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Virtus Investment Partners, Inc. (VRTS)

Q1 2026 Earnings Call

CORPORATE PARTICIPANTS

Sean P. Rourke

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

George Robert Aylward

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

Michael A. Angerthal

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

OTHER PARTICIPANTS

Crispin Love

Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Deedee, and I will be your conference operator today. I would like to welcome everyone to the Virtus Investment Partners' Quarterly Conference Call. The slide presentation for this call is available in the Investor Relations section of the Virtus website at www.virtus.com. This call is being recorded and will be available for replay on the Virtus website.

At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period, and instructions will follow at that time.

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

Sean P. Rourke

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

Thanks, Deedee, and good morning, everyone. Welcome to Virtus Investment Partners' discussion of our first quarter 2026 financial and operating results. Joining me today are George Aylward, our President and CEO; and Mike Angerthal, our Chief Financial Officer. After their prepared remarks, we will open the call for questions.

Before we begin, I'll refer you to the disclosures on slide 2. Today's comments may include forward-looking statements which involve risks and uncertainties described in our news release and SEC filings. Actual results may differ materially. We will also reference certain non-GAAP financial measures. Reconciliations of the most directly comparable GAAP measures are available in today's news release and financial supplement on our website.

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

George Robert Aylward

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

Thank you, Sean, and good morning, everyone. I'll start today with an overview with the results we reported this morning, and then Mike will provide more detail. Although the first quarter was challenging from a net flow perspective, reflecting our meaningful exposure to quality-oriented equity strategies which have remained out of favor, we had several areas of strength during the quarter that were overshadowed, and we also advanced key growth initiatives.

Key highlights of the quarter included an 8% increase in sales, with growth in US retail funds, separate accounts, and global funds; positive net flows in several strategies, including high-conviction growth equity, multi-sector fixed income, listed real assets and event driven; positive net flows in ETFs and global funds; expansion into private markets with our investment in Keystone National Group; and continued return of capital, including \$10 million of share repurchases.

We remained active in broadening our product offerings to meet the evolving client demand and expand our growth opportunities over time. The investment in Keystone on March 1 added a differentiated, asset-centric private credit capability, and our sales teams are actively focused on expanding distribution of their compelling strategies to retail and institutional clients. Keystone focuses on senior-secured, amortizing fixed rate financings backed by tangible assets. We believe their approach offers attractive stability and defensive characteristics for investors seeking a private credit allocation or a broader income-oriented solution, with a different risk profile than many traditional direct lending vehicle.

Keystone expands our private market capabilities, which also include those of Crescent Cove, as well as our overall alternative offerings that include managed futures and event-driven strategies. We continued to launch attractive actively managed ETFs, including emerging market dividend ETF from our Systematic team, a real estate income ETF from Duff & Phelps, and a growth equity ETF from Silvant. We expect to continue to be active in developing and introducing new products over the upcoming quarters.

Looking at our first quarter results, assets under management were \$149 billion at March 31, down from \$159 billion due to net outflows and market performance. Total sales increased 8% to \$5.8 billion, with a 26% increase in sales of equity strategies, in large part from some of our strategies that do not have a quality orientation. By product, we had higher sales of US retail funds, retail separate accounts, and global funds. Retail separate account sales increased 19% with higher sales in each month of the quarter; and on April 1, we reopened this mid-cap core strategy that had soft closed in 2024.

Total net outflows were \$8.4 billion, and across products, the outflows were almost entirely driven by equity. I would note that the majority, over 80%, of the net outflows were in the first two months of the quarter as net outflows improved significantly in March. Looking at flows across asset classes, the equity net outflows largely reflected the continued style headwind for quality-oriented strategies, including a meaningful institutional global equity redemption and the previously disclosed rebalancing of a lower fee retail separate account model-only mandate to a passive strategy.

Fixed income net flows were essentially breakeven for the quarter as positive net flows in multi-sector convertibles and preferreds were offset by net outflows in investment-grade and leveraged finance. Multi-asset strategies were also essentially breakeven, while alternative strategies had net outflows of \$0.4 billion, primarily driven by managed futures.

In terms of what we saw in April, as previously mentioned, overall trends improved over the course of the first quarter, and April flows were more similar to March. For US retail funds, both sales and flows improved in April over March, and ETF sales and net flows were at their highest level since September.

For retail separate accounts, while we do not have as much transparency given a large portion is model-only, we do anticipate better flows in the second quarter and are pleased to have recently reopened this mid-cap core strategy. On the institutional side, known wins actually modestly feed known redemptions for the first time in a long time, though, as always, institutional flows can be very lumpy and hard to predict.

Turning now to our financial results, the operating margin was 24% and reflected the impact of seasonally higher employment expenses. Excluding those items, the operating margin was 30.3%. Earnings per share, as adjusted, of \$5.38 declined from the fourth quarter primarily due to \$1.26 per share of seasonal employment expenses. Excluding those items, earnings per share, as adjusted, declined 6%.

Turning to investment performance, as we've previously discussed, recent performance reflects our overweight in quality equity. However, we did see improving relative performance in the first quarter in our equity strategies. Fixed income and alternative strategies have consistently strong performance with 78% and 71% respectively, beating benchmarks for the three-year period. Over the longer 10-year period, 54% of our equity, 73% of our fixed income, and 71% of alternative strategies beat their benchmarks.

In terms of our balance sheet and capital, we ended the quarter with cash and equivalents of \$137 million, other investments of \$269 million, and \$200 million of undrawn capacity on our revolving credit facility. Cash was lower sequentially as the first quarter of each year is our highest period of cash utilization. In addition to first quarter seasonal expenses, cash usage included the \$200 million closing payment for the Keystone investment and \$23 million representing the majority of our remaining revenue participation obligation.

During the quarter, we repurchased approximately 73,000 shares for \$10 million and paid our quarterly dividend. We continue to have financial flexibility to balance our capital priorities of investing in the business, returning capital to shareholders, and maintaining appropriate leverage.

And with that, I'll turn the call over to Mike to provide more detail on the financial results. 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 March 31 were \$149 billion, and average assets declined 4% to \$158.2 billion. Our AUM continues to be well diversified across products and asset classes.

By product, institutional accounts were 33% of AUM; US retail funds represented 27%; and retail separate accounts, including wealth management, represented 25%. The remaining 15% consisted of closed-end funds, global funds, and ETFs. Within open-end funds, ETF AUM increased to \$5.4 billion, up \$0.2 billion sequentially on continued strong net flows and up 58% year-over-year.

We're also well diversified by asset class with broad representation across domestic and international equities, including mid-, small- and large-cap strategies and fixed income offerings diversified across duration, credit quality, and geography. With the addition of Keystone during the quarter which added \$2.3 billion of AUM, alternatives now represent over 12% of assets, up from 9.7% last quarter and 9% a year ago.

Turning to slide 8, asset flows. Total sales increased 8% to \$5.8 billion, up from \$5.3 billion in the fourth quarter. The increase was led by sales of equity strategies which increased 26%, with the growth broadly across

domestic, international, and global equity. Reviewing by product, institutional sales were \$1.2 billion versus \$1.4 billion last quarter, with higher equity and multi-asset sales offset by lower fixed income and alternatives.

Retail separate account sales increased to \$1.4 billion from \$1.2 billion in the fourth quarter, primarily due to a 30% increase in sales in the intermediary sold channel across strategies. Open-end fund sales increased 11% to \$3.1 billion, and included \$0.6 billion of ETF sales. Open-end fund sales were higher in equities, fixed income, and multi-asset strategies with much of the increase in equity sales in style-agnostic and growth strategies.

Total net outflows were \$8.4 billion compared with \$8.1 billion last quarter. And as previously mentioned, the outflows improved meaningfully in the last month of the quarter. Reviewing by product, institutional net outflows of \$3.2 billion were again primarily due to redemptions of quality-oriented global equity strategies. Retail separate accounts had net outflows of \$3.9 billion, which included a \$1.4 billion redemption of a lower-fee model-only account that we previously disclosed.

Open-end fund net outflows of \$1.3 billion improved from \$2.5 billion last quarter and included positive net flows in fixed income and global equity. For closed-end funds which include Keystone's tender offer fund, we reported modestly negative net flows. I would point out that while Keystone's fund had positive net flows for the quarter, our results reflect just one month of their sales, but a full quarter of redemptions given the fund's quarterly tenders take place in March. ETFs continued to deliver solid growth, generating \$0.3 billion of positive net flows, and sustaining a strong double-digit organic growth rate.

Turning to slide 9. Investment management fees, as adjusted, were \$163.5 million, down 3% due to lower average AUM, partially offset by a higher average fee rate. The average fee rate was 41.9 basis points, up from 40.6 basis points last quarter and included approximately 0.6 basis points of incentive fees from one month of Keystone. For modeling purposes, an average fee rate in the range of 43 to 45 basis points is reasonable for the second quarter, reflecting a full quarter of Keystone. As always, the fee rate will vary with market levels and asset mix.

Slide 10 shows the five-quarter trend in employment expenses. Total employment expenses as adjusted of \$106.2 million, increased 11% sequentially, reflecting \$11.4 million of seasonal employment expenses related to the timing of annual incentives, primarily incremental payroll taxes and benefits. On the more comparable year-over-year basis, employment expenses declined 3%. Excluding the seasonal items, employment expenses also decreased on a sequential basis.

Employment expenses were 58.3% of revenues, as adjusted, with the sequential increase primarily due to the seasonal expenses. Excluding those items, employment expenses were 52% of revenues, higher than the fourth quarter largely due to lower revenues. For modeling purposes, it's reasonable to assume employment expenses, as adjusted, will be in the 51% to 53% range as a percentage of revenues and at the high end of that range in the second quarter, primarily due to the decline in equity assets under management. And as always, results will vary with flows and market performance.

Turning to slide 11. Other operating expenses, as adjusted, were \$30.6 million, up modestly from \$30.2 million, in part to the addition of Keystone during the quarter. For modeling purposes, a quarterly range of \$31 million to \$33 million is reasonable going forward to reflect the full quarter impact of Keystone. In addition, keep in mind that our annual Board of Directors' equity grant occurs in the second quarter and is incremental to the outlook.

Slide 12 illustrates the trend in earnings. Operating income, as adjusted, of \$43.8 million decreased from \$61.1 million, in large part due to seasonal expenses. Excluding those items, operating income decreased 10%,

primarily due to lower average assets under management. The operating margin, as adjusted, of 24% compared with 32.4% in the fourth quarter. Excluding the seasonal employment expenses, the operating margin was 30.3%.

With respect to nonoperating items, interest and dividend income declined by \$1.4 million due to a lower cash balance reflecting the timing of the Keystone investment and seasonal cash obligations. Noncontrolling interests of \$1.4 million were modestly lower than the prior quarter. Looking ahead for modeling purposes, we believe that a reasonable range for noncontrolling interests will be \$4 million to \$5 million, which factors in a full quarter of Keystone.

Turning to income taxes. As we recently announced, beginning with this quarter's results, we updated how we reflect income taxes in our non-GAAP presentation and have recast the relevant line items in prior quarters. Over time, through acquisitions, we have built a significant intangible tax asset that generates meaningful economic tax benefit. Given the size of this attribute and our expectation of realizing the benefit, we believe it is appropriate to reflect it in earnings.

For context, the tax benefit represented about \$2.64 per share of earnings in 2025. For the first quarter, our effective tax rate of 14% was lower sequentially by approximately 400 basis points due to the impact of the amortization tax benefit on a seasonally lower level of pre-tax income. Beginning with the second quarter, an effective tax rate of 14% to 15% would be reasonable to expect. Net income, as adjusted, of \$5.38 per diluted share, which included \$1.26 per share of seasonal expenses, compared with \$7.16 in the fourth quarter, and declined 16% from the prior year, primarily due to lower average AUM.

Slide 13 shows the trend of our capital liquidity and select balance sheet items. On March 1, we completed the 56% investment in Keystone for \$200 million. As a reminder, there is up to \$170 million of additional consideration over two years, a meaningful portion of which is subject to achievement of revenue targets.

The estimated fair value of the deferred payments is recorded on the balance sheet as contingent consideration. Contingent consideration at March 31 totaled \$126 million, with the sequential increase reflecting the addition of the Keystone deferred payments, partially offset by the payment of the majority of our remaining revenue participation obligation, which was \$23 million.

As previously discussed, our transaction with Keystone includes increasing our ownership to 75% with the equity purchases taking place during Years 3 through 6 after closing. The estimated value of those purchases is recorded in redeemable noncontrolling interest, which increased to \$131 million at March 31. The remaining 25% of Keystone is reflected in the manager noncontrolling interest liability, which totaled \$152 million, the majority of which represents Keystone equity held by Keystone employees that will be recycled to future generations.

Cash and equivalents at March 31 were \$137 million, down from December 31 due to the payment for Keystone, seasonal employment expenses, and return of capital. In addition, we had \$269 million of other investments, including seed capital to support future growth opportunities. Return of capital to shareholders in the first quarter included our quarterly dividend and the repurchase of 73,463 shares of common stock for \$10 million.

Gross debt at the end of the quarter was \$448 million, up from \$399 million at December 31, due to a \$50 million draw on our revolving credit facility. Net debt was \$311 million or 1.1 times EBITDA. As a reminder, we typically prioritize repayments of amounts drawn on our credit facility over the short term.

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

George Robert Aylward

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

Thank you, Mike. We will now take your questions. Deedee, would you open up the lines, please?

QUESTION AND ANSWER SECTION

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

Crispin Love

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. I appreciate you taking my questions. First, in the release and also on the call you called out the 26% increase in sales of equity strategies. Can you dig into that a little further? Was that partially buying the dip in the quarter, especially the March improvement inflows, and then just any specific areas, value growth – value or growth? Just curious if you can detail that a little bit more and if that's continued in April.

George Robert Aylward

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

A

Sure. So, again, well, we've highlighted the fact that the majority of our equity AUM and strategies do have a quality orientation from the managers that have grown the business over the years, that we had other strategies that did not have those same orientations. And they were – many of them were obviously a little smaller and had not previously been areas where we had seen significant growth.

Those have been the strategies that we have continued to focus on and try to find additional opportunities for them. So, we were very pleased that with some of our strategies which include some of the high-conviction strategies, some of the more style-agnostic strategies or the other growth strategies that we've recently made available in SMAs, have increased our focus on some of the other wrappers therein, and including launching some ETFs recently, you may have noticed, that are not with our quality-oriented strategies. Those have been the big drivers of that increase in assets. We hope that that will continue.

Again, we still fully believe that the quality orientation strategies will come back into favor as well. But again, we have been focused on those other strategies and capabilities that we've had which have been smaller, but now they have been growing. And our hope would be to continue to make them available, particularly again in the retail separate accounts, and very recently now they'll be more available in the ETFs.

Mike, anything you would add, other – yeah?

Michael A. Angerthal

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

A

Yeah. I think you hit on the key points. I think we're starting to see contribution on the top line from some of those managers, and they have experienced growth. Obviously, it's been overshadowed by some of the larger managers who have a quality orientation, but we're seeing that growth – I think we called it out in the intermediary sponsored retail separate account platform. As George mentioned, we've seen expanded access at some of our key distribution partners, and that's benefiting the top line. So, we're pleased to see that.

Crispin Love*Analyst, Piper Sandler & Co.*

Great. Thank you. My second question is on net outflows. And you might have hit on a little bit of the answer just then, but net outflows remain elevated, especially so after the last – over the last few quarters. So, curious on the longer-term trajectory that needs to be done. What needs to be done for that to improve first on a macro level and then on a micro level.

On the micro side, it looks like you're making some progress there on some of those strategies outside of the quality orientation. But I'm just trying to get to you, okay, how do you get closer or more progress closer to more neutral? And I also – I appreciate the comments on the improvement in March and April but just thinking more on a longer-term broad basis on flows.

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

Sure. Yeah. And I'll start with just reiterating again the largest percentage of the outflows, and, again, we highlighted the two specific large mandates that drove that were in the earlier part of the first quarter and at March, and then we've also indicated that April had been in a significantly lower level than that level in January or February or the fourth quarter. So, we view that as positive.

Again, I think there's a couple of factors. You already indicated each of them. So, for the quality-oriented strategies, again, as the cycle eventually will turn, we see that as a good opportunity. We do actually believe that there are currently certain investors, particularly more of the institutional investors that are fully cognizant of how out of favor growth equity – quality-oriented equity is and are hopefully looking at this as the opportunity because, inevitably, the turn of the cycle is usually when many managers, including ours, have generated some of their better performance. So, we see that as an opportunity.

But separate from that, over the last year, we have spent a considerable amount of time creating wrappers and enhancing our sales efforts on those other strategies, from the first question, which is really for those individuals that are not interested in quality orientation, in particular, having more of our style-agnostic or our other growth strategies or other differentiated strategies. And, again, we've started to see some of that traction. It's nice to see those levels of growth. Those managers have compelling investment performance, and we increasingly are making them more and more available.

Separate from that, we recently completed the Keystone transaction, and as I indicated in our talking points, our wholesaler force is very excited about offering that very differentiated strategy. I think there's a great opportunity for that to be utilized in different portfolios. So, we definitely see that as another area of continued opportunity for us to raise additional assets. And, again, that would then hopefully complement what will eventually be the return of the higher level of demand for the quality-oriented strategies.

We do also highlight the closed strategy that we had because one of the reductions in our flows over the last few quarters since 2024 was just the absence of having sales in that closed strategy. So, I think we commented that we're pleased to have that strategy because, again, our quality-oriented strategies – and one of those – some of those managers are still some of our bestselling strategy. It's just the outflows are greater than the inflows at this point. So, we want to bring in the – increase the inflows and opening that strategy up will be helpful.

Crispin Love*Analyst, Piper Sandler & Co.*

Great. Thank you. Appreciate you taking my questions.

George Robert Aylward

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

A

Thank you.

Operator: Thank you. [Operator Instructions] 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.

Okay. Well, thank you very much. And I want to thank everyone today for joining us. Obviously, certainly encourage you to reach out if you have any other further questions, and have a great day. Thank you very much.

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

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