VIRTUS INVESTMENT PARTNERS, INC.
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-10994

VIRTUS INVESTMENT PARTNERS, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4191764
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Pearl St., Hartford, CT 06103
(Address of principal executive offices) (Zip Code)
(800) 248-7971
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The number of shares outstanding of the registrant’s common stock was 7,718,336 as of July 22, 2016.

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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Virtus Investment Partners, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

($ in thousands, except share data)	June 30, 2016	December 31, 2015
Assets:		
Cash and cash equivalents	$155,532	$ 87,574
Investments	91,736	56,738
Accounts receivable, net	36,030	38,757
Assets of consolidated sponsored investment products		
Cash of consolidated sponsored investment products	1,094	1,513
Cash pledged or on deposit of consolidated sponsored investment products	1,006	10,353
Investments of consolidated sponsored investment products	130,396	323,335
Other assets of consolidated sponsored investment products	2,594	8,549
Assets of consolidated investment product		
Cash equivalents of consolidated investment product	91,044	8,297
Investments of consolidated investment product	344,886	199,485
Other assets of consolidated investment product	6,078	1,467
Furniture, equipment and leasehold improvements, net	8,348	9,116
Intangible assets, net	39,633	40,887
Goodwill	6,788	6,701
Deferred taxes, net	46,434	54,143
Other assets	13,404	12,814
Total assets	$975,003	$ 859,729
Liabilities and Equity		
Liabilities:		
Accrued compensation and benefits	$26,242	$ 49,617
Accounts payable and accrued liabilities	20,448	23,036
Dividends payable	4,047	4,233
Other liabilities	13,543	13,051
Liabilities of consolidated sponsored investment products	3,073	15,387
Liabilities of consolidated investment product		
Debt of consolidated investment product	—	152,597
Notes payable of consolidated investment product	319,716	—
Securities purchased payable and other liabilities of consolidated investment product	94,683	18,487
Total liabilities	481,752	276,408
Commitments and Contingencies (Note 12)		
Redeemable noncontrolling interests	27,145	73,864
Equity:		
Equity attributable to stockholders:		
Common stock, $0.01 par value, 1,000,000,000 shares authorized; 9,108,411 shares issued and 7,718,063 shares outstanding at June 30, 2016 and 9,613,088 shares issued and 8,398,944 shares outstanding at December 31, 2015	91	96
Additional paid-in capital	1,091,228	1,140,875
Accumulated deficit	(452,163)	(472,614)
Accumulated other comprehensive loss	(184)	(1,034)
Treasury stock, at cost, 1,390,348 and 1,214,144 shares at June 30, 2016 and December 31, 2015, respectively	(172,699)	(157,699)

Total equity attributable to stockholders	466,273	509,624
Noncontrolling interests	(167)	(167)
Total equity	466,106	509,457
Total liabilities and equity	$975,003	$ 859,729

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Virtus Investment Partners, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
($ in thousands, except per share data)				
Revenues				
Investment management fees	$58,192	$68,867	$115,836	$139,363
Distribution and service fees	12,167	17,635	24,645	37,233
Administration and transfer agent fees	9,499	12,577	19,497	25,619
Other income and fees	227	577	402	1,272
Total revenues	80,085	99,656	160,380	203,487
Operating Expenses				
Employment expenses	33,065	33,593	69,042	69,215
Distribution and other asset-based expenses	17,432	23,676	35,533	48,183
Other operating expenses	12,457	23,512	23,222	40,238
Other operating expenses of consolidated sponsored investment products	777	957	1,910	1,775
Other operating expenses of consolidated investment product	3,841	—	3,897	—
Restructuring and severance	2,391	—	2,391	—
Depreciation and other amortization	776	873	1,638	1,652
Amortization expense	603	837	1,254	1,674
Total operating expenses	71,342	83,448	138,887	162,737
Operating Income	8,743	16,208	21,493	40,750
Other Income (Expense)				
Realized and unrealized gain on investments, net	3,281	343	2,623	888
Realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net	3,097	(3,242)	3,392	(652)
Realized and unrealized gain of consolidated investment product, net	581	—	2,816	—
Other (expense) income, net	(15)	247	213	682
Total other income (expense), net	6,944	(2,652)	9,044	918
Interest Income (Expense)				
Interest expense	(129)	(121)	(261)	(244)
Interest and dividend income	619	302	892	582
Interest and dividend income of investments of consolidated sponsored investment products	1,696	3,098	4,657	5,422
Interest expense of consolidated investment product	(5,668)	—	(6,400)	—
Interest income of consolidated investment product	2,582	—	4,788	—
Total interest (expense) income, net	(900)	3,279	3,676	5,760
Income Before Income Taxes	14,787	16,835	34,213	47,428
Income tax expense	6,087	7,823	13,643	18,691
Net Income	8,700	9,012	20,570	28,737
Noncontrolling interests	(612)	765	(119)	382
Net Income Attributable to Common Stockholders	$8,088	$9,777	$20,451	$29,119
Earnings per Share—Basic	$0.99	$1.10	$2.48	$3.26
Earnings per Share—Diluted	$0.97	$1.08	$2.43	$3.20
Cash Dividends Declared per Share	$0.45	$0.45	$0.90	$0.90
Weighted Average Shares Outstanding—Basic (in thousands)	8,170	8,889	8,257	8,927

Weighted Average Shares Outstanding—Diluted (in thousands)	8,314	9,037	8,410	9,094

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Virtus Investment Partners, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
($ in thousands)				
Net Income	$8,700	$9,012	$20,570	$28,737
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax of ($287) and $30 for the three months ended June 30, 2016 and 2015, respectively and ($348) and $195 for the six months ended June 30, 2016 and 2015, respectively	470	(49)	569	(320)
Unrealized gain (loss) on available-for-sale securities, net of tax of ($74) and $62 for the three months ended June 30, 2016 and 2015, respectively and ($171) and $61 for the six months ended June 30, 2016 and 2015 respectively	121	(103)	281	(99)
Other comprehensive income (loss)	591	(152)	850	(419)
Comprehensive income	9,291	8,860	21,420	28,318
Comprehensive income (loss) attributable to noncontrolling interests	(612)	765	(119)	382
Comprehensive Income Attributable to Common Stockholders	$8,679	$9,625	$21,301	$28,700

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Virtus Investment Partners, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
($ in thousands)		
Cash Flows from Operating Activities:		
Net income	$20,570	$28,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense, intangible asset and other amortization	3,009	3,436
Stock-based compensation	6,658	6,433
Excess tax benefits from stock-based compensation	(164)	(1,328)
Amortization of discount on notes payable of consolidated investment product	3,719	—
Amortization of deferred commissions	1,365	5,339
Payments of deferred commissions	(921)	(2,040)
Equity in earnings of equity method investments	(201)	(669)
Realized gain on sale of equity method investment	(2,883)	—
Realized and unrealized losses (gains) on trading securities, net	260	(609)
Realized and unrealized (gains) losses on investments of consolidated sponsored investment products, net	(4,218)	2,315
Realized and unrealized gains of consolidated investment product, net	(2,146)	—
Sales of trading securities, net	11,122	8,131
Sales (purchases) of investments by consolidated sponsored investment products, net	100,436	(39,993)
(Purchases) sales of securities sold short by consolidated sponsored investment products, net	(4,455)	2,040
Purchases of investments by consolidated investment product, net	(71,943)	—
Deferred taxes, net	7,190	636
Changes in operating assets and liabilities:		
Cash pledged or on deposit of consolidated sponsored investment products	9,582	(3,489)
Accounts receivable, net and other assets	576	4,665
Other assets of consolidated sponsored investment products	(358)	(1,855)
Other assets of consolidated investment product	(227)	—
Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities	(25,430)	(15,104)
Liabilities of consolidated sponsored investment products	187	4,909
Liabilities of consolidated investment product, net	217	—
Net cash provided by operating activities	51,945	1,554
Cash Flows from Investing Activities:		
Capital expenditures	(1,093)	(2,978)
Proceeds from sale of equity method investment	8,621	—
Change in cash and cash equivalents of consolidated sponsored investment products due to deconsolidation	103	—
Asset acquisitions and purchases of other investments	(759)	(1,601)
Cash acquired in business combination	—	89
Purchases of available-for-sale securities	(121)	(111)
Net cash provided by (used in) investing activities	6,751	(4,601)
Cash Flows from Financing Activities:		
Borrowings of proceeds from short sales by consolidated sponsored investment products	—	831

Payments on borrowings by consolidated sponsored investment products	(3,415)	
Repayment of debt of consolidated investment product	(152,597)	—
Proceeds from issuance of notes payable by consolidated investment product	316,280	—
Dividends paid	(7,638)	(8,167)
Repurchases of common shares	(61,809)	(28,000)
Proceeds from exercise of stock options	400	61
Taxes paid related to net share settlement of restricted stock units	(1,332)	(4,841)
Excess tax benefits from stock-based compensation	164	1,328
Contributions of noncontrolling interests, net	1,537	34,237
Net cash provided by (used in) financing activities	91,590	(4,551)
Net increase (decrease) in cash and cash equivalents	150,286	(7,598)
Cash and cash equivalents, beginning of period	97,384	203,304
Cash and Cash Equivalents, End of Period	$247,670	$195,706
Non-Cash Investing Activities:		
Change in accrual for capital expenditures	$45	$(465)
Investment in acquired business	—	4,800
Non-Cash Financing Activities:		
Decrease to noncontrolling interest due to deconsolidation of consolidated sponsored investment products	$(52,874)	$(1,569)
Dividends payable	$3,473	$4,048

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Virtus Investment Partners, Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

($ in thousands except per share data)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Attributed To Stockholders	Non-controlling Interests	Total Equity
Balances at December 31, 2014	8,975,833	$96	$1,148,908	$(507,521)	$(242)	575,441	$(77,699)	$563,542	$(190)	$563,352
Net income (loss)	—	—	—	29,119	—	—	—	29,119	(200)	28,919
Net unrealized loss on securities available-for-sale	—	—	—	—	(99)	—	—	(99)	—	(99)
Foreign currency translation adjustments	—	—	—	—	(320)	—	—	(320)	—	(320)
Activity of noncontrolling interests, net	—	—	—	—	—	—	—	—	—	—
Cash dividends declared ($0.90 per common share)	—	—	(8,143)	—	—	—	—	(8,143)		(8,143)
Repurchases of common shares	(212,588)	—	—	—	—	212,588	(28,000)	(28,000)	—	(28,000)
Issuance of common shares related to employee stock transactions	55,384	—	787	—	—	—	—	787	—	787
Taxes paid on stock-based compensation	—	—	(4,841)	—	—	—	—	(4,841)	—	(4,841)
Stock-based compensation	—	—	6,168	—	—	—	—	6,168	—	6,168
Excess tax benefits from stock-based compensation	—	—	1,150	—	—	—	—	1,150	—	1,150
Balances at June 30, 2015	8,818,629	$96	$1,144,029	$(478,402)	$(661)	788,029	$(105,699)	$559,363	$(390)	$558,973
Balances at December 31, 2015	8,398,944	$96	$1,140,875	$(472,614)	$(1,034)	1,214,144	$(157,699)	$509,624	$(167)	$509,457
Net income	—	—	—	20,451	—	—	—	20,451	—	20,451
Net unrealized gain on securities	—	—	—	—	281	—	—	281	—	281

available-for-sale										
Foreign currency translation adjustments	—	—	—	—	569	—	—	569	—	569
Activity of noncontrolling interests, net	—	—	—	—	—	—	—	—	—	—
Cash dividends declared ($0.90 per common share)	—	—	(7,452)	—	—	—	—	(7,452)	—	(7,452)
Repurchases of common shares	(732,713)	(6)	(47,133)	—	—	176,204	(15,000)	(62,139)	—	(62,139)
Issuance of common shares related to employee stock transactions	51,832	1	963	—	—	—	—	964	—	964
Taxes paid on stock-based compensation	—	—	(1,332)	—	—	—	—	(1,332)		(1,332)
Stock-based compensation	—	—	6,620	—	—	—	—	6,620	—	6,620
Tax deficiencies from stock-based compensation	—	—	(1,313)	—	—	—	—	(1,313)	—	(1,313)
Balances at June 30, 2016	7,718,063	$91	$1,091,228	$(452,163)	$(184)	1,390,348	$(172,699)	$466,273	$(167)	$466,106

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Virtus Investment Partners, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
1. Organization and Business
Virtus Investment Partners, Inc. (the “Company,” “we,” “us,” “our” or “Virtus”), a Delaware corporation, operates in the investment management industry through its subsidiaries.
The Company provides investment management and related services to individuals and institutions throughout the United States of America. The Company’s retail investment management services are provided to individuals through products consisting of open-end mutual funds, closed-end funds, exchange traded funds (“ETFs”), variable insurance funds, Undertaking for Collective Investment in Transferable Securities (“UCITS”) and separately managed accounts. Institutional investment management services are provided to corporations, multiemployer retirement funds, employee retirement systems, foundations, endowments, structured products and as a subadviser to unaffiliated mutual funds.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial condition and results of operations. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The condensed consolidated financial statements include the accounts of the Company, its subsidiaries and investment products that are consolidated. Voting interest entities ("VOEs") are consolidated when the Company is considered to have a controlling financial interest which is typically present when the Company owns a majority of the voting interest in an entity or otherwise has the power to govern the financial and operating policies of the subsidiary or investment product.

The Company evaluates any variable interest entities (“VIEs”) in which the Company has a variable interest for consolidation. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) where as a group, the holders of the equity investment at risk do not possess: (i) the power through voting or similar rights to direct the activities that most significantly impact the entity’s economic performance; (ii) the obligation to absorb expected losses or the right to receive expected residual returns of the entity; or (iii) proportionate voting and economic interests and where substantially all of the entity’s activities either involve or are conducted on behalf of an investor with disproportionately fewer voting rights. If any entity has any of these characteristics, it is considered a VIE and is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that has both the power to direct the activities that most significantly impact the VIE’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE.

The Company's investment products that are consolidated are referred to as consolidated sponsored investment products or the consolidated investment product. Consolidated sponsored investment products are investment products in which the Company generally holds a majority of the economic interests. The consolidated investment product is a collateralized loan obligation ("CLO") in which the Company has a beneficial interest. The consolidation and deconsolidation of these investment products have no impact on net income attributable to stockholders. The Company’s risk with respect to these investments is limited to its investment in these products and any investment management fees it earns. The Company has no right to the benefits from, and does not bear the risks associated with, these investment products beyond the Company's investments in, and fees generated from, these products. The Company does not consider cash and investments held by the investment products it consolidates to be assets of the Company other than its direct investment in these products. See Note 13 for additional information related to the consolidation of sponsored investment products and the investment product. Intercompany accounts and transactions have been eliminated.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. The Company's significant accounting policies, which have been consistently applied, are summarized in its 2015 Annual Report on Form 10-K.

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New Accounting Standards Implemented

The Company adopted Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02") on January 1, 2016. This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain entities. Certain unconsolidated entities that had been classified as VOEs under previous consolidation guidance are now classified as VIEs under ASU 2015-02. As such, disclosure for VIEs is included in Note 13 to the condensed consolidated financial statements. Adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

The Company adopted ASU No. 2014-13, Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity (“CFE”) ("ASU 2014-13") on January 1, 2016. This new standard requires reporting entities to use the more observable of the fair value of the financial assets or the financial liabilities to measure the financial assets and the financial liabilities of a CFE when a CFE is initially consolidated. It permits entities to make an accounting policy election to apply this same measurement approach after initial consolidation or to apply other GAAP to account for the consolidated CFE’s financial assets and financial liabilities. It also prohibits all entities from electing to use the fair value option in ASC 825, Financial Instruments, to measure either the financial assets or financial liabilities of a consolidated CFE that is within the scope of this issue. The Company has elected the measurement alternative for its consolidated investment product. The Company's subsequent earnings from the consolidated investment product will reflect changes in value of the Company's own economic interest in the consolidated investment product. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

The Company adopted ASU No. 2015-16 “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” ("ASU 2015-16") on January 1, 2016. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the financial statements of the period in which adjustments to provisional amounts are determined, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

The Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-3") on January 1, 2016, which changes the presentation of debt issuance costs in the balance sheet. This new standard requires that debt issuance costs be presented as a deduction from the carrying amount of the related debt rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15 to amend ASU 2015-03 to address line-of-credit agreements. ASU 2015-15 allows entities to present debt issuance costs related to line-of-credit agreements as an asset and amortize deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

New Accounting Standards Not Yet Implemented

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718) ("ASU 2016-09"). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), which amends the principal-versus-agent implementation guidance in ASU 2014-09. The new guidance will impact whether an entity reports revenue on a gross or net basis. The Company is currently evaluating the impact of adopting ASU 2016-08, which is effective for the Company in conjunction with the adoption of ASU 2014-09.

In March 2016, the FASB issued ASU No. 2016-07, "Investments—Equity Method and Joint Ventures (Topic 232): Simplifying the Transition to the Equity Method of Accounting." This standard eliminates the requirement that when an existing cost method investment qualifies for use of the equity method, an investor must restate its historical financial statements, as if the equity method had been used during all previous periods. Under the new guidance, at the point an investment qualifies for

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the equity method, any unrealized gain or loss in accumulated other comprehensive income/(loss) will be recognized through earnings. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). The standard replaces current codification Topic 840 with updated guidance on accounting for leases and requires a lessee to recognize assets and liabilities arising from an operating lease on the balance sheet, whereas previous U.S. GAAP did not require lease assets and liabilities to be recognized for most leases. Furthermore, companies are permitted to make an accounting policy election to not recognize lease assets and liabilities for leases with a term of 12 months or less. For both finance leases and operating leases, the lease liability should be initially measured at the present value of the lease payments. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will not significantly change under this new guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods therein. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-1"), which requires all equity investments (other than those accounted for under the equity method) to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 and interim periods therein. Early adoption is not permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 provides a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. Companies may use either a full retrospective or a modified retrospective approach. In July 2015, the FASB confirmed a deferral of the effective date by one year, with early adoption on the original effective date permitted. As deferred, ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

3. Intangible Assets, Net

Intangible assets, net are summarized as follows:

	June 30, 2016	December 31, 2015
($ in thousands)		
Definite-lived intangible assets:		
Investment contracts	$158,747	$158,747
Accumulated amortization	(153,930)	(152,676)
Definite-lived intangible assets, net	4,817	6,071
Indefinite-lived intangible assets	34,816	34,816
Total intangible assets, net	$39,633	$40,887

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Activity in intangible assets, net is as follows:

	Six Months Ended June 30,	
	2016	2015
($ in thousands)		
Intangible assets, net		
Balance, beginning of period	$40,887	$41,783
Additions	—	2,400
Amortization	(1,254)	(1,674)
Balance, end of period	$39,633	$42,509

4. Investments

Investments consist primarily of investments in the Company's sponsored mutual funds. The Company's investments, excluding the investments of consolidated sponsored investment products and the investments of the consolidated investment product, which are separately discussed in Note 13, at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
($ in thousands)		
Marketable securities	$80,234	$ 41,496
Equity method investments	5,147	9,007
Nonqualified retirement plan assets	5,430	5,310
Other investments	925	925
Total investments	$91,736	$ 56,738

Marketable Securities

The Company's marketable securities consist of both trading and available-for-sale securities. The composition of the Company's marketable securities is summarized as follows:

June 30, 2016

	Cost	Unrealized Loss	Unrealized Gain	Fair Value
($ in thousands)				
Trading:				
Sponsored funds	$69,355	$ (3,146)	$ 256	$66,465
Equity securities	10,217	(356)	339	10,200
Available-for-sale:				
Sponsored closed-end funds	3,476	(221)	314	3,569
Total marketable securities	$83,048	$ (3,723)	$ 909	$80,234

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December 31, 2015

($ in thousands)	Cost	Unrealized Loss	Unrealized Gain	Fair Value
Trading:				
Sponsored funds	$31,167	$ (2,134)	$ 298	$29,331
Equity securities	9,434	(386)	120	9,168
Available-for-sale:				
Sponsored closed-end funds	3,355	(365)	7	2,997
Total marketable securities	$43,956	$ (2,885)	$ 425	$41,496

For the three months ended June 30, 2016, the Company recognized a net realized gain of $0.2 million on trading securities and for the six months ended June 30, 2016, the Company recognized a net realized loss of $0.2 million on trading securities. For the three and six months ended June 30, 2015, the Company recognized a net realized gain of $0.5 million and $0.9 million, respectively, on trading securities.

5. Fair Value Measurements

The Company’s assets and liabilities measured at fair value on a recurring basis, excluding the assets and liabilities of consolidated sponsored investment products and the consolidated investment product, which are separately discussed in Note 13, as of June 30, 2016 and December 31, 2015 by fair value hierarchy level were as follows:

June 30, 2016

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$121,552	$ —	$ —	$121,552
Marketable securities trading:				
Sponsored funds	66,465	—	—	66,465
Equity securities	10,200	—	—	10,200
Marketable securities available-for-sale:				
Sponsored closed-end funds	3,569	—	—	3,569
Other investments:				
Nonqualified retirement plan assets	5,430	—	—	5,430
Total assets measured at fair value	$207,216	$ —	$ —	$207,216

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December 31, 2015

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$54,772	$ —	$ —	$54,772
Marketable securities trading:				
Sponsored funds	29,331	—	—	29,331
Equity securities	9,168	—	—	9,168
Marketable securities available-for-sale:				
Sponsored closed-end funds	2,997	—	—	2,997
Other investments				
Nonqualified retirement plan assets	5,310	—	—	5,310
Total assets measured at fair value	$101,578	$ —	$ —	$101,578

The following is a discussion of the valuation methodologies used for the Company’s assets measured at fair value:

Cash equivalents represent investments in money market funds. Cash investments in actively traded money market funds are valued using published net asset values and are classified as Level 1.

Sponsored funds represent investments in open-end mutual funds, variable insurance funds and closed-end funds for which the Company acts as the investment manager. The fair value of open-end mutual funds and variable insurance funds is determined based on their published net asset values and are categorized as Level 1. The fair value of closed-end funds is determined based on the official closing price on the exchange on which they are traded and are categorized as Level 1.

Equity securities include securities traded on active markets and are valued at the official closing price (typically last sale or bid) on the exchange on which the securities are primarily traded and are categorized as Level 1.

Nonqualified retirement plan assets represent mutual funds within a nonqualified retirement plan whose fair value is determined based on their published net asset value and are categorized as Level 1.

Cash, accounts receivable, accounts payable and accrued liabilities equal or approximate fair value based on the short-term nature of these instruments.

Transfers into and out of levels are reflected when (1) significant inputs used for the fair value measurement, including market inputs or performance attributes, become observable or unobservable, (2) when the Company determines it has the ability, or no longer has the ability, to redeem, in the near term, certain investments that the Company values using a net asset value, or (3) if the book value no longer represents fair value. There were no transfers between levels during the three and six months ended June 30, 2016 and 2015.

6. Equity Transactions

During the six months ended June 30, 2016 and 2015, the Company repurchased 732,713 and 212,588 common shares, respectively, at a weighted average price of $83.12 and $131.67 per share, respectively, for a total cost, including fees and expenses, of approximately $62.1 million and $28.0 million, respectively. The shares repurchased of 732,713 during the six months ended June 30, 2016 included 556,509 shares repurchased pursuant to a tender offer that was completed in the second quarter of 2016. The shares were repurchased at a price of $82.50 for an aggregate cost of $47.1 million, including fees and expenses related to the tender offer. The shares repurchased under the tender offer were retired by the Company and $47.1 million was recorded as Additional Paid-in-Capital in the Company's condensed consolidated balance sheet.

Excluding shares repurchased under the tender offer described above, the Company has repurchased a total of 1,390,348 shares of common stock at a weighted average price of $124.17 per share plus transaction costs for a total cost of $172.7 million under its share repurchase program. At June 30, 2016, there were 1,309,652 shares of common stock available to repurchase under the Company’s current share repurchase program.

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The Board of Directors declared cash dividends of $0.45 per share in each of the first two quarters of 2016 and 2015. Total dividends declared were $7.5 million and $8.1 million for the six months ended June 30, 2016 and 2015, respectively. Dividends declared in the second quarter of 2016 will be paid on August 12, 2016 to all shareholders of record on July 29, 2016.

7. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2016 and 2015 were as follows:

($ in thousands)	Unrealized Gains and (Losses) on Securities Available-for-Sale	Foreign Currency Translation Adjustments
Balance December 31, 2015	$ (465)	$ (569)
Unrealized net gains on securities available-for-sale, net of tax of ($171)	281	—
Foreign currency translation adjustments, net of tax of ($348)	—	569
Amounts reclassified from accumulated other comprehensive income	—	—
Net current-period other comprehensive income	281	569
Balance June 30, 2016	$ (184)	$ —

($ in thousands)	Unrealized Gains and (Losses) on Securities Available-for-Sale	Foreign Currency Translation Adjustments
Balance December 31, 2014	$ (107)	$ (135)
Unrealized net losses on securities available-for-sale, net of tax of $61	(99)	—
Foreign currency translation adjustments, net of tax of $195	—	(320)
Amounts reclassified from accumulated other comprehensive income	—	—
Net current-period other comprehensive loss	(99)	(320)
Balance June 30, 2015	$ (206)	$ (455)

8. Stock-based Compensation

The Company has an Amended and Restated Omnibus Incentive and Equity Plan (the “Plan”) under which officers, employees and directors may be granted equity-based awards, including restricted stock units (“RSUs”), stock options and unrestricted shares of common stock. On May 25, 2016, the shareholders of the Company approved an amendment to the Plan which increased the number of shares of common stock available under the Plan by 600,000, bringing the total number of authorized shares to 2,400,000. At June 30, 2016, 767,213 shares of common stock remained available for issuance of the 2,400,000 shares that were reserved for issuance under the Plan.

Each RSU entitles the holder to one share of common stock when the restriction expires. RSUs generally have a term of one to three years and may be time-vested or performance-contingent. The fair value of each RSU is estimated using the intrinsic value method, which is based on the fair market value price on the date of grant unless it contains a performance metric that is considered a market condition. RSUs that contain a market condition are valued using a simulation valuation model. Shares that are issued upon exercise of stock options and vesting of RSUs are newly issued shares from the Plan and are not issued from treasury stock. Stock options generally cliff vest after three years and have a contractual life of 10 years. Stock options are granted with an exercise price equal to the fair market value of the shares at the date of grant.

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Restricted Stock Units

RSU activity for the six months ended June 30, 2016 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2015	191,617	$ 156.66
Granted	149,989	$ 75.22
Forfeited	(1,193)	$ 127.42
Settled	(50,773)	$ 170.75
Outstanding at June 30, 2016	289,640	$ 112.14

For the six months ended June 30, 2016 and 2015, a total of 17,333 and 35,486 RSUs, respectively, were withheld by the Company as a result of net share settlements to settle minimum employee tax withholding obligations. The Company paid $1.3 million and $4.8 million for the six months ended June 30, 2016 and 2015, respectively, in minimum employee tax withholding obligations related to RSUs withheld. These net share settlements had the effect of share repurchases by the Company as they reduced the number of shares that would have been otherwise issued as a result of the vesting.

During the six months ended June 30, 2016, the Company granted 33,244 RSUs which contain performance based metrics in addition to a service condition. The performance metrics are based on the Company's growth in operating income, as adjusted, relative to peers, over a one-year period and total shareholder return ("TSR") relative to peers over a three-year period. For the six months ended June 30, 2016, total stock-based compensation expense included $0.1 million for these performance contingent RSUs.

The Company recognized total stock compensation expense of $3.4 million and $6.7 million, respectively, for the three and six months ended June 30, 2016 and $3.4 million and $6.4 million, respectively, for the three and six months ended June 30, 2015. As of June 30, 2016, unamortized stock-based compensation expense for unvested RSUs was $17.6 million, with a weighted-average remaining amortization period of 1.8 years.

Stock Options

Stock option activity for the six months ended June 30, 2016 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2015	156,636	$ 18.78
Granted	—	$ —
Exercised	(11,417)	$ 34.97
Forfeited	—	$ —
Outstanding at June 30, 2016	145,219	$ 17.51

9. Restructuring and Severance

The Company incurred $2.4 million in restructuring and severance costs during the three months ended June 30, 2016. Approximately $2.0 million was related to severance costs, associated with a reduction in headcount, and $0.4 million related to future lease obligations and leasehold improvements for vacated office space. Total unpaid severance and related charges as of June 30, 2016 was $2.1 million.

10. Earnings per Share

Basic earnings per share (“EPS”) excludes dilution for potential common stock issuances and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised

or converted into common stock. For the calculation of diluted EPS, the basic weighted-average number of shares is increased by the dilutive effect of RSUs and common stock options using the treasury stock method.
The computation of basic and diluted EPS is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
($ in thousands, except per share amounts)				
Net Income	$8,700	$9,012	$20,570	$28,737
Noncontrolling interests	(612)	765	(119)	382
Net Income Attributable to Common Stockholders	$8,088	$9,777	$20,451	$29,119
Shares (in thousands):				
Basic: Weighted-average number of shares outstanding	8,170	8,889	8,257	8,927
Plus: Incremental shares from assumed conversion of dilutive instruments	144	148	153	167
Diluted: Weighted-average number of shares outstanding	8,314	9,037	8,410	9,094
Earnings per Share—Basic	$0.99	$1.10	$2.48	$3.26
Earnings per Share—Diluted	$0.97	$1.08	$2.43	$3.20

For the three and six months ended June 30, 2016, there were 6,159 and 10,195 instruments, respectively, excluded from the above computations of weighted-average shares for diluted EPS, and for the three and six months ended June 30, 2015, there were 0 and 3,043 instruments, respectively, excluded from the above computations of weighted-average shares for diluted EPS, because the effect would be anti-dilutive.

11. Income Taxes

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances at each interim period. On a quarterly basis, the estimated annual effective tax rate is adjusted, as appropriate, based upon changes in facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The provision for income taxes reflected U.S. federal, state and local taxes at an estimated effective tax rate of 39.9% and 39.4% for the six months ended June 30, 2016 and 2015, respectively.

12. Commitments and Contingencies

Legal Matters

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

The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450, Loss Contingencies. The disclosures, accruals or estimates, if any, resulting from the foregoing analysis are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Based on information currently available, available insurance coverage and

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established reserves, the Company believes that the outcomes of its legal and regulatory proceedings are not likely, either individually or in the aggregate, to have a material adverse effect on the Company's results of operations, cash flows or its consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, the Company can provide no assurance that its assessment of any claim, dispute, regulatory examination or investigation or other legal matter will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.

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

On February 20, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed by an individual shareholder against the Company and certain of the Company's current officers (the "defendants") in the United States District Court for the Southern District of New York (the "Court"). On April 21, 2015, three plaintiffs, including the original plaintiff, filed motions to be appointed lead plaintiff and, on June 9, 2015, the Court appointed Arkansas Teachers Retirement System lead plaintiff. On August 21, 2015, plaintiff filed a Consolidated Class Action Complaint (the "Consolidated Complaint") amending the originally filed complaint, which was purportedly filed on behalf of all purchasers of the Company's common stock between January 25, 2013 and May 11, 2015 (the "Class Period"). The Consolidated Complaint alleges that, during the Class Period, the defendants disseminated materially false and misleading statements and concealed material adverse facts relating to certain funds formerly subadvised by F-Squared Investments Inc. ("F-Squared"). The Consolidated Complaint alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5. The plaintiff seeks to recover unspecified damages. A motion to dismiss the Consolidated Complaint was filed on behalf of the Company and the other defendants on October 21, 2015. On July 1, 2016, the Court entered an opinion and order granting in part, and denying in part, the motion to dismiss, narrowing Plaintiff's claims under Sections 10(b) and 20(a) of the Exchange Act and dismissing one of the defendants from the suit. The remaining defendants' Answer to the Consolidated Complaint was filed on August 5, 2016. The Company believes that the suit is without merit and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

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

On May 8, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed in the United States District Court for the Central District of California (the "District Court") by an individual who alleges he is a former shareholder of one of the Virtus mutual funds formerly subadvised by F-Squared and formerly known as the AlphaSector Funds. The complaint alleges claims against the Company, certain of the Company's officers and affiliates, and certain other parties (the "defendants"). The complaint was purportedly filed on behalf of purchasers of the AlphaSector Funds between May 8, 2010 and December 22, 2014, inclusive (the "Class Period"). The complaint alleges that, during the Class Period, the defendants disseminated materially false and misleading statements and concealed or omitted material facts necessary to make the statements made not misleading. On June 7, 2015, a group of three individuals, including the original plaintiff, filed a motion to be appointed lead plaintiff and on July 27, 2015, the District Court appointed movants as lead plaintiff. On October 1, 2015, plaintiff filed a First Amended Class Action Complaint which, among other things, added a derivative claim for breach of fiduciary duty on behalf of Virtus Opportunities Trust. On October 19, 2015, the District Court entered an order transferring the action to the Southern District of New York (the "Court"). On January 4, 2016, Plaintiffs filed a Second Amended Complaint. A motion to dismiss was filed on behalf of the Company and affiliated defendants on February 1, 2016. On July 1, 2016, the Court entered an opinion and order granting in part, and denying in part, the motion to dismiss. The Court dismissed four causes of action entirely and a fifth cause of action with respect to a portion of the Class Period. The Court also dismissed all claims against ten defendants named in the Complaint. The

Court held that Plaintiff's may pursue certain securities claims under Sections 10(b) and 20(a) of the Exchange Act and Section 12 of the Securities Act of 1933. The Answer to the Second Amended Complaint was filed on August 5, 2016. The defendants intend to file a motion to certify an interlocutory appeal of the July 1, 2016 order to the Court of Appeals for the Second Circuit on or before August 26, 2016. Oral argument on the motion is scheduled for October 7, 2016. The Company believes that the suit has no basis in law or fact and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

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13. Consolidation
Consolidated Sponsored Investment Products

As of June 30, 2016 and December 31, 2015, the Company consolidated 18 and 12 sponsored investment products, respectively. During the six months ended June 30, 2016, the Company consolidated 11 additional sponsored investment products and deconsolidated five sponsored investment products in which it no longer held a majority voting interest.

Consolidated sponsored investment products that are voting interest entities ("VOEs") are funds in which the Company has a controlling financial interest. Consolidated sponsored investment products are typically consolidated when the Company makes an initial investment in a newly launched fund as the Company typically owns a majority of the voting interest and are deconsolidated when the Company redeems its investment or its voting interests decrease to a minority percentage.

The consolidated sponsored investment product is a global fund that is considered a variable interest entity ("VIE") for which the Company is the primary beneficiary. The Company determined that it is the primary beneficiary of the VIE as the Company has the power to direct the activities that most significantly impact the economic performance of the entity and has the obligation to absorb losses, or the rights to receive benefits from, the VIE that could potentially be significant to the VIE. As of June 30, 2016, the Company consolidated one sponsored investment product that was a VIE.

The following table presents the balances of the consolidated sponsored investment products that were reflected in the Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015:

	As of			
	June 30, 2016		December 31, 2015	
	VOEs	VIE	VOEs	VIE
($ in thousands)				
Total cash and cash equivalents	$1,209	$891	$11,408	$458
Total investments	91,669	38,727	291,247	32,088
All other assets	2,244	350	8,281	268
Total liabilities	(2,753)	(320)	(14,948)	(439)
Redeemable noncontrolling interests	(7,825)	(19,320)	(61,236)	(12,628)
The Company’s net interests in consolidated sponsored investment products	$84,544	$20,328	$234,752	$19,747

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Fair Value Measurements

The assets and liabilities of the consolidated sponsored investment products measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 by fair value hierarchy level were as follows:

As of June 30, 2016

	Level 1	Level 2	Level 3	Total
($ in thousands)				
Assets				
Debt securities	$—	$94,996	$ 89	$95,085
Equity securities	26,931	8,380	—	35,311
Derivatives	—	—	—	—
Total Assets Measured at Fair Value	$26,931	$103,376	$ 89	$130,396
Liabilities				
Derivatives	$—	$136	$ —	$136
Short sales	715	—	—	715
Total Liabilities Measured at Fair Value	$715	$136	$ —	$851

As of December 31, 2015

	Level 1	Level 2	Level 3	Total
($ in thousands)				
Assets				
Debt securities	$—	$151,156	$1,397	$152,553
Equity securities	162,986	7,796	—	170,782
Derivatives	33	738	—	771
Total Assets Measured at Fair Value	$163,019	$159,690	$1,397	$324,106
Liabilities				
Derivatives	$128	$844	$—	$972
Short sales	5,334	75	—	5,409
Total Liabilities Measured at Fair Value	$5,462	$919	$—	$6,381

The following is a discussion of the valuation methodologies used for the assets and liabilities of the Company's consolidated sponsored investment products measured at fair value.
Investments of consolidated sponsored investment products represent the underlying debt, equity and other securities held in sponsored products which are consolidated by the Company. Equity securities are valued at the official closing price on the exchange on which the securities are traded and are categorized within Level 1. Level 2 investments include most debt securities, which are valued based on quotations received from independent pricing services or from dealers who make markets in such securities and certain equity securities, including non-US securities, for which closing prices are not readily available or are deemed to not reflect readily available market prices and are valued using an independent pricing service. Pricing services do not provide pricing for all securities, and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2. Level 3 investments include debt securities that are not widely traded, are illiquid or are priced by dealers based on pricing models used by market makers in the security.

The following table is a reconciliation of assets of consolidated sponsored investment products for Level 3 investments for which significant unobservable inputs were used to determine fair value.

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($ in thousands)	Six Months Ended June 30, 2016	2015
Level 3 Debt securities (a)		
Balance at beginning of period	$1,397	$1,065
Realized losses, net	(356)	—
Purchases	151	—
Paydowns	(5)	(3)
Sales	(1,449)	—
Transferred to Level 2	—	(162)
Transfers from Level 2	1	—
Change in unrealized gain, net	350	(48)
Balance at end of period	$89	$852

(a) None of the securities reflected in the table were internally fair valued at June 30, 2016 or June 30, 2015. The investments that are categorized as Level 3 were valued utilizing third party pricing information without adjustment. Such valuations are based on unobservable inputs.

For the six months ended June 30, 2016 and 2015, securities held by consolidated sponsored investment products with an end of period value of $0.1 million and $14.6 million, respectively, were transferred from Level 2 to Level 1 because certain non-U.S. securities quoted market prices were no longer adjusted based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. For the six months ended June 30, 2016 and 2015, securities held by consolidated sponsored investment products with an end of period value of $4.1 million and $0.0 million, respectively, were transferred from Level 1 to Level 2 because certain non-U.S. securities quoted market prices were adjusted based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market.

Derivatives

The Company has certain consolidated sponsored investment products which include derivative instruments as part of their investment strategies. These derivatives may include futures contracts, options contracts and forward contracts. Derivative instruments in an asset position are classified as other assets of consolidated sponsored investment products in the Condensed Consolidated Balance Sheets. Derivative instruments in a liability position are classified as liabilities of consolidated sponsored investment products within the Condensed Consolidated Balance Sheets. The change in fair value of such derivatives is recorded in realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net, in the Condensed Consolidated Statements of Operations. In connection with entering into these derivative contracts, these funds may be required to pledge to the broker an amount of cash equal to the "initial margin" requirements that varies based on the type of derivative. The cash pledged or on deposit is recorded in the Condensed Consolidated Balance Sheets of the Company as cash pledged or on deposit of consolidated sponsored investment products. The fair value of such derivatives at June 30, 2016 and 2015 was immaterial.

Short Sales

Some of the Company's consolidated sponsored investment products may engage in short sales, which are transactions in which a security is sold which is not owned or is owned but there is no intention to deliver, in anticipation that the price of the security will decline. Short sales are recorded in the Condensed Consolidated Balance Sheets within other liabilities of consolidated sponsored investment products.

Consolidated Investment Product

During 2015, the Company contributed $40.0 million in the form of preference shares to a special purpose entity ("SPE") that was created specifically to accumulate bank loan assets for securitization as a CLO to be managed by its Newfleet affiliate. During the warehouse phase of the CLO, the SPE entered into a $160.0 million three-year term financing transaction with a bank lending counterparty (the "Financing Facility"). At December 31, 2015, $152.6 million was

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outstanding under the Financing Facility. The warehouse debt was paid off in June 2016 in connection with the launch of the Newfleet CLO 2016-1 (the "CLO") discussed below.

On June 9, 2016, the SPE issued the CLO with a par value of $356.3 million consisting of six classes of senior secured floating rate notes loans with a par value of $320.0 million and subordinated notes with a par value of $36.3 million. Upon the launch of the CLO, the warehousing debt was repaid by the SPE and the Company redeemed its preference shares while simultaneously making a $36.3 million investment in the CLO's subordinated notes at par.

Bank loan investments of $344.9 million, which comprise the majority of the CLO portfolio collateral, are senior secured corporate loans from a variety of industries. Bank loan investments mature at various dates between 2018 and 2023, pay interest at LIBOR plus a spread of up to 7.5%, and typically range in S&P credit rating categories from BBB to CCC+. At June 30, 2016, the unpaid principal balance exceeded the fair value of the senior bank loans by approximately $3.8 million. No collateral assets were in default as of June 30, 2016.

The CLO has note obligations that bear interest at variable rates based on LIBOR plus a pre-defined spread ranging from 1.0% to 8.75%. The principal amounts outstanding of the note obligations issued by the CLO mature in April 2028. The CLO may elect to reinvest any prepayments received on bank loan investments prior to April 2020. Any subsequent prepayments received must be used to pay down the note obligations.

The CLO is a VIE and the Company consolidates the CLO's assets and liabilities as a consolidated investment product within its financial statements as it is the primary beneficiary of the VIE. The Company has determined that the Company is the primary beneficiary of the VIE as it has the power to direct the activities that most significantly impact the economic performance of the entity and has the obligation to absorb losses, or the rights to receive benefits from, the VIE that could potentially be significant to the VIE.

As discussed in Note 2, the Company adopted ASU 2014-13 effective January 1, 2016. This guidance requires reporting entities to use the more observable of the fair value of the financial assets or the financial liabilities to measure the financial assets and the financial liabilities of a CFE when a CFE is initially consolidated. The Company has determined that the fair value of the financial assets of the CFE is more observable than the fair value of the financial liabilities of the CFE. The Company has elected the measurement alternative for its consolidated investment product, and the Company's subsequent earnings from the consolidated investment product will reflect changes in value of the Company's own economic interest in the consolidated investment product.

The following table presents the balances of the consolidated investment product that were reflected in the Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015:

	As of June 30, 2016	December 31, 2015
($ in thousands)		
Total cash equivalents	$91,044	$8,297
Total investments	344,886	199,485
Other assets	6,078	1,467
Debt	—	(152,597)
Notes payable	(319,716)	—
Securities purchased payable and other liabilities	(94,790)	(18,487)
The Company’s net interests in the consolidated investment product	$27,502	$38,165

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Fair Value Measurements of Consolidated Investment Product

The assets and liabilities of the consolidated investment product measured at fair value on a recurring basis by fair value hierarchy level were as follows:

As of June 30, 2016:

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$91,044	$—	$ —	$91,044
Bank loans	—	344,886	—	344,886
Total Assets Measured at Fair Value	$91,044	$344,886	$ —	$435,930
Liabilities				
Notes payable	$—	$319,716	$ —	$319,716
Total Liabilities Measured at Fair Value	$—	$319,716	$ —	$319,716

As of December 31, 2015:

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$8,297	$—	$ —	$8,297
Bank loans	—	199,485	—	199,485
Total Assets Measured at Fair Value	$8,297	$199,485	$ —	$207,782

The following is a discussion of the valuation methodologies used for the assets and liabilities of the Company’s consolidated investment product measured at fair value:

Cash equivalents represent investments in money market funds. Cash investments in actively traded money market funds are valued using published net asset values and are classified as Level 1.

Bank loans represent the underlying debt securities held in the sponsored product which are consolidated by the Company. Bank loan investments include debt securities, which are valued based on quotations received from an independent pricing service. Pricing services do not provide pricing for all securities, and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2.

Notes payable represents notes issued by the CLO and are measured using the measurement alternative in ASU 2014-13.

The estimated fair value of debt at December 31, 2015, which had a variable interest rate, approximated its carrying value. The securities purchase payable at June 30, 2016 and December 31, 2015 approximated fair value due to the short-term nature of the instruments.

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Consolidating Financial Data

The following tables reflect the impact of the consolidated sponsored investment products and consolidated investment product in the Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015:

As of June 30, 2016

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Balance Sheet
Total cash and cash equivalents	$ 155,532	$ 1,209	$ 891	$ 91,044	$ —	$ 248,676
Total investments	223,994	91,669	38,727	344,886	(132,258)	567,018
All other assets	150,860	2,245	350	6,077	(223)	159,309
Total assets	$ 530,386	$ 95,123	$ 39,968	$ 442,007	$ (132,481)	$ 975,003
Total liabilities	$ 64,280	$ 2,814	$ 374	$ 442,007	$ (27,723)	$ 481,752
Redeemable noncontrolling interest	—	—	—	—	27,145	27,145
Equity attributable to stockholders of the Company	466,273	92,309	39,594	—	(131,903)	466,273
Non-redeemable noncontrolling interest	(167)	—	—	—	—	(167)
Total liabilities and equity	$ 530,386	$ 95,123	$ 39,968	$ 442,007	$ (132,481)	$ 975,003

As of December 31, 2015

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Balance Sheet
Total cash and cash equivalents	$ 87,574	$ 11,408	$ 458	$ 8,297	$ —	$ 107,737
Total investments	349,147	291,247	32,088	199,485	(292,409)	579,558
All other assets	162,673	8,281	268	1,467	(255)	172,434
Total assets	$ 599,394	$ 310,936	$ 32,814	$ 209,249	$ (292,664)	$ 859,729
Total liabilities	$ 89,937	$ 15,181	$ 461	$ 171,084	$ (255)	$ 276,408
Redeemable noncontrolling interest	—	—	—	—	73,864	73,864
Equity attributable to stockholders of the Company	509,624	295,755	32,353	38,165	(366,273)	509,624
Non-redeemable noncontrolling interest	(167)	—	—	—	—	(167)
Total liabilities and equity	$ 599,394	$ 310,936	$ 32,814	$ 209,249	$ (292,664)	$ 859,729

(a) Adjustments include the elimination of intercompany transactions between the Company, its consolidated sponsored investment products and consolidated investment product, consisting primarily of the elimination of the Company's investments held in the consolidated sponsored investment product or consolidated investment product and the recording of any noncontrolling interest.

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The following table reflects the impact of the consolidated sponsored investment products and consolidated investment products in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2016 and 2015:
For the Three Months Ended June 30, 2016

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
Total operating revenues	$ 80,058	$ —	$ —	$ —	$ 27	$ 80,085
Total operating expenses	66,723	556	89	3,947	27	71,342
Operating income (loss)	13,335	(556)	(89)	(3,947)	—	8,743
Total other non-operating income, net	840	3,947	845	3,947	(3,535)	6,044
Income before income taxes	14,175	3,391	756	—	(3,535)	14,787
Income taxes	6,087	—	—	—	—	6,087
Net income	8,088	3,391	756	—	(3,535)	8,700
Noncontrolling interests	—	—	—	—	(612)	(612)
Net income attributable to common stockholders	$ 8,088	$ 3,391	$ 756	$ —	$ (4,147)	$ 8,088

For the Three Months Ended June 30, 2015

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
Total operating revenues	$ 100,052	$ —	$ —	$ —	$ (396)	$ 99,656
Total operating expenses	82,491	43	1,310	—	(396)	83,448
Operating income (loss)	17,561	(43)	(1,310)	—	—	16,208
Total other non-operating income, net	(127)	101	(245)	—	898	627
Income (loss) before income taxes	17,434	58	(1,555)	—	898	16,835
Income taxes	7,823	—	—	—	—	7,823
Net income (loss)	9,611	58	(1,555)	—	898	9,012
Noncontrolling interests	166	—	—	—	599	765
Net income (loss) attributable to common stockholders	$ 9,777	$ 58	$ (1,555)	$ —	$ 1,497	$ 9,777

(a) Adjustments include the elimination of intercompany transactions between the Company, its consolidated sponsored investment products and consolidated investment product, consisting primarily of the elimination of the Company's investments held in the consolidated sponsored investment product or consolidated investment product and the recording of any noncontrolling interest.

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For the Six Months Ended June 30, 2016

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
Total operating revenues	$ 160,562	$ —	$ —	$ —	$ (182)	$ 160,380
Total operating expenses	133,080	1,822	164	4,003	(182)	138,887
Operating income (loss)	27,482	(1,822)	(164)	(4,003)	—	21,493
Total other non-operating income, net	6,612	6,678	1,370	6,508	(8,448)	12,720
Income before income taxes	34,094	4,856	1,206	2,505	(8,448)	34,213
Income taxes	13,643	—	—	—	—	13,643
Net income	20,451	4,856	1,206	2,505	(8,448)	20,570
Noncontrolling interests	—	—	—	—	(119)	(119)
Net income attributable to common stockholders	$ 20,451	$ 4,856	$ 1,206	$ 2,505	$ (8,567)	$ 20,451

For the Six Months Ended June 30, 2015

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products-VOEs	Consolidated Sponsored Investment Product-VIE	Consolidated Investment Product - VIE	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
Total operating revenues	$ 204,284	$ —	$ —	$ —	$ (797)	$ 203,487
Total operating expenses	160,962	80	2,492	—	(797)	162,737
Operating income (loss)	43,322	(80)	(2,492)	—	—	40,750
Total other non-operating income, net	4,288	363	4,407	—	(2,380)	6,678
Income before income taxes	47,610	283	1,915	—	(2,380)	47,428
Income taxes	18,691	—	—	—	—	18,691
Net income	28,919	283	1,915	—	(2,380)	28,737
Noncontrolling interests	200	—	—	—	182	382
Net income attributable to common stockholders	$ 29,119	$ 283	$ 1,915	$ —	$ (2,198)	$ 29,119

(a) Adjustments include the elimination of intercompany transactions between the Company, its consolidated sponsored investment products and consolidated investment product, consisting primarily of the elimination of the Company's investments held in the consolidated sponsored investment product or consolidated investment product and the recording of any noncontrolling interest.

Nonconsolidated VIEs

The Company has interests in certain entities that are VIEs that the Company does not consolidate as it is not the primary beneficiary of those entities. The Company is not the primary beneficiary as its interest in the entities does not provide the Company with the power to direct the activities that most significantly impact the entities economic performance. At June 30, 2016, the carrying value and maximum risk of loss related to these VIEs was $6.1 million.

Certain of the Company’s affiliates serve as the collateral manager for other collateralized loan and

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collateralized bond obligations (collectively, “CDOs”). The assets and liabilities of these CDOs reside in bankruptcy remote, special purpose entities in which the Company has no ownership in, nor holds any notes issued by, the CDOs and provides neither recourse nor guarantees. Accordingly, the Company’s financial exposure to these CDOs is limited only to the collateral investment management fees it earns which the Company has concluded are "at-market" fees. These CDOs are not consolidated as the Company does not have a variable interest in these CDOs.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("the Exchange Act"). All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as “expect,” “estimate,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “could,” “anticipate,” “forecast,” “project,” “predict,” “would “guarantee,” “assume,” “likely,” "continue," “target” or similar statements or variations of such terms.
Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company and the markets in which we operate. Our financial statements are not guarantees of future results or performance and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows and future credit facilities, for all future periods. All of our statements contained in this Quarterly Report on Form 10-Q are as of the date of this Quarterly Report on Form 10-Q only.

We can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially. We do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q, such statements or disclosures will be deemed to modify or supersede such statements in this Quarterly Report.

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2015 Annual Report on Form 10-K, as well as the following risks and uncertainties: (a) any reduction in our assets under management; (b) the withdrawal, renegotiation or termination of investment advisory agreements; (c) damage to our reputation; (d) failure to comply with investment guidelines or other contractual requirements; (e) the inability to attract and retain key personnel; (f) the competition we face in our business; (g) adverse regulatory and legal developments; (h) unfavorable changes in tax laws or limitations; (i) adverse developments, or changes in our relationships with, unaffiliated subadvisers; (j) changes in key distribution relationships; (k) interruptions in service or failure to provide service by third-party service providers; (l) volatility associated with our common stock; (m) civil litigation and government investigations or proceedings; (n) the risk of capital loss associated with our investments; (o) the inability to make quarterly distributions; (p) the lack of availability of required and necessary capital on satisfactory terms; (q) liabilities and losses not covered by insurance; (r) strategic transactions and other risks and uncertainties described in our 2015 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.

Overview

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

We offer investment strategies for individual and institutional investors in different product structures and through multiple distribution channels. Our investment strategies are available in a diverse range of styles and disciplines, managed by

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

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

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

Financial Highlights

- Net income per diluted share was $0.97 in the second quarter of 2016 compared to $1.08 in the second quarter of 2015.
- Total sales (inflows) were $2.4 billion in the second quarter of 2016 compared to $3.3 billion in the second quarter of 2015. Net flows were $(2.2) billion in the second quarter of 2016 compared to $(1.3) billion in the second quarter of 2015.
- Assets under management were $45.2 billion at June 30, 2016 compared to $52.4 billion at June 30, 2015.

Assets Under Management

At June 30, 2016, we managed $45.2 billion in total assets, representing a decrease of $7.2 billion, or 13.8% from June 30, 2015 and a decrease of $2.2 billion or 4.7% from December 31, 2015. The decrease in assets under management from December 31, 2015 was primarily due to net outflows of $4.8 billion partially offset by market appreciation of $2.8 billion. Approximately $3.2 billion, or 68%, of the $4.8 billion in net outflows during the six months ended June 30, 2016 were from the Virtus Emerging Markets Opportunities fund ("Emerging Markets Opportunities Fund") which had an organizational change at the fund's subadvisor. At June 30, 2016, assets under management in the Emerging Markets Opportunities Fund were $7.1 billion.

Average assets under management, which generally correspond to our fee-earning asset levels, were $45.2 billion for the six months ended June 30, 2016, a decrease of $9.8 billion, or 17.8%, from $55.1 billion for the six months ended June 30, 2015. The decrease in average assets under management compared to June 30, 2015 was due to the same reasons discussed above regarding total assets under management as well as a decrease in assets under management related to the Company's Trend Funds (formerly AlphaSector funds).

Operating Results

In the second quarter of 2016, total revenues decreased 19.6% to $80.1 million from $99.7 million in the second quarter of 2015. This decrease was primarily the result of a decrease in average assets under management. Operating income decreased by 46.1% from $16.2 million in the second quarter of 2015 to $8.7 million in the second quarter of

2016, primarily due to decreased revenues on lower levels of average assets under management partially offset by lower operating expenses. Results for the second quarter of 2016 include restructuring and severance costs of $2.4 million, while the second quarter of 2015 included other operating expense of $11.3 million for a loss contingency related to a regulatory matter that was settled and paid during 2015.

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Assets Under Management by Product

The following table summarizes our assets under management by product:

	As of June 30,		Change	
	2016	2015	2016 vs. 2015	%
($ in millions)				
Fund assets				
Open-end funds (1)	$24,813.8	$33,345.3	$(8,531.5)	(25.6)%
Closed-end funds	6,959.6	6,901.0	58.6	0.8 %
Exchange traded funds	399.4	132.6	266.8	201.2 %
Total fund assets	32,172.8	40,378.9	(8,206.1)	(20.3)%
Separately managed accounts (2)	7,407.2	6,952.1	455.1	6.5 %
Total retail assets	39,580.0	47,331.0	(7,751.0)	(16.4)%
Total institutional assets (2)	5,589.7	5,070.0	519.7	10.3 %
Total Assets Under Management	$45,169.7	$52,401.0	$(7,231.3)	(13.8)%
Average Assets Under Management	$45,237.2	$55,062.6	$(9,825.4)	(17.8)%

(1) Includes assets under management of open-end mutual funds, UCITS and variable insurance funds.
(2) Includes assets under management related to option strategies.

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Asset Flows by Product

The following table summarizes our asset flows by product:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2016	2015	2016	2015
Open-End Funds (1)				
Beginning balance	$26,536.0	$35,317.8	$28,882.1	$37,514.2
Inflows	1,351.9	2,619.5	3,545.3	5,633.7
Outflows	(3,799.8)	(4,174.5)	(8,594.1)	(9,572.5)
Net flows	(2,447.9)	(1,555.0)	(5,048.8)	(3,938.8)
Market performance	887.5	(352.9)	1,183.4	(155.8)
Other (2)	(161.8)	(64.6)	(202.9)	(74.3)
Ending balance	$24,813.8	$33,345.3	$24,813.8	$33,345.3
Closed-End Funds				
Beginning balance	$6,543.6	$7,288.0	$6,222.3	$7,581.4
Inflows	—	—	—	—
Outflows	(103.3)	—	(103.3)	—
Net flows	(103.3)	—	(103.3)	—
Market performance	481.7	(281.6)	903.0	(450.2)
Other (2)	37.6	(105.4)	(62.4)	(230.2)
Ending balance	$6,959.6	$6,901.0	$6,959.6	$6,901.0
Exchange Traded Funds				
Beginning balance	$353.6	$—	$340.8	$—
Inflows	52.8	67.4	115.1	67.4
Outflows	(20.8)	(12.2)	(54.6)	(12.2)
Net flows	32.0	55.2	60.5	55.2
Market performance	17.4	(0.4)	3.8	(0.4)
Other (2)	(3.6)	77.8	(5.7)	77.8
Ending balance	$399.4	$132.6	$399.4	$132.6
Separately Managed Accounts (3)				
Beginning balance	$7,021.1	$7,131.0	$6,784.4	$6,884.8
Inflows	444.2	366.8	843.4	695.3
Outflows	(314.6)	(342.2)	(678.9)	(697.5)
Net flows	129.6	24.6	164.5	(2.2)
Market performance	246.5	(65.5)	457.3	111.9
Other (2)	10.0	(138.0)	1.0	(42.4)
Ending balance	$7,407.2	$6,952.1	$7,407.2	$6,952.1
Institutional Accounts (3)(4)				
Beginning balance	$5,196.9	$5,036.2	$5,155.7	$4,722.0
Inflows	541.2	214.1	727.4	582.2
Outflows	(305.5)	(87.3)	(582.1)	(234.5)
Net flows	235.7	126.8	145.3	347.7
Market performance	153.6	(81.9)	302.0	35.7
Other (2)	3.5	(11.1)	(13.3)	(35.4)
Ending balance	$5,589.7	$5,070.0	$5,589.7	$5,070.0
Total				
Beginning balance	$45,651.2	$54,773.0	$47,385.3	$56,702.4
Inflows	2,390.1	3,267.8	5,231.2	6,978.6
Outflows	(4,544.0)	(4,616.2)	(10,013.0)	(10,516.7)

Net flows	(2,153.9)	(1,348.4)	(4,781.8)	(3,538.1)
Market performance	1,786.7	(782.3)	2,849.5	(458.8)
Other (2)	(114.3)	(241.3)	(283.3)	(304.5)
Ending balance	$45,169.7	$52,401.0	$45,169.7	$52,401.0

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(1) Includes assets under management of open-end mutual funds, UCITS and variable insurance funds.
(2) Represents open-end and closed-end mutual fund distributions, net of reinvestments, net flows of cash management strategies, net flows from non-sales related activities such as asset acquisitions/(dispositions), marketable securities investments/(withdrawals) and the impact on assets from the use of leverage.
(3) Includes assets under management related to option strategies.
(4) Includes assets under management related to structured products. Effective April 1, 2016, the issuance/(repayment) of structured product notes are reported as inflows/(outflows). Prior to April 1, 2016, all changes in structured product AUM were reported as a component of Other.

The following table summarizes our assets under management by asset class:

	As of June 30,		Change		% of Total	
	2016	2015	2016 vs. 2015	%	2016	2015
($ in millions)						
Asset Class						
Equity	$26,207.3	$31,908.8	$(5,701.5)	(17.9)%	58.0 %	61.0 %
Fixed income	15,450.2	16,010.8	(560.6)	(3.5)%	34.2 %	30.6 %
Alternatives (1)	3,056.8	4,031.2	(974.4)	(24.2)%	6.8 %	7.5 %
Other (2)	455.4	450.2	5.2	1.2 %	1.0 %	0.9 %
Total	$45,169.7	$52,401.0	$(7,231.3)	(13.8)%	100.0%	100.0%

(1) Consists of real estate securities, master-limited partnerships and other.
(2) Consists of option strategies.

Average Assets Under Management and Average Basis Points

The following table summarizes the average assets under management and the average management fees earned in basis points:

	Three Months Ended June 30,			
	Average Fees Earned (expressed in basis points)		Average Assets Under Management ($ in millions)	
	2016	2015	2016	2015
Products				
Open-End Funds (1)	49.4	49.2	$ 25,537.7	$ 34,852.2
Closed-End Funds	65.4	66.9	6,659.9	7,256.5
Exchange Traded Funds	36.2	8.9	371.9	103.9
Separately Managed Accounts (2)	55.2	53.5	7,015.0	7,125.3
Institutional Accounts (2)	36.2	35.7	5,223.9	5,054.8
All Products	51.1	50.7	$ 44,808.4	$ 54,392.7

	Six Months Ended June 30,			
	Average Fees Earned (expressed in basis points)		Average Assets Under Management ($ in millions)	
	2016	2015	2016	2015
Products				
Open-End Funds (1)	48.3	49.6	$ 26,416.8	$ 35,757.9
Closed-End Funds	65.4	66.8	6,406.1	7,346.2
Exchange Traded Funds	35.5	8.9	354.5	51.9
Separately Managed Accounts (2)	55.7	53.8	6,891.7	6,985.8
Institutional Accounts (2)	36.5	35.6	5,168.1	4,920.8

All Products	50.4	51.1	$ 45,237.2	$ 55,062.6

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(1) Includes assets under management of open-end mutual funds, UCITS and variable insurance funds.
(2) Includes assets under management related to option strategies.

Average fees earned represent investment management fees net of fees paid to third-party service providers for investment management related services and less the impact of investment management fees earned from consolidated sponsored investment products divided by average net assets. Mutual fund and exchange traded fund fees are calculated based on average daily or weekly net assets. Separately managed account fees are calculated based on the end of the preceding or current quarter's asset values or on an average of month-end balances. Institutional account fees are calculated based on an average of month-end balances or current quarter's asset values or for our CLO's, based on the par value of the collateral assets. Average fees earned will vary based on several factors, including the asset mix and reimbursements to funds.

The average fee rate earned for the six months ended June 30, 2016 decreased by 0.7 basis point compared to the same period in the prior year primarily due to a 1.3 basis point decrease in the open-end mutual fund fee rate. The decline in the open-end fund fee rate was primarily attributable to redemptions of higher fee-earning assets from June 30, 2015 to June 30, 2016. The average fee rate earned on exchange traded funds, separately managed accounts and institutional accounts increased in the three and six months ended June 30, 2016 as compared to the same period in 2015 primarily due to net flows into higher fee-earning assets.

Results of Operations

Summary Financial Data

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	2016 vs. 2015	%	2016	2015	2016 vs. 2015	%
($ in thousands)								
Results of Operations								
Investment management fees	$58,192	$68,867	$(10,675)	(15.5)%	$115,836	$139,363	$(23,527)	(16.9)%
Other revenue	21,893	30,789	(8,896)	(28.9)%	44,544	64,124	(19,580)	(30.5)%
Total revenues	80,085	99,656	(19,571)	(19.6)%	160,380	203,487	(43,107)	(21.2)%
Total operating expenses	71,342	83,448	(12,106)	(14.5)%	138,887	162,737	(23,850)	(14.7)%
Operating income	8,743	16,208	(7,465)	(46.1)%	21,493	40,750	(19,257)	(47.3)%
Other income, net	6,944	(2,652)	9,596	361.8 %	9,044	918	8,126	885.2 %
Interest (expense) income, net	(900)	3,279	(4,179)	(127.4)%	3,676	5,760	(2,084)	(36.2)%
Income before income taxes	14,787	16,835	(2,048)	(12.2)%	34,213	47,428	(13,215)	(27.9)%
Income tax expense	6,087	7,823	(1,736)	(22.2)%	13,643	18,691	(5,048)	(27.0)%
Net income	8,700	9,012	(312)	(3.5)%	20,570	28,737	(8,167)	(28.4)%
Noncontrolling interests	(612)	765	(1,377)	(180.0)%	(119)	382	(501)	(131.2)%
Net income attributable to common stockholders	$8,088	$9,777	$(1,689)	(17.3)%	$20,451	$29,119	$(8,668)	(29.8)%

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Revenues

Revenues by source are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	2016 vs. 2015	%	2016	2015	2016 vs. 2015	%
($ in thousands)								
Investment management fees								
Funds	$43,760	$54,913	$(11,153)	(20.3)%	$87,263	$111,982	$(24,719)	(22.1)%
Separately managed accounts	9,729	9,555	174	1.8 %				