retirement Income Fund	2016	1.2	0.30
Virtus DFA 2045 Target Date Retirement Income Fund	2016	1.2	0.30
Virtus DFA 2015 Target Date Retirement Income Fund	2016	1.2	0.30
Virtus DFA 2055 Target Date Retirement Income Fund	2016	1.2	0.30
Virtus DFA 2050 Target Date Retirement Income Fund	2016	1.2	0.30
Equity			
Virtus Equity Trend Fund	2010	749.6	1.00-0.95
Virtus Small-Cap Sustainable Growth Fund	2006	527.3	0.90-0.80
Virtus Small-Cap Core Fund	2002	414.7	0.75
Virtus Strategic Growth Fund	1995	396.7	0.70-0.60
Virtus Sector Trend Fund	2003	356.2	0.45-0.40
Virtus Quality Small-Cap Fund	2006	324.1	0.70
Virtus Contrarian Value Fund	1997	201.5	0.75-0.70
Virtus Enhanced Core Equity Fund	1997	167.7	0.75-0.65
Virtus Mid-Cap Growth Fund	1975	82.6	0.80-0.70
Virtus Wealth Masters Fund	2012	77.3	0.85-0.80
Virtus Mid-Cap Core Fund	2009	65.1	0.80-0.70
Virtus Quality Large-Cap Value Fund	2005	63.8	0.75-0.65
Virtus Low Volatility Equity Fund	2013	2.6	0.95-0.85
Fixed Income			
Virtus Multi-Sector Short Term Bond Fund	1992	6,941.4	0.55-0.425
Virtus Senior Floating Rate Fund	2008	568.9	0.60-0.50
Virtus Low Duration Income Fund	1999	367.2	0.55-0.45
Virtus Multi-Sector Intermediate Bond Fund	1989	296.1	0.55-0.45
Virtus Tax-Exempt Bond Fund	2001	172.3	0.45
Virtus Credit Opportunities Fund (3)	2015	98.2	0.75

Virtus High Yield Fund	1980	72.4	0.65-0.55
Virtus Bond Fund	1998	71.1	0.45-0.40
Virtus Emerging Markets Debt Fund	2012	31.5	0.75-0.70
Virtus Strategic Income Fund	2014	29.9	0.80-0.75
Virtus CA Tax-Exempt Bond Fund	1983	28.8	0.45-0.35

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Fund Type/Name	Inception	Assets ($ in millions)	Advisory Fee (1) (%)
International/Global			
Virtus Emerging Markets Opportunities Fund	1997	6,469.4	1.00-0.95
Virtus Foreign Opportunities Fund	1990	1,250.5	0.85-0.75
Virtus Global Opportunities Fund	1960	175.0	0.85-0.75
Virtus International Small-Cap Fund	2012	52.1	1.00-0.95
Virtus Emerging Markets Equity Income Fund	2012	26.1	1.05-1.00
Virtus Greater European Opportunities Fund	2009	18.3	0.85-0.80
Virtus Global Equity Trend Fund	2011	18.2	1.00-0.90
Virtus Emerging Markets Small-Cap Fund	2013	5.4	1.20-1.15
Virtus International Wealth Masters Fund	2014	5.2	0.90-0.85
Virtus International Equity Fund	2010	4.2	0.85-0.75
Variable Insurance Funds			
Virtus Capital Growth Series	1982	$ 185.6	0.70-0.60
Virtus International Series	1990	178.0	0.75-0.65
Virtus Multi-Sector Fixed Income Series	1982	126.1	0.50-0.40
Virtus Enhanced Core Equity Series	1998	104.6	0.70-0.60
Virtus Small-Cap Value Series	2000	95.0	0.90-0.80
Virtus Strategic Allocation Series	1984	93.1	0.55-0.45
Virtus Real Estate Securities Series	1995	81.4	0.75-0.65
Virtus Small-Cap Growth Series	2002	63.4	0.85-0.80
Virtus Equity Trend Series	2011	4.6	1.00
Global Funds			
Virtus GF Multi-Sector Short Duration Bond Fund	2013	44.8	1.75-0.55
Virtus GF US Small Cap Focus Fund	2014	4.1	2.15-0.80
		$ 23,432.8	

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

(2) This fund contains investments in other Virtus open-end mutual funds. The related assets invested in other Virtus open-end mutual funds are reflected only in the balances of the respective funds.

(3) Other Virtus open-end mutual funds invest in this fund, the assets invested by other Virtus open-end mutual funds are reflected in this fund and are excluded from the assets of those funds.

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Closed-End Funds

We managed nine closed-end funds as of December 31, 2016, each of which is traded on the New York Stock Exchange, with aggregate assets of $6.8 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 as of December 31, 2016 are as follows:

Fund Type/Name	Assets	Advisory Fee	
	($ in billions)	%	
Balanced			
DNP Select Income Fund Inc.	$ 3.7	0.60-0.50	(1)
Virtus Global & Dividend Income Fund Inc.	0.5	0.70	(2)
Virtus Total Return Fund	0.2	0.85	(2)
Equity			
Duff & Phelps Global Utility Income Fund Inc.	0.9	1.00	(1)(3)
Zweig Fund Inc.	0.3	0.85	(2)
Alternatives			
Duff & Phelps Select Energy MLP Fund	0.3	1.00	(2)
Fixed Income			
Duff & Phelps Utility and Corporate Bond Trust Inc.	0.4	0.50	(1)
Virtus Global Multi-Sector Income Fund	0.3	0.95	(2)
DTF Tax-Free Income Inc.	0.2	0.50	(1)
Total Closed-End Funds	$ 6.8		

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

Exchange Traded Funds

In April 2015, we acquired a majority ownership interest in Virtus ETF Solutions ("VES"), formerly known as ETF Issuer Solutions, that operates a platform for listing, operating and distributing exchange traded funds. We offer nine U.S.-domiciled exchange traded funds with total assets under management of $0.6 billion at December 31, 2016.

Our exchange traded funds as of December 31, 2016 are as follows:

Fund Name	Assets	Advisory Fee	
	($ in millions)	%	
Virtus Newfleet Multi-Sector Unconstrained Bond ETF	$ 198.6	0.700	(1)
InfraCap MLP ETF	171.7	0.075	(1)
Virtus Newfleet Dynamic Credit ETF	77.7	0.550	(1)
Tuttle Tactical Management Core ETF	57.3	0.075	(1)
Bioshares Biotech Products ETF	31.1	0.075	(1)
Tuttle Tactical Management Multi-Strategy ETF	20.0	0.075	(1)

Bioshares Biotech Clinical Trials ETF	17.5	0.075	(1)
Reaves Utilities ETF	13.3	0.075	(1)
iSectors Post-MPT Growth ETF	9.6	0.125	(1)
	$ 596.8		

(1) Percentage of average daily net assets of each fund.

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Separately Managed Accounts

Separately managed accounts are individually owned portfolios that include intermediary sponsored programs, whereby an intermediary assists individuals in hiring 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 an affiliated manager. Separately managed account assets totaled $8.5 billion at December 31, 2016.

Institutional Accounts

We offer a variety of equity and fixed income strategies to institutional clients, including corporations, multi-employer retirement funds, public employee retirement systems, foundations, endowments and as a subadviser to unaffiliated mutual funds. In addition, we act as collateral manager for structured finance products which consist of collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs"). Our institutional assets under management totaled $6.1 billion as of December 31, 2016, which included $613.1 million of structured products.

Our Investment Management, Administration and Transfer Agent Services

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

	Years Ended December 31,		
	2016	2015	2014
($ in thousands)			
Investment management fees:			
Funds	$174,157	$209,994	$249,355
Separately managed accounts	40,155	37,296	35,152
Institutional accounts	20,918	17,575	16,156
Total investment management fees	235,230	264,865	300,663
Administration fees	26,997	33,981	39,374
Transfer agent fees	11,264	14,266	16,642
Total	$273,491	$313,112	$356,679

Investment Management Fees

We provide investment management services pursuant to investment management agreements through our affiliated investment advisers (each, an “Adviser”). With respect to our open-end funds, closed-end funds and exchange traded funds, the Adviser provides overall management services to a fund, subject to supervision by the fund’s board of directors, pursuant to agreements that must be approved annually by each fund’s board of directors and which may be terminated without penalty upon written notice, or automatically, in certain situations, such as a “change in control” of the Adviser. We earn fees based on each fund’s average daily or weekly net assets with most fee schedules providing for rate declines or “breakpoints” as asset levels increase to certain thresholds. For funds managed by a subadviser, the agreement provides that the subadviser manage the day-to-day investment management of the fund’s portfolio and receive a management fee from the Adviser based on the percentage of average daily net assets in the funds they subadvise or a percentage of the Adviser’s management fee. Each fund bears all expenses associated with its operations. In some cases, to the extent total fund expenses exceed a specified percentage of a fund’s average net assets, the Adviser has agreed to reimburse the funds for such excess expenses or voluntarily or contractually waive a portion of its fee for a period of time.

For separately managed accounts and institutional accounts, fees are negotiated and are based primarily on asset size, portfolio complexity and individual client requests. Fees for structured finance products, for which we act as the collateral manager, consist of both senior and subordinated management fees. Senior management fees are calculated at a contractual fee rate applied against the end of the preceding quarter par value of the total collateral being managed. Subordinated management fees, also calculated at a contractual rate against the end of the preceding quarter par value of the total collateral being managed, are recognized only after certain portfolio criteria are met. We may also earn incentive fees on certain of our CLOs which are typically 20% of the excess cash flows available to holders of the subordinated notes.

Administration Fees

We provide fund administration services to our open-end funds, exchange traded funds and certain of our closed-end funds. We earn fees based on each fund’s average daily or weekly net assets. Administrative services include record keeping, 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, tax services and treasury services as well as providing office space, equipment and personnel that may be necessary for managing and administering the business affairs of the funds.

Transfer Agent Fees

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

Our Distribution Services

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

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

Our Broker-Dealer Services

We have two subsidiaries that are broker-dealers registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are members of the Financial Industry Regulatory Authority ("FINRA"). They serve as principal underwriters and distributors of our open-end mutual funds and exchange traded funds. Our broker-dealers are subject to the SEC's net capital rule designed to enforce minimum standards regarding the general financial condition and liquidity of broker-dealers.

Open-end mutual fund shares and UCITS fund shares are distributed by VP Distributors, LLC ("VPD") under sales agreements with unaffiliated financial intermediaries. VPD also markets advisory services to sponsors of separately managed account programs. ETF Distributors, LLC ("ETFD") serves as the principal underwriter and distributor of our exchange traded funds.

Our Competition

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

Our Regulatory Matters

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

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

Our officers, directors and employees may, from time to time, own securities that are also held by one or more of our funds. Our internal policies with respect to personal investments are established pursuant to the provisions of the Investment Company Act and/or the Investment Advisers Act. Employees, officers and directors who, in the function of their responsibilities to us, meet the

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

Our Employees

As of December 31, 2016, we had 406 full time equivalent employees. None of our employees are represented by a union.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as proxy statements, are available free of charge on our 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 our Corporate Governance Principles, our Code of Conduct and the charters of our Audit Committee, Compensation Committee, Governance Committee and Risk and Finance Committee are posted on our website, www.virtus.com, under "About Us," "Investor Relations," "Corporate Governance" and are available in print to any person who requests copies by contacting Investor Relations by email to: investor.relations@virtus.com or by mail to Virtus Investment Partners, Inc., c/o Investor Relations, 100 Pearl Street, Hartford, CT 06103. Information contained on the website is not incorporated by reference or otherwise considered part of this document.

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Item 1A. Risk Factors.

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

Risks Relating to Our Business

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

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

- The value of assets under management can decline due to price declines in specific securities, market segments or geographic areas where those assets are invested. Funds and portfolios that we manage related to certain geographic markets and industry sectors are particularly vulnerable to political, social and economic events in those markets and sectors. If these markets or industries decline or experience volatility, this could have a negative impact on our assets under management and our revenues. For example, certain non-U.S. markets, particularly emerging markets, are not as developed or as efficient as the U.S. financial markets and, as a result, may be less liquid, less regulated and significantly more volatile than the U.S. financial markets. Liquidity in such markets may be adversely impacted by factors including political or economic events, government policies, expropriation, volume trading limits by foreign investors and social or civil unrest. These factors may negatively impact the market value of an investment or our ability to dispose of it. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies could result in a decrease in the U.S. dollar value of assets under management that are denominated in non-U.S. currencies.

- The performance of our investment strategies is critical and any real or perceived negative absolute or relative performance could negatively impact the maintenance and growth of assets under management. Net flows related to our investment strategies can be affected by investment performance relative to other competing investment strategies or to established benchmarks. Our investment management strategies are rated, ranked or assessed by independent third-parties, distribution partners, and industry periodicals and services. These assessments often influence the investment decisions of our clients. If the performance or assessment of our investment strategies is seen as underperforming relative to peers, it could result in an increase in the withdrawal of assets by existing clients and the inability to attract additional investments from existing and new clients. In addition, certain of our investment strategies have capacity constraints, as there is a limit to the number of securities available for the strategy to operate effectively. In those instances, we may choose to limit access to new or existing investors. In addition, certain mutual funds employ the use of leverage as part of their investment strategies, which will increase or decrease the Company’s assets under management, and the risk associated with the investment, as the proceeds from the use of leverage are invested in accordance with the funds’ investment strategies.

- General domestic and global economic and political conditions can influence assets under management. Changes in interest rates, the availability and cost of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts and security operations) and other conditions may impact the equity and credit markets which may influence our assets under management. Capital and credit markets can experience substantial volatility. Employment rates, continued economic weakness and budgetary challenges in the EuroZone, regional turmoil in the Middle East, concern over growth prospects in China and emerging markets, growing debt loads for certain countries and uncertainty about the consequences of governments eventually withdrawing monetary stimulus all indicate that economic and political conditions remain unpredictable. If the security markets decline or experience volatility, our assets under management and our revenues could be negatively impacted. In addition, diminishing investor confidence in the markets and/or adverse market conditions could result in a decrease in investor risk tolerance. Such a decrease could prompt investors to reduce their rate of investment or to fully withdraw from

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markets, which could lower our overall assets under management and have an adverse effect on our revenues, earnings and growth prospects.

The volatility in the markets in the recent past has highlighted the interconnection of the global markets and demonstrated how the deteriorating financial condition of one institution may materially adversely impact the performance of other institutions. Our assets under management have exposure to many different industries and counterparties and may be exposed to credit, operational or other risk due to the default by a counterparty or client or in the event of a market failure or disruption or otherwise. In the event of extreme circumstances, including economic, political or business crises, such as a widespread systemic failure in the global financial system or failures of firms that have significant obligations as counterparties, we may suffer significant declines in assets under management and severe liquidity or valuation issues.

Moreover, a significant amount of our assets under management are in investments represented by strategies that primarily invest in securities in non-U.S. companies. Many non-U.S. financial markets are not as developed or as efficient as the U.S. financial markets and, as a result, have limited liquidity and greater price volatility and may lack established regulations. Liquidity in such markets also may be adversely impacted by political or economic events, government policies, expropriation, volume trading limits by foreign investors and social and civil unrest. An investment's market value or the ability to dispose of an investment may be adversely impacted by any of these factors. Governments of foreign jurisdictions may assert their abilities to tax local gains and/or income of foreign investors, including our clients, which could adversely impact the economics associated with investing in foreign jurisdictions or non-U.S. based companies. These risks also could impact the performance of our strategies that invest in such markets and, in particular, strategies that concentrate investments in emerging market companies and countries.

- Changes in interest rates can have adverse effects on our assets under management. Increases in interest rates from their historically low present levels may adversely affect the net asset values of our assets under management. Furthermore, increases in interest rates may result in reduced prices in equity markets. Conversely, decreases in interest rates could lead to outflows in fixed income assets that we manage as investors seek higher yields. Any of these effects could lower our assets under management and revenues and, if our revenues decline without a commensurate reduction in our expenses, would lead to a reduction in our net income.

Any of these factors could cause our assets under management to decline and have an adverse impact on our results of operations and financial condition.

Our investment advisory agreements are subject to withdrawal, renegotiation or termination on short notice.
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. Our clients may terminate or renegotiate their investment contracts with us or reduce the aggregate amount of assets under management with us due to a number of reasons including investment performance, reputational, regulatory or compliance issues, loss of key investment management or other personnel or a change in management or control of clients, third-party distributors, subadvisers or others with whom we have relationships. The directors of our sponsored funds may deem it to be in the best interests of a fund's shareholders to make decisions adverse to us, such as reducing the compensation paid to us, requesting that we subsidize fund expenses over certain thresholds, or imposing restrictions on our management of the fund. Under the Investment Company Act, investment advisory agreements automatically terminate in the event of an assignment, which may occur if, among other events, the Company undergoes a change in control, such as any person acquiring 25% voting rights of our common stock. If an assignment were to occur, we cannot be certain that the fund's board of directors and its stockholders would approve 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 withdrawal, renegotiation or termination of any investment management contract relating to a material portion of assets under management would have an adverse impact on our results of operations and financial condition.

Any damage to our reputation could harm our business and lead to a reduction in our revenues and profitability. Maintaining a strong reputation with the investment community and other constituencies is critical to our success. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate even if they are without merit or satisfactorily addressed. Our reputation may be impacted by many factors, including but not limited to: poor performance; litigation; conflicts of interests; regulatory inquiries, investigations or findings; operational failures (including cyber breaches); intentional or unintentional misrepresentation of our products or services; material weaknesses in our internal controls; or employee misconduct or rumors. Any damage to our reputation could impede our ability to attract and

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retain clients and key personnel, adversely impact relationships with third-party distributors and other business partners and lead to a reduction in the amount of our assets under management, any of which could adversely affect our results of operations and financial condition.

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

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

We are subject to financial covenants under our existing credit facility, and failure to satisfy those covenants could result in any outstanding indebtedness becoming immediately due.

Under the Company's senior unsecured revolving credit facility (the "Credit Facility"), the Company must maintain certain financial covenants. A summary of the Credit Facility terms and financial covenants is included in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations." We cannot assure you that at all times in the future we will satisfy all such financial covenants or obtain any required waiver or amendment, in which event all outstanding indebtedness could become immediately due. This could result in a substantial reduction in the liquidity of the Company and could challenge our ability to meet future cash needs of the business.

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

If we are unable to continue to attract and retain key employees, or if compensation costs required to attract and retain key employees increase, our performance, including our competitive position, could be materially adversely affected. Additionally, we utilize Company equity awards as part of our compensation plans and as a means for recruiting and retaining key employees. Declines in our stock price could result in deterioration in the value of equity awards granted, thus lessening the effectiveness of retaining key employees through stock-based awards.

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, could lead to a reduction in the amount of our assets under management, which could have a material adverse effect on our revenues and profitability. In addition, there could be additional costs to replace, retain or attract new talent which would result in a decrease in our profitability and have an adverse impact on our results of operations and financial condition.

The highly competitive nature of the asset management industry may force us to reduce the fees we charge to clients, increase amounts paid or support for financial intermediaries, all of which could result in a reduction of our revenues and profitability.

We face significant competition from a wide variety of financial institutions, including other investment management companies, as well as from proprietary products offered by our distribution partners such as banks, broker-dealers and financial planning firms. Competition in our businesses is based on several factors including investment performance, access to distribution channels, service to financial advisers and their clients and fees charged. Our competitors, many of which are larger than we are, often offer similar products, use similar distribution sources, offer less expensive products, have greater access to key distribution channels and have greater resources, geographic footprints and name recognition than we do. Additionally, certain products and asset classes, such as passive or index-based products, are becoming increasingly popular with investors. Existing clients may withdraw their assets in order to invest in these products, and we may be unable to attract additional investments from existing and new clients, which would lead to a decline in our assets under management and market share.

In addition, our profits are highly dependent on the fee levels for our products and services. In recent years, there has been a trend in certain segments of our markets toward lower fees and lower fee products, such as passive products. Competition could cause us to reduce the fees that we charge for products and services. In order to maintain appropriate fee levels in a competitive environment, we must be able to continue to provide clients with investment products and services that are viewed as appropriate in relation to the fees charged. If our clients, including our fund boards, were to view our fees as being high relative to the market or the returns provided by our investment products, we may choose to reduce our fee levels or we may experience significant redemptions in our assets under management which could have an adverse impact on our results of operations and financial condition.

We are subject to an extensive and complex regulatory environment, and changes in regulations or failure to comply with regulation could adversely affect our revenues and profitability.
The investment management industry in which we operate is subject to extensive and frequently changing regulation. We are regulated by the SEC under the Exchange Act, the Investment Company Act and the Investment Advisers Act, and we are subject to regulation by the Commodities Futures Trading Commission under the Commodities Exchange Act. Our Global Funds are subject to regulation by the CBI. We are also regulated by FINRA, the Department of Labor under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as well as other federal and state laws and regulations.

The regulatory environment that we operate in changes often and has seen increased regulatory focus in recent years. For example, in fiscal 2015, the SEC proposed new rules addressing liquidity risk management by registered open-end funds and the use of derivatives by registered open-end and closed-end funds. If these regulations are adopted substantially as proposed, they could materially impact the provision of investment services or limit opportunities for certain funds we manage and increase our management and administration costs, with potential adverse effects on our revenues, expenses and results of operations.

Although we spend extensive time and resources on compliance efforts designed to ensure compliance with all applicable laws and regulations, if we or our affiliates fail to timely and properly modify and update our compliance procedures in this changing and highly complex regulatory environment, we may be subject to various legal proceedings, including civil litigation, governmental investigations and enforcement actions and result in fines, penalties or suspensions of individual employees or limitations on particular business activities which could have an adverse impact on our results of operations and financial condition.

Changes in tax laws and unanticipated tax obligations could have an adverse impact on our financial condition, results of operations and cash flow.
We are subject to federal and state income taxes in the United States. Tax authorities may disagree with certain positions we have taken or implement changes in tax policy, which may result in the assessment of additional taxes. We regularly assess the appropriateness of our tax positions and reporting. We cannot provide assurance, however, that we will accurately predict the outcomes of 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.

We utilize unaffiliated firms in providing investment management services and any matters that have an adverse impact to their business, or any change in our relationships with these unaffiliated firms could lead to a reduction in assets under management, which will adversely affect our revenues and profitability.
We utilize unaffiliated subadvisers as investment managers for certain of our retail products and we have licensing arrangements with unaffiliated data providers. Because we typically have no ownership interests in these unaffiliated firms, we do not control the business activities of such firms. Problems stemming from the business activities of these unaffiliated firms may negatively impact or disrupt such firms' operations or expose them to disciplinary action or reputational harm. Furthermore, any such matters at these unaffiliated firms may have an adverse impact on our business or reputation or expose us to regulatory scrutiny, including with respect to our oversight of such firms.

We periodically negotiate provisions and renewals of these relationships, and we cannot provide assurance that such terms will remain acceptable to us or the unaffiliated firms. These relationships can also be terminated upon short notice without penalty. In addition, similar to our business, the departure of key employees at our unaffiliated subadvisers could cause higher redemption rates for certain assets under management, or the loss of certain client accounts. An interruption or termination of our unaffiliated firm relationships could affect our ability to market our products and result in a reduction in assets under management which could have an adverse impact on our results of operations and financial condition.

We distribute through intermediaries, and changes in key distribution relationships could reduce our revenues, increase our costs and adversely affect our profitability.
Our primary source of distribution for our retail products is through intermediaries that include third-party financial intermediaries, such as: major wire houses; national, regional and independent broker-dealers and financial advisors; banks and financial planners and registered investment advisors. Our success is highly dependent on access to these various distribution systems. These distributors are generally not contractually required to distribute our products and typically offer their clients

various investment products and services, including proprietary products and services, in addition to and in competition with our products and services. While we compensate these intermediaries for selling our products and services pursuant to contractual agreements, we may not be able to retain access to these channels at all or at similar pricing. Increasing competition for these distribution channels could cause our distribution costs to rise, which could have a material adverse effect on our business, revenues and profitability. 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, revenues and profitability could decline.

We and our third-party service providers rely on numerous technology systems, and a temporary business interruption, security breach or technology systems failures could negatively impact our business and profitability.
Our technology systems and those of our third-party service providers are critical to our operations. The ability to consistently and reliably obtain accurate securities pricing information, process client portfolio and fund shareholder transactions and provide reports and other customer service to fund shareholders and clients in other accounts managed by us is an essential part of our business. Any delays or inaccuracies in obtaining pricing information, processing such transactions or such reports, other breaches and errors, and any inadequacies in other customer service, could result in reimbursement obligations or other liabilities, or alienate customers and potentially give rise to claims against us. Our customer service capability, as well as our ability to obtain prompt and accurate securities pricing information and to process transactions and reports, is highly dependent on our third-party service providers' information systems. Any failure or interruption of those systems, whether resulting from technology or infrastructure breakdowns, defects or external causes such as fire, natural disaster, viruses, acts of terrorism or power disruptions, could result in financial loss, negatively impact our reputation, and negatively affect our ability to do business. Although we, and our third-party service providers, have disaster recovery plans in place, we may experience temporary interruptions if a natural disaster or prolonged power outages were to occur which could have an adverse impact on our results of operations and financial condition.

In addition, like other companies in the financial services industry, our computer systems are regularly subject to and are expected to continue to be the target of computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. Over time, however, the sophistication of cyber threats continues to increase, and any controls we put in place and preventative actions we take to reduce the risk of cyber incidents and protect our information may be insufficient to detect or prevent unauthorized access, cyber-attacks or other security breaches to our computer systems or those of third parties with whom we do business. Breach of our technology systems or those of third parties with whom we do business through cyber-attacks, or failure to manage and secure our technology environment, could result in interruptions or malfunctions in the operations of our business, loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by a breach, additional costs to mitigate against future incidents and litigation costs resulting from an incident.

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, we may still be vulnerable to hacking or other unauthorized use. A breach of the systems or hardware could result in an unauthorized access to our proprietary business or client data or release of this type of data, which could subject us to legal liability or regulatory action under data protection and privacy laws which may result in fines or penalties, the termination of existing client contracts, costly mitigation activities and harm to our reputation, which could have an adverse impact on our results of operations and financial condition.

Ownership of a relatively large percentage of our common stock 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 common 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 which may increase the volatility in the price of our common stock.

Civil litigation and government investigations or proceedings could adversely affect our business.
Many aspects of our business involve substantial risks of liability, and there have been substantial incidences of litigation and regulatory investigations in the financial services industry in recent years, including customer claims as well as class action suits seeking substantial damages. From time to time, we and/or our funds may be named as defendants or co-defendants in lawsuits or be involved in disputes that involve the threat of lawsuits seeking substantial damages. We and/or our funds are also involved from time to time in governmental and self-regulatory organization investigations and proceedings. For example, in fiscal 2015, two putative class action complaints were filed against us and certain of our officers and affiliates, alleging violation of certain provisions of federal securities laws. See Item 3. Legal Proceedings for further description of these class action complaints.

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Any of these lawsuits, investigations or proceedings could result in reputational damage, loss of clients and assets, settlements, awards, injunctions, fines, penalties, increased costs and expenses in resolving a claim, diversion of employee resources and resulting financial losses. Predicting the outcome of such matters is inherently difficult, particularly where claims are brought on behalf of various classes of claimants or by a large number of claimants, when claimants seek substantial or unspecified damages or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine or penalty could be material to our operating results or cash flows for a particular period, depending on our results for that period, or could cause us significant reputational harm, which could harm our business prospects.

We depend to a large extent on our business relationships and our reputation to attract and retain clients. As a result, allegations of improper conduct by private litigants, including investors in our funds, or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the asset management industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses. We may incur substantial legal expenses in defending against proceedings commenced by a client, regulatory authority or other private litigant. Substantial legal liability levied on us could cause significant reputational harm and have an adverse impact on our results of operations and financial condition.

We have a significant portion of our assets invested in marketable securities which exposes us to earnings volatility, as the value of these investments fluctuate, as well as risk of capital loss.
We use capital to seed new investment strategies and make new investments to introduce new products or enhance distribution access. At December 31, 2016, the Company had $183.5 million of seed capital investments in a variety of asset classes including alternative, fixed income and equity strategies. We also had $25.7 million invested in our consolidated investment product ("CIP"). Many of these investments employ a long-term investment strategy and entail an optimal investment period spanning several years. Accordingly, during this investment period, the Company’s capital utilized in these investments may not be available for other corporate purposes at all or without significantly diminishing our investment return. We cannot provide assurance that these investments will perform as expected. Moreover, increases or decreases in the value of these investments will increase the volatility of our earnings, and a decline in the value of these investments would result in the loss of capital and have an adverse impact on our results of operations and financial condition.

Our intended quarterly distributions may not be paid as intended or at all.
The declaration, payment and determination of the amount of our quarterly dividend, may change at any time. In making decisions regarding our quarterly dividend, we consider general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions (including under the terms of the Mandatory Convertible Preferred Stock that we issued on February 1, 2016) and obligations, legal, tax, regulatory and other restrictions that may have implications on the payment of distributions by us to our common shareholders or by our subsidiaries to us, and such other factors as we may deem relevant. Our ability to pay common stock dividends in excess of our current quarterly dividend will be subject to restrictions under the terms of the indebtedness contemplated by the debt commitment letter. We cannot assure you that any distributions, whether quarterly or otherwise, will be paid.

We may need to raise additional capital in the future, and resources may not be available to us in sufficient amounts or on acceptable terms, which could have an adverse impact on our business.
Our ability to meet the future cash needs of the Company is dependent upon our ability to generate cash. Although the Company has been successful in generating sufficient cash in the past, it may not be in the future. As of December 31, 2016, we maintained $64.5 million in cash and cash equivalents and $183.5 million in seed capital investments with $30.0 million in debt outstanding excluding the debt of our consolidated investment product for which recourse to the

Company is limited to our $25.7 million investment. See Footnote 18 of our consolidated financial statements for additional information on the debt of the consolidated investment product. Additionally on February 1, 2017, we issued 910,000 shares of common stock and 1,150,000 shares of 7.25% Mandatory Convertible Preferred Stock in a public offering for net proceeds of $207.1 million, after underwriting discounts, commissions and other offering expenses. Our ability to access capital markets efficiently depends on a number of factors, including the state of credit and equity markets, interest rates and credit spreads. We may need to raise capital to fund new business initiatives in the future, and financing may not be available to us in sufficient amounts, on acceptable terms, or at all. If we are unable to access sufficient capital on acceptable terms, our business could be adversely impacted.

Our common stock ranks junior to the Mandatory Convertible Preferred Stock with respect to dividends and amounts payable in the event of our liquidation and ranks junior to our indebtedness which may limit any payment or other distribution of assets to our common stock in the event we are liquidated

Our common stock ranks junior to the Mandatory Convertible Preferred Stock, with respect to the payment of dividends and amounts payable in the event of our liquidation, dissolution or winding-up. This means that, unless accumulated dividends have been paid or set aside for payment on all outstanding Mandatory Convertible Preferred Stock for all completed dividend periods, no dividends may be declared or paid on our common stock. Likewise, in the event of our voluntary or involuntary liquidation, dissolution or winding-up, no distribution of our assets may be made to holders of our common stock until we have paid to holders of the Mandatory Convertible Preferred Stock a liquidation preference equal to $100.00 per share plus accrued and unpaid dividends (whether or not declared).

Additionally, in the event of our liquidation, dissolution or winding up, our common stock would rank below all debt claims against us. As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon our liquidation, dissolution or winding up until after all of our obligations to our debt holders have been satisfied.

We have corporate governance provisions that may make an acquisition of us more difficult.
Certain provisions of our certificate of incorporation and bylaws could discourage, delay, or prevent a merger, acquisition, or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Stockholders who wish to participate in these transactions may not have the opportunity to do so. In addition, the provisions of Section 203 of the Delaware General Corporation Law also restrict certain business combinations with interested stockholders.

Our insurance policies may not cover all liabilities and losses to which we may be exposed.
We carry insurance in amounts and under terms that we believe are appropriate. Our insurance may not cover all liabilities and losses to which we may be exposed. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or pay higher premiums, which could have an adverse impact on our results of operations and financial condition.

We may engage in strategic transactions that could create risks.
We regularly review, and from time to time have discussions with and engage in, potential strategic transactions, including potential acquisitions, consolidations, joint ventures or similar transactions, some of which may be material. On December 16, 2016, for example, we entered into an agreement (the “RidgeWorth Acquisition”) to acquire RidgeWorth Holdings, LLC (“RidgeWorth”). We cannot provide assurance that we will be successful in negotiating the required agreements or successfully close transactions after signing such agreements including the RidgeWorth Acquisition or any other future strategic transactions.

Any strategic transactions may also involve a number of other risks, including additional demands on our staff, unanticipated problems regarding integration of operating facilities, technologies and new employees and the existence of liabilities or contingencies not disclosed to, or otherwise unknown by, us prior to closing a transaction. In addition, any business we acquire may underperform relative to expectations or may lose customers or employees. As a result, the Company may not be able to realize all of the expected benefits from such transactions or may be required to spend additional time or money on integration. Additional risks related to the RidgeWorth Acquisition are further described below.

Risks Relating to the RidgeWorth Acquisition

The RidgeWorth Acquisition is subject to closing conditions, including certain conditions that may not be satisfied, and it may not be completed on a timely basis, or at all. Failure to complete the RidgeWorth Acquisition could have material and adverse effects on the Company.

On December 16, 2016, the Company entered into a merger agreement in connection with the RidgeWorth Acquisition. The completion of the RidgeWorth Acquisition is subject to a number of closing conditions, including the receipt of a specified level of required consents from RidgeWorth clients, which make both the completion and the timing of completion of the RidgeWorth Acquisition uncertain. Also, either RidgeWorth or the Company may terminate the merger agreement if the RidgeWorth Acquisition has not been completed by the July 16, 2017 termination date (subject to extension to September 16, 2017 under certain circumstances), unless the failure of the RidgeWorth Acquisition to be completed has resulted from the failure of the party seeking to terminate the merger agreement to perform its obligations. If the RidgeWorth Acquisition is not completed on a timely basis, or at all, the Company's ongoing business may be adversely affected. Additionally, in the event the RidgeWorth Acquisition is not completed, the Company will be subject to a number of risks without realizing any of the benefits of having completed the RidgeWorth Acquisition, including the following:

- the Company will be required to pay its costs relating to the RidgeWorth Acquisition, such as legal, accounting and financial advisory fees, whether or not the RidgeWorth Acquisition is completed;

- time and resources committed by the Company's management to matters relating to the RidgeWorth Acquisition could otherwise have been devoted to pursuing other beneficial opportunities; and
- the market price of the Company's securities could decline to the extent that the current market price reflects a market assumption that the RidgeWorth Acquisition will be completed, or to the extent that the RidgeWorth Acquisition is fundamental to the Company's business strategy.

Uncertainty regarding the completion of the RidgeWorth Acquisition may cause their clients to withdraw assets under management or to decline to place additional assets under management, may cause their potential clients to delay or defer decisions concerning RidgeWorth and may adversely affect RidgeWorth's ability to attract and retain key employees.
The RidgeWorth Acquisition will happen only if stated conditions are met, including, among others, the receipt of a baseline level of required consents from RidgeWorth clients. Many of the conditions are beyond the control of the Company. In addition, both RidgeWorth and the Company have rights to terminate the merger agreement under various circumstances. As a result, there may be uncertainty regarding the completion of the RidgeWorth Acquisition. This uncertainty, along with potential RidgeWorth client uncertainty regarding how the acquisition could affect the services offered by RidgeWorth, may cause their clients to withdraw assets under management or to decline to place additional assets under management, and may cause potential RidgeWorth clients to delay or defer decisions concerning entering into a relationship with RidgeWorth, which could negatively impact revenues and earnings of RidgeWorth. Similarly, uncertainty regarding the completion of the RidgeWorth Acquisition may foster uncertainty among their employees about their future roles. This may adversely affect the ability of RidgeWorth to attract and retain key management, portfolio management, sales, marketing, and trading personnel, which could have an adverse effect on their ability to generate revenues at anticipated levels prior or subsequent to the consummation of the RidgeWorth Acquisition.

Under the U.S. Investment Company Act of 1940, as amended, or the "1940 Act", the investment advisory agreement between RidgeWorth mutual funds, an open-end management investment company registered under the 1940 Act, and RidgeWorth will terminate automatically in the event RidgeWorth undergoes a change of control as recognized under the 1940 Act and the Advisers Act, which the RidgeWorth Acquisition will constitute such a change of control. In connection with the RidgeWorth Acquisition, shareholders of RidgeWorth mutual funds will be requested to approve a reorganization of each series of RidgeWorth mutual funds into a corresponding series of Virtus Asset Trust. If shareholders of a RidgeWorth mutual fund do not approve the reorganization and the parties to the RidgeWorth Acquisition proceed to close on the RidgeWorth Acquisition, then the investment advisory agreement between such RidgeWorth mutual fund and RidgeWorth will terminate automatically and an interim advisory agreement with RidgeWorth will go into effect to permit additional time to solicit shareholder approval. In such an event, each RidgeWorth mutual fund's board of trustees may take further action as it deems to be in the best interests of such RidgeWorth mutual fund. In addition, as required by the Advisers Act, each of the investment advisory agreements for the separate accounts and private funds that RidgeWorth manages may not be assigned, as defined in the Advisers Act, without the consent of the client. The withdrawal, renegotiation or termination of any investment advisory agreement relating to a material portion of assets under management would have an adverse impact on RidgeWorth's results of operations and financial condition as well as any anticipated benefits from the RidgeWorth Acquisition.

We may not realize the benefits we expect from the RidgeWorth Acquisition because of integration difficulties and other challenges.
The success of the RidgeWorth Acquisition will depend in large part on the success of integrating the personnel, operations, strategies, technologies and other components of the two companies' businesses following the completion of the acquisition. The Company may fail to realize some or all of the anticipated benefits of the RidgeWorth Acquisition if the integration process takes longer than expected or is more costly than expected. The failure of the Company to meet the challenges involved in successfully integrating the operations of RidgeWorth or to otherwise realize any of the anticipated benefits of the RidgeWorth Acquisition could impair the operations of the Company. In

addition, the Company anticipates that the overall integration of RidgeWorth will be a time-consuming and expensive process that, without proper planning and effective and timely implementation, could significantly disrupt the Company’s business. Potential difficulties the combined business may encounter in the integration process include the following:

- the integration of personnel, operations, strategies, technologies and support services;
- the disruption of ongoing businesses and distraction of their respective personnel from ongoing business concerns;
- the retention of the existing clients and the retention or transition of RidgeWorth vendors;
- the retention of key intermediary distribution relationships;
- the integration of corporate cultures and maintenance of employee morale;
- the retention of key employees;
- the creation of uniform standards, controls, procedures, policies and information systems;
- the reduction of the costs associated with the combined company’s operations;

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- the consolidation and rationalization of information technology platforms and administrative infrastructures; and
- potential unknown liabilities associated with the RidgeWorth Acquisition.

The anticipated benefits and synergies include the elimination of duplicative personnel, realization of efficiencies in consolidating duplicative corporate, business support functions and amortization of purchased intangibles for tax purposes. However, these anticipated benefits and synergies assume a successful integration and are based on projections, which are inherently uncertain, and other assumptions. Even if integration is successful, anticipated benefits and synergies may not be achieved.

The incurrence of indebtedness to fund the RidgeWorth Acquisition may impact our financial position and subject us to additional financial and operating restrictions.
In connection with the RidgeWorth Acquisition, we expect to incur a substantial amount of additional indebtedness, which may result in substantially higher borrowing costs and a shorter maturity date than those from other anticipated financing alternatives. Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. The combined company may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

The incurrence of indebtedness contemplated by the debt commitment letter will subject us to additional financial and operating covenants, which may limit our flexibility in responding to our business needs. If we are not able to maintain compliance with stated financial covenants or if we breach other covenants in any debt agreement, related to the new debt facility or otherwise, we could be in default under such agreement. Such a default could allow our creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies.

Our overall leverage and terms of our financing could, among other things:
- make it more difficult to satisfy our obligations under the terms of our indebtedness, including the new debt facility;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility to plan for and adjust to changing business and market conditions and increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flows to make interest and principal payments on our debt, thereby limiting the availability of our cash flow to fund future acquisitions, working capital, business activities, and other general corporate requirements; and
- limit our ability to obtain additional financing for working capital, to fund growth or for general corporate purposes, even when necessary to maintain adequate liquidity, particularly if any ratings assigned to our debt securities by rating organizations were revised downward.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS
This Annual Report on Form 10-K contains statements 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 Securities Exchange Act of 1934, as amended. 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,” "intent," "plan," “intend,” “believe,” “anticipate,” “may,” “will,” “should,” “could,” “continue,” “project,” “opportunity,” “predict,” “wo “future,” “forecast,” “guarantee,” “assume,” “likely,” “target” or similar statements or variations of such terms.

Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company and the markets in which we operate, 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, business plans and credit facilities, for all future periods. All of our forward-looking statements contained in this Annual Report on Form 10-K are as of the date of this Annual Report on Form 10-K only.

We can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially. We do 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 on Form 10-K, 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 on Form 10-K, such statements or disclosures will be deemed to modify or supersede such statements in this Annual Report on Form 10-K.
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 on Form 10-K as well as the following risks and uncertainties: (a) any reduction in our assets under management; (b) the withdrawal, renegotiation or termination of investment advisory agreements; (c) damage to our reputation; (d) failure to comply with investment guidelines or other contractual requirements; (e) the inability to attract and retain key personnel; (f) challenges from the competition we face in our business; (g) adverse regulatory and legal developments; (h) unfavorable changes in tax laws or limitations; (i) adverse developments related to unaffiliated subadvisers; (j) negative implications of changes in key distribution relationships; (k) interruptions in or failure to provide service by third parties; (l) volatility associated with our common stock; (m) adverse civil litigation and government investigations or proceedings; (n) the risk of loss on our investments; (o) the inability to make quarterly distributions; (p) the lack of sufficient capital on satisfactory terms; (q) liabilities and losses not covered by insurance; (r) the inability to satisfy financial covenants; (s) the failure to complete the acquisition of RidgeWorth; (t) the inability to achieve expected acquisition-related financial benefits and synergies and other risks and uncertainties. Any occurrence of, or any material adverse change in, one or more risk factors or risks and uncertainties referred to in this Annual Report on Form 10-K or 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.

We lease our principal offices, which are located at 100 Pearl St., Hartford, CT 06103. In addition, we lease office space in Illinois, California, Massachusetts and New York.

Item 3. Legal Proceedings.

The Company is regularly involved in litigation and arbitration as well as examinations, inquiries and investigations by various regulatory bodies, including the SEC, involving its compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting its products and other activities. Legal and regulatory matters of this nature involve or may involve but are not limited to the Company's activities as an employer, issuer of securities, investor, investment adviser, broker-dealer or taxpayer. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or is otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions.

The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450, Loss Contingencies. The disclosures, accruals or estimates, if any, resulting from the foregoing analysis are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Based on information currently available, available insurance coverage and established reserves, the Company believes that the outcomes of its legal and regulatory proceedings are not likely, either individually or in the aggregate, to have a material adverse effect on the Company’s results of operations, cash flows or its consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, the Company can provide no assurance that its assessment of any claim, dispute, regulatory examination or investigation or other legal matter will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.

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In re Virtus Investment Partners, Inc. Securities Litigation; formerly Tom Cummins v. Virtus Investment Partners Inc. et al

On February 20, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed by an individual shareholder against the Company and certain of the Company’s current officers (the “defendants”) in the United States District Court for the Southern District of New York (the "Court"). On April 21, 2015, three plaintiffs, including the original plaintiff, filed motions to be appointed lead plaintiffs and, on June 9, 2015, the Court appointed Arkansas Teachers Retirement System lead plaintiff. On August 21, 2015, the plaintiff filed a Consolidated Class Action Complaint (the “Consolidated Complaint”) amending the originally filed complaint, which was purportedly filed on behalf of all purchasers of the Company’s common stock between January 25, 2013 and May 11, 2015 (the “Class Period”). The Consolidated Complaint alleges that, during the Class Period, the defendants disseminated materially false and misleading statements and concealed material adverse facts relating to certain funds formerly subadvised by F-Squared Investments Inc. ("F-Squared"). The Consolidated Complaint alleges claims under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5. The plaintiff seeks to recover unspecified damages. A motion to dismiss the Consolidated Complaint was filed on behalf of the Company and the other defendants on October 21, 2015. On July 1, 2016, the Court entered an opinion and order granting in part, and denying in part, the motion to dismiss, narrowing Plaintiff's claims under Sections 10(b) and 20(a) of the Exchange Act and dismissing one of the defendants from the suit. The remaining defendants' Answer to the Consolidated Complaint was filed on August 5, 2016. The parties are briefing Plaintiff's motion for class certification, and oral argument on class certification will be held on March 3, 2017. The Company believes that the suit is without merit and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

Mark Youngers v. Virtus Investment Partners, Inc. et al

On May 8, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed in the United States District Court for the Central District of California (the "District Court") by an individual who alleges he is a former shareholder of one of the Virtus mutual funds formerly subadvised by F-Squared and formerly known as the AlphaSector Funds. The complaint alleges claims against the Company, certain of the Company’s officers and affiliates, and certain other parties (the “defendants”). The complaint was purportedly filed on behalf of purchasers of the AlphaSector Funds between May 8, 2010 and December 22, 2014, inclusive (the “Class Period”). The complaint alleges that, during the Class Period, the defendants disseminated materially false and misleading statements and concealed or omitted material facts necessary to make the statements made not misleading. On June 7, 2015, a group of three individuals, including the original plaintiff, filed a motion to be appointed lead plaintiff, and on July 27, 2015, the District Court appointed movants as lead plaintiff. On October 1, 2015, the plaintiffs filed a First Amended Class Action Complaint which, among other things, added a derivative claim for breach of fiduciary duty on behalf of Virtus Opportunities Trust. On October 19, 2015, the District Court entered an order transferring the action to the Southern District of New York (the "Court"). On January 4, 2016, the Plaintiffs filed a Second Amended Complaint. A motion to dismiss was filed on behalf of the Company and affiliated defendants on February 1, 2016. On July 1, 2016, the Court entered an opinion and order granting in part, and denying in part, the motion to dismiss. The Court dismissed four causes of action entirely and a fifth cause of action with respect to a portion of the Class Period. The Court also dismissed all claims against ten defendants named in the Complaint. The Court held that the Plaintiffs may pursue certain securities claims under Sections 10(b) and 20(a) of the Exchange Act and Section 12 of the Securities Act of 1933. The remaining defendants filed an Answer to the Second Amended Complaint on August 5, 2016. A Stipulation of Voluntary Dismissal of the claim under Section 12 of the Securities Act was filed on September 15, 2016. The defendants filed a motion to certify an interlocutory appeal of the July 1, 2016 order to the Court of Appeals for the Second Circuit on August 26, 2016. The motion was denied on January 6, 2017. The parties are briefing Plaintiff's motion for class certification, and oral argument on class certification will be held on March 3, 2017. The Company believes that the suit has no basis in law or fact and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

Item 4. Mine Safety Disclosures.
Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Market under the trading symbol "VRTS." As of February 9, 2017, we had 6,819,003 shares of our common stock outstanding that were held by approximately 57,865 holders of record. The table below sets forth the quarterly high and low sales prices of our common stock on the NASDAQ Global Market, and the amount of dividends declared, for each quarter in the last two fiscal years.

	Year Ended December 31, 2016			Year Ended December 31, 2015		
Quarter Ended	High	Low	Dividends Declared	High	Low	Dividends Declared
First Quarter	$120.09	$73.33	$ 0.45	$171.00	$126.94	$ 0.45
Second Quarter	$83.57	$66.12	$ 0.45	$147.77	$113.47	$ 0.45
Third Quarter	$104.73	$69.78	$ 0.45	$134.78	$97.37	$ 0.45
Fourth Quarter	$128.10	$92.80	$ 0.45	$141.97	$94.52	$ 0.45

On February 15, 2017, our board of directors declared a quarterly cash dividend of $0.45 per common share to be paid on May 10, 2017 to shareholders of record at the close of business on April 28, 2017 and a $1.8125 dividend per share on our mandatory convertible preferred stock, to be paid on May 1, 2017 to shareholders of record at the close of business on April 15, 2017.

There have been no non-cash dividends on our common stock with respect to the periods presented. In making decisions regarding our quarterly dividend, we consider general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions (including under the terms of the mandatory convertible preferred stock that we issued on February 1, 2017) and obligations, legal, tax, regulatory and other restrictions that may have implications on the payment of distributions by us to our common shareholders or by our subsidiaries to us, and such other factors as we may deem relevant. We cannot assure you that any distributions, whether quarterly or otherwise, will be paid.

Our ability to pay dividends in excess of our current quarterly dividend will be subject to restrictions under the terms of the indebtedness contemplated by the debt commitment letter. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the mandatory convertible preferred stock that we issued February 1, 2017 and the debt commitment letter entered into in connection with our agreement to acquire RidgeWorth Investments.

Issuer Purchases of Equity Securities

As of December 31, 2016, 3,430,045 shares of our common stock have been authorized to be repurchased under a share repurchase program approved by our Board of Directors, and 200,000 shares remain available for repurchase. Under the terms of the program, we may repurchase shares of our common stock from time to time at our discretion through open market repurchases, privately negotiated transactions and/or other mechanisms, depending on price and prevailing market and business conditions. The program, which has no specified term, may be suspended or terminated at any time.

During the year ended December 31, 2016, we repurchased a total of 2,572,417 common shares for approximately $233.7 million, under board approved repurchases which included the repurchase of 1,727,746 shares from the Bank of Montreal Holdings Inc. ("BMO") on October 27, 2016 and the repurchase of 556,516 shares, representing 6.7% of our common stock outstanding, pursuant to a "modified Dutch Auction" tender offer.

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The following table sets forth information regarding our share repurchases in each month during the quarter ended December 31, 2016:

Month	Total number of shares repurchased	Average price paid per share (1)	Total number of shares repurchased as part of publicly announced plans or programs	Maximum number of shares that may yet be repurchased under the plans or programs (2)
October 1—31, 2016	1,727,746	$ 93.50	1,727,746	200,000
November 1—30, 2016	—		—	200,000
December 1—31, 2016	—		—	200,000
Total	1,727,746		1,727,746	

(1) Average price paid per share is calculated on a settlement basis and excludes commissions.

(2) The share repurchases above were completed pursuant to a program commenced on October 14, 2010 and most recently expanded on October 27, 2016. This repurchase program is not subject to an expiration date.

There were no unregistered sales of equity securities during the period covered by this Annual Report. Shares of our common stock purchased by participants in our Employee Stock Purchase Plan were delivered to participant accounts via open market purchases at fair value by the third-party administrator under the plan. We do not reserve shares for this plan or discount the purchase price of the shares.

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Item 6. Selected Financial Data.

The following table sets forth our selected consolidated financial and other data at the dates and for the periods indicated. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

($ in thousands, except per share data)	Years Ended December 31,				
	2016 (1)	2015 (1)	2014 (1)	2013 (2)	2012 (2)
Results of Operations					
Revenues	$322,554	$381,977	$450,598	$389,215	$280,086
Operating expenses	271,740	301,599	319,878	275,711	219,641
Operating income	50,814	80,378	130,720	113,504	60,445
Income tax expense	21,044	36,972	39,349	44,778	27,030
Net income	48,763	30,671	96,965	77,130	37,773
Net income attributable to common stockholders	48,502	35,106	97,700	75,190	37,608
Earnings per share—basic	6.34	3.99	10.75	9.18	4.87
Earnings per share—diluted	6.20	3.92	10.51	8.92	4.66
Cash dividends declared per share	1.80	1.80	1.35	—	—
	As of December 31,				
	2016 (1)	2015 (1)	2014 (2)	2013 (2)	2012 (2)
Balance Sheet Data					
Cash and cash equivalents	$64,588	$87,574	$202,847	$271,014	$63,432
Investments	89,371	56,738	63,448	37,258	18,433
Investments of consolidated sponsored investment products	142,075	323,335	236,652	139,054	43,227
Investments of consolidated investment product	346,967	199,485	—	—	—
Goodwill and other intangible assets, net	45,215	47,588	47,043	49,893	53,971
Total assets	824,388	859,729	698,773	644,954	332,749
Accrued compensation and benefits	47,885	49,617	54,815	53,140	41,252
Debt	30,000	—	—	—	15,000
Debt of consolidated investment product	—	152,597	—	—	—
Notes payable of consolidated investment product	328,761	—	—	—	—
Total liabilities	465,449	276,408	112,350	109,900	85,115
Redeemable noncontrolling interests	37,266	73,864	23,071	42,186	3,163
Total equity	321,673	509,457	563,352	492,868	244,471
	As of December 31,				
	2016	2015	2014	2013	2012
($ in millions)					
Assets Under Management					
Total assets under management	$45,366	$47,385	$56,702	$57,740	$45,537

(1) Derived from audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.
(2) Derived from audited consolidated financial statements not included in this Annual Report on Form 10-K.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Our Business

We are a provider of investment management and related services to individuals and institutions. We use a multi-manager, multi-style approach, offering investment strategies from affiliated managers and unaffiliated subadvisers, each having its own distinct investment style, autonomous investment process and individual brand. By offering a broad array of products, we believe we can appeal to a greater number of investors, which allows us to have offerings across market cycles through changes in investor preferences. Our earnings are primarily driven by asset-based fees charged for services relating to these various products including investment management, fund administration, distribution and shareholder services.

We offer investment strategies for individual and institutional investors in different product structures and through multiple distribution channels. Our investment strategies are available in a diverse range of styles and disciplines, managed by a collection of boutique investment managers, both affiliated and unaffiliated. We have offerings in various asset classes (domestic and international equity, fixed income and alternative), in all market capitalizations (large, mid and small), in different styles (growth, blend and value) and with various investment approaches (fundamental, quantitative and thematic). Our retail products include open-end mutual funds, closed-end funds, exchange traded funds ("ETFs"), variable insurance funds, Undertakings for Collective Investments in Transferable Securities ("UCITS"), and separately managed accounts. We also offer certain of our investment strategies to institutional clients.

We distribute our open-end funds and exchange traded funds principally through financial intermediaries. We have broad distribution access in the retail market, with distribution partners that include national and regional broker-dealers, independent broker-dealers and registered investment advisors, banks and insurance companies. In many of these firms, we have a number of products that are on firms' preferred "recommended" lists and on fee-based advisory programs. Our sales efforts are supported by regional sales professionals, a national account relationship group and separate teams for exchange traded funds, our retirement and insurance products.

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

Market Developments

In 2016, the global equity markets increased in value as evidenced by the MSCI World Index ending the year at 1,753 as compared to 1,663 at the start of the year, an increase of 5.4%. The major U.S. equity indexes also increased during 2016, with the Dow Jones Industrial Average ending the year at 19,763, from 17,425 at the beginning of the year, an increase of 13.4%, and the Standard & Poor's 500 Index increased by 9.5% ending the year at 2,239 from 2,044 at the beginning of the year. The major U.S. bond index, the Barclays U.S. Aggregate Bond Index, increased 2.6% in 2016 ending the year at 1,976 compared to 1,925 at the beginning of the year.

The financial markets have had and are likely to continue to have a significant impact on asset flows and the value of our assets under management. The capital and financial markets could experience fluctuation, volatility and declines, as they have in the past, which could impact relative investment returns and asset flows among investment products as well as investor choices and preferences among investment products, including equity, fixed income and alternative products.

Financial Highlights

- Net income per diluted share was $6.20 in 2016, up $2.28 or 58.2% from $3.92 per diluted share in 2015.
- Total sales (inflows) were $10.9 billion in 2016 compared with $12.7 billion in 2015. Net outflows were $4.7 billion in 2016 compared with $6.3 billion in 2015.
- Assets under management were $45.4 billion at December 31, 2016 compared to $47.4 billion at December 31, 2015.

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Agreement to Acquire RidgeWorth Investments

On December 16, 2016, we entered into an agreement to acquire RidgeWorth Investments ("RidgeWorth") (the “Proposed Acquisition”), a multi-boutique asset management firm with $40.2 billion (as of December 31, 2016) in assets managed by affiliated investment managers and unaffiliated subadvisers. Under the agreement, a wholly owned subsidiary will (subject to the satisfaction or waiver of the closing conditions in the merger agreement) "merge" with and into RidgeWorth with RidgeWorth continuing as the surviving company and becoming our wholly owned subsidiary.

The purchase price for the Proposed Acquisition equals (x) $472.0 million, plus (y) the fair market value of certain investments at the effective time of the Proposed Acquisition (the "Closing"), with the final purchase price subject to adjustments for working capital and client consents. The Proposed Acquisition is expected to close in mid-2017; however, there can be no assurance that the Proposed Acquisition will close, or if it does, when the Closing will occur.

RidgeWorth’s Business

RidgeWorth provides a variety of fixed income and equity strategies to institutional and individual clients through separate accounts, retirement plan investment options and mutual funds. RidgeWorth’s wholly owned affiliates are:

- Seix Investment Advisors, which manages $27.6 billion (as of December 31, 2016) in fixed income through an investment grade team focused on high-quality securities and a leveraged finance team focused on leveraged loans and high-yield credit strategies.
- Ceredex Value Advisors, which manages $10.8 billion (as of December 31, 2016) for institutions, endowments, foundations and high-net-worth investors using a traditional value style across all market cap ranges.
- Silvant Capital Management, which manages $1.3 billion (as of December 31, 2016), primarily in the large-cap growth style for institutional clients.

RidgeWorth also has a minority ownership interest in Zevenbergen Capital Investments, a growth equity boutique that is a subadviser to a RidgeWorth mutual fund. Two unaffiliated investment managers, WCM Investment Management and Capital Innovations, also serve as subadvisers to certain RidgeWorth funds.

Although the Company expects that the Proposed Acquisition will result in benefits to the Company, the Company may not realize those benefits because of integration difficulties and other challenges. See Item 1A of this Annual Report on Form 10-K "Risk Factors" for further discussion of the risks related to the Proposed Acquisition.

Assets Under Management

At December 31, 2016, we managed $45.4 billion in total assets, representing a decrease of $2.0 billion, or 4.3%, from the $47.4 billion managed at December 31, 2015. The decrease in assets under management was primarily due to net outflows of $4.7 billion partially offset by market appreciation of $3.2 billion and $0.5 billion of open-end and closed-end mutual fund distributions, net of reinvestments. Approximately $3.4 billion, or 72.3%, of the $4.7 billion in net outflows during the year ended December 31, 2016 were from the Virtus Emerging Markets Opportunities fund ("Emerging Markets Opportunities Fund") which, during the first half of 2016, had an organizational change at the fund's subadvisor. The Emerging Markets Opportunities Fund experienced net outflows of $3.2 billion in the first half of 2016, following the organizational change, and during the second half of 2016, the fund experienced modest net outflows of $0.2 billion. At December 31, 2016, assets under management in the Emerging Markets Opportunities Fund were $6.5 billion.

Assets under management for our open-end funds were $23.4 billion at December 31, 2016, a decrease of $5.5 billion, or 18.9%, from $28.9 billion at December 31, 2015. Average assets under management for all products, which generally correspond to our fee-earning asset levels, decreased by $7.0 billion, or 13.4%, to $45.3 billion for the year ended December 31, 2016, from $52.3 billion for the year ended December 31, 2015 for the same reasons discussed above regarding total assets under management.

Certain mutual funds employ the use of leverage as part of their investment strategies. The addition or reduction of leverage will increase or decrease our assets under management, as the proceeds from the use of leverage are invested in accordance with the funds' investment strategies. For the periods ended December 31, 2016, 2015 and 2014, we had assets under management from the use of leverage of $1.9 billion, $1.6 billion and $1.8 billion, respectively, which represents 4.1%, 3.5% and 3.3% of our total assets under management, respectively.

The changes in our assets under management may also be affected by the factors discussed in Item 1A of this Annual Report on Form 10-K "Risk Factors".

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Investment Performance

The following table presents the 3-year average return by open-end fund and its 3-year benchmark index return as of December 31, 2016. Also presented below each fund is its Lipper Peer Group and its 3-year ranking within that peer group.

Fund Type/Name	Assets	Benchmark Index Lipper Peer Group	3-Year: Average Return (1) Peer Group Ranking (2)	3-Year Benchmark Index Return (3)
Open-End Funds	($ in millions)		(%)	(%)
Alternatives				
Virtus Real Estate Securities Fund	$1,086.8	FTSE NAREIT Equity REITs Index	12.96	13.38
		Real Estate Funds	22	
Virtus Global Real Estate Securities Fund	179.8	FTSE EPRA NAREIT Developed Rental Index	9.28	8.49
		Global Real Estate Funds	2	
Virtus Global Infrastructure Fund	107.4	Global Infrastructure Linked Benchmark (4)	3.09	2.39
		Global Infrastructure Funds	46	
Virtus Herzfeld Fund	54.8	60% MSCI AC World Index (net) / 40% Bloomberg Barclays U.S. Aggregate	6.06	3.26
		Flexible Portfolio Funds	4	
Virtus International Real Estate Securities Fund	30.0	FTSE EPRA/NAREIT Developed Rental ex US Index (net)	3.76	3.48
		International Real Estate Funds	3	
Asset Allocation				
Virtus Strategic Allocation Fund	454.1	Strategic Allocation Fund Linked Benchmark (5)	0.31	6.27
		Mixed-Asset Target Allocation Moderate Funds	96	
Virtus Tactical Allocation Fund	137.6	Tactical Allocation Fund Linked Benchmark (6)	0.39	5.92
		Mixed-Asset Target Allocation Moderate Funds	96	
Virtus Multi-Asset Trend Fund	115.6	Dow Jones Global Moderate Portfolio Index	(2.91)	3.87
		Flexible Portfolio Funds	94	
Equity				
Virtus Equity Trend Fund	749.6	S&P 500(R) Index	(3.43)	8.87
		Large-Cap Core Funds	100	
Virtus Small-Cap Sustainable Growth Fund	527.3	Russell 2000(R) Growth Index	10.06	5.05
		Small-Cap Growth Funds	1	
Virtus Small-Cap Core Fund	414.7	Russell 2000(R) Index	8.05	6.74
		Small-Cap Growth Funds	4	
	396.7	Russell 1000(R) Growth Index	6.24	8.55

Virtus Strategic Growth Fund				
		Large-Cap Growth Funds	46	
Virtus Sector Trend Fund	356.2	S&P 500(R) Index	0.10	8.87
		Large-Cap Core Funds	99	
Virtus Quality Small-Cap Fund	324.1	Russell 2000(R) Value Index	7.81	8.31
		Small-Cap Growth Funds	4	
Virtus Contrarian Value Fund	201.5	Russell Midcap(R) Value Index	0.70	9.45
		Multi-Cap Value Funds	98	
Virtus Enhanced Core Equity Fund	167.7	S&P 500(R) Index	9.21	8.87
		Large-Cap Core Funds	4	
Virtus Mid-Cap Growth Fund	82.6	Russell Midcap(R) Growth Index	2.74	6.23
		Mid-Cap Growth Funds	72	
Virtus Wealth Masters Fund	77.3	S&P 500(R) Index	3.97	8.87
		Mid-Cap Core Funds	90	
Virtus Mid-Cap Core Fund	65.1	Russell Midcap(R) Index	9.91	7.92
		Mid-Cap Growth Funds	1	

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Fund Type/Name	Assets ($ in millions)	Benchmark Index Lipper Peer Group	3-Year: Average Return (1) Peer Group Ranking (2) (%)	3-Year Benchmark Index Return (3) (%)
Virtus Quality Large-Cap Value Fund	63.8	Russell 1000(R) Value Index	5.49	8.59
		Large-Cap Core Funds	80	
Virtus Low Volatility Equity Fund	2.6	S&P 500(R) Index	2.85	8.87
		Large-Cap Core Funds	96	
Fixed Income				
Virtus Multi-Sector Short Term Bond Fund	6,941.4	BofA Merrill Lynch 1-3 Year A-BBB Corporate Index	2.34	1.60
		Short-Intermediate Investment Grade Debt Funds	7	
Virtus Senior Floating Rate Fund	568.9	S&P/LSTA Leveraged Loan Index	2.97	3.58
		Loan Participation Funds	42	
Virtus Low Duration Income Fund	367.2	Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index	1.97	2.09
		Short Investment Grade Debt Funds	3	
Virtus Multi-Sector Intermediate Bond Fund	296.1	Bloomberg Barclays U.S. Aggregate Bond Index	3.46	3.03
		Multi-Sector Income Funds	30	
Virtus Tax-Exempt Bond Fund	172.3	Virtus Tax-Exempt Bond Fund Linked Benchmark (7)	3.54	3.55
		General & Insured Municipal Debt Funds	78	
Virtus High Yield Fund	72.4	Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index	3.94	4.67
		High Yield Funds	30	
Virtus Bond Fund	71.1	Bloomberg Barclays U.S. Aggregate Bond Index	2.61	3.03
		Core Plus Bond Funds	64	
Virtus Emerging Markets Debt Fund	31.5	JP Morgan EMBI Global Diversified Index	3.23	6.19
		Emerging Markets Hard Currency Debt Funds	53	
Virtus CA Tax-Exempt Bond Fund	28.8	Bloomberg Barclays California Municipal Bond Index	4.46	4.36
		California Municipal Debt Funds	72	
International/Global				
Virtus Emerging Markets Opportunities Fund	6,469.4	MSCI Emerging Markets Index (net)	(0.70)	(2.55)
		Emerging Market Funds	11	
Virtus Foreign Opportunities Fund	1,250.5	MSCI EAFE(R) Index (net)	0.54	(1.60)

		International Large-Cap Growth	5	
Virtus Global Opportunities Fund	175.0	MSCI AC World Index (net)	5.07	3.13
		Global Large-Cap Growth	9	
Virtus International Small-Cap Fund	52.1	MSCI AC World Ex U.S. Small Cap Index (net)	5.16	0.76
		International Small/Mid-Cap Growth	1	
Virtus Emerging Markets Equity Income Fund	26.1	MSCI Emerging Markets Index (net)	(3.27)	(2.55)
		Emerging Markets Funds	59	
Virtus Greater European Opportunities Fund	18.3	MSCI Europe Index (net)	(1.20)	(3.17)
		European Region Funds	19	
Virtus Global Equity Trend Fund	18.2	MSCI AC World Index (net)	(5.14)	3.13
		Global Multi-Cap Growth	99	
Virtus Emerging Markets Small Cap Fund	5.4	MSCI Emerging Markets Small Cap Index (net)	(0.86)	(1.27)
		Emerging Markets Funds	13	

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Fund Type/Name	Assets ($ in millions)	Benchmark Index / Lipper Peer Group	3-Year: Average Return (1) / Peer Group Ranking (2) (%)	3-Year Benchmark Index Return (3) (%)
Virtus International Equity Fund	4.2	MSCI EAFE(R) Index (net)	(2.43)	(1.60)
		International Large-Cap Growth	68	
Variable Insurance Funds				
Virtus Capital Growth Series	185.6	Russell 1000(R) Growth Index	6.57	8.55
		Multi-Cap Growth Funds	21	
Virtus International Series	178.0	MSCI EAFE(R) Index (net)	(5.41)	(1.60)
		International Large-Cap Growth	100	
Virtus Multi-Sector Fixed Income Series	126.1	Bloomberg Barclays U.S. Aggregate Bond Index	3.22	3.03
		General Bond Funds	41	
Virtus Enhanced Core Equity Series	104.6	S&P 500(R) Index	3.00	8.87
		Multi-Cap Core Funds	85	
Virtus Small-Cap Value Series	95.0	Russell 2000(R) Value Index	8.32	8.31
		Small-Cap Growth Funds	5	
Virtus Strategic Allocation Series	93.1	Strategic Allocation Series Linked Benchmark	0.85	6.27
		Mixed-Asset Target Allocation Moderate Funds	97	
Virtus Real Estate Securities Series				