



Second Quarter 2014 Earnings Presentation

July 28, 2014

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Important Disclosures

This presentation contains statements that are, or may be considered to be, forward-looking statements. All statements that are not historical facts, including statements about our beliefs or expectations, are “forward-looking statements” within the meaning of The Private Securities Litigation Reform Act of 1995. These statements may be identified by such forward-looking terminology as “expect,” “estimate,” “plan,” “intend,” “believe,” “anticipate,” “may,” “will,” “should,” “could,” “continue,” “project,” 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, are not guarantees of future results or performance, and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, cash inflows and outflows, operating cash flows, and future credit facilities, for all forward periods. All of our forward-looking statements are as of the date of this presentation only. The company can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially.

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 our 2013 Annual Report on Form 10-K, as well as the following risks and uncertainties: (a) any reduction in our assets under management; (b) damage to our reputation; (c) our money market funds do not maintain stable net asset values; (d) our inability to attract and retain key personnel; (e) the competition we face in our business; (f) adverse regulatory and legal developments; (g) limitations on our deferred tax assets; (h) changes in key distribution or unaffiliated subadvisory relationships; (i) interruptions in service or failure to provide service by third-party service providers; (j) impairment of our goodwill or intangible assets; (k) lack of availability of required and necessary capital on satisfactory terms; (l) liabilities and losses not covered by our insurance policies; and (m) certain other risks and uncertainties described in our 2013 Annual Report on Form 10-K or in any of our filings with the Securities and Exchange Commission (“SEC”).

Certain other factors which may impact our continuing operations, prospects, financial results and liquidity or which may cause actual results to differ from such forward-looking statements are discussed or included in the company’s periodic reports filed with the SEC and are available on our website at www.virtus.com under “Investor Relations.” You are urged to carefully consider all such factors.

The company does not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this presentation, 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 presentation, such statements or disclosures will be deemed to modify or supersede such statements in this presentation.

Agenda

- ▶ Overview of Second Quarter
- ▶ Second Quarter Results
- ▶ Closing Remarks
- ▶ Q & A Session

Overview of Second Quarter

Overview of Second Quarter

Assets and Flows

- ▶ Total assets increase to \$61.4 billion, up \$8.7 billion or 17% over prior year; total net flows of \$1.0 billion represent an annualized organic growth rate¹ of 7%
- ▶ Mutual fund sales of \$3.1 billion represent 34% annualized sales rate²; fund net flows of \$0.8 billion

New Products

- ▶ Duff & Phelps Select Energy MLP (DSE) closed-end fund IPO raised \$463 million, prior to addition of leverage
 - Total closed-end fund assets increased 17% to \$7.5 billion; 13% of long-term AUM and 16% of run-rate investment management fees
 - Launch costs of \$10.1 million or \$0.67 per fully diluted share of structuring fees and sales-based compensation
- ▶ Virtus Alternative Solution Funds introduced
 - Three new funds that provide investors access to non-correlated asset classes from alternative managers in open-end structure that offers liquidity, governance, transparency and affordability
 - Multi-strategy, multi-manager funds seeded with \$130 million

¹ Annualized net flows divided by beginning of period assets

² Annualized gross sales divided by beginning of period assets

Overview of Second Quarter

Financial Results

- ▶ Operating income, as adjusted, of \$38.8 million increased 22% from \$31.7 million in prior year
- ▶ Earnings per diluted share of \$2.10 includes \$0.67¹ of closed-end fund launch costs
- ▶ Expenses include \$2.5 million or \$0.16 per share¹ of identified costs related to new product introductions and several other discrete business activities

Capital Activities

- ▶ Declared first quarterly cash dividend, \$0.45 per share
- ▶ Returned \$13.9 million to shareholders through continued buybacks
- ▶ Cash and investments increased to \$423.1 million or \$46 per share

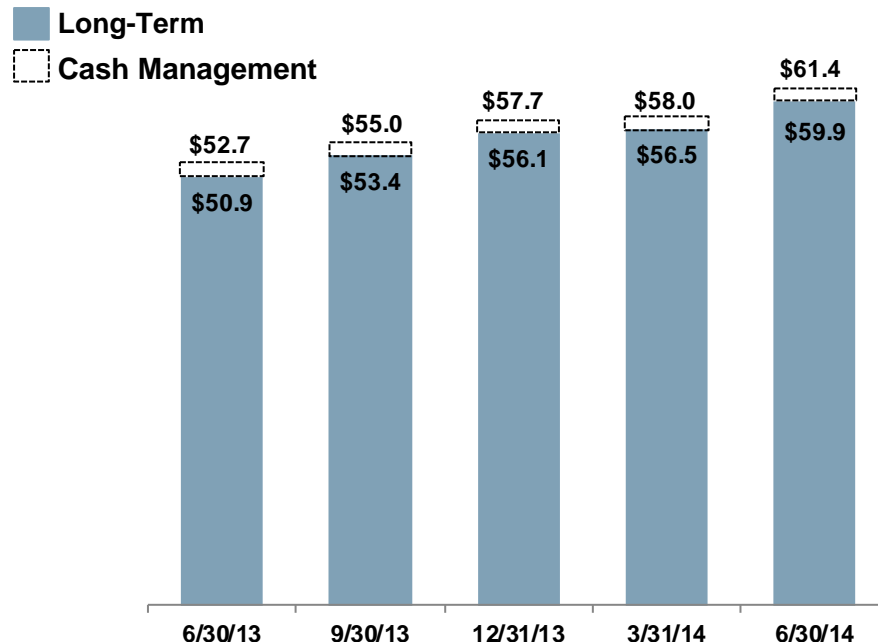
The Schedule of Non-GAAP Information provides a reconciliation of operating results to GAAP measures

¹ Represents expense items after application of effective tax rate divided by weighted average diluted shares outstanding. Expense and per share amounts rounded for presentation purposes

Second Quarter Results

Assets Under Management

Quarterly Trends



| Assets by Asset Class | | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| Equity | 56.3% | 57.4% | 58.2% | 58.3% | 58.3% |
| Fixed | 30.7% | 28.8% | 27.4% | 28.1% | 27.3% |
| Alternatives ¹ | 7.0% | 8.3% | 9.2% | 9.8% | 11.0% |
| Other ² | 6.0% | 5.5% | 5.2% | 3.8% | 3.4% |

\$ in billions

¹ Consists of non-traditional investment strategies such as long/short equity, real estate, master-limited partnerships and other

² Consists of cash management and option strategies

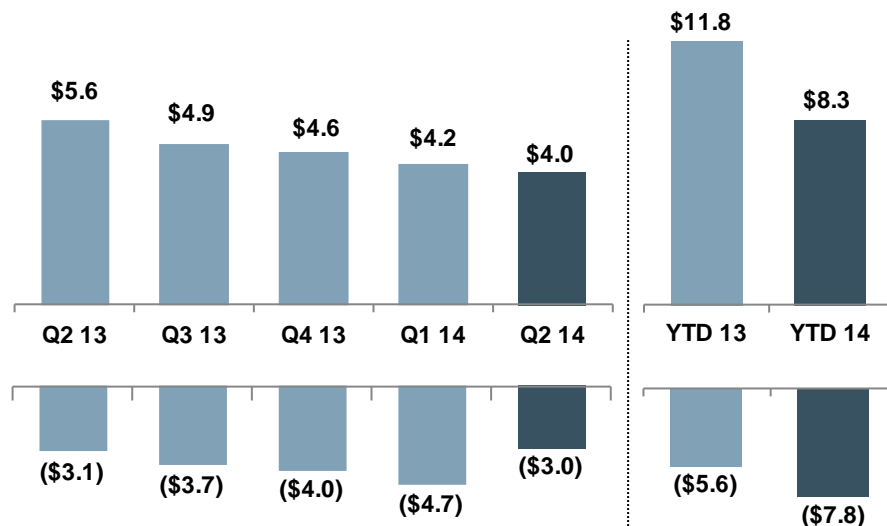
Commentary

Positive trend driven by net flows and market appreciation

- ▶ Long-term assets increased \$9.0 billion or 18% from prior year and \$3.4 billion or 6% sequentially
 - Open-end funds increased to \$39.8 billion, up \$7.5 billion or 23% from prior year and \$2.5 billion or 7% sequentially
 - Alternative assets increased to \$6.7 billion, up 82% from prior year
 - Closed-end fund assets increased to \$7.5 billion, up 17% over prior year

Asset Flows

Inflows/(Outflows)



Sales Metrics

Net Flows¹

| | | | | | | |
|-------|-------|-------|---------|-------|-------|-------|
| \$2.5 | \$1.2 | \$0.6 | (\$0.5) | \$1.0 | \$6.2 | \$0.5 |
|-------|-------|-------|---------|-------|-------|-------|

Organic Growth Rate²

| | | | | | | |
|-------|------|------|--------|------|-------|------|
| 19.7% | 9.4% | 4.3% | (3.2%) | 6.7% | 27.6% | 1.8% |
|-------|------|------|--------|------|-------|------|

\$ in billions

¹ Net flows exclude flows from cash management products and structured products

² Annualized net flows divided by beginning of period assets

³ Annualized gross sales divided by beginning of period assets

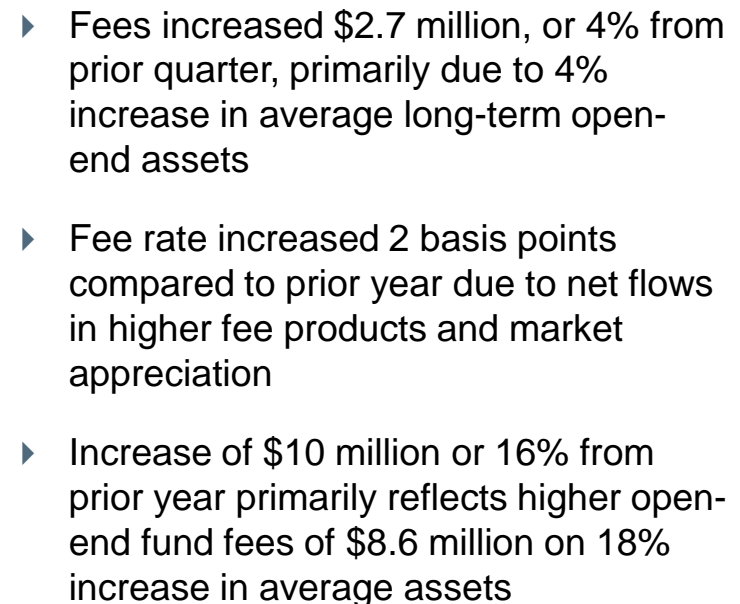
Commentary

Flow trend reflective of market trends, product breadth, investment performance, and sales effectiveness

- ▶ Gross sales of \$4.0 billion; \$3.1 billion of open-end fund sales
- ▶ Overall annualized organic growth rate² of 7% reflects net flows in open-end and closed-end funds
- ▶ Second quarter mutual fund sales rate³ of 34%; annualized organic growth rate² of 8%
- ▶ Duff & Phelps Select Energy MLP closed-end fund raised \$463 million

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Commentary



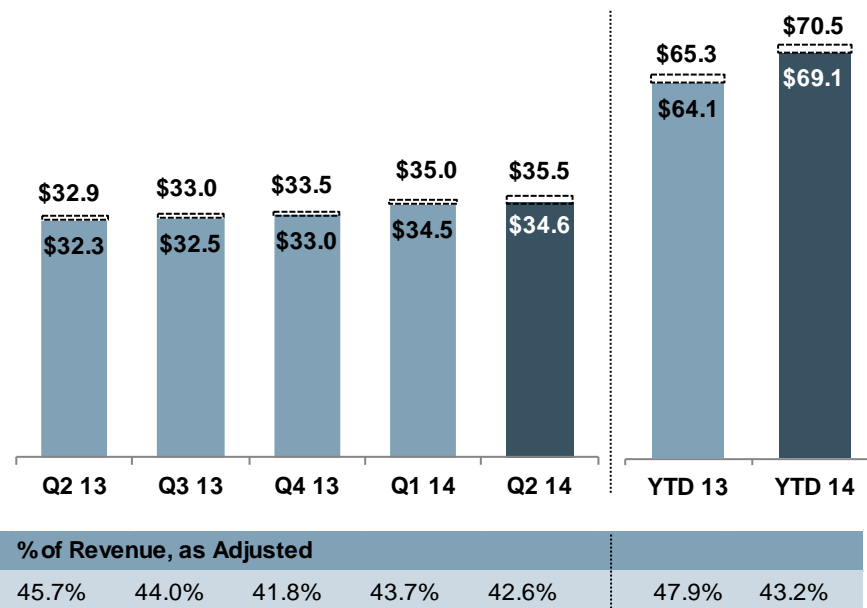
\$ in millions, except AUM figures which are in billions
¹ Excludes cash management products

Employment Expenses

Quarterly Results

Year to Date

Commentary



Trend reflects growth of business and variable nature of incentive plans

- ▶ Employment expenses of \$35.5 million include:
 - \$0.5 million (\$0.03 per share impact¹) of closed-end fund sales-based compensation
 - \$0.4 million (\$0.02 per share impact¹) of final Newfleet transition expenses
- ▶ Excluding these items, employment expenses of \$34.6 million represent 41.6% of revenues, as adjusted

\$ in millions

[---] Newfleet transition costs and closed-end fund sales-based compensation
 Note: The Schedule of Non-GAAP Information provides a reconciliation of operating results and margin to GAAP measures

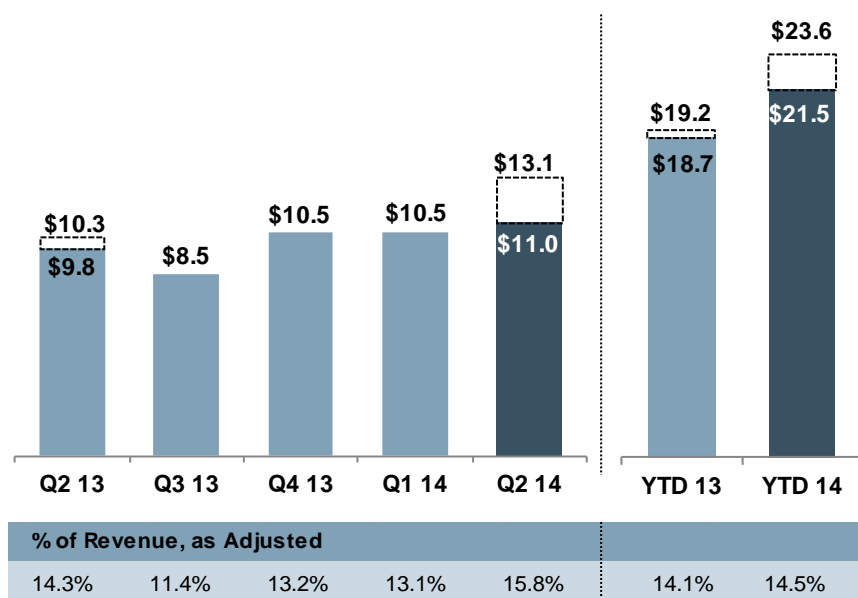
¹ Represents expense item after application of effective tax rate divided by weighted average diluted shares outstanding. Expense and per share amounts rounded for presentation purposes

Other Operating Expenses

Quarterly Results

Year to Date

Commentary



\$ in millions

[] New product introduction costs, Board of Director grants, and professional fees
Note: The Schedule of Non-GAAP Information provides a reconciliation of operating results and margin to GAAP measures

¹ Represents expense item after application of effective tax rate divided by weighted average diluted shares outstanding. Expense and per share amounts rounded for presentation purposes

Results reflect timing of product, distribution, and operational activities

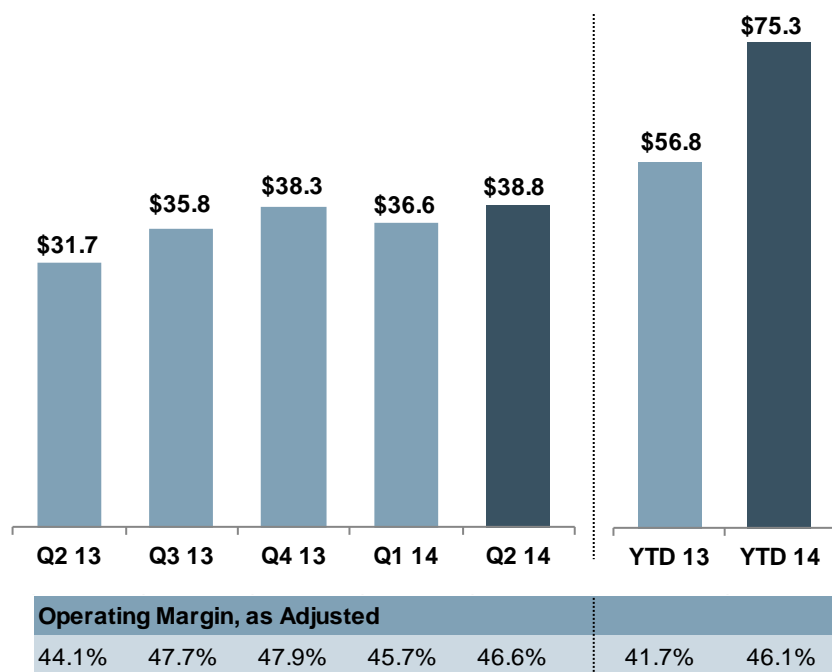
- ▶ Other operating expenses of \$13.1 million quarter include:
 - \$0.7 million (\$0.05 per share impact¹) of costs related to new product introductions
 - \$0.5 million (\$0.03 per share impact¹) of annual board grants
 - \$0.9 million (\$0.06 per share impact¹) of various discrete business activities
- ▶ Excluding these items, operating expenses of \$11.0 million represent 13.2% of revenues, as adjusted
- ▶ Initial system transition costs of \$0.5 million related to middle- and back-office services

Operating Income, as Adjusted

Quarterly Results

Year to Date

Commentary



Increasing profitability driven by cumulative impact of market appreciation and positive net flows

- ▶ Increase of \$7.1 million or 22% increase from prior year reflects both revenue growth and margin increase
- ▶ Increase of \$2.2 million or 6% from prior quarter primarily due to higher revenues, as adjusted
- ▶ Year-to-date increase of \$18.5 million, or 33%, reflects 20% revenue growth; margin increased by 440 basis points

\$ in millions

Note: The Schedule of Non-GAAP Information provides a reconciliation of operating results and margin to GAAP measures

Capital Position

Select Balance Sheet Items

| | 6/30/13 | 9/30/13 | 12/31/13 | 3/31/14 | 6/30/14 |
|---|---------|---------|----------|---------|---------|
| Cash and cash equivalents | \$71 | \$245 | \$271 | \$235 | \$170 |
| Investments - seed capital | \$17 | \$18 | \$25 | \$65 | \$28 |
| Net assets of CSIPs - seed capital ¹ | \$34 | \$77 | \$99 | \$59 | \$196 |
| <i>Total - Seed capital</i> | \$51 | \$95 | \$124 | \$124 | \$224 |
| Investments - other ² | \$4 | \$4 | \$4 | \$29 | \$29 |
| <i>Total - Cash and investments</i> | \$126 | \$344 | \$399 | \$388 | \$423 |
| Deferred taxes, net | \$80 | \$68 | \$65 | \$57 | \$57 |
| Dividend payable | \$ - | \$ - | \$ - | \$ - | \$4 |
| Debt | \$15 | \$ - | \$ - | \$ - | \$ - |
| Total equity attributable to stockholders | \$256 | \$466 | \$493 | \$510 | \$515 |
| <i>Working capital (WC)³</i> | \$67 | \$230 | \$242 | \$271 | \$186 |
| <i>Basic shares outstanding</i> | 7.821 | 9.101 | 9.106 | 9.163 | 9.119 |
| Metrics: | | | | | |
| Cash and investments per share ⁴ | \$16 | \$38 | \$44 | \$42 | \$46 |
| WC % of spend ⁵ | 24% | 84% | 83% | 90% | 52% |

\$ and shares in millions

¹ Represents total assets less total liabilities and redeemable non-controlling interests

² Investments in mutual funds not for seed capital purposes

³ Defined as cash and investments plus accounts receivable, net, less investments – seed capital, net assets of CSIPs, accrued compensation and benefits, accounts payable and accrued liabilities, and dividends payable

⁴ Cash and investments divided by basic shares outstanding at the end of the period

⁵ Working capital divided by annualized operating expenses

Commentary

Strong capital position reflects cash flows from operations and capital activities

- ▶ Cash and investments increased \$34.9 million or 9%, primarily due to strong operating results
- ▶ Working capital decreased \$84.7 million, or 31% on a sequential basis primarily due to seed investments in new products
- ▶ Repurchased 75,000 shares for \$13.9 million through share repurchase program and net settlement of restricted stock
- ▶ Declared quarterly cash dividend of \$0.45 per share for shareholders of record at July 31, 2014

Appendix

GAAP Income Statement



Quarterly Trend and Year-to-Date

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | | | | | | | |
| Investment management fees | \$64,475 | \$67,119 | \$71,186 | \$71,792 | \$74,537 | \$122,252 | \$146,329 |
| Distribution and service fees | 19,324 | 20,322 | 21,958 | 22,438 | 23,940 | 36,685 | 46,378 |
| Administration and transfer agent fees | 12,061 | 12,492 | 12,937 | 13,073 | 13,942 | 22,756 | 27,015 |
| Other income and fees | 280 | 476 | 417 | 568 | 330 | 615 | 898 |
| Total revenues | 96,140 | 100,409 | 106,498 | 107,871 | 112,749 | 182,308 | 220,620 |
| Operating Expenses | | | | | | | |
| Employment expenses | 32,878 | 33,022 | 33,457 | 35,029 | 35,481 | 65,289 | 70,510 |
| Distribution and administrative expenses | 24,252 | 25,253 | 26,653 | 27,737 | 39,222 | 45,880 | 66,959 |
| Other operating expenses | 10,283 | 8,538 | 10,543 | 10,534 | 13,130 | 19,240 | 23,664 |
| Other operating expenses of consolidated sponsored investment products | 132 | 231 | 251 | 331 | 797 | 316 | 1,128 |
| Restructuring and severance | - | - | - | - | - | 203 | - |
| Depreciation and other amortization | 597 | 610 | 640 | 657 | 670 | 1,172 | 1,327 |
| Amortization of intangible assets | 1,116 | 1,125 | 1,062 | 957 | 947 | 2,226 | 1,904 |
| Total operating expenses | 69,258 | 68,779 | 72,606 | 75,245 | 90,247 | 134,326 | 165,492 |
| Operating income | 26,882 | 31,630 | 33,892 | 32,626 | 22,502 | 47,982 | 55,128 |

\$ in thousands

GAAP Income Statement



Quarterly Trend and Year-to-Date

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Other Income (Expense) | | | | | | | |
| Realized and unrealized gain (loss) on trading securities, net | (223) | 1,285 | 463 | 1,846 | 905 | 602 | 2,751 |
| Realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net | (3,156) | 324 | 5,975 | 36 | 6,444 | (2,784) | 6,480 |
| Other income (expense), net | (11) | 111 | (8) | 151 | 189 | (29) | 340 |
| Total other income (expense), net | (3,390) | 1,720 | 6,430 | 2,033 | 7,538 | (2,211) | 9,571 |
| Interest Income | | | | | | | |
| Interest expense | (206) | (207) | (148) | (138) | (125) | (427) | (263) |
| Interest and dividend income | 203 | 126 | 238 | 383 | 344 | 300 | 727 |
| Interest and dividend income of investments of consolidated sponsored investment products | 612 | 600 | 891 | 873 | 1,639 | 1,092 | 2,512 |
| Total interest income, net | 609 | 519 | 981 | 1,118 | 1,858 | 965 | 2,976 |
| Income Before Income Taxes | 24,101 | 33,869 | 41,303 | 35,777 | 31,898 | 46,736 | 67,675 |
| Income tax expense | 9,318 | 12,567 | 14,443 | 14,010 | 12,106 | 17,768 | 26,116 |
| Net Income | 14,783 | 21,302 | 26,860 | 21,767 | 19,792 | 28,968 | 41,559 |
| Noncontrolling interests | 602 | (213) | (2,104) | 171 | (249) | 377 | (78) |
| Net Income Attributable to Common Stockholders | \$15,385 | \$21,089 | \$24,756 | \$21,938 | \$19,543 | \$29,345 | \$41,481 |

\$ in thousands

Schedule of Non-GAAP Information



Quarterly Trend and Year-to-Date

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues, GAAP Basis | \$96,140 | \$100,409 | \$106,498 | \$107,871 | \$112,749 | \$182,308 | \$220,620 |
| Less: | | | | | | | |
| Distribution and administration expenses | 24,252 | 25,253 | 26,653 | 27,737 | 29,646 | 45,880 | 57,383 |
| Consolidated sponsored investment product fees (1) | 4 | 90 | (129) | 16 | (122) | 52 | (106) |
| Revenues, as adjusted (2) | 71,884 | 75,066 | 79,974 | 80,118 | 83,225 | 136,376 | 163,343 |
| Operating Expenses, GAAP Basis | 69,258 | 68,779 | 72,606 | 75,245 | 90,247 | 134,326 | 165,492 |
| Less: | | | | | | | |
| Distribution and administrative expenses | 24,252 | 25,253 | 26,653 | 27,737 | 29,646 | 45,880 | 57,383 |
| Depreciation and amortization | 1,713 | 1,735 | 1,702 | 1,614 | 1,617 | 3,398 | 3,231 |
| Stock-based compensation (3) | 2,463 | 1,848 | 1,885 | 1,538 | 2,786 | 3,757 | 4,324 |
| Closed-end fund launch costs (4) | - | - | - | - | 10,085 | - | 10,085 |
| Restructuring and severance charges | - | - | - | - | - | 203 | - |
| System transition costs (5) | - | - | - | - | 475 | - | 475 |
| Newfleet transition expenses (6) | 544 | 485 | 487 | 492 | 367 | 1,200 | 859 |
| Consolidated sponsored investment products expenses (1) | 132 | 231 | 251 | 331 | 797 | 316 | 1,128 |
| Operating Expenses, as adjusted (7) | 40,154 | 39,227 | 41,628 | 43,533 | 44,474 | 79,572 | 88,007 |
| Operating Income, as adjusted (8) | \$31,730 | \$35,839 | \$38,346 | \$36,585 | \$38,751 | \$56,804 | \$75,336 |
| Operating margin, GAAP basis | 28% | 32% | 32% | 30% | 20% | 26% | 25% |
| Operating margin, as adjusted (8) | 44% | 48% | 48% | 46% | 47% | 42% | 46% |

See footnotes (1) – (8) on page 28 of the presentation
\$ in thousands

Condensed Balance Sheet



Quarter-end Trend

| | <u>6/30/13</u> | <u>9/30/13</u> | <u>12/31/13</u> | <u>3/31/14</u> | <u>6/30/14</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$70,851 | \$244,683 | \$271,014 | \$234,795 | \$170,367 |
| Cash of consolidated sponsored investment products | 34 | 43 | 531 | 2,543 | 361 |
| Cash pledged of on deposit of consolidated sponsored investment products | - | - | - | - | 11,958 |
| Investments | 27,830 | 29,287 | 37,258 | 102,490 | 65,099 |
| Investments of consolidated sponsored investment products | 43,114 | 95,998 | 139,054 | 62,086 | 207,279 |
| Accounts receivable, net | 44,819 | 46,655 | 50,166 | 54,386 | 54,194 |
| Furniture, equipment, and leasehold improvements, net | 7,575 | 7,335 | 7,219 | 6,898 | 7,646 |
| Intangible assets, net | 46,606 | 45,907 | 44,633 | 43,528 | 42,582 |
| Goodwill | 5,260 | 5,260 | 5,260 | 5,260 | 5,260 |
| Deferred taxes, net | 80,243 | 68,118 | 64,500 | 56,520 | 57,064 |
| Other assets | 14,606 | 15,346 | 15,724 | 16,104 | 15,584 |
| Other assets of consolidated sponsored investment products | 1,662 | 43,002 | 9,595 | 1,217 | 3,285 |
| Total assets | \$342,600 | \$601,634 | \$644,954 | \$585,827 | \$640,679 |

\$ in thousands

Condensed Balance Sheet



Quarter-end Trend

| | <u>6/30/13</u> | <u>9/30/13</u> | <u>12/31/13</u> | <u>3/31/14</u> | <u>6/30/14</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Liabilities and Stockholders' Equity | | | | | |
| Accrued compensation and benefits | \$26,590 | \$39,410 | \$53,140 | \$18,349 | \$29,784 |
| Accounts payable and accrued liabilities | 25,801 | 25,779 | 29,912 | 29,169 | 33,131 |
| Debt | 15,000 | - | - | - | - |
| Other liabilities | 8,538 | 8,988 | 18,413 | 21,846 | 32,750 |
| Other liabilities of consolidated sponsored investment products | 869 | 42,798 | 8,435 | 2,500 | 16,011 |
| Dividends payable | - | - | - | - | 4,179 |
| Total liabilities | 76,798 | 116,975 | 109,900 | 71,864 | 115,855 |
| Redeemable noncontrolling interests | 9,421 | 18,855 | 42,186 | 3,867 | 10,397 |
| Total equity attributable to stockholders | 256,416 | 465,853 | 492,930 | 510,168 | 514,529 |
| Noncontrolling interest | (35) | (49) | (62) | (72) | (102) |
| Total liabilities and stockholders' equity | \$342,600 | \$601,634 | \$644,954 | \$585,827 | \$640,679 |
| Cash and investments (1) | \$126,105 | \$343,648 | \$398,416 | \$388,164 | \$423,085 |
| Working capital (2) | \$67,111 | \$229,950 | \$241,947 | \$270,901 | \$186,241 |

\$ in thousands

(1) Defined as cash and cash equivalents plus investments - other, investments - seed capital, and net assets of CSIPs

(2) Defined as cash and investments plus accounts receivable, net, less investments - seed capital, net assets of CSIPs, accrued compensation and benefits, accounts payable and accrued liabilities, and dividends payable

Schedule of Marketable Securities



| <u>Investment</u> | <u>Benchmark Index</u> | <u>Market Value at 6/30/14</u> |
|---|---|--------------------------------|
| <u>Investments - Other:</u> | | |
| Multi-Sector Short Term Bond | BofA Merrill Lynch 1-2.99 Year Medium Quality Corporate Bonds Index | \$12.8 |
| Low Duration Income | Barclays U.S. Intermediate Government/Credit Bond Index | 12.7 |
| DNP Select Income | S&P 500 Utilities Index / BarclaysCapital U.S. Utility Bond Index | 1.8 |
| Other Investments | | 1.5 |
| <u>Subtotal Investments - Other</u> | | <u>\$28.8</u> |
| <u>Investments - Seed Capital:</u> | | |
| Emerging Markets Equity Income | MSCI Emerging Markets Index | \$5.7 |
| International Small Cap SMA | MSCI AC World Ex U.S. Small Cap Index | 5.4 |
| International Small Cap | MSCI AC World Ex U.S. Small Cap Index | 4.5 |
| Portable Yield Strategy SMA | N/A | 3.2 |
| Global Real Estate Securities | FTSE EPRA NAREIT Developed Rental Index | 3.1 |
| International Real Estate Securities | FTSE EPRA NAREIT Developed Rental ex US Index | 2.1 |
| Herzfeld | S&P 500® Index | 1.2 |
| International Equity | MSCI EAFE® Index | 1.1 |
| Other Investments - Seed Capital | | 1.3 |
| <u>Subtotal Investments - Seed Capital:</u> | | <u>\$27.6</u> |
| <u>Net Assets of Consolidated Sponsored Investment Products:</u> | | |
| Alternative Total Solution | HFRX Global Hedge Fund Index | \$60.0 |
| Alternative Income Solution | HFRX Fixed Income Credit Index | 41.6 |
| Alternative Inflation Solution | Barclays U.S. 10 year Breakeven Inflation Index | 33.3 |
| Emerging Markets Debt | JP Morgan EMBI Global Diversified Index | 27.3 |
| Multi-Sector Short Duration Bond UCIT | BofA Merrill Lynch 1-2.99 Year Medium Quality Corporate Bonds Index | 20.5 |
| Floating Rate Bank Loan Commingled Trust | S&P/LSTA Leveraged Loan Index | 5.1 |
| Emerging Markets Small-Cap | MSCI Emerging Markets Small Cap Index | 3.2 |
| Low Volatility Equity | S&P 500® Index | 1.7 |
| Disciplined Equity Style | Russell 3000® Index | 1.4 |
| Disciplined Select Country | MSCI EAFE® Index | 1.2 |
| Disciplined Select Bond | Barclays Capital U.S. Aggregate Bond Index | 1.0 |
| <u>Subtotal Net Assets of Consolidated Sponsored Investment Products</u> | | <u>\$196.3</u> |
| <u>Grand Total</u> | | <u>\$252.7</u> |

\$ in millions

AUM and Average Net Management Fees Earned



Quarterly Trend and Year-to-Date: By Product

| | Q2:13 | Q3:13 | Q4:13 | Q1:14 | Q2:14 | YTD:13 | YTD:14 |
|---|------------|------------|------------|------------|------------|------------|------------|
| By Product (period end) | | | | | | | |
| Mutual Funds – Long-Term Open-End | \$32,351.2 | \$34,173.0 | \$36,367.7 | \$37,347.0 | \$39,819.1 | \$32,351.2 | \$39,819.1 |
| Mutual Funds – Closed-End | 6,422.3 | 6,379.4 | 6,499.6 | 6,690.7 | 7,530.6 | 6,422.3 | 7,530.6 |
| Mutual Funds – Money Market | 1,707.7 | 1,610.2 | 1,556.6 | 1,378.0 | 1,311.7 | 1,707.7 | 1,311.7 |
| Variable Insurance Funds | 1,250.8 | 1,286.8 | 1,311.8 | 1,286.6 | 1,305.5 | 1,250.8 | 1,305.5 |
| Separately Managed Accounts (1) | 6,521.7 | 6,950.7 | 7,433.1 | 6,778.4 | 6,862.4 | 6,521.7 | 6,862.4 |
| Institutional Accounts (1) | 4,399.3 | 4,606.9 | 4,570.8 | 4,530.5 | 4,565.0 | 4,399.3 | 4,565.0 |
| Total | \$52,653.0 | \$55,007.0 | \$57,739.6 | \$58,011.2 | \$61,394.3 | \$52,653.0 | \$61,394.3 |
| By Product (average) (2) | | | | | | | |
| Mutual Funds – Long-term Open-End | \$32,447.6 | \$33,604.3 | \$35,639.8 | \$36,354.5 | \$38,367.2 | \$30,418.7 | \$37,360.7 |
| Mutual Funds – Closed-End | 6,614.4 | 6,442.9 | 6,443.8 | 6,523.4 | 6,805.1 | 6,508.5 | 6,664.3 |
| Mutual Funds – Money Market | 1,700.6 | 1,672.5 | 1,591.4 | 1,436.8 | 1,317.1 | 1,769.5 | 1,377.0 |
| Variable Insurance Funds | 1,303.1 | 1,280.4 | 1,303.3 | 1,282.2 | 1,287.6 | 1,309.5 | 1,284.9 |
| Separately Managed Accounts (1) | 6,505.7 | 6,495.8 | 6,988.5 | 6,982.8 | 6,700.0 | 6,200.7 | 6,841.4 |
| Institutional Accounts (1) | 4,503.3 | 4,484.3 | 4,594.0 | 4,593.8 | 4,538.4 | 4,474.2 | 4,566.1 |
| Total | \$53,074.7 | \$53,980.2 | \$56,560.8 | \$57,173.5 | \$59,015.4 | \$50,681.1 | \$58,094.4 |
| Average Net Management Fees Earned (3) | | | | | | | |
| <i>(In basis points, annualized)</i> | | | | | | | |
| Mutual Funds – Long-term Open-End | 50.6 | 51.1 | 51.7 | 52.1 | 51.6 | 50.8 | 51.9 |
| Mutual Funds – Closed-End | 60.8 | 62.5 | 63.9 | 63.8 | 63.6 | 60.1 | 63.7 |
| Mutual Funds – Money Market | 2.2 | 0.5 | 0.3 | - | 0.1 | 2.7 | - |
| Variable Insurance Funds | 56.6 | 57.4 | 56.6 | 53.0 | 51.0 | 56.0 | 52.0 |
| Separately Managed Accounts (1) | 48.8 | 48.3 | 48.0 | 52.2 | 52.4 | 49.3 | 52.3 |
| Institutional Accounts (1) | 33.0 | 34.0 | 35.8 | 36.2 | 35.7 | 32.5 | 35.9 |
| Total | 48.7 | 49.2 | 50.0 | 50.9 | 50.7 | 48.6 | 50.8 |

\$ in millions

(1) Includes assets under management related to options strategies

(2) Averages are calculated as follows:

- Mutual Funds and Variable Insurance Funds – average daily or weekly balances
- Separately Managed Accounts – prior quarter ending balance (on which the current quarter's fees are earned)
- Institutional Accounts – average of month-end balances in quarter

(3) Average fees earned is calculated as revenue earned by product divided by average product assets, as described in note (2). Average fees earned for Mutual Funds and Variable Insurance Funds are net of fees paid to unaffiliated subadvisors, fund expense reimbursements and advisory fee waivers. Excludes the impact of consolidated sponsored investment products.

Assets Under Management



Quarterly Trend and Year-to-Date: All Product Flows and AUM By Asset Class

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| All Product Flows | | | | | | | |
| Beginning balance | \$51,207.7 | \$52,653.0 | \$55,007.0 | \$57,739.6 | \$58,011.2 | \$45,537.0 | \$57,739.6 |
| Inflows | 5,595.8 | 4,869.1 | 4,619.7 | 4,249.2 | 4,018.3 | 11,837.8 | 8,267.5 |
| Outflows | (3,083.6) | (3,623.1) | (4,022.4) | (4,708.9) | (3,050.2) | (5,599.6) | (7,759.1) |
| Net Flows | 2,512.2 | 1,246.0 | 597.3 | (459.7) | 968.1 | 6,238.2 | 508.4 |
| Market appreciation (depreciation) | (887.9) | 1,332.3 | 2,212.3 | 955.5 | 2,548.0 | 1,317.6 | 3,503.5 |
| Other (1) | (179.0) | (224.3) | (77.0) | (224.2) | (133.0) | (439.8) | (357.2) |
| Ending Balance | \$52,653.0 | \$55,007.0 | \$57,739.6 | \$58,011.2 | \$61,394.3 | \$52,653.0 | \$61,394.3 |
| AUM by asset class (period end) | | | | | | | |
| Equity | \$29,611.7 | \$31,595.9 | \$33,610.7 | \$33,804.4 | \$35,842.5 | \$29,611.7 | \$35,842.5 |
| % of total | 56.3% | 57.4% | 58.2% | 58.3% | 58.3% | 56.3% | 58.3% |
| Fixed Income | 16,170.9 | 15,855.2 | 15,829.4 | 16,319.6 | 16,750.2 | 16,170.9 | 16,750.2 |
| % of total | 30.7% | 28.8% | 27.4% | 28.1% | 27.3% | 30.7% | 27.3% |
| Alternatives (2) | 3,705.9 | 4,538.3 | 5,308.3 | 5,678.3 | 6,744.8 | 3,705.9 | 6,744.8 |
| % of total | 7.0% | 8.3% | 9.2% | 9.8% | 11.0% | 7.0% | 11.0% |
| Other (3) | 3,164.5 | 3,017.6 | 2,991.2 | 2,208.9 | 2,056.8 | 3,164.5 | 2,056.8 |
| % of total | 6.0% | 5.5% | 5.2% | 3.8% | 3.4% | 6.0% | 3.4% |
| Total | \$52,653.0 | \$55,007.0 | \$57,739.6 | \$58,011.2 | \$61,394.3 | \$52,653.0 | \$61,394.3 |

\$ in millions

(1) Represents open-end and closed-end mutual fund distributions, net flows of cash management strategies, net flows and market appreciation (depreciation) on structured products, and net flows from non-sales related activities such as asset acquisitions/(dispositions) and marketable securities investments/(liquidations) and the impact of assets from the use of leverage

(2) Represents non-traditional investment strategies such as long/short equity, real estate, master-limited partnerships and other

(3) Represents cash management and options strategies; Options strategies were \$607.9, \$740.7, \$1,403.6, \$1,369.1, and \$1,417.9 for the periods ending June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013, and June 30, 2013, respectively

Assets Under Management



Asset Flows – By Product

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mutual Funds – Long-Term Open-End | | | | | | | |
| Beginning balance | \$30,552.5 | \$32,351.2 | \$34,173.0 | \$36,367.7 | \$37,347.0 | \$25,827.1 | \$36,367.7 |
| Inflows | 5,069.9 | 4,256.0 | 4,061.1 | 3,641.3 | 3,148.5 | 10,780.5 | 6,789.8 |
| Outflows | (2,462.0) | (3,125.3) | (3,249.4) | (3,388.9) | (2,398.0) | (4,617.0) | (5,786.9) |
| Net Flows | 2,607.9 | 1,130.7 | 811.7 | 252.4 | 750.5 | 6,163.5 | 1,002.9 |
| Market appreciation (depreciation) | (886.0) | 635.2 | 1,277.0 | 651.1 | 1,651.5 | 212.4 | 2,302.6 |
| Other | 76.8 | 55.9 | 106.0 | 75.8 | 70.1 | 148.2 | 145.9 |
| Ending Balance | \$32,351.2 | \$34,173.0 | \$36,367.7 | \$37,347.0 | \$39,819.1 | \$32,351.2 | \$39,819.1 |
| Mutual Funds – Closed-End | | | | | | | |
| Beginning balance | \$6,621.0 | \$6,422.3 | \$6,379.4 | \$6,499.6 | \$6,690.7 | \$6,231.6 | \$6,499.6 |
| Inflows | - | - | - | - | 463.3 | - | 463.3 |
| Outflows | - | - | - | - | - | - | - |
| Net Flows | - | - | - | - | 463.3 | - | 463.3 |
| Market appreciation (depreciation) | (61.6) | 118.7 | 220.9 | 298.9 | 475.6 | 388.6 | 774.5 |
| Other | (137.1) | (161.6) | (100.7) | (107.8) | (99.0) | (197.9) | (206.8) |
| Ending Balance | \$6,422.3 | \$6,379.4 | \$6,499.6 | \$6,690.7 | \$7,530.6 | \$6,422.3 | \$7,530.6 |
| Mutual Funds – Money Market | | | | | | | |
| Beginning balance | \$1,742.2 | \$1,707.7 | \$1,610.2 | \$1,556.6 | \$1,378.0 | \$1,994.1 | \$1,556.6 |
| Other | (34.5) | (97.5) | (53.6) | (178.6) | (66.3) | (286.4) | (244.9) |
| Ending Balance | \$1,707.7 | \$1,610.2 | \$1,556.6 | \$1,378.0 | \$1,311.7 | \$1,707.7 | \$1,311.7 |

\$ in millions

Assets Under Management

Asset Flows – By Product (Continued)

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Variable Insurance Funds | | | | | | | |
| Beginning balance | \$ 1,317.8 | \$ 1,250.8 | \$ 1,286.8 | \$ 1,311.8 | \$1,286.6 | \$ 1,295.7 | \$1,311.8 |
| Inflows | 12.3 | 13.1 | 13.5 | 11.6 | 20.9 | 22.1 | 32.5 |
| Outflows | (65.7) | (59.4) | (59.3) | (55.5) | (53.3) | (126.7) | (108.8) |
| Net Flows | (53.4) | (46.3) | (45.8) | (43.9) | (32.4) | (104.6) | (76.3) |
| Market appreciation (depreciation) | (14.1) | 82.3 | 71.8 | 18.7 | 51.3 | 59.2 | 70.0 |
| Other | 0.5 | - | (1.0) | - | - | 0.5 | - |
| Ending Balance | \$1,250.8 | \$1,286.8 | \$1,311.8 | \$1,286.6 | \$1,305.5 | \$1,250.8 | \$1,305.5 |
| Separately Managed Accounts | | | | | | | |
| Beginning balance | \$6,435.5 | \$6,521.7 | \$6,950.7 | \$7,433.1 | \$6,778.4 | \$5,829.0 | \$7,433.1 |
| Inflows | 324.6 | 312.7 | 379.7 | 471.9 | 278.8 | 691.6 | 750.7 |
| Outflows | (295.3) | (283.4) | (413.2) | (1,028.0) | (461.0) | (529.3) | (1,489.0) |
| Net Flows | 29.3 | 29.3 | (33.5) | (556.1) | (182.2) | 162.3 | (738.3) |
| Market appreciation (depreciation) | 87.5 | 399.7 | 520.3 | (100.1) | 238.5 | 561.4 | 138.4 |
| Other | (30.6) | - | (4.4) | 1.5 | 27.7 | (31.0) | 29.2 |
| Ending Balance | \$6,521.7 | \$6,950.7 | \$7,433.1 | \$6,778.4 | \$6,862.4 | \$6,521.7 | \$6,862.4 |
| Institutional Accounts | | | | | | | |
| Beginning balance | \$4,538.7 | \$4,399.3 | \$4,606.9 | \$4,570.8 | \$4,530.5 | \$4,359.5 | \$4,570.8 |
| Inflows | 189.0 | 287.3 | 165.4 | 124.4 | 106.8 | 343.6 | 231.2 |
| Outflows | (260.6) | (155.0) | (300.5) | (236.5) | (137.9) | (326.6) | (374.4) |
| Net Flows | (71.6) | 132.3 | (135.1) | (112.1) | (31.1) | 17.0 | (143.2) |
| Market appreciation (depreciation) | (13.7) | 96.4 | 122.3 | 86.9 | 131.1 | 96.0 | 218.0 |
| Other | (54.1) | (21.1) | (23.3) | (15.1) | (65.5) | (73.2) | (80.6) |
| Ending Balance | \$4,399.3 | \$4,606.9 | \$4,570.8 | \$4,530.5 | \$4,565.0 | \$4,399.3 | \$4,565.0 |

\$ in millions

Assets Under Management



Long-Term Open-End Asset Flows – By Asset Class

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mutual Funds - Domestic Equity | | | | | | | |
| Beginning balance | \$7,448.8 | \$8,170.7 | \$9,446.0 | \$11,092.1 | \$11,575.7 | \$6,459.2 | \$11,092.1 |
| Inflows | 1,171.5 | 1,239.8 | 1,288.7 | 1,160.9 | 907.7 | 1,965.6 | 2,068.6 |
| Outflows | (471.1) | (438.3) | (536.9) | (711.8) | (806.0) | (895.5) | (1,517.8) |
| Net Flows | 700.4 | 801.5 | 751.8 | 449.1 | 101.7 | 1,070.1 | 550.8 |
| Market appreciation (depreciation) | 61.2 | 475.6 | 891.9 | 133.0 | 558.0 | 698.9 | 691.0 |
| Other | (39.7) | (1.8) | 2.4 | (98.5) | (45.9) | (57.5) | (144.4) |
| Ending Balance | \$8,170.7 | \$9,446.0 | \$11,092.1 | \$11,575.7 | \$12,189.5 | \$8,170.7 | \$12,189.5 |
| Mutual Funds - International Equity | | | | | | | |
| Beginning balance | \$10,290.6 | \$10,509.6 | \$10,424.2 | \$10,059.5 | \$9,877.4 | \$8,251.0 | \$10,059.5 |
| Inflows | 1,663.6 | 1,371.5 | 1,022.1 | 893.7 | 814.3 | 4,390.8 | 1,708.0 |
| Outflows | (711.8) | (1,433.6) | (1,403.1) | (1,387.3) | (537.0) | (1,618.9) | (1,924.3) |
| Net Flows | 951.8 | (62.1) | (381.0) | (493.6) | 277.3 | 2,771.9 | (216.3) |
| Market appreciation (depreciation) | (719.4) | (22.0) | 31.1 | 203.1 | 676.5 | (510.1) | 879.6 |
| Other | (13.4) | (1.3) | (14.8) | 108.4 | (9.0) | (3.2) | 99.4 |
| Ending Balance | \$10,509.6 | \$10,424.2 | \$10,059.5 | \$9,877.4 | \$10,822.2 | \$10,509.6 | \$10,822.2 |
| Mutual Funds - Alternatives | | | | | | | |
| Beginning balance | \$2,558.1 | \$3,102.6 | \$3,717.3 | \$4,523.8 | \$4,986.3 | \$2,029.2 | \$4,523.8 |
| Inflows | 613.1 | 654.8 | 752.6 | 586.5 | 404.5 | 1,031.7 | 991.0 |
| Outflows | (208.5) | (231.0) | (297.0) | (348.2) | (263.7) | (339.2) | (611.9) |
| Net Flows | 404.6 | 423.8 | 455.6 | 238.3 | 140.8 | 692.5 | 379.1 |
| Market appreciation (depreciation) | (27.9) | 39.6 | 212.2 | 161.7 | 237.9 | 117.4 | 399.6 |
| Other | 167.8 | 151.3 | 138.7 | 62.5 | 189.4 | 263.5 | 251.9 |
| Ending Balance | \$3,102.6 | \$3,717.3 | \$4,523.8 | \$4,986.3 | \$5,554.4 | \$3,102.6 | \$5,554.4 |

\$ in millions

Assets Under Management



Long-Term Open-End Asset Flows – By Asset Class (Continued)

| | <u>Q2:13</u> | <u>Q3:13</u> | <u>Q4:13</u> | <u>Q1:14</u> | <u>Q2:14</u> | <u>YTD:13</u> | <u>YTD:14</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mutual Funds – Taxable Bond | | | | | | | |
| Beginning balance | \$9,853.0 | \$10,222.5 | \$10,297.2 | \$10,425.1 | \$10,646.1 | \$8,686.3 | \$10,425.1 |
| Inflows | 1,602.5 | 984.4 | 990.4 | 991.2 | 1,013.2 | 3,334.4 | 2,004.4 |
| Outflows | (1,011.6) | (962.7) | (970.8) | (918.9) | (763.0) | (1,671.5) | (1,681.9) |
| Net Flows | 590.9 | 21.7 | 19.6 | 72.3 | 250.2 | 1,662.9 | 322.5 |
| Market appreciation (depreciation) | (186.1) | 142.3 | 141.1 | 145.8 | 172.7 | (79.5) | 318.5 |
| Other | (35.3) | (89.3) | (32.8) | 2.9 | (65.8) | (47.2) | (62.9) |
| Ending Balance | \$10,222.5 | \$10,297.2 | \$10,425.1 | \$10,646.1 | \$11,003.2 | \$10,222.5 | \$11,003.2 |
| Mutual Funds – Non-Taxable Bond | | | | | | | |
| Beginning balance | \$402.0 | \$345.8 | \$287.3 | \$247.2 | \$241.1 | \$401.4 | \$247.2 |
| Inflows | 19.2 | 5.5 | 7.3 | 8.8 | 7.2 | 58.0 | 16.0 |
| Outflows | (59.0) | (59.7) | (41.6) | (22.7) | (28.3) | (91.9) | (51.0) |
| Net Flows | (39.8) | (54.2) | (34.3) | (13.9) | (21.1) | (33.9) | (35.0) |
| Market appreciation (depreciation) | (13.8) | (0.3) | 0.6 | 7.2 | 5.9 | (14.3) | 13.1 |
| Other | (2.6) | (4.0) | (6.4) | 0.6 | 1.5 | (7.4) | 2.1 |
| Ending Balance | \$345.8 | \$287.3 | \$247.2 | \$241.1 | \$227.4 | \$345.8 | \$227.4 |

\$ in millions

Footnotes to Schedule of Non-GAAP Information



The company reports its financial results on a Generally Accepted Accounting Principles (GAAP) basis; however management believes that evaluating the company's ongoing operating results may be enhanced if investors have additional non-GAAP financial measures. Management reviews non-GAAP financial measures to assess ongoing operations and considers them to only be additional metrics for both management and investors to consider the company's financial performance over time, as noted in the footnotes below. Management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial results prepared in accordance with GAAP.

(1) Revenues and expenses related to consolidated sponsored investment products have been excluded to reflect revenues and expenses of the company prior to the consolidation of these products.

(2) Revenues, as adjusted, is a non-GAAP financial measure calculated by netting distribution and administration expenses from GAAP revenues. Management believes Revenues, as adjusted, provides useful information to investors because distribution and administration expenses are costs that are generally passed directly through to external parties.

(3) Stock-based compensation expense includes equity issued under incentive plans and equity granted to Board of Directors.

(4) For the three and six months ended June 30, 2014, closed-end fund launch costs comprise structuring fees of \$9.6 million payable to underwriters and sales-based compensation of \$0.5 million.

(5) For the three and six months ended June 30, 2014, the company incurred \$0.5 million of costs associated with the transition of middle- and back-office systems to a third-party provider.

(6) For the three months ended June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014, and June 30, 2014, Newfleet transition expenses include \$0.1 million, \$0.1 million, \$0.2 million, \$0.1 million, and \$0.1 million, respectively, of stock-based compensation. For the six months ended June 30, 2013 and June 30, 2014, Newfleet transition expenses include \$0.3 million and \$0.2 million, respectively, of stock-based compensation.

(7) Operating expenses, as adjusted, is a non-GAAP financial measure that management believes provides investors with additional information because of the nature of the specific excluded operating expenses. Specifically, management adds back amortization attributable to acquisition-related intangible assets as this may be useful to an investor to consider our operating results with the results of other asset management firms that have not engaged in significant acquisitions. In addition, we add back restructuring and severance charges as we believe that operating expenses exclusive of these costs will aid comparability of the information to prior reporting periods. We believe that because of the variety of equity awards used by companies and the varying methodologies for determining stock-based compensation expense, excluding stock-based compensation enhances the ability of management and investors to compare financial results over periods. Distribution and administrative expenses are excluded for the reason set forth above.

(8) Operating income, as adjusted, and operating margin, as adjusted, are calculated using the basis of revenues, as adjusted, and operating expenses, as adjusted, as described above.

The above measures should not be considered as substitutes for any measures derived in accordance with GAAP and may not be comparable to similarly titled measures of other companies. Exclusion of items in our non-GAAP presentation should not be considered as an inference that these items are unusual, infrequent or non-recurring.

