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Virtus Investment Partners, Inc. (VRTS)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

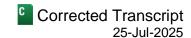
Sean P. Rourke

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

Thanks, Didi, and good morning, everyone. On behalf of Virtus Investment Partners, I would like to welcome you to the discussion of our operating and financial results for the second quarter of 2025. Our speakers today are George Aylward, President and CEO; and Mike Angerthal, Chief Financial Officer. Following their prepared remarks, we'll have a Q&A period.

Before we begin, please note the disclosures on page 2 of the slide presentation. Certain matters discussed on this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and as such, are subject to known and unknown risks and uncertainties, including but not limited to those factors set forth in today's news release and discussed in our SEC filings. These risks and uncertainties may cause actual results to differ materially from those discussed in the statements. In addition to results presented on a GAAP basis, we have certain non-GAAP measures to evaluate our financial results. Non-GAAP financial measures are not substitutes for GAAP financial results and should be read in conjunction with the GAAP results. Reconciliations of these non-GAAP financial measures to the applicable GAAP measures are included in today's news release and financial supplement, which are available on our website.

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

George Robert Aylward

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

Thank you, Sean. And good morning, everyone. Today, I'll start with an overview of the results we reported this morning and then I'll turn it over to Mike for more detail. The second quarter began with challenging market conditions and volatility, but then had steady improvement, culminating in momentum by June, which is reflected in our financial and operating results.

Assets under management grew 2% in the quarter, benefiting from the market rebound of the April lows. Net outflows across products were primarily in our quality-oriented equity strategies, which faced headwinds in a market environment that largely favored momentum-driven strategies. Key highlights of the quarter included higher earnings per share and operating margin, continued positive net flows in ETFs. Strong long-term relative investment performance, our highest level of share repurchases in three years, and low net leverage and meaningful liquidity, providing ongoing flexibility to invest in the business and return capital to shareholders.

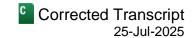
We continue to focus on the execution of various initiatives related to expanding our offerings and channel availability, both organically as well as through inorganic opportunities. As we commented on last quarter, we've been focused on expanding our offerings of retail separate accounts, ETFs and global funds. For ETFs and global funds, we anticipate launching multiple products over the coming quarters, including from Silvant, Seix, Stone Harbor, and AlphaSimplex. Retail separate accounts, we are expanding our offerings of fixed income and high-conviction growth equity strategies, as well as products that leverage multiple managers and strategies. In addition, we are leveraging our fixed income capabilities with our first interval fund. We also have efforts underway to increase the availability of our growing ETF offerings and to expand the asset-raising capabilities of our well-regarded wealth management business within Kayne Anderson, which has grown to nearly \$9 billion in assets.

As we focus on growth opportunities, we would note that the environment continues to be highly attractive for product expansion, distribution enhancing, or scale-oriented inorganic transactions. We remain optimistic about such opportunities, particularly in the areas of current and growing investor interest such as private markets and differentiated and compelling traditional strategies which we are actively pursuing. The number of opportunities at various stages in the pipeline is at its highest level [ph] as well as a (00:14:41) broad range of structures, capabilities and sizes. Our strong liquidity and flexible balance sheet position us well to act on any strategically and financially compelling opportunities.

Turning to investment performance, we are pleased with the performance we've generated over market cycles. Over the 10-year period, 74% of our equity assets and 69% of our fixed income assets beat their benchmark. For just mutual funds, 73% of equity funds and 85% of fixed income funds outperformed the peer median. I would also note that 27 of our retail funds are rated 4 or 5 stars, and 86% of our rated fund retail fund assets were in 3, 4 or 5 stars. We've included a new slide that provides additional investment performance information.

Turning now to a review of the results. Total assets under management were \$171 billion at June 30, up 4 billion sequentially due to market performance. Total sales of \$5.6 billion compared with \$6.2 billion in the first quarter, with modest decline across products, which was in part a reflection of market disruption, particularly early in the quarter. Trends improved over the course of the quarter, with June being our best month of net flows, including essentially breakeven net flows in open-end funds. Total net outflows for the quarter of \$3.9 billion were largely in equity strategies as fixed income, alternatives and multi-assets each had modest net outflows. We did continue to

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have positive net flows in ETFs, which reached \$3.7 billion in AUM, with an organic growth rate of 74% over the trailing 12 months and which hit \$3.9 billion as of yesterday.

Looking at flows across assets, the equity net outflows were driven by strategies with a quality orientation in a market that favored momentum as well as we reduced sales from the soft closing of the smid-cap core equity model offering late last year. Fixed income net flows were modestly negative for the quarter, with net outflows in April and May, and return to positive flows in June. Relative investment performance of our fixed income strategies has been strong for the recent one-year period, as well as the longer term, creating demand for funds across the spectrum of credit quality and duration, several of which were among our top-selling funds in ETFs in the quarter. Net flows of alternative strategies were also modestly negative, with favorable trends throughout the quarter, including positive net flows in June. In terms of what we're seeing in July, market sentiment has continued to trend more favorably and we are seeing a stronger flow profile for our fixed income funds, though not yet for the equity funds. ETFs, as I noted, continued the positive trend with an increase in sales.

In institutional, trends are similar to the second quarter, with known redemptions exceeding known wins with redemptions primarily in quality large-cap while known wins span a range of strategies, including emerging market debt and global and domestic REITs. We also anticipate launching a new CLO later in the third quarter, targeting approximately \$400 million in AUM.

Turning now to our financial results. The sequential improvement in our financial results reflected the impact of the prior quarter seasonal expenses, partially offset by lower average AUM levels. The operating margin was 31.3%, up sequentially from 27.6%, which included the impact of the seasonal expenses. Earnings per share as adjusted of \$6.25, increased from \$5.73 in the first quarter relative to the more comparable prior year period Earnings per share as adjusted decreased 4% on lower average assets. In terms of our balance sheet and capital, during the quarter, we increased our share buyback to \$30 billion (sic) [\$30 million] (00:18:31) to repurchase over 175,000 shares, which represented 3% of beginning outstanding shares. We ended the quarter with significant liquidity and modest net debt position, providing ongoing opportunities to invest in the growth of the business and return capital to shareholders.

So with that, I'll turn the call over to Mike, Mike?

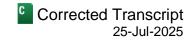
Michael A. Angerthal

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

Thank you, George. Good to be with you all this morning. Starting with our results on slide 7, assets under management. Our total assets under management at June 30 were \$170.7 billion and represented a broad range of products and asset classes. By product, institutional is our largest category at 33% of AUM. Retail separate accounts, including wealth management at 28%, and US retail mutual funds at 27%. The remaining 12% comprises closed-end funds, global funds, and ETFs. We are also diversified within asset classes. In equities, between international and domestic. And within domestic, well represented among mid-, small and large-cap strategies. And fixed income is well diversified across duration, credit quality, and geography.

Turning to slide 8, asset flows. Sales of \$5.6 billion compared with \$6.2 billion in the first quarter. Reviewing by product, institutional sales of \$1.3 billion compared with \$1.5 billion last quarter, as higher sales of alternative strategies were offset by lower sales of fixed income and global equity. Retail separate account sales of \$1.5 billion, declined from \$1.7 billion in the prior quarter, primarily due to lower smid-cap equity. Open-end fund sales of \$2.8 billion, compared with \$3 billion as higher sales of large cap and international were offset by other strategies. Within open-end funds, ETF sales were again strong at \$0.4 billion, essentially unchanged from the first quarter.

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Total net outflows of \$3.9 billion, compared with \$3 billion last quarter and reviewing by product, institutional net outflows of \$2.2 billion increased from \$1.2 billion, with the net outflows driven by quality-oriented large-cap growth. As always, institutional flows will fluctuate depending on the timing of client actions. Retail separate accounts had net outflows of \$0.8 billion, largely reflecting the continued impact of the soft closing of a smid-cap core equity model offering late last year. We do offer other smid-cap strategies as well as mid-cap, where we have significant capacity and flows have been positive. In addition, we recently introduced an SMA leveraging the strong performance of our high conviction, large-cap growth capability. For open-end funds, net outflows of \$1 billion were at generally the same level as the prior quarter and were driven by equity strategies as fixed income net flows were flat. Net flows trended favorably during the quarter, with June essentially break even. Within openend funds, ETFs continued to generate a strong double-digit organic growth rate with \$0.2 billion of positive net flows.

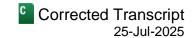
Turning to slide 9, investment management fees as adjusted of \$171.9 million, decreased 4%, reflecting the 4% sequential decline in average assets under management and a lower average fee rate. The average fee rate was 41.3 basis points or 41.1 basis points, excluding performance fees and compared with 41.7 basis points in the first quarter. The change in the fee rate from the first quarter largely reflected the mix of asset classes within retail funds, given relatively stronger flows of fixed income strategies. Looking ahead, we believe the second quarter normalized average fee rate is reasonable for modeling purposes. As always, the fee rate will be impacted by markets and the mix of assets.

Slide 10 shows the five-quarter trend in employment expenses. Total employment expenses as adjusted of \$97.2 million decreased \$12 million or 11% sequentially, reflecting the impact of seasonal expenses in the prior quarter, as well as lower variable incentive compensation. Employment expenses were 50.9% of revenues, as adjusted, up from the seasonally adjusted prior quarter level of 50.3% due to lower revenues. Looking ahead, it is reasonable to anticipate employment expenses as a percentage of revenues would trend toward the middle of our 49% to 51% range. As always, it will be variable based on market performance, in particular, as well as profits and sales.

Turning to slide 11. Other operating expenses as adjusted were \$32 million, with a 2% sequential increase due to \$0.9 million of annual equity grants to the board of directors. Excluding the grants, other operating expenses declined modestly from the prior quarter. As a percentage of second quarter revenues, other operating expenses were 16.7%, up from 15.8%, primarily due to the annual grants. Other operating expenses have remained within a narrow range of \$30 million to \$32 million per quarter, and we continue to believe that this level is appropriate for modeling purposes.

Slide 12 illustrates the trend in earnings. Operating income as adjusted of \$59.8 million increased 10% sequentially due to the impact of the prior quarter's seasonal expenses. Excluding those items, operating income decreased 7%, primarily due to lower average assets under management. The operating margin as adjusted of 31.3%, compared with 27.6% in the first quarter. With respect to non-operating items, interest and dividend income of \$5.3 million included an elevated level of CLO interest income. Looking ahead to the third quarter, it would be reasonable to anticipate interest and dividend income of approximately \$4.3 million. Other income, which largely reflects the earnings from our equity stake in Zevenbergen Capital increased modestly to \$1.2 million. Non-controlling interests which reflect minority interest in SGA were higher sequentially by \$0.7 million. For both other income and non-controlling interests, the second quarter is a reasonable run rate for modeling. Net income, as adjusted of \$6.25 per diluted share, increased 9% from \$5.73 in the first quarter. In terms of GAAP results, net income per share of \$6.12 increased from \$4.05 per share in the first quarter due to the impact of first

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quarter's seasonal items, as well as \$0.50 of fair value adjustments to minority interests and \$0.32 of fair value adjustments to contingent considerations.

Slide 13 shows the trend of our capital liquidity and select balance sheet items. Cash and equivalents at June 30 were \$172.2 million. In addition, we had \$148.2 million of seed capital investments to support growth initiatives and \$126.7 million of other investments, primarily in our CLOs. Working capital was \$144 million, up 5% from \$137.2 million as cash generated more than offset return of capital. During the second quarter, we repurchased 175,872 shares of common stock at an average price of \$171 per share for a total of \$30 million. That is up from \$20 million in the first quarter. And for the year-to-date period, our repurchases have contributed to a 3% reduction in our share count.

At June 30, gross debt-to-EBITDA was 0.7 times unchanged from March 31, and we ended the quarter with \$62.5 million of net debt or 0.2 times EBITDA. Our adequate levels of liquidity, including an undrawn \$175 million revolver and modest leverage, provide financial flexibility to continue to invest in the business and return capital. Looking ahead, we would note that anticipated capital uses in the third quarter include the potential new CLO, where our commitment would be about \$30 million. Also, as a reminder, we will have the last of our scheduled minority interest purchases with SGA, which should also approximate \$30 million.

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

George Robert Aylward

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

Thank you, Mike. So, we're now going to take your questions. Didi, would you please open up the lines?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Ben Budish of Barclays. Your line is open.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Hi. Good morning, and thank you for taking the questions. Maybe first, Mike, you just talked about \$30 million in share repurchases in Q2. It's the highest number, I think in quite some time. So just curious, how should we be thinking about – I imagine there are some being opportunistic in that. You also talked about some upcoming uses of capital, CLO, seed capital and the SGA minority interest paydown. So, how should we think about what else is maybe available for repurchases and your kind of current appetite between repurchases and dividends?

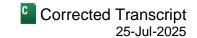
Michael A. Angerthal

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

Yeah. I appreciate you highlighting the capital uses. As you know, we take a balanced approach to capital management, and we have leaned in both in this quarter as we particularly saw a compelling valuation in our stock. And year-to-date, we've now done \$50 million of buybacks, which eclipsed the total level of 2024. So, I think that brings a payout ratio over 100%. So we'll look at all factors around highest and best use of capital. George alluded to inorganic opportunities potentially coming down, continuing to invest in the business, as well as



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the two specific uses of capital here in the third quarter. So, we will balance all of that as we continue to make capital decisions that we think will deliver long-term shareholder value.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Appreciate that. Maybe along the same lines., George, you mentioned the environment is attractive for a number of things and your pipeline is at its highest level. Curious if you could share any additional color on the sort of the types of assets you're looking at. Has there been any change to the way you're thinking about the strategy? You mentioned private markets specifically. And I'm curious, how do you think about the ability to compete given some of these scaled competitors where there may be more types of opportunities that make sense. But any additional commentary there would be helpful. Thank you.

George Robert Aylward

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

Sure. Yeah. So, again, what I kind have indicated is just the level of activity is at its highest level. So, we're spending a lot of time evaluating different opportunities. And as we look at those, they could come along the lines of either attractive product extensions, distribution expansion or those that will just fundamentally enhanced scale, and therefore, accretion. So, it's been a very interesting. I think there's a great environment out there as I think the opportunities between – I specifically referenced private markets, but in addition to private markets there are very attractive traditional strategies that are still things that are in demand to investors. I think as we look at it, our view is that there is an opportunity that the - on the private market side in particular, that there has been a lot of growth in that area. And a lot of that growth in that area has been very narrow in terms of the number of players that have been providing those. So we do think like there is in our general business, there is an opportunity set for more differentiated individual boutique types of capabilities to sort of diversify some of the exposures that investors are currently having, which has generally been in a small number of scale players. So, again, our goal is really always to offer something that's a little more differentiated and separate rather than just going directly against a scaled player with a general type of strategy. So, generally, we always look at strategies that are a little different, a little differentiated and have a different set of attractions and can really balance out the exposures that people have. So we find it interesting. We do think that the industry continues to contemplate how to converge some of the privates and the publics. And I think on the public side, I just think there's opportunities to enhance and further consolidate on distribution opportunities.

Benjamin Budish

Analyst, Barclays Capital, Inc.

All right. Thank you very much. Appreciated your response.

George Robert Aylward

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

Thank you, [ph] Ben (00:34:12).

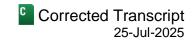
Operator: Thank you. And our next question comes from Bill Katz of TD Cowen. Your line is open.

Bill Katz

Analyst, TD Cowen

Great. Thank you very much for taking the questions this morning. Happy Friday, everybody. Just in terms of sticking to the guidance on the comp side, you guys have been terrific on managing expenses. How much of the

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sort of comp is just related to the variable revenue backdrop? How much is more structural? So I guess the question is, as we look ahead to the extent that markets continue to normalize, is there any catch-up spending that needs to potentially come back? And if so, where might that be?

Michael A. Angerthal

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

Yeah, I think we did guide specifically on the employment row back to the middle of our range. As you know, we've been in that 49% to 51% range and in this quarter where the beginning period assets were impacted by the drawdown in March and April, we ticked up toward the high end of the range I think where ending assets are about 2% above average. We would – all else being equal, just use an appropriate midpoint of that employment range for modeling purposes going forward. And as you know, that range is always impacted by market conditions as well as profits and sales. But I think there is a positive impact on the leverageability of the market. I think other operating we've been managing that also in a tight range, \$30 million to \$32 million, which remains appropriate for modeling purposes. So I don't foresee any catch-up spending. I think we're in a position to continue to deliver incremental margins in that 50% to 55% level as we look forward.

George Robert Aylward

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

Yeah. I mean, the one thing I would just add to it because I think embedded in your question was specifics around the extent of which our comp is variable. So as a reminder, our compensation is highly variable, right. Our investment managers incentives are really profit based or sales based or generally based on sales or performance and even our overarching corporate plans are all highly variable. So, we do have base salaries, et cetera. But in terms of a catch-up, it would really just be through the variable as a percentage of revenue, if that's helpful.

Bill Katz

Analyst, TD Cowen

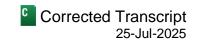
Yeah. It makes sense. Maybe turning to flows for a moment, just wondering if you could maybe step back and sort of give us what the nets look like in July? It seems like some ins and outs across the different segments. And maybe the broader question is just on the institutional side, how are the conversations going from the clients? Where are you seeing the allocations migrate toward just as we think through equity, fixed income, or US, non-US, et cetera? Thank you.

George Robert Aylward

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

Yeah. So I mean, on the flows in terms of July, so we gave a little bit of an impression. And again, July is only one month. But going back to the second quarter, obviously, June was a much more pleasurable month than was that of April. And there was really a pausing in terms of certain investor appetite at the end of the first quarter into the beginning and then Liberation Day, obviously, did create a little bit of uncertainty around where people can invest. So we saw that in our sales. We also saw that in terms of the whole quality versus momentum environment which for us is more acute because we are slightly overconcentrated on the quality side for some of our equity strategies. So, I think as we signaled in the script, we were basically seeing an improving experience throughout that quarter. And then, particularly as you got to the end of the quarter, fixed income alternatives, et cetera, were actually doing much better and we're modestly break even to positive. And then most of that is continued in July. We continue to see strength around the fixed income, which is very helpful. And in particular, the ETFs, again, our business has been a smaller business, but it's been growing at a very good rate. And as we've indicated, we don't

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have full availability for all our ETFs everywhere we want it. So, that's a big focus and we're pleased to see some of that growing.

On the institutional side, again, with the longer time horizons that they have, there's little less cyclicality in terms of what they're looking for. Again, we did highlight where we have had outflows has been in more of the quality large-cap side. But we indicated on the inflows side, we do actually see opportunities and it's been a long time for emerging market debt. I hope it's a trend as well as in some of our global and domestic REITs. Mike, is there other things you'd highlight there?

Michael A. Angerthal

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

Yeah, I would just to remind you that we do have a CLO that we anticipate offering and issuing in the back half of the year and there is breadth in the institutional pipeline across managers, including our focused growth sort of momentum managers where we've seen some success there as well.

Bill Katz

Analyst, TD Cowen

All right. Thank you. I'll get back in the queue. Thank you.

Michael A. Angerthal

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

Thank you.

George Robert Aylward

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

Thanks, Bill.

Operator: Thank you. And our next question comes from Crispin Love of Piper Sandler. Your line is open.

Crispin Love

Analyst, Piper Sandler & Co.

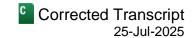
Thank you. Good morning. Appreciate taking my questions. Just first following up on the M&A outlook. You mentioned there are conversations, plenty of activity. You're looking at private markets, traditionals, but can you dig into some of the valuations that you're seeing on a big picture way? Does it still remain tough from a valuation standpoint in private markets? And then, just within private markets, where are some of the areas that you might be most interested in?

George Robert Aylward

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

Yeah. Well, I'm not going to get into specifics, but starting – in terms of valuations, right, the valuations of the private markets are higher than the valuations of the public markets. And I think there's some divergence within those depending upon the subcategory whether it's PE, private credit, real assets and also whether it's really more focused on direct origination versus really more of an allocator. And then, within that, in terms of how differentiated the strategy is. So it's still a very hard area in terms of isolating the specific valuation multiple as it is as well on the traditional side, which continues obviously to be lower than the private side. But again, there's a premium for those things that are more attractive and more stable and less for others. So, it's part of the

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conversation as you sort of think through those types of things that. But fundamentally as we and as some others look at it, it's really about what is the long-term strategic additive capability that's really going to be important going forward. And I think we, like everyone else, do fundamentally believe that there needs to be both the public and the private elements within the well-diversified portfolio.

Crispin Love

Analyst, Piper Sandler & Co.

Great. Thank you. That makes sense. And then just following up on flows as well. You did mention early in the second quarter was tougher, but June was a brighter picture. On July, can you just frame a little bit how July compares to June versus a little bit earlier in the quarter? Did that momentum continue, pull back a little bit? Just a little bit more color there would be great.

George Robert Aylward

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

Yeah. I mean the momentum continues. So, from June, so again June was again a much better month than obviously April. And then that continued in I think we even highlighted in some areas even like our ETFs, there's actually or fixed income in general, there was not only continued, but maybe slight increase in that. So, we're really optimistic as we kind of see that. And then, really even on the equity side, while we – for the quality-oriented equities, that was a driver of outflows and we do see those, Mike made some references. Now all of our equity is quality oriented. We do have capabilities that we would characterize as more style agnostic. And then, we have another capability that I would characterize as aggressive. And we've actually seen opportunities there and actually in that some of the newer stuff that we've recently expanded into the retail separate accounts. So that's an area that we're hopeful if someone is more of a of a risk-on appetite that those become more attractive. Also made reference to on the fixed income side where, again, we've seen the flows on the open-end funds and the ETFs becoming more attractive, particularly in that June and July timeframe. That is an area where we've also very recently expanded our SMA offerings to, again, some investors prefer to use the registered fund vehicles, but there are those that obviously prefer that more in an SMA wrapper and that is something that's currently actively being offered and that's very recent actually.

Crispin Love

Analyst, Piper Sandler & Co.

Great. Thank you and appreciate you taking my questions.

Operator: Thank you. And our next question comes from Michael Cyprys of Morgan Stanley. Your line is open.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

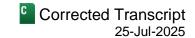
Hey, good morning and thanks for taking the question. Just wanted to ask about ETFs. So, I was hoping you might be able to elaborate a bit on the success that you're seeing across your ETF platform, the gross sales flows up year-to-date nicely. Maybe also talk about some of the initiatives that you're thinking about over the next 12 months to drive even accelerated growth across the ETF platform as you look out from here. Maybe you can just remind us how you're incenting the sales force to drive growth on the sale of ETFs and how sort of those sales incentive compensation payments and such compare to mutual funds? Thanks.

George Robert Aylward

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



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Sure. So, on the ETFs, again, we've been very pleased with what we've seen. As a reminder, [ph] our complex (00:45:19) is a slightly newer complex. And over the last five or six years, we have been introducing product and building track records because the nature of the products that we offer, again, the majority of which are more actively managed as opposed to passive do need to generate a little bit of a track record. So, we're pleased to see that those have now started raising assets and I think we referred to the growth of about 74% rate and then the consistent gross sales and positive net flows. And that has been growing because as the funds get larger and bigger, that really allows us to deal with the other part of the equation, which is access. So, we've really been focused on two things, one of which is to make sure that we are continuing to expand our offerings and we've been very active in the product introduction side. And then, in the comments I referenced some other new things that we think are very exciting, mostly on the actively managed side of that range.

But we're also on the access, right, which part of that is getting it to the right level of scale, getting it accepted in certain of the channels or the sub-channels. So all of those foundational steps continue and we're happy to see that the net result so far, early innings, has actually been quite positive. And in terms of the wholesaler and the sales force, right, so the sales force their obligation is really to work with the financial advisor with their vehicle of choice. And it's just the market has really moved to the point where financial advisors, some will have a preference for different structures, whether it be the retail separate account, the ETF, or the fund. So, in the conversations and the activities, the wholesalers are really determining which of those are the right fit. And there are many financial advisors, who are entirely focused on ETFs as opposed to funds. So, as we structure our composition, as we always do, we want to structure it to incent the right behavior, have that be aligned with the contribution that it makes to the company. And then also just as importantly, trying to have it focus on the best efforts to maintain and defend assets as well as just grow them.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

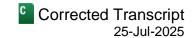
Great. And then, just a follow-up question on the appetite for inorganic activity. Just curious how you're thinking about prioritizing private market opportunities properties there versus more scale-driven on the traditional side and otherwise? And broadly, if you could talk about some of the steps you would look to take to navigate complexity of potentially bringing in [ph] liquids (00:48:19) to a platform that historically is operated in liquid public markets?

George Robert Aylward

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

Yeah. So in terms of the different types of opportunities, all of them have different attractive characteristics. And then, I also referenced that in terms of structures, but again, our model is a little more flexible in terms of how we partner in terms of minority, majority, JV, wholly-owned, et cetera. Right? So, each of them – as we evaluate things that's we look at them individually and the nature of their contribution and then relative to the nature of the other. So, again, we will only do an inorganic transaction if we do believe fundamentally, it is a way to create a good use of capital to create long-term shareholder value. In terms of the second part of your question about integrating into a platform that's more traditionally public. Again, I think that goes back to the way that you're partnering because we basically partner with firms and work with firms or have that expertise. But in many ways, some of the private markets are being sold by wholesalers that are selling in the public markets. So, in many ways we always say that our sales force is really dealing with 80% of the book of the financial advisor and we just need the other product to address the other 20% of the need. And again, we do have a view that on the private market side, investors need to have more choices than what is currently available. And that's really our goal is to sort of find that and then to leverage the infrastructure we have on the distribution side as well in many ways on the operational side to bring that to market.

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Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Is there a view that private market opportunities might fit better with a JV or partnership as opposed to more wholly-owned, the path you've taken oftentimes in the past? Just curious how you think about that? And many others have tried in the private markets, in the traditional space and maybe hasn't lived up to expectations. So just curious, any lessons you take away how that informs your approach as you look forward, as you look to optimize and maximize the opportunity set?

George Robert Aylward

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

Well, yeah. No, other people's experiences absolutely do influence how we would look at things as they influence others, because there are differences between the publics and the private markets. So I think how you approach them, you really do have to sort of think through the nuances of that differences. And we have not done a transaction in a period of time. And that's in part I would say that that's because as we kind of think through, particularly on the private market piece doing it in a way that makes sense that is correct. But no, we do absolutely think that in some of the private market capabilities, some of the structures might be different than they might be, say, on the traditional, just because you want to have the right alignment of interests and then the right fit between the two, at least, that's our perspective on those.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

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

George Robert Aylward

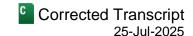
President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Well, I just want to thank everyone today for joining us. And absolutely, as we always do, please, if you have any other questions, reach out. Thank you.

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

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