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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2019**

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 001-38388

Victory Capital Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**32-0402956**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15935 La Cantera Parkway, San Antonio, Texas	**78256**
(Address of principal executive offices)	(Zip Code)

(216) 898-2400
(Registrant's telephone number, including area code)

4900 Tiedeman Road, 4th Floor, Brooklyn, Ohio 44144
(Former name, former address and former fiscal year, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.01 Par Value	VCTR	NASDAQ

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☐ Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of outstanding shares of the registrant's Class A common stock, par value $0.01 per share and Class B common stock, par value $0.01 per share, as of October 31, 2019 were 16,325,352 and 51,244,365 respectively.

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Forward-Looking Statements

This report includes forward-looking statements, including in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business". These forward-looking statements include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, future operations, margins, profitability, future efficiencies, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words "may," "believes," "intends," "seeks," "anticipates," "plans," "estimates," "expects," "should," "assumes," "continues," "could," "will," "future" and the negative of these or similar terms and phrases are intended to identify forward-looking statements in this report.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. Actual events, results and outcomes may differ materially from our expectations due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others, the following; reductions in assets under management ("AUM") based on investment performance, client withdrawals, difficult market conditions and other factors; the nature of our contracts and investment advisory agreements; our ability to maintain historical returns and sustain our historical growth; our dependence on third parties to market our strategies and provide products or services for the operation of our business; our ability to retain key investment professionals or members of our senior management team; our reliance on the technology systems supporting our operations; our ability to successfully acquire and integrate new companies; the concentration of our investments in long only small- and mid-cap equity and U.S. clients; risks and uncertainties associated with non-U.S. investments; our efforts to establish and develop new teams and strategies; the ability of our investment teams to identify appropriate investment opportunities; our ability to limit employee misconduct; our ability to meet the guidelines set by our clients; our exposure to potential litigation (including administrative or tax proceedings) or regulatory actions; our ability to implement effective information and cyber security policies, procedures and capabilities; our substantial indebtedness; the potential impairment of our goodwill and intangible assets; disruption to the operations of third parties whose functions are integral to our ETF platform; our determination that we are not required to register as an "investment company" under the 1940 Act; the fluctuation of our expenses; our ability to respond to recent trends in the investment management industry; the level of regulation on investment management firms and our ability to respond to regulatory developments; the competitiveness of the investment management industry; the dual class structure of our common stock; the level of control over us retained by Crestview Partners II GP, L.P. ("Crestview GP"); our status as an emerging growth company and a controlled company; our ability to integrate the USAA Asset Management Company ("USAA Adviser") and the Victory Capital Transfer Agency, Inc. ("VCTA"), formally known as the USAA Transfer Agency Company d/b/a USAA Shareholder Account Services (together with USAA Adviser, the "USAA Acquired Companies"); and other risks and factors included, but not limited to, those listed under the caption "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on March 15, 2019, which is accessible on the SEC's website at www.sec.gov.

In light of these risks, uncertainties and other factors, the forward-looking statements contained in this report might not prove to be accurate. All forward-looking statements speak only as of the date made and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except shares data)

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 78,963	$ 51,491
Receivables	86,446	44,120
Prepaid expenses	4,606	2,664
Investments	16,993	13,320
Property and equipment, net	11,317	8,780
Goodwill	391,515	284,108
Other intangible assets, net	1,198,361	387,679
Other assets	3,441	9,349
Total assets	**$ 1,791,642**	**$ 801,511**
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	$ 102,078	$ 20,350
Accrued compensation and benefits	44,629	30,228
Consideration payable for acquisition of business	102,800	5,838
Deferred tax liability, net	9,522	6,212
Other liabilities	20,000	14,478
Long-term debt	1,005,928	268,857
Total liabilities	**1,284,957**	**345,963**
Stockholders' equity		
Class A common stock, $0.01 par value per share: 2019 - 400,000,000 shares authorized, 17,806,125 shares issued and 16,413,700 shares outstanding; 2018 - 400,000,000 shares authorized, 15,280,833 shares issued and 14,424,558 shares outstanding	178	153
Class B common stock, $0.01 par value per share: 2019 - 200,000,000 shares authorized, 53,684,006 shares issued and 51,283,669 shares outstanding; 2018 - 200,000,000 shares authorized, 55,284,408 shares issued and 53,137,428 shares outstanding	537	553
Additional paid-in capital	617,469	604,401
Class A treasury stock, at cost: 2019 - 1,392,425 shares; 2018 - 856,275 shares	(16,440)	(8,045)
Class B treasury stock, at cost: 2019 - 2,400,337 shares; 2018 - 2,146,980 shares	(26,161)	(21,719)
Accumulated other comprehensive loss	(45)	(86)
Retained deficit	(68,853)	(119,709)
Total stockholders' equity	**506,685**	**455,548**
Total liabilities and stockholders' equity	**$ 1,791,642**	**$ 801,511**

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenue				
Investment management fees	$ 155,406	$ 92,525	$ 307,859	$ 270,653
Fund administration and distribution fees	59,574	15,557	85,960	46,792
Total revenue	**214,980**	**108,082**	**393,819**	**317,445**
Expenses				
Personnel compensation and benefits	55,556	38,027	125,599	111,970
Distribution and other asset-based expenses	57,202	24,269	89,151	73,557
General and administrative	17,654	6,951	31,828	23,095
Depreciation and amortization	7,768	5,574	18,253	17,917
Change in value of consideration payable for acquisition of business	—	—	(14)	(4)
Acquisition-related costs	16,386	1,451	21,950	1,446
Restructuring and integration costs	4,841	—	6,629	702
Total operating expenses	**159,407**	**76,272**	**293,396**	**228,683**
Income from operations	**55,573**	**31,810**	**100,423**	**88,762**
Other income (expense)				
Interest income and other income/(expense)	2,742	(200)	5,231	(229)
Interest expense and other financing costs	(16,856)	(4,458)	(26,000)	(16,256)
Loss on debt extinguishment	(7,409)	—	(7,409)	(6,058)
Total other income (expense), net	**(21,523)**	**(4,658)**	**(28,178)**	**(22,543)**
Income before income taxes	**34,050**	**27,152**	**72,245**	**66,219**
Income tax expense	**(8,058)**	**(6,562)**	**(17,343)**	**(16,430)**
Net income	**$ 25,992**	**$ 20,590**	**$ 54,902**	**$ 49,789**
Earnings per share of common stock				
Basic	$ 0.38	$ 0.30	$ 0.81	$ 0.76
Diluted	$ 0.35	$ 0.29	$ 0.75	$ 0.71
Weighted average number of shares outstanding				
Basic	67,724	67,972	67,610	65,817
Diluted	73,671	71,864	73,300	70,168
Dividends declared per share of common stock	$ 0.05	$ —	$ 0.05	$ —

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	**$ 25,992**	**$ 20,590**	**$ 54,902**	**$ 49,789**
Other comprehensive income (loss), net of tax				
Net unrealized gain on available-for-sale securities	—	22	—	34
Net unrealized loss on foreign currency translation	(25)	(6)	(21)	(35)
Total other comprehensive (loss) income, net of tax	**(25)**	**16**	**(21)**	**(1)**
Comprehensive income	**$ 25,967**	**$ 20,606**	**$ 54,881**	**$ 49,788**

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
(In thousands)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total
	Class A	Class B	Class A	Class B				
Balance, December 31, 2018	$ 153	$ 553	$ (8,045)	$ (21,719)	$ 604,401	$ (86)	$ (119,709)	$ 455,548
Issuance of common stock	—	—	—	—	13	—	—	13
Share conversion - Class B to A	4	(4)	—	—	—	—	—	—
Repurchase of shares	—	—	(1,344)	—	—	—	—	(1,344)
Shares withheld related to net settlement of equity awards	—	—	—	(318)	—	—	—	(318)
Exercise of options	—	1	—	—	220	—	—	221
Cumulative effect of adoption of ASU 2016-01 and 2018-02	—	—	—	—	—	62	(62)	—
Other comprehensive income/(loss)	—	—	—	—	—	12	—	12
Share-based compensation	—	—	—	—	1,547	—	—	1,547
Dividends paid	—	—	—	—	—	—	(41)	(41)
Net income	—	—	—	—	—	—	14,527	14,527
Balance, March 31, 2019	157	550	(9,389)	(22,037)	606,181	(12)	(105,285)	470,165
Issuance of common stock	—	—	—	—	16	—	—	16
Share conversion - Class B to A	8	(8)	—	—	—	—	—	—
Repurchase of shares	—	—	(1,948)	—	—	—	—	(1,948)
Shares withheld related to net settlement of equity awards	—	—	—	(123)	—	—	—	(123)
Exercise of options	—	2	—	—	733	—	—	735
Other comprehensive income/(loss)	—	—	—	—	—	(8)	—	(8)
Share-based compensation	—	—	—	—	3,755	—	—	3,755
Dividends paid	—	—	—	—	—	—	(24)	(24)
Net income	—	—	—	—	—	—	14,383	14,383
Balance, June 30, 2019	165	544	(11,337)	(22,160)	610,685	(20)	(90,926)	486,951
Issuance of common stock	—	—	—	—	15	—	—	15
Share conversion - Class B to A	13	(13)	—	—	—	—	—	—
Repurchase of shares	—	—	(5,103)	—	—	—	—	(5,103)
Shares withheld related to net settlement of equity awards	—	—	—	(4,001)	—	—	—	(4,001)
Vesting of restricted share grants	—	1			(1)	—	—	—
Exercise of options	—	5	—	—	1,956	—	—	1,961
Other comprehensive income/(loss)	—	—	—	—	—	(25)	—	(25)
Share-based compensation	—	—	—	—	4,814	—	—	4,814
Dividends paid - $0.05 per share	—	—	—	—	—	—	(3,919)	(3,919)
Net income	—	—	—	—	—	—	25,992	25,992
Balance, September 30, 2019	$ 178	$ 537	$ (16,440)	$ (26,161)	$ 617,469	$ (45)	$ (68,853)	$ 506,685

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY(Unaudited)
(In thousands)(continued)

	Common Stock			Treasury Stock			Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total
	Class A	Class B	Pre-IPO	Class A	Class B	Pre-IPO				
Balance, December 31, 2017	$ —	$ —	$ 572	$ —	$ —	$ (20,899)	$ 435,334	$ 64	$(183,888)	$231,183
Issuance of Class A common stock, net of underwriter discount	128	—	—	—	—	—	156,421	—	—	156,549
Class A common stock offering costs	—	—	—	—	—	—	(4,561)	—	—	(4,561)
Redesignation of common stock	—	572	(572)	—	(20,899)	20,899	—	—	—	—
Share conversion - Class B to A	1	(1)	—	—	—	—	—	—	—	—
Exercise of options	—	—	—	—	—	—	12	—	—	12
Fractional shares retired	—	—	—	—	—	—	(2)	—	—	(2)
Cumulative effect of adoption of ASU 2016-09	—	—	—	—	—	—	512	—	1,306	1,818
Other comprehensive income/(loss)	—	—	—	—	—	—	—	34	—	34
Share-based compensation	—	—	—	—	—	—	3,322	—	—	3,322
Dividends paid	—	—	—	—	—	—	—	—	(53)	(53)
Net income	—	—	—	—	—	—	—	—	10,524	10,524
Balance, March 31, 2018	129	571	—	—	(20,899)	—	591,038	98	(172,111)	398,826
Class A common stock offering costs	—	—	—	—	—	—	5	—	—	5
Share conversion - Class B to A	1	(1)	—	—	—	—	—	—	—	—
Repurchase of shares	—	—	—	(720)	—	—	—	—	—	(720)
Other comprehensive income/(loss)	—	—	—	—	—	—	—	(51)	—	(51)
Share-based compensation	—	—	—	—	—	—	4,148	—	—	4,148
Dividends paid	—	—	—	—	—	—	—	—	(144)	(144)
Net income	—	—	—	—	—	—	—	—	18,675	18,675
Balance, June 30, 2018	130	570	—	(720)	(20,899)	—	595,191	47	(153,580)	420,739
Class A common stock offering costs	—	—	—	—	—	—	3	—	—	3
Share conversion - Class B to A	18	(18)	—	—	—	—	—	—	—	—
Repurchase of shares	—	—	—	(2,822)	—	—	—	—	—	(2,822)
Shares withheld related to net settlement of equity awards	—	—	—	—	(820)	—	—	—	—	(820)
Vesting of restricted share grants	—	2	—	—	—	—	(2)	—		—
Exercise of options	—	2	—	—	—	—	667	—		669
Shares issued under 2018 ESPP	—	—	—	—	—	—	12	—		12
Other comprehensive income/(loss)	—	—	—	—	—	—	—	16	—	16
Share-based compensation	—	—	—	—	—	—	4,004	—	—	4,004
Dividends paid	—	—	—	—	—	—	—	—	(497)	(497)
Net income	—	—	—	—	—	—	—	—	20,590	20,590
Balance, September 30, 2018	$ 148	$ 556	$ —	$ (3,542)	$ (21,719)	$ —	$ 599,875	$ 63	$(133,487)	$441,894

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities		
Net income	$ 54,902	$ 49,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	3,310	4,951
Depreciation and amortization	18,253	17,917
Deferred financing costs and accretion expense	2,612	2,270
Stock-based and deferred compensation	13,928	14,518
Change in fair value of contingent consideration obligations	(14)	(4)
Loss on other receivable	—	309
Unrealized appreciation on investments	(1,409)	(261)
Net (gain) loss on equity method investment	(2,683)	506
Loss on debt extinguishment	7,409	6,058
Changes in operating assets and liabilities:		
Receivables	(11,366)	5,370
Prepaid expenses	(1,955)	(44)
Other assets	(43)	158
Accounts payable and accrued expenses	74,713	(2,687)
Accrued compensation and benefits	8,501	857
Other liabilities	1,527	190
Net cash provided by operating activities	167,685	99,897
Cash flows from investing activities		
Purchases of property and equipment	(2,920)	(1,742)
Purchases of trading securities	(4,606)	(3,557)
Sales of trading securities	2,342	644
Purchases of available-for-sale securities	(104)	—
Sales of available-for-sale securities	104	—
Equity method investment	—	(3,000)
Sale of equity method investment	10,572	—
Acquisition of business	(851,276)	—
Net cash used in investing activities	(845,888)	(7,655)
Cash flows from financing activities		
Issuance of Class A common stock, net of underwriter discount	44	156,561
Payment of Class A common stock deferred offering costs	—	(4,287)
Issuance of Class B common stock from exercise of stock options	2,917	679
Repurchase of common stock	(9,342)	(3,681)
Payments of taxes related to net share settlement of equity awards	(3,497)	(510)
Proceeds from long-term senior debt	1,088,503	359,100
Payment of debt financing fees	(19,820)	(2,507)
Repayment of long-term senior debt	(343,000)	(579,750)
Repayment of promissory note	(96)	(431)
Payment of dividends	(3,984)	(694)
Payment of consideration for acquisition	(6,017)	(4,448)
Net cash provided by (used in) financing activities	705,708	(79,968)
Effect of changes of foreign exchange rate on cash and cash equivalents	(33)	(56)
Net increase in cash and cash equivalents	27,472	12,218
Cash and cash equivalents, beginning of period	51,491	12,921
Cash and cash equivalents, end of period	$ 78,963	$ 25,139
Supplemental cash flow information		
Cash paid for interest	$ 8,216	$ 13,775
Cash paid for income taxes	9,540	11,709

See the accompanying notes to the unaudited condensed consolidated financial statements.

VICTORY CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. ORGANIZATION AND NATURE OF BUSINESS

Victory Capital Holdings, Inc., a Delaware corporation (along with its wholly-owned subsidiaries, collectively referred to as the "Company," "Victory," or in the first-person notations of "we," "us," and "our") was formed on February 13, 2013 for the purpose of acquiring Victory Capital Management Inc. ("VCM") and Victory Capital Advisers, Inc. ("VCA"), which occurred on August 1, 2013. On February 12, 2018, the Company completed the initial public offering (the "IPO") of its Class A common stock, which trades on the NASDAQ under the symbol "VCTR."

On and effective July 1, 2019, the Company completed the acquisition (the "USAA AMCO Acquisition") of USAA Adviser and Victory Capital Transfer Agency, Inc. ("VCTA"), formally known as the USAA Transfer Agency Company d/b/a USAA Shareholder Account Services. VCTA is registered with the SEC. The USAA AMCO Acquisition includes USAA's mutual fund and exchange traded fund ("ETF") businesses and its 529 College Savings Plan (collectively, the "USAA Mutual Fund Business"). Refer to Note 4, Acquisitions, to the accompanying unaudited condensed consolidated financial statements (the "accompanying financial statements") for further details on the acquisition.

VCM is a registered investment adviser managing assets through open-end mutual funds, separately managed accounts, unified management accounts, ETFs, collective trust funds, wrap separate account programs and UCITs. VCM also provides mutual fund administrative services for the Victory Portfolios, Victory Variable Insurance Funds, Victory Institutional Funds and the mutual fund series of the Victory Portfolios II (collectively, the "Victory Funds"), a family of open-end mutual funds, the VictoryShares (the Company's ETF brand), as well as the USAA Mutual Fund Business, which includes the USAA Mutual Fund Trust, a family of open-end mutual funds (the "USAA Funds"). Additionally, VCM employs all of the Company's United States investment professionals across its Franchises and Solutions, which are not separate legal entities. VCA is registered with the SEC as an introducing broker-dealer and serves as distributor and underwriter for the Victory Funds and USAA Funds.

NOTE 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the SEC regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete annual financial statements. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

In the opinion of management, the accompanying financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial condition, results of operations, and cash flows for the interim periods presented. Operating results for the three and nine month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Principles of Consolidation

The accompanying financial statements include the operations of the Company and its wholly-owned subsidiaries, after elimination of all intercompany balances and transactions. Our involvement with non-consolidated variable interest entities ("VIEs") include sponsored investment funds and an equity method investment.

For further discussion regarding VIEs, refer to Note 2, Significant Accounting Policies, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018. For further discussion on the equity method investment, refer to Note 13, Equity Method Investment, to the accompanying financial statements.

Use of Estimates and Assumptions

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and the accompanying notes. Actual results may ultimately differ materially from those estimates.

Retroactive Adjustment for Common Stock Split

On February 1, 2018, the Company's Stockholders and Board of Directors approved a 175.194 for 1 stock split of our common stock. The accompanying financial statements for the periods prior to the stock split and related amounts disclosed in the notes have been retroactively adjusted to reflect the effects of the stock split.

Restructuring and Integration Costs

In connection with business combinations, asset purchases and changes in business strategy, the Company incurs costs integrating investment platforms, products and personnel into existing systems, processes and service provider arrangements and restructuring the business to capture operating expense synergies. These costs include severance-related expenses related to one-time benefit arrangements, contract termination expense and integration costs, which are recorded in "Restructuring and integration costs" in the accompanying unaudited Condensed Consolidated Statements of Operations.

The following table presents the rollforward of restructuring and integration liabilities for the three months and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Liability balance, beginning of period	$ 1.5	$ 0.5	$ 0.1	$ 0.1
Severance expense				
USAA AMCO Acquisition	3.7	—	5.2	—
Other	—	—	—	0.7
Contract termination expense	0.1	—	0.1	—
Integration costs	1.0	—	1.3	—
Restructuring and integration costs	4.8	—	6.6	0.7
Settlement of liabilities	(4.4)	(0.2)	(4.8)	(0.5)
Liability balance, end of period	**$ 1.9**	**$ 0.3**	**$ 1.9**	**$ 0.3**
Accrued expenses	$ 1.9	$ 0.3	$ 1.9	$ 0.3
Other liabilities	—	—	—	—
Liability balance, end of period	**$ 1.9**	**$ 0.3**	**$ 1.9**	**$ 0.3**

Changes in Accounting Policies

The Company has consistently applied the accounting policies for the periods presented as described in Note 2, Significant Accounting Policies, to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018. Effective January 1, 2019, Victory adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The adoption of ASU 2014-09 was not material to our financial condition, results of operations or cash flows, however, we have changed our accounting policy for revenue recognition as described below in New Accounting Pronouncements and Note 3, Revenue Recognition, to the accompanying financial statements. Effective January 1, 2019, Victory adopted ASU 2016-18, "Restricted Cash – Statement of Cash Flows" ("ASU 2016-18") which addresses the presentation of restricted cash in the statement of cash flows and requires disclosure of the nature of restriction on such cash. ASU 2016-18 was not material to our financial condition, results of operations or cash flows, however we have changed our accounting policy for restricted cash as described below in New Accounting Pronouncements.

New Accounting Pronouncements

Accounting Standards Adopted in 2019

- **Changes in Stockholders' Equity for Interim Periods:** Effective January 1, 2019, the Company adopted final SEC rules that extend to interim periods the annual disclosure requirement in Regulation S-X, Rule 3-04, of presenting the changes in stockholders' equity for the current and comparative quarter in its accompanying financial statements.
- **Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income:** Effective January 1, 2019, the Company adopted ASU 2018-02 which provides the optional election for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The adoption of ASU 2018-02 resulted in a reclassification between accumulated other comprehensive income/(loss) and retained earnings of $0.1 million, and had no impact on our unaudited Condensed Consolidated Statements of Operations.
- **Restricted Cash – Statement of Cash Flows:** We early adopted ASU 2016-18 which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. When restricted cash is presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet, as well as a disclosure of information about the nature of the restrictions. We did not have restricted cash at September 30, 2019. Victory historically does not maintain or designate cash as restricted cash, however at June 30, 2019, we placed $71.9 million of balance sheet cash in an escrow account related to the USAA AMCO Acquisition that closed on July 1, 2019. The funds were released from the escrow account on July 1, 2019.
- **Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments:** Effective January 1, 2019, the Company adopted ASU 2016‑15 which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The application of this guidance did not have an impact on the presentation of our unaudited Condensed Consolidated Statements of Cash Flows.
- **Recognition and Measurement of Financial Assets and Liabilities:** Effective January 1, 2019, the Company adopted ASU 2016‑01 which requires equity securities to be measured at fair value with the changes in fair value recognized in net income. The adoption of ASU 2016-01 did not have a material impact on our financial condition, results of operations or cash flows.
- **Revenue from Contracts with Customers:** Effective January 1, 2019, the Company adopted ASU 2014-09 which requires the evaluation of contracts based on the following five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue (or as) each performance obligation is satisfied. The Company's introducing broker-dealer VCA adopted ASU 2014-09 on January 1, 2018.

  We adopted ASU 2014-09 using the modified retrospective transition method. No cumulative effect adjustment was required to be recorded and the comparative information has not been restated. We determined that ASU 2014-09 did not have a material impact on the timing of revenue recognition. The most significant impact from adoption was a change to the net presentation of certain fund expense reimbursements which were previously presented on a gross basis. For further discussion on the effects of the changes in the presentation of fund expense reimbursements, refer to Note 3, Revenue Recognition, to the accompanying financial statements.

Recently Issued Accounting Standards

- **Subsequent Measurement of Goodwill:** In January 2017, the Financial Accounting Standards Board (the "FASB") issued ASU 2017-04 which simplifies the test for goodwill impairment. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill (step two) to measure a goodwill impairment charge. Goodwill impairment will be based upon the results of step one of the impairment test, which is defined as the excess of the carrying amount of a reporting unit over its fair value, not to exceed the carrying amount of goodwill allocated to that reporting unit. The new guidance will be effective for the Company's fiscal year that begins after December 15, 2020 and requires a prospective approach to adoption. Early adoption is permitted for interim or annual goodwill impairment tests. The impact of this new guidance will depend upon the performance of our one reporting unit and the market conditions impacting the fair value.

- **Leases:** In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" (the "New Lease Standard") which supercedes previous lease guidance, Accounting Standards Codification ("ASC") Topic 840. The New Lease Standard requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) on their balance sheet at the commencement date and recognize expenses on their income statement similar to ASC Topic 840 guidance. In addition, the FASB issued ASU 2018-11, "Leases Targeted Improvements" which provides a package of practical expedients for entities to apply upon adoption. The Company will adopt the New Lease Standard on January 1, 2020.

  We are currently assessing and evaluating our portfolio of active real estate leases and surveying our business for other leases. As outlined in our Annual Report on Form 10-K for the year ended December 31, 2018, we have approximately $17.0 million in undiscounted, future minimum cash commitments under operating leases. Subsequent to September 30, 2019, we relocated our Corporate headquarters for the global investment management business from Brooklyn, Ohio to San Antonio, Texas. The undiscounted, future minimum cash commitments related to the new San Antonio lease is approximately $12.0 million. We do not expect the adoption of the New Lease Standard to have a material effect on our consolidated balance sheets and results of operations.

NOTE 3. REVENUE RECOGNITION

In accordance with the new revenue recognition standard requirements, the following table disaggregates our revenue by type and product:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Investment management fees				
Mutual funds (Victory/USAA Funds)	$ 125,928	$ 64,926	$ 228,855	$ 191,391
ETFs (VictoryShares)	3,116	2,457	7,172	6,523
Separate accounts and other vehicles	26,512	24,232	72,379	71,225
Performance-based fees				
Separate accounts and other vehicles	(150)	910	(547)	1,514
Total investment management fees	**$ 155,406**	**$ 92,525**	**$ 307,859**	**$ 270,653**
Fund administration and distribution fees				
Administration fees				
Mutual funds (Victory/USAA Funds)	$ 30,098	$ 5,880	$ 40,734	$ 17,069
ETFs (VictoryShares)	378	278	924	667
Distribution fees				
Mutual funds (Victory/USAA Funds)	7,674	9,399	22,878	29,056
Transfer agent fees				
Mutual funds (USAA Funds)	21,424	—	21,424	—
Total fund administration and distribution fees	**$ 59,574**	**$ 15,557**	**$ 85,960**	**$ 46,792**
Total revenue	**$ 214,980**	**$ 108,082**	**$ 393,819**	**$ 317,445**

Beginning on January 1, 2019, and as a result of adopting ASU 2014-09, fund expense reimbursements are presented as a reduction of investment management fees. This change in presentation reduced revenue, and operating expenses, by $5.2 million and $13.4 million, respectively for the three and nine months ended September 30, 2019.

The following table presents balances of receivables:

(in thousands)	September 30, 2019	December 31, 2018
Customer receivables		
Mutual funds (Victory/USAA Funds)	$ 61,348	$ 21,025
ETFs (VictoryShares)	1,271	909
Separate accounts and other vehicles	23,170	19,199
Receivables from contracts with customers	**85,789**	**41,133**
Non-customer receivables	657	2,987
Total receivables	$ **86,446**	$ **44,120**

Revenue

The Company's revenue includes fees earned from providing;

- investment management services,
- fund administration services,
- fund transfer agent services, and
- fund distribution services.

Revenue is recognized for each distinct performance obligation identified in customer contracts when the performance obligation has been satisfied by transferring services to a customer either over time or at the point in time when the customer obtains control of the service. Revenue is recognized in the amount of variable or fixed consideration allocated to the satisfied performance obligation that Victory expects to be entitled to in exchange for transferring services to a customer. Variable consideration is included in the transaction price only when it is probable that a significant reversal of such revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Investment management, fund administration and fund distribution fees are generally considered variable consideration as they are typically calculated as a percentage of AUM. Fund transfer agent fees are also considered variable consideration as they are calculated as a percentage of AUM or based on the number of accounts in the fund. In such cases, the amount of fees earned is subject to factors outside of the Company's control including customer or underlying investor contributions and redemptions and financial market volatility. These fees are considered constrained and are excluded from the transaction price until the asset values or number of accounts on which the customer is billed are calculated and the value of consideration is measurable.

The timing of when the Company bills its clients and related payment terms varies in accordance with the agreed upon contractual terms. Clients are generally billed after the service is performed which results in the recording of accounts receivable and accrued revenue. Deferred revenue is recorded in situations where a client is billed in advance.

The Company has contractual arrangements with third parties to provide certain advisory, administration, transfer agent and distribution services. Management considers whether we are acting as the principal service provider or as an agent to determine whether revenue should be recorded based on the gross amount payable by the customer or net of payments to third-party service providers, respectively. Victory is considered a principal service provider if we control the service that is transferred to the customer. We are considered an agent when we arrange for the service to be provided by another party and do not control the service.

Investment Management Fees

Investment management fees are received in exchange for investment management services that represent a series of distinct incremental days of investment management service. Control of investment management services is transferred to the customers over time as these customers receive and consume the benefits provided by these services. Investment management fees are calculated as a contractual percentage of AUM and are generally paid in arrears on a monthly or quarterly basis.

Investment management fees are recognized as revenue using a time-based output measure to measure progress. Revenue is recorded at month end or quarter end when the value of consideration is measured. The amount of investment management fee revenue varies from one reporting period to another as levels of AUM change (from inflows, outflows and market movements) and as the number of days in the reporting period change.

The Company may waive certain fees for investment management services provided to the Victory Funds, USAA Funds and VictoryShares and may subsidize certain share classes of the Victory Funds, USAA Funds and VictoryShares to ensure that specified operating expenses attributable to such share classes do not exceed a specified percentage. These waivers and reimbursements reduce the transaction price allocated to investment management services and are recognized as a reduction to investment management fees revenue. The amounts due to the Victory Funds, USAA Funds and VictoryShares for waivers and expense reimbursements represent consideration payable to customers, which is recorded in "Accounts payable and accrued expenses" in the accompanying unaudited Condensed Consolidated Balance Sheets, and no distinct services are received in exchange for these payments.

Performance-based investment management fees, which include fees under performance fee and fulcrum fee arrangements, are included in the transaction price for providing investment management services. Performance-based investment management fees are calculated as a percentage of investment performance on a client's account versus a specified benchmark or hurdle based on the terms of the contract with the customer. Performance-based investment management fees are variable consideration and are recognized as revenue when it is probable that a significant reversal of the cumulative revenue for the contractual performance period will not occur. Performance-based investment management fees recognized as revenue in the current period may pertain to performance obligations satisfied in prior periods.

Fund Administration Fees

The Company recognizes fund administration fees as revenue using a time-based output measure to measure progress. Fund administration fees are determined based on the contractual rate applied to average daily net assets of the Victory Funds, USAA Funds and VictoryShares for which administration services are provided. Revenue is recorded on a monthly basis when the value of consideration is measured using actual average daily net assets and constraints are removed.

The Company has contractual arrangements with a third party to provide certain sub-administration services. We are the primary obligor under the contracts with the Victory Funds, USAA Funds and VictoryShares and have the ability to select the service provider and establish pricing. As a result, fund administration fees and sub-administration expenses are recorded on a gross basis.

Fund Transfer Agent Fees

The Company recognizes fund transfer agent fees as revenue using a time-based output measure to measure progress. Fund transfer agent fees are determined based on the contractual rate applied to either the average daily net assets of the USAA Funds for which transfer agent services are provided or number of accounts in the USAA Funds. Revenue is recorded on a monthly basis when the value of consideration is measured using actual average daily net assets or actual number of accounts and constraints are removed.

The Company has contractual arrangements with a third party to provide certain sub-transfer agent services. We are the primary obligor under the contracts with the USAA Funds and have the ability to select the service provider and establish pricing. As a result, fund transfer agent fees and sub-transfer agent expenses are recorded on a gross basis.

Fund Distribution Fees

VCA receives compensation for sales and sales-related services promised under distribution contracts with the Victory Funds and USAA Funds. Revenue is measured in an amount that reflects the consideration to which VCA expects to be entitled in exchange for providing distribution services. Distribution fees are generally calculated as a percentage of average net assets in the Victory Funds and USAA Funds. VCA's performance obligation is satisfied at the point in time when control of the services is transferred to customers, which is upon investor subscription or redemption.

Based on the nature of the calculation, the revenue for these services is accounted for as variable consideration,VCA may recognize distribution fee revenue in the current period that pertains to performance obligations satisfied in prior periods, as it represents variable consideration and is recognized as uncertainties are resolved. VCA's distribution fee revenue is recorded in “Fund administration and distribution fees” in the accompanying unaudited Condensed Consolidated Statements of Operations.

VCA has contractual arrangements with third parties to provide certain distribution services. VCA is the primary obligor under the contracts with the Victory Funds and USAA Funds and has the ability to select the service provider and establish pricing. Substantially all of VCA’s revenue is recorded gross of payments made to third parties.

Costs Related to Customer Contracts

The Company is required to capitalize certain costs directly related to the acquisition or fulfillment of a contact with a customer. Victory has not identified any sales-based compensation or similar costs that meet the definition of an incremental cost to acquire a contract and as such we have no intangible assets related to contract acquisitions.

Direct costs incurred to fulfill services under VCA’s distribution contracts include sales commissions paid to third party dealers for the sale of Class C Shares. VCA may pay upfront sales commissions to dealers and institutions that sell Class C shares of the participating Victory Funds at the time of such sale. Upfront sales commission payments with respect to Class C shares equal 1.00% of the purchase price of the Class C shares sold by the dealer or institution. When VCA makes an upfront payment to a dealer or institution for the sale of Class C shares, VCA capitalizes the cost of such payment, which is recorded in “Prepaid expenses” in the accompanying unaudited Condensed Consolidated Balance Sheets, and amortizes the cost over a 12-month period, the estimated period of benefit.

Valuation of Assets Under Management

The fair value of assets under management of the Victory Funds, USAA Funds (added this quarter) and VictoryShares is primarily determined using quoted market prices or independent third party pricing services or broker price quotes. In limited circumstances, a quotation or price evaluation is not readily available from a pricing service. In these cases, pricing is determined by management based on a prescribed valuation process that has been approved by the directors/trustees of the sponsored products. The same prescribed valuation process is used to price securities in separate accounts and other vehicles for which a quotation or price evaluation is not readily available from a pricing service. For the periods presented, a de minimis amount of the AUM was priced in this manner.

NOTE 4. ACQUISITIONS

USAA AMCO Acquisition

On and effective July 1, 2019, the Company completed the acquisition (the “USAA AMCO Acquisition”) of the USAA Acquired Companies, which includes USAA’s Mutual Fund and ETF businesses and its 529 College Savings Plan (collectively, the “USAA Mutual Fund Business”), as amended by Amendment No. 1 (the “Amendment”) to the stock purchase agreement (the “Stock Purchase Agreement”). The Amendment amended the Stock Purchase Agreement entered into on November 6, 2018 between the Company, USAA Investment Corporation, and for certain limited purposes, USAA Capital Corporation. T he assets acquired and liabilities assumed and the results of the USAA Acquired Companies’ operations are reflected in the accompanying financial statements from the closing date of July 1, 2019.

The USAA AMCO Acquisition expands and diversifies our investment platform, particularly in the fixed income and solutions asset classes, and increases our size and scale. Additional products added to our investments platform include target date and target risk strategies, managed volatility mutual funds, active fixed income ETFs, sub-advised and multi-manager equity funds. We have also added to our lineup of asset allocation portfolios and smart beta equity ETFs. Through the acquisition, the Company has the rights to offer products and services using the USAA brand and provides an opportunity for Victory to offer its products to USAA members through a direct member-channel.

Purchase Price

The Company purchased 100% of the outstanding common stock of the USAA Acquired Companies. Total consideration was $954.1 million, comprised of $851.3 million of cash paid at closing (which included restricted cash of $71.9 million) and $102.8 million in contingent consideration due to sellers. The purchase price is subject to certain post-closing adjustments. A maximum of $150.0 million ($37.5 million per year) in contingent payments is payable to sellers based on the annual revenue of USAA Adviser attributable to all “non-managed money”-related AUM in each of the first four years following the closing. To receive any contingent payment in respect of "non-managed money"-related assets for a given year, annual revenue from "non-managed money"-related assets must be at least 80% of the revenue run-rate (as calculated under the Stock Purchase Agreement) of the USAA Adviser's "non-managed money"-related assets under management as of the Closing, and to achieve the maximum contingent payment for a given year, such annual revenue must total at least 100% of that Closing revenue run-rate. Annual contingent payments in respect of "non-managed money"-related assets are subject to certain "catch-up" provisions set forth in the USAA Stock Purchase Agreement.

The Company accounted for the acquisition in accordance with ASC 805, *Business Combinations*. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of the USAA AMCO Acquisition. Given the timing of this transaction and complexity of the purchase accounting, our estimate of the fair value adjustment specific to the acquired intangible assets and final tax position is preliminary. We intend to finalize the accounting for these items as soon as reasonably possible and may adjust the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the closing date as we obtain more information as to facts and circumstances existing as of the acquisition date.

The excess purchase price over the estimated fair values of assets acquired and liabilities assumed of $107.4 million was recorded to "Goodwill" in the accompanying unaudited Condensed Consolidated Balance Sheets, all of which is expected to be deductible for tax purposes. The goodwill arising from the acquisition primarily results from expected future earnings and cash flows, as well as the synergies created by the integration of the USAA Acquired Companies within our organization. The following table summarizes the estimated amounts of identified acquired assets and liabilities assumed as of the acquisition date:

(in thousands)		
Cash and cash equivalents	$	17,473
Receivables		30,359
Other intangible assets, net		827,070
Goodwill		107,407
Accounts payable and accrued expenses		(4,853)
Accrued compensation and benefits		(5,907)
Payable to members and custodians		(17,473)
Total purchase price consideration	**$**	**954,076**

The following table summarizes the change in the goodwill balance from December 31, 2018 to September 30, 2019:

(in thousands)	**As of September 30, 2019**	
Balance, beginning of period	$	284,108
Goodwill recorded in acquisition		107,407
Balance, end of period	**$**	**391,515**

In connection with the allocation of the purchase price, we identified intangible assets with an estimated fair value of $827.1 million ($787.6 million indefinite-lived and $39.5 million definite-lived).

The following table summarizes additional information for the intangible assets acquired:

(in thousands)	Estimated	Weighted-Average Estimated Useful Life in Years
Indefinite-Lived		
Investment advisory and administration service contracts	$ 786,800	Indefinite
Distribution services contract	800	Indefinite
Total	787,600	
Definite-Lived		
Use of tradename	39,100	4
Lease	370	8
Total	39,470	
Total intangible assets	**$ 827,070**	

USAA Acquired Companies

For the three months ended September 30, 2019, the Company incurred $4.8 million in restructuring and integration costs associated with the USAA AMCO Acquisition.

Revenue of the USAA Acquired Companies subsequent to the effective closing date of July 1, 2019 within the three months ended September 30, 2019, was as follows:

(in millions)	Three Months Ended September 30, 2019
Revenue	$ 121.3

The Company's consolidated financial statements for the three months ended September 30, 2019 include the operating results of the USAA Acquired Companies. The historical consolidated financial information of Victory and the USAA Acquired Companies have been adjusted to give effect to pro forma events that are directly attributable to the transaction, factually supportable and expected to have continuing impact on the combined results. These amounts have been calculated after adjusting the results of the USAA Acquired Companies to reflect additional interest expense and income taxes as well as intangible asset amortization that would have been expensed assuming the fair value adjustments had been applied on January 1, 2018. In addition, Victory's and the USAA Acquired Companies' results were adjusted to remove incentive compensation, legal fees and mutual fund proxy costs directly attributable to the acquisition.

The following Unaudited Pro Forma Condensed Combined Statements of Operations are provided for illustrative purposes only and assume that the acquisition occurred on January 1, 2018. This unaudited information should not be relied upon as indicative of historical results that would have been obtained if the acquisition had occurred on that date, nor of the results that may be obtained in the future.

(in thousands, except per share amount)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenue	$ 233,531	$ 632,886	$ 689,615
Net income	23,391	76,547	58,943
Earnings per share of common stock			
Basic	$ 0.34	$ 1.13	$ 0.90
Diluted	$ 0.33	$ 1.04	$ 0.84
Weighted average number of shares outstanding			
Basic	67,972	67,610	65,817
Diluted	71,864	73,300	70,168

New Credit Agreement

The purchase price paid in cash at closing was financed using a combination of the 2019 Credit Agreement and the Company's balance sheet resources. The 2019 Credit Agreement, dated as of July 1, 2019, was entered into among Victory, as borrower, the lenders from time to time party thereto and Barclays Bank PLC, as administrative agent and collateral agent, pursuant to which we obtained a seven-year term loan in an aggregate principal amount of $1.1 billion and established a five-year revolving credit facility (which was unfunded as of the closing date) with aggregate commitments of $100.0 million (with a $10.0 million sub-limit for the issuance of letters of credit). Amounts outstanding under the 2019 Credit Agreement bear interest at an annual rate equal to, at the option of the Company, either London Interbank Offered Rate ("LIBOR") (adjusted for reserves) plus a margin of 3.25% or an alternate base rate plus a margin of 2.25%. Refer to Note 9, Debt, to the accompanying financial statements for further details on the 2019 Credit Agreement.

Termination of Previous Credit Agreeement

In connection with our entry into the 2019 Credit Agreement, we repaid all indebtedness outstanding under the previous credit agreement dated as of February 12, 2018. The previous credit agreement and the credit documents entered in connection therewith were terminated on the closing date.

CEMP Acquisition

Under the terms of the Compass Efficient Model Portfolios, LLC acquisition (the "CEMP Acquisition"), we pay cash related to base payments and contingent earnouts annually following each of the first four anniversaries of the CEMP Acquisition. During the three and nine months ended September 30, 2019, we paid the fourth and final payment of $6.0 million in cash to the sellers.

Acquisition-Related Costs

Costs related to acquisitions are summarized below and include legal and filing fees, advisory services, mutual fund proxy voting costs and other one-time expenses related to the transactions. These costs are included in "Acquisition-related costs" in the accompanying unaudited Condensed Consolidated Statements of Operations.

	Acquisition-related costs			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2019	2018	2019	2018
USAA AMCO Acquisition	$ 16,235	$ 592	$ 21,043	$ 592
Harvest Acquisition	151	859	895	859
Other	—	—	12	(5)
Total acquisition-related costs	**$ 16,386**	**$ 1,451**	**$ 21,950**	**$ 1,446**

NOTE 5. FAIR VALUE MEASUREMENTS

The Company determines the fair value of certain financial and nonfinancial assets and liabilities. Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value determinations utilize a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the fair value hierarchy contains three levels:

- Level 1—Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.
- Level 2—Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the asset or liability being measured.
- Level 3—Valuation inputs are unobservable and significant to the fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of September 30, 2019, the Company had $102.8 million in contingent consideration arrangement liabilities that were measured at fair value on a recurring basis. These liabilities represent the USAA AMCO Acquisition earn-out payment liability, which is included in "Consideration payable for acquisition of business" in the accompanying unaudited Condensed Consolidated Balance Sheets. Refer to Note 4, Acquisitions, for further details related to the contingent consideration arrangement.

Significant unobservable inputs for the option pricing model used to determine the fair value of the USAA AMCO Acquisition earn-out payment liabilities include discount rates and non-managed money net revenue growth assumptions. The discount rate used, which is based on the Company's pre-tax cost of debt, was 7%. Non-managed money net revenue growth assumptions were 2-3% per year. Changes in the fair value of the liability, realized or unrealized, are recorded in earnings and are included in "Change in value of consideration payable for acquisition of business" in the accompanying unaudited Condensed Consolidated Statements of Operations.

(in thousands)	**Contingent Consideration Liabilities**
Balance, December 31, 2018	$ 716
CEMP change in fair value measurement	(14)
CEMP year 4 earn-out payment	(702)
USAA AMCO Acquisition earn-out payments	102,800
Balance, September 30, 2019	**$ 102,800**

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy from December 31, 2018 to September 30, 2019. The Company recognizes transfers at the end of the reporting period.The net carrying values of cash and cash equivalents, restricted cash, receivables and accounts payable and accrued expenses approximate fair value due to the short-term nature of these assets and liabilities. The carrying amount of the Company's long-term debt at September 30, 2019 approximates fair value. Level 2 inputs are utilized to determine the fair value of the Company's long-term debt. The fair value of investments measured using the net asset value practical expedient at September 30, 2019 and December 31, 2018 totaled $17.0 million and $13.3 million, respectively.

NOTE 6. RELATED-PARTY TRANSACTIONS

The Company considers certain funds that it manages, including the Victory Funds, the USAA Funds, the VictoryShares and collective trust funds that it sponsors (the "Victory Collective Funds"), to be related parties as a result of our advisory relationship.

The Company receives investment management, administrative, distribution and compliance fees in accordance with contracts that VCM and VCA have with the Victory Funds and the USAA Funds. The Company also receives investment management fees from the VictoryShares and Victory Collective Funds under VCM's advisory contracts with these funds and administrative fees under VCM's administration contract with the VictoryShares. In addition, the Company receives transfer agent fees in accordance with a contract that VCTA has with the USAA Funds.

During the third quarter of 2019, the Company invested a portion of its balance sheet cash in the USAA Treasury Money Market Fund and earns interest on the amount invested in this fund.

Under the terms of monitoring agreements with affiliates of two shareholders of the Company, the Company paid fees for monitoring services, which are included in "General and administrative" in the accompanying unaudited Condensed Consolidated Statements of Operations. These monitoring agreements terminated upon the completion of the IPO.

Balances and transactions involving related parties included in the accompanying unaudited Condensed Consolidated Balance Sheets and accompanying unaudited Condensed Consolidated Statements of Operations are summarized below. Included in cash and cash equivalents is cash held in the USAA Treasury Money Market Fund. Included in receivables (fund administration and distribution fees) are amounts due from the Victory Funds and USAA Funds for compliance services and amounts due from the USAA Funds for transfer agent services. Included in revenue (fund administration and distribution fees) are amounts earned for compliance services and transfer agent services. Realized and unrealized gains and losses and dividend income on investments in the Victory Funds classified as available-for-sale securities and investments in the Victory Funds and USAA Funds classified as trading securities and interest income on investments in the USAA Treasury Money Market Fund are recorded in "Interest income and other income/(expense)" in the accompanying unaudited Condensed Consolidated Statements of Operations. Amounts due to the Victory Funds, USAA Funds and VictoryShares for waivers of investment management fees and reimbursements of fund operating expenses are included in "Accounts payable and accrued expenses" in the accompanying unaudited Condensed Consolidated Balance Sheets and represent consideration payable to customers. Included in other liabilities at December 31, 2018 is the remaining amount payable for a promissory note for amounts due upon repurchase of Company common stock from a shareholder.

(in thousands)	September 30, 2019	December 31, 2018
Related party assets		
Cash and cash equivalents	$ 10,025	$ —
Receivables (investment management fees)	45,044	19,612
Receivables (fund administration and distribution fees)	18,938	3,153
Investments (available-for-sale securities, fair value)	698	601
Investments (trading securities, fair value)	15,943	12,343
Total	$ 90,648	$ 35,709
Related party liabilities		
Accounts payable and accrued expenses (fund reimbursements)	$ 6,073	$ 2,300
Other liabilities (promissory note)	—	96
Total	$ 6,073	$ 2,396

(in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Related party revenue				
Investment management fees [1]	$ 130,361	$ 68,386	$ 239,869	$ 200,728
Fund administration and distribution fees	59,574	15,557	85,960	46,792
Total	$ 189,935	$ 83,943	$ 325,829	$ 247,520
Related party expense				
Distribution and other asset-based expenses (fund reimbursements) [1]	$ —	$ 3,072	$ —	$ 9,352
General and administrative	—	—	—	135
Total	$ —	$ 3,072	$ —	$ 9,487
Related party other income (expense)				
Interest income/(expense) and other income/(expense)	$ (342)	$ —	$ 1,474	$ —
Interest income/(expense) and other financing costs (promissory note)	—	(5)	(1)	(16)
Total	$ (342)	$ (5)	$ 1,473	$ (16)

(1) Effective January 1, 2019, upon the adoption of ASU 2014-09, expense reimbursements have been reclassified to investment management fees.

NOTE 7. INVESTMENTS

As of September 30, 2019 and December 31, 2018, the Company held both available-for-sale securities and trading securities. Available-for-sale investments consist entirely of seed capital investments in certain Victory Funds. Trading securities are held under a deferred compensation plan and include Victory Funds, USAA Funds and third party mutual funds.

Available-For-Sale Securities

A summary of the cost and fair value of investments classified as available-for-sale were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
As of September 30, 2019	$ 670	$ 46	$ (18)	$ 698
As of December 31, 2018	666	6	(71)	601

Unrealized and realized gains and losses on available-for-sale investments are recognized in the accompanying unaudited Condensed Consolidated Statements of Operations as "Interest income and other income/(expense)." There were no proceeds from sales and realized gains or losses on available-for-sale investments in the three months ended September 30, 2019 and 2018. Proceeds from sales and realized gains and losses from available-for-sale securities in the nine months ended September 30, 2019 and 2018 were as follows:

(in thousands)	Sale Proceeds	Realized Gains	Realized (Losses)
For the nine months ended September 30, 2019	$ 104	$ 4	$ —
For the nine months ended September 30, 2018	—	—	—

Trading Securities

A summary of the cost and fair value of investments classified as trading securities were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
As of September 30, 2019	$ 17,093	$ 332	$ (1,130)	$ 16,295
As of December 31, 2018	14,874	5	(2,160)	12,719

Unrealized and realized gains and losses on trading securities are recorded in "Interest income and other income/(expense)" in the accompanying unaudited Condensed Consolidated Statements of Operations. Proceeds from sales and realized gains and losses from trading securities in the periods ended September 30, 2019 and 2018 were as follows:

(in thousands)	Sale Proceeds	Realized Gains	Realized (Losses)
For the three months ended September 30, 2019	$ 908	$ 1	$ (29)
For the three months ended September 30, 2018	16	2	—
For the nine months ended September 30, 2019	$ 2,342	$ 15	$ (60)
For the nine months ended September 30, 2018	644	34	(5)

NOTE 8. INCOME TAXES

The effective tax rate for the three and nine months ended September 30, 2019 and 2018 differs from the United States federal statutory rate primarily as a result of state and local income taxes, excess tax benefits on share-based compensation, certain non-deductible expenses and for the periods in 2019, expense related to recognizing a liability for unrecorded tax benefits.

For the three months ended September 30, 2019 and 2018, the provision for income taxes was $8.1 million and $6.6 million, or 23.7% and 24.2%, of pre-tax income respectively. For the nine months ended September 30, 2019 and 2018, the provision for income taxes was $17.3 million and $16.4 million, or 24.0% and 24.8% of pre-tax income, respectively. The effective tax rates for the periods in 2019 were lower than the effective tax rates for the same periods in 2018 due mainly to higher excess tax benefits on share-based compensation net of expense related to recognizing a liability for unrecorded tax benefits. No valuation allowance was recorded for deferred tax assets in the periods ended September 30, 2019 and 2018.

During the three months ended September 30, 2019, the Company recorded a liability for $2.3 million ($1.8 million net of federal benefit) for unrecognized tax benefits, which included $0.2 million of interest and penalties. The gross unrecognized tax benefits and interest and penalties of $2.3 million at September 30, 2019 are included in "Other liabilities" in the accompanying unaudited Condensed Consolidated Balance Sheets. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, the Company does not expect the change to have a material impact on its consolidated financial statements.

NOTE 9. DEBT

2019 Credit Agreement

On July 1, 2019, concurrent with the USAA AMCO Acquisition, the Company (i) entered into the 2019 Credit Agreement, (ii) repaid all indebtedness outstanding under the previous credit agreement (dated February 2018), and (iii) terminated the previous credit agreement. The following table summarizes the components of "Long-term debt" under the 2019 Credit Agreement (due June 2026) and the previous credit agreement in the accompanying unaudited Condensed Consolidated Balance Sheets at September 30, 2019 and December 31, 2018:

(in thousands)	September 30, 2019	December 31, 2018
Term loan principal outstanding	$ 1,037,000	$ 280,000
Unamortized debt issuance costs	(19,495)	(7,629)
Unamortized debt discount	(11,577)	(3,514)
Long-term debt	**$ 1,005,928**	**$ 268,857**

The 2019 Credit Agreement was entered into among Victory, as borrower, the lenders from time to time party thereto and Barclays Bank PLC, as administrative agent and collateral agent, pursuant to which we obtained a seven-year term loan in an aggregate principal amount of $1.1 billion and established a five-year revolving credit facility (which was unfunded as of the closing date) with aggregate commitments of $100.0 million (with a $10.0 million sub-limit for the issuance of letters of credit). Amounts outstanding under the 2019 Credit Agreement bear interest at an annual rate equal to, at the option of the Company, either LIBOR (adjusted for reserves) plus a margin of 3.25% or an alternate base rate plus a margin of 2.25%.

The obligations of the Company under the 2019 Credit Agreement are guaranteed by the USAA Acquired Companies and all of the Company's other domestic subsidiaries (other than VCA) (the "Guarantors") and secured by substantially all of the assets of the Company and the Guarantors, subject in each case to certain customary exceptions.

The 2019 Credit Agreement contains customary affirmative and negative covenants, including covenants that affect, among other things, the ability of the Company and its subsidiaries to incur additional indebtedness, create liens, merge or dissolve, make investments, dispose of assets, engage in sale and leaseback transactions, make distributions and dividends and prepayments of junior indebtedness, engage in transactions with affiliates, enter into restrictive agreements, amend documentation governing junior indebtedness, modify its fiscal year and modify its organizational documents, subject to customary exceptions, thresholds, qualifications and "baskets." In addition, the 2019 Credit Agreement contains a financial performance covenant, requiring a maximum first lien leverage ratio, measured as of the last day of each fiscal quarter on which outstanding borrowings under the revolving credit facility exceed 35.0% of the commitments thereunder (excluding certain letters of credit), of no greater than 3.80 to 1.00. As of September 30, 2019, we were in compliance with our financial performance covenant.

Original issue discount was $11.5 million for the term loans under the 2019 Credit Agreement and $1.5 million for the revolving credit facility under the 2019 Credit Agreement. The Company incurred a total of $22.8 million in other third party costs related to the 2019 Credit Agreement and recorded $18.0 million as term loan debt issuance costs, $0.3 million as revolving credit facility debt issuance cost and $4.5 million as expense related to modified debt in "General and administrative" in the accompanying unaudited Condensed Consolidated Statements of Operations.

A total of $63.0 million of the outstanding term loans under the 2019 Credit Agreement was repaid in the third quarter of 2019. Subsequent to September 30, 2019 and through October 31, 2019, we repaid an additional $40.0 million, for a total principal debt reduction of $103.0 million since July 1, 2019, thus satisfying the required principal amortization of 1.00% per annum through the term of the loan, June 2026.

During the three months ended September 30, 2019, we recognized a $7.4 million loss on debt extinguishment, which consisted of the write-off of $4.7 million and $2.7 million of unamortized debt issuance costs and debt discount due to the termination of the previous credit agreement and term loan repayments under the 2019 Credit Agreement.

Interest Expense

As of September 30, 2019, the term loans under the 2019 Credit Agreement had an interest period of three months and an interest rate of 5.57%. Including the impact of amortization of debt issuance costs and original issue discount described herein, the effective yield for term loans under the 2019 Credit Agreement as of September 30, 2019 was 6.02%. The following table summarizes the components of "Interest expense and other financing costs" in the accompanying unaudited Condensed Consolidated Statements of Operations for the periods ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	2019	2018	2019	2018
Interest expense	$ 15,308	$ 3,673	$ 22,931	$ 13,610
Amortization of debt issuance costs	920	373	1,650	1,337
Amortization of debt discount	475	150	768	551
Other	153	160	458	375
CEMP base payment accretion expense	—	102	193	383
Total	**$ 16,856**	**$ 4,458**	**$ 26,000**	**$ 16,256**

NOTE 10. EQUITY

Shares Rollforward

The following tables present the changes in the number of shares of common stock issued and repurchased:

	Shares of Common Stock Issued		Shares of Treasury Stock	
	Class A	Class B	Class A	Class B
Balance, December 31, 2018	15,280,833	55,284,408	(856,275)	(2,146,980)
Issuance of shares	952	–	–	–
Share conversion - Class B to A	381,689	(381,689)	–	–
Repurchase of shares	–	–	(122,957)	–
Vesting of restricted share grants	–	39,636	–	–
Exercise of options	–	71,652	–	–
Shares withheld related to net settlement of equity awards	–	–	–	(29,108)
Balance, March 31, 2019	15,663,474	55,014,007	(979,232)	(2,176,088)
Issuance of shares	975	–	–	–
Share conversion - Class B to A	809,179	(809,179)	–	–
Repurchase of shares	–	–	(113,297)	–
Vesting of restricted share grants	–	4,360	–	–
Exercise of options	–	150,432	–	–
Shares withheld related to net settlement of equity awards	–	–	–	(7,749)
Balance, June 30, 2019	16,473,628	54,359,620	(1,092,529)	(2,183,837)
Issuance of shares	1,085	–	–	–
Share conversion - Class B to A	1,331,412	(1,331,412)	–	–
Repurchase of shares	–	–	(299,896)	–
Vesting of restricted share grants	–	168,933	–	–
Exercise of options	–	486,865	–	–
Shares withheld related to net settlement of equity awards	–	–	–	(216,500)
Balance, September 30, 2019	17,806,125	53,684,006	(1,392,425)	(2,400,337)

	Shares of Common Stock Issued			Shares of Treasury Stock		
	Class A	Class B	Pre-IPO	Class A	Class B	Pre-IPO
Balance, December 31, 2017	–	–	57,182,730	–	–	(2,064,057)
Issuance of Class A common stock	12,810,860	–	–	–	–	–
Redesignation of common stock	–	57,184,766	(57,184,766)		(2,064,057)	2,064,057
Share conversion - Class B to A	88,455	(88,455)	–	–	–	–
Vesting of restricted share grants	–	14,794	2,036	–	–	–
Exercise of options		5,000				
Fractional shares retired	–	(263)	–	–	–	–
Balance, March 31, 2018	12,899,315	57,115,842	–	–	(2,064,057)	–
Share conversion - Class B to A	72,195	(72,195)	–	–	–	–
Repurchase of shares	–	–	–	(66,112)	–	–
Vesting of restricted share grants	–	16,198	–	–	–	–
Balance, June 30, 2018	12,971,510	57,059,845	–	(66,112)	(2,064,057)	–
Issuance of shares	1,332	–	–	–	–	–
Share conversion - Class B to A	1,814,422	(1,814,422)	–	–	–	–
Repurchase of shares	–	–	–	(291,585)	(82,923)	–
Vesting of restricted share grants	–	176,737	–	–	–	–
Exercise of options	–	217,453	–	–	–	–
Balance, September 30, 2018	14,787,264	55,639,613	–	(357,697)	(2,146,980)	–

Share Repurchase Program

The share repurchase program authorized in 2018 for $15.0 million of the Company's Class A common stock was completed in September 2019. In August 2019, the Company's Board of Directors authorized the Company to repurchase up to an additional $15.0 million of the Company's Class A common stock in the open market or in privately negotiated transactions. The amount and timing of the purchases under the new program ("2019 Share Repurchase Program") will depend on a number of factors including the price and availability of the Company's shares, trading volume, capital availability, Company performance and general economic and market conditions. The 2019 Share Repurchase Program can be suspended or discontinued at any time.

As of September 30, 2019, a total of 1,392,425 shares of Class A common stock have been repurchased under the initial share repurchase program and the 2019 Share Repurchase Program at a total cost of $16.4 million for an average price of $11.81 per share. As of September 30, 2019, $13.6 million was available for future repurchases. The 2019 Share Repurchase Program expires on December 31, 2020.

Quarterly Dividends

In August 2019, the Company announced the initiation of a quarterly cash dividend. The first quarterly cash dividend of $0.05 per share was declared in August and paid in September 2019. Dividends paid during the three months ended September 30, 2019 included $3.4 million for the September 2019 quarterly dividend and $0.5 million in cash bonuses and distributions related to dividends previously declared upon vesting of restricted stock and stock option awards.

NOTE 11. SHARE-BASED COMPENSATION

Current Period Activity

During the three months ended September 30, 2019, the Company issued restricted stock awards for 196,476 shares of common stock, of which awards for 3,660 shares were fully vested on the grant date and awards for 192,816 shares vest based on service over a three year period. The Company also issued stock option awards to purchase 31,178 shares of common stock which vest based on service over a three year period.

Stock option award and restricted stock award activity during the nine months ended September 30, 2019 and 2018 was as follows:

	Shares Subject to Stock Option Awards Nine Months Ended September 30,					
	2019			2018		
	Avg wtd grant-date fair value	Avg wtd exercise price	Units	Avg wtd grant-date fair value	Avg wtd exercise price	Units
Outstanding at beginning of period	$ 3.79	$ 6.12	9,070,052	$ 3.66	$ 5.71	9,078,728
Granted	7.25	17.64	31,178	6.51	14.25	359,618
Forfeited	5.00	9.63	(247,403)	6.28	13.77	(8,520)
Exercised	3.15	4.11	(708,949)	2.81	3.06	(222,453)
Outstanding at end of the period	$ 3.82	$ 6.24	8,144,878	$ 3.79	$ 6.11	9,207,373
Vested	$ 3.59	$ 5.51	6,860,289	$ 3.34	$ 4.74	6,447,462
Unvested	5.06	10.12	1,284,589	4.84	9.31	2,759,911

	Restricted Stock Awards Nine Months Ended September 30,			
	2019		2018	
	Avg wtd grant-date fair value	Units	Avg wtd grant-date fair value	Units
Unvested at beginning of period	$ 13.17	2,997,856	$ 11.82	1,293,107
Granted	16.27	1,192,145	13.81	1,904,595
Vested	11.06	(212,929)	10.48	(209,765)
Forfeited	13.49	(433,549)	—	—
Unvested at end of period	$ 14.25	3,543,523	$ 13.18	2,987,937

For awards granted post-IPO, the Company used the Class A common stock closing price on the grant date as the grant date fair value of the stock. The fair value of stock option awards granted in the three months ended September 30, 2019 was determined using a number of inputs including expected volatility, which was based on a consideration of the average volatility of companies in the same or similar lines of business adjusted for differing levels of leverage and the Company's volatility for the post-IPO period. The expected term was determined using the simplified method detailed in SEC Staff Accounting Bulletin No. 107.

Dividend Payments

In connection with dividends declared in February 2017 and December 2017, holders of restricted stock awards that were unvested at the time such dividends were declared are entitled to be paid the dividends as and when the restricted stock vests. Holders of stock options that were unvested at the time the December 2017 dividend was declared are entitled to receive a cash bonus equivalent of the December 2017 dividend as and when their stock options vest.

The Company announced the initiation of quarterly cash dividends in August 2019 and paid the first quarterly dividend in September 2019. Holders of restricted stock awards that are unvested at the time the quarterly dividends are declared are entitled to be paid these dividends as and when the restricted stock vests.

As of September 30, 2019 and December 31, 2018, the amount of cash bonuses and distributions related to dividends previously declared on unvested and outstanding restricted share awards and stock options totaled $1.2 million and $1.8 million, which was not recorded as a liability as of the balance sheet date. A liability will be recorded for these cash bonuses and dividends when the restricted shares and options vest.

Share-Based Compensation Expense

The Company recorded $4.8 million and $4.0 million of share-based compensation expense in the three months ended September 30, 2019 and 2018, respectively, and $10.1 million and $11.3 million of share-based compensation expense in the nine months ended September 30, 2019 and 2018, respectively, in “Personnel compensation and benefits” in the accompanying unaudited Condensed Consolidated Statements of Operations.

NOTE 12. EARNINGS PER SHARE

The following table sets forth the reconciliation of basic earnings per share and diluted earnings per share from net income for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands except per share amounts)	**2019**	**2018**	**2019**	**2018**
Net income	$ 25,992	$ 20,590	$ 54,902	$ 49,789
Shares:				
Basic: Weighted average number of shares outstanding	67,724	67,972	67,610	65,817
Plus: Incremental shares from assumed conversion of dilutive instruments	5,947	3,892	5,690	4,351
Diluted: Weighted average number of shares outstanding	73,671	71,864	73,300	70,168
Earnings per share				
Basic:	$ 0.38	$ 0.30	$ 0.81	$ 0.76
Diluted:	$ 0.35	$ 0.29	$ 0.75	$ 0.71

Outstanding instruments excluded from the computation of weighted average shares for diluted earnings per share because the effect would be anti-dilutive totaled 0.3 million and 3.0 million for the three months ended September 30, 2019 and 2018, respectively, and 1.3 million and 1.7 million for the nine months ended September 30, 2019 and 2018, respectively. Holders of non-vested share-based compensation awards do not have rights to receive nonforfeitable dividends on the shares covered by the awards.

NOTE 13. EQUITY METHOD INVESTMENT

On August 30, 2019, the Company sold 100% of its equity investment in Cerebellum Capital, LLC (“Cerebellum”) for $10.6 million in cash. The Company recognized $2.9 million on the gain on sale, which is recorded in “Interest income and other income/(expense)” in the accompanying unaudited Condensed Consolidated Statements of Operations.

For the three and nine months ended September 30, 2019 and 2018, losses from equity method investments recorded in “Interest income and other income/(expense)” in the accompanying unaudited Condensed Consolidated Statements of Operations were not material to our consolidated results of operations.

Equity method investments are recorded in “Other assets” in the accompanying unaudited Condensed Consolidated Balance Sheets. At September 30, 2019, the Company no longer held an equity investment in Cerebellum, compared to $7.9 million, net of cumulative losses of $1.1 million, as of December 31, 2018.

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in accumulated other comprehensive income/(loss) by component for the nine months ended September 30, 2019 and 2018.

(in thousands)	Available-for-sale Securities	Cumulative Translation Adjustment	Total
Balance, December 31, 2018	**$ (59)**	**$ (27)**	**$ (86)**
Other comprehensive income/(loss) before reclassification and tax	—	(28)	(28)
Tax impact	—	7	7
Net current period other comprehensive income/(loss)	—	(21)	(21)
Cumulative effect of adoption of ASU 2016-01 and 2018-02	59	3	62
Balance, September 30, 2019	**$ —**	**$ (45)**	**$ (45)**
Balance, December 31, 2017	**$ 51**	**$ 13**	**$ 64**
Other comprehensive income/(loss) before reclassification and tax	46	(47)	(1)
Tax impact	(12)	12	—
Net current period other comprehensive income/(loss)	34	(35)	(1)
Balance, September 30, 2018	**$ 85**	**$ (22)**	**$ 63**

NOTE 15. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, we repaid an additional $40.0 million of the outstanding term loans under the 2019 Credit Agreement, for a total debt reduction of $103.0 million since July 1, 2019.

On November 4, 2019, our Board of Directors declared a quarterly cash dividend of $0.05 per share on Victory common stock. The dividend is payable on December 26, 2019, to stockholders of record on December 10, 2019.

Victory entered into a lease agreement to occupy the premises at 15935 La Cantera Parkway, San Antonio, Texas 78256 (the "San Antonio lease") in mid-November. In conjunction with the San Antonio lease, we relocated our Corporate headquarters for the global investment management business from Brooklyn, Ohio to this location in San Antonio, Texas.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to the "Company," "Victory,"or in the first-person notations of "we," "us," and "our" shall mean Victory Capital Holdings, Inc., a Delaware corporation, and its wholly-owned subsidiaries.

The following discussion is intended to assist in the understanding of our financial position at September 30, 2019 and December 31, 2018, results of operations for the three and nine months ended September 30, 2019 and 2018, and cash flows for the nine months ended September 30, 2019 and 2018, and should be read in conjunction with the accompanying unaudited condensed consolidated financial statements (the "accompanying financial statements") and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2018. This discussion and analysis contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q and in "Item 1A. Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2018.

OVERVIEW

We are an investment management firm operating a next generation, integrated multi-boutique model with $145.8 billion in assets under management ("AUM") as of September 30, 2019. Our differentiated model features a scalable operating platform that provides centralized distribution, marketing and operations infrastructure to our Franchises and Solutions. Our earnings are primarily driven by asset-based fees charged for services related to the investment strategies we deliver and consist of investment management, fund administration and distribution fees.

Franchises

Our Franchises are operationally integrated, but are separately branded and make investment decisions independently from one another within guidelines established by their respective investment mandates. Our integrated multi-boutique model creates a supportive environment in which our investment professionals, largely unencumbered by administrative and operational responsibilities, can focus on their pursuit of investment excellence. Victory Capital Management Inc. (“VCM”) employs all of the Company’s United States investment professionals across our Franchises, which are not separate legal entities.

Solutions

Solutions consists of multi-Franchise and customized solutions strategies that are primarily rules-based. We offer Solutions through a variety of vehicles, including separate accounts, mutual funds and VictoryShares which is our exchange traded fund (“ETF”) brand. Like our Franchises, our Solutions Platform is operationally integrated and supported by our centralized distribution, marketing and operational support functions.

We sell our products through our centralized distribution model with 134 professionals across both our institutional, retail and direct member distribution channels and marketing organization. Our institutional sales team focuses on cultivating relationships with institutional consultants, who account for the majority of the institutional market, as well as asset allocators seeking sub-advisers. Our retail sales team offers intermediary and retirement platform clients, including broker-dealers, retirement platforms and RIA networks, mutual funds and ETFs as well as SMAs through wrap fee programs and access to our investment models through UMAs. Our direct member channel serves the investment needs of USAA members and the military community.

We have grown our AUM from $17.9 billion following the management-led buyout with Crestview GP in August 2013 to $145.8 billion at September 30, 2019. We attribute this growth to our success in sourcing acquisitions and evolving them into organic growers, generating strong investment returns, and developing member, institutional and retail distribution channels with deep penetration.

USAA AMCO Acquisition

Effective July 1, 2019, the Company completed the acquisition (the “USAA AMCO Acquisition”) of the USAA Asset Management Company (“USAA Adviser”) and the Victory Capital Transfer Agency, Inc. (“VCTA”), formally known as the USAA Transfer Agency Company d/b/a USAA Shareholder Account Services (together with USAA Adviser, the “USAA Acquired Companies”), which includes USAA’s mutual fund and ETF businesses and its 529 College Savings Plan (collectively, the “USAA Mutual Fund Business”).

Victory’s transformative acquisition of the USAA Mutual Fund Business increased AUM by $81.1 billion and significantly impacted our financial results for the three and nine months ended September 30, 2019. The acquisition not only increased revenue, but also introduced additional personnel expenses and new operating expenses such as third party distribution costs, expenses related to a transfer services agreement with USAA, 529 College Savings Plan, and direct member channel expenses that the Company did not incur prior to the acquisition. In conjunction with the USAA AMCO Acquisition, the Company entered into a credit agreement (the “2019 Credit Agreement”), dated July 1, 2019, and obtained a seven-year term loan in an aggregate principal amount of $1.1 billion. All indebtedness outstanding under the previous credit agreement was repaid and terminated as of July 1, 2019.

The USAA AMCO Acquisition expands and diversifies our investment platform, particularly in the fixed income and solutions asset classes, and increases our size and scale. Additional products added to our investments platform include target date and target risk strategies, managed volatility mutual funds, active fixed income ETFs, sub-advised and multi-manager equity funds. We have also added to our lineup of asset allocation portfolios and smart beta equity ETFs. Through the acquisition, the Company has the rights to offer products and services using the USAA brand and the opportunity to offer its products to USAA members through a direct member channel.

Total consideration for the USAA AMCO Acquisition was $954.1 million, comprising of $851.3 million of cash paid at closing and $102.8 million in contingent consideration. A maximum of $150.0 million ($37.5 million per year) in contingent payments is payable to sellers based on the annual revenue of USAA Adviser attributable to all “non-managed money”-related AUM in each of the first four years following the closing date. Refer to Note 4, Acquisitions, to the accompanying financial statements for further details on the USAA AMCO Acquisition, as well as Note 9, Debt, for further details on the 2019 Credit Agreement.

Business Highlights

Assets under management:

- AUM at September 30, 2019 grew by $81.8 billion, or 127.6%, to $145.8 billion from $64.1 billion at June 30, 2019, primarily driven by $81.1 billion of acquired assets and positive net inflows of $0.7 billion, compared to positive net inflows of $3.7 billion at June 30, 2019.
- AUM at September 30, 2019 and 2018 was $145.8 billion and $63.6 billion, respectively. We generated $11.9 billion in gross flows and $0.7 billion in positive net inflows for the three months ended September 30, 2019 compared to $2.9 billion in gross flows and $0.7 billion in negative net outflows for the same period in 2018.
- AUM generated $22.5 billion in gross flows and $3.2 billion in positive net inflows for the nine months ended September 30, 2019 compared to $10.1 billion in gross flows and $1.4 billion in negative net outflows for the same period in 2018.

Investment performance:

- **Legacy Victory Capital:** 25 of our Legacy Victory Capital mutual funds and ETFs had overall Morningstar ratings of four or five stars and 74% of our fund and ETF AUM were rated four or five stars overall by Morningstar. 76% of our strategies by AUM had investment returns in excess of their respective benchmarks over a one-year period, 83% over a three-year period, 73% over a five-year period and 92% over a ten-year period. On an equal-weighted basis, 55% of our strategies have outperformed their benchmarks over a one-year period, 65% over a three-year period, 68% over a five-year period and 82% over a ten-year period.
- **USAA Fixed Income:** 12 of our USAA Fixed Income mutual funds and ETFs had overall Morningstar ratings of four or five stars and 99% of our fund and ETF AUM were rated four or five stars overall by Morningstar. 67% of our strategies by AUM had investment returns in excess of their respective benchmarks over a one-year period, 88% over a three-year period, 88% over a five-year period and 95% over a ten-year period. On an equal-weighted basis, 64% of our strategies have outperformed their benchmarks over a one-year period, 83% over a three-year period, 83% over a five-year period and 91% over a ten-year period.
- **Total Victory Capital:** 44 of our Total Victory Capital mutual funds and ETFs had overall Morningstar ratings of four or five stars and 68% of our fund and ETF AUM were rated four or five stars overall by Morningstar. 59% of our strategies by AUM had investment returns in excess of their respective benchmarks over a one-year period, 64% over a three-year period, 60% over a five-year period and 73% over a ten-year period. On an equal-weighted basis, 47% of our strategies have outperformed their benchmarks over a one-year period, 52% over a three-year period, 55% over a five-year period and 68% over a ten-year period.

Industry achievements and recognition:

- For the fourth consecutive year, eVestment ranked us in the top 5 in their 2018 Institutional Brand Awareness by AUM category.
- We ranked 9th in *"Barron's Best Fund Families of 2018"* for the one-year period ended December 31, 2018. We also ranked 4th in the mixed asset category and 5th in the taxable bond category. This is the 2nd consecutive year that we have been ranked among the top 10 best fund families and the 5th consecutive year that we have been ranked among the top 25 best fund families by *Barron's*.

Financial highlights:

- Total revenue for the three months ended September 30, 2019 was $215.0 million compared to $108.1 million for the same period in 2018. For the nine months ended September 30, 2019 and 2018, total revenue was $393.8 million and $317.4 million, respectively.
- Net income was $26.0 million for the three months ended September 30, 2019 compared to $20.6 million for the same period in 2018. For the nine months ended September 30, 2019 and 2018, net income was $54.9 million and $49.8 million, respectively.

- Adjusted EBITDA was $96.3 million for the three months ended September 30, 2019, or 44.8% of revenue, compared to $43.3 million, or 40.1% of revenue, for the same period in 2018. For the nine months ended September 30, 2019, Adjusted EBITDA was $166.5 million, or 42.3% of revenue, compared to $123.8 million, 39.0% of revenue, for the same period in 2018. Refer to "Supplemental Non-GAAP Financial Information" for further information about the Adjusted EBITDA calculation and reconciliation of generally accepted accounting principles ("GAAP") net income to Adjusted EBITDA.
- Adjusted Net Income was $60.5 million for the three months ended September 30, 2019 compared to $29.0 million for the three months ended September 30, 2018. For the nine months ended September 30, 2019, Adjusted Net Income was $106.8 million compared to $78.6 million for the same period in 2018. Refer to "Supplemental Non-GAAP Financial Information" for further information about the Adjusted Net Income calculation and reconciliation of GAAP net income to Adjusted Net Income.

Key Performance Indicators

The following table is a summary of key performance indicators utilized by management to assess results of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions, except for basis points and percentages)	2019	2018	2019	2018
AUM at period end	$145,832	$63,640	$145,832	$63,640
Average AUM	145,904	63,447	87,670	62,361
Gross flows	11,905	2,896	22,457	10,102
Net flows	661	(672)	3,249	(1,408)
Total revenue(1)	215.0	108.1	393.8	317.4
Revenue on average AUM(1)	58.5 bps	67.6 bps	60.1 bps	68.0 bps
Net income	26.0	20.6	54.9	49.8
Adjusted EBITDA(2)	96.3	43.3	166.5	123.8
Adjusted EBITDA Margin(1)(3)	44.8 %	40.1 %	42.3 %	39.0 %
Adjusted Net Income(2)	60.5	29.0	106.8	78.6
Tax benefit of goodwill and acquired intangibles(4)	6.8	3.3	13.5	10.0

(1) On January 1, 2019, the Company adopted Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") and now records all Mutual Fund and ETF waivers and expense reimbursements as a reduction of reported revenue and not as an expense item. The impact in the three months and nine months ended September 30, 2019 was a decrease in revenue and operating expenses of $5.2 million and $13.4 million, respectively. Prior periods have not been restated, as permitted by the Financial Accounting Standards Board ("FASB"), due to the Company adopting the new revenue guidance using the modified retrospective method.

(2) Management utilizes Adjusted EBITDA and Adjusted Net Income to measure the operating profitability of the business. These measures eliminate the impact of one-time acquisition, restructuring and integration costs and demonstrate the ongoing operating earnings metrics of the business. These measures are explained in more detail and reconciled to net income calculated in accordance with GAAP in "Supplemental Non-GAAP Financial Information."

(3) Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of total revenue.

(4) Represents the tax benefits associated with deductions allowed for intangibles and goodwill generated from prior acquisitions in which we received a step-up in basis for tax purposes. Acquired intangible assets and goodwill may be amortized for tax purposes, generally over a 15-year period. The tax benefit from amortization on these assets is included to show the full economic benefit of deductions for all acquired intangibles with a step-up in tax basis. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets and goodwill provide us with a significant supplemental economic benefit.

Assets Under Management

Our profitability is largely affected by the level and composition of our AUM (including asset class and distribution channel) and the effective fee rates on our products. The amount and composition of our AUM are, and will continue to be, influenced by a number of factors, including; (i) investment performance, including fluctuations in the financial markets and the quality of our investment decisions; (ii) client flows into and out of our various strategies and investment vehicles; (iii) industry trends toward products or strategies that we either do or do not offer; (iv) our ability to attract and retain high quality investment, distribution, marketing and management personnel; (v) our decision to close strategies or limit growth of assets in a strategy when we believe it is in the best interest of our clients or conversely to re-open strategies in part or entirely; and (vi) general investor sentiment and confidence.

Our goal is to establish and maintain a client base that is diversified by Franchise and Solutions, asset class, distribution channel and vehicle. The table below sets forth our AUM by Franchise and Solutions as of September 30, 2019. The amounts shown in the table exclude assets managed for other proprietary products (e.g. funds of funds), to adjust for the double counting of holdings.

Due to rounding, AUM numbers presented in the tables below may not add up precisely to the totals provided.

(in billions)	**September 30, 2019**
Solutions	$ 49.1
USAA	42.3
Sycamore	22.4
RS Growth	8.8
INCORE	6.3
Integrity	5.0
Trivalent	3.2
Munder	2.7
RS Value	2.6
Sophus	1.7
NewBridge	1.2
RS International	0.3
Total	**$ 145.8**

The following table presents our AUM by asset class as of the dates indicated:

(in millions)	As of September 30, 2019	As of September 30, 2018
Fixed Income	$ 37,784	$ 7,149
Solutions	29,579	4,224
U.S. Mid Cap Equity	25,479	25,014
U.S. Small Cap Equity	16,266	16,438
U.S. Large Cap Equity	13,488	4,644
Global / Non-U.S. Equity	11,532	4,738
Other	243	1,433
Total Long-Term Assets	**$134,371**	**$ 63,640**
Money Market	11,460	—
Total	**$145,832**	**$ 63,640**

The following tables summarize our asset flows by asset class for the periods indicated:

(in millions)	U.S. Mid Cap Equity	U.S. Small Cap Equity	Fixed Income	U.S. Large Cap Equity	Global / Non-U.S. Equity	Solutions	Other	Total Long-term	Money Market	Total
For Three Months Ended September 30, 2019										
Beginning AUM	$24,203	$15,278	$ 7,300	$ 4,108	$ 5,498	$ 6,919	$ 771	$ 64,077	$ —	$ 64,077
Gross client cash inflows	880	779	4,071	166	326	1,207	28	7,456	4,449	11,905
Gross client cash outflows	(1,396)	(1,069)	(1,789)	(497)	(566)	(1,296)	(118)	(6,730)	(4,514)	(11,244)
Net client cash flows	(516)	(290)	2,282	(331)	(240)	(89)	(90)	726	(65)	661
Market appreciation / (depreciation)	(26)	(249)	528	(301)	(192)	225	(83)	(98)	44	(54)
Net transfers	1,818	1,527	27,674	10,012	6,465	22,523	(354)	69,665	11,482	81,147
Ending AUM	$25,479	$16,266	$37,784	$13,488	$11,532	$29,579	$ 243	$134,371	$11,460	$145,832
For Three Months Ended September 30, 2018										
Beginning AUM	$24,485	$15,971	$ 6,978	$ 4,577	$ 4,705	$ 3,815	$1,725	$ 62,256	$ —	$ 62,256
Gross client cash inflows	964	740	449	42	307	321	73	2,896	—	2,896
Gross client cash outflows	(1,660)	(860)	(346)	(179)	(193)	(61)	(269)	(3,568)	—	(3,568)
Net client cash flows	(696)	(120)	103	(137)	114	260	(196)	(672)	—	(672)
Market appreciation / (depreciation)	1,225	587	67	204	(81)	149	(95)	2,056	—	2,056
Net transfers	—	—	1	—	—	—	(1)	—	—	—
Ending AUM	$25,014	$16,438	$ 7,149	$ 4,644	$ 4,738	$ 4,224	$1,433	$ 63,640	$ —	$ 63,640

(in millions)	U.S. Mid Cap Equity	U.S. Small Cap Equity	Fixed Income	U.S. Large Cap Equity	Global / Non-U.S. Equity	Solutions	Other	Total Long-term	Money Market	Total
Nine Months Ended September 30, 2019										
Beginning AUM	$20,019	$12,948	$ 6,836	$ 3,759	$ 4,610	$ 3,767	$ 823	$ 52,763	$ —	$ 52,763
Gross client cash inflows	4,656	2,500	4,880	214	1,024	4,578	155	18,008	4,449	22,457
Gross client cash outflows	(5,021)	(3,052)	(2,502)	(809)	(1,048)	(1,940)	(321)	(14,694)	(4,514)	(19,208)
Net client cash flows	(365)	(552)	2,378	(595)	(24)	2,638	(166)	3,314	(65)	3,249
Market appreciation / (depreciation)	4,006	2,345	896	316	480	649	(60)	8,631	44	8,675
Net transfers	1,820	1,526	27,674	10,007	6,465	22,525	(354)	69,661	11,482	81,143
Ending AUM	$25,479	$16,266	$37,784	$13,488	$11,532	$29,579	$ 243	$134,372	$11,460	$145,832
Nine Months Ended September 30, 2018										
Beginning AUM	$25,185	$15,308	$ 7,551	$ 4,789	$ 4,105	$ 3,028	$ 1,805	$ 61,771	$ —	$ 61,771
Gross client cash inflows	3,292	2,383	1,145	200	1,420	1,307	355	10,102	—	10,102
Gross client cash outflows	(5,162)	(2,527)	(1,637)	(677)	(594)	(307)	(606)	(11,510)	—	(11,510)
Net client cash flows	(1,870)	(144)	(492)	(477)	826	1,000	(251)	(1,408)	—	(1,408)
Market appreciation / (depreciation)	1,680	1,293	89	320	(185)	156	(68)	3,285	—	3,285
Net transfers	19	(19)	1	12	(8)	40	(53)	(8)	—	(8)
Ending AUM	$25,014	$16,438	$ 7,149	$ 4,644	$ 4,738	$ 4,224	$ 1,433	$ 63,640	$ —	$ 63,640

The following table presents our AUM by distribution channel as of the dates indicated:

	As of September 30,			
	2019		2018	
(in millions)	Amount	% of total	Amount	% of total
Member	$ 71,925	49 %	$ -	- %
Institutional	38,246	26 %	35,138	57 %
Retail	35,661	25 %	28,502	43 %
Total AUM[(1)]	$145,832	100 %	$ 63,640	100 %

(1) The allocation of AUM by distribution channel involves the use of estimates and the exercise of judgment.

The following tables summarize our asset flows by vehicle for the periods indicated:

(in millions)	Mutual Funds(1)	ETFs	Separate Accounts and Other Vehicles(2)	Total
Three Months Ended September 30, 2019				
Beginning AUM	$ 34,258	$ 3,093	$ 26,726	$ 64,077
Gross client cash inflows	8,383	245	3,277	11,905
Gross client cash outflows	(9,643)	(258)	(1,343)	(11,244)
Net client cash flows	(1,260)	(13)	1,934	661
Market appreciation / (depreciation)	267	4	(325)	(54)
Net transfers	80,806	782	(441)	81,147
Ending AUM	$ 114,071	$ 3,867	$ 27,894	$ 145,832
Three Months Ended September 30, 2018				
Beginning AUM	$ 37,818	$ 2,906	$ 21,532	$ 62,256
Gross client cash inflows	2,098	305	493	2,896
Gross client cash outflows	(2,950)	(18)	(600)	(3,568)
Net client cash flows	(852)	287	(107)	(672)
Market appreciation / (depreciation)	1,223	102	731	2,056
Net transfers	—	—	—	—
Ending AUM	$ 38,189	$ 3,295	$ 22,156	$ 63,640

(in millions)	Mutual Funds(1)	ETFs	Separate Accounts and Other Vehicles(2)	Total
Nine Months Ended September 30, 2019				
Beginning AUM	$ 30,492	$ 2,956	$ 19,315	$ 52,763
Gross client cash inflows	12,760	594	9,103	22,457
Gross client cash outflows	(15,403)	(789)	(3,016)	(19,208)
Net client cash flows	(2,643)	(195)	6,087	3,249
Market appreciation / (depreciation)	5,421	323	2,931	8,675
Net transfers	80,802	782	(441)	81,143
Ending AUM	$ 114,071	$ 3,867	$ 27,893	$ 145,832
Nine Months Ended September 30, 2018				
Beginning AUM	$ 37,967	$ 2,250	$ 21,555	$ 61,771
Gross client cash inflows	7,279	1,082	1,741	10,102
Gross client cash outflows	(8,924)	(143)	(2,443)	(11,510)
Net client cash flows	(1,645)	939	(702)	(1,408)
Market appreciation / (depreciation)	1,878	106	1,301	3,285
Net transfers	(11)	—	3	(8)
Ending AUM	$ 38,189	$ 3,295	$ 22,156	$ 63,640

(1) Includes institutional and retail share classes and Variable Insurance Products or VIP funds.

(2) Includes collective trust funds, wrap program separate accounts and unified managed accounts or UMAs.

September 30, 2019 AUM compared to June 30, 2019 AUM. At September 30, 2019, our total AUM was $145.8 billion, an increase of $81.8 billion, or 127.6%, from $64.1 billion at June 30, 2019, primarily due to $81.1 billion of acquired assets and positive net inflows of $0.7 billion. Short-term money market assets accounted for $11.5 billion, or 7.8%, of the total AUM of $145.8 billion at September 30, 2019. The net inflows were driven by $2.3 billion in our fixed income, partially offset by total net outflows of $0.5 billion in our U.S. mid cap equity strategies, $0.3 billion in our U.S. large cap equity strategies, $0.3 billion in our U.S. small cap equity strategies and $0.2 billion in our global equity strategies.

September 30, 2019 AUM compared to December 31, 2018 AUM Total AUM increased by $93.1 billion, or 176.4%, to $145.8 billion at September 30, 2019 compared to $52.8 billion at December 31, 2018. The increase in AUM was primarily due to $81.1 billion of acquired assets, positive net inflows of $3.2 billion, as well as positive market movement of $8.7 billion. The net inflows were driven by $2.6 billion in our Solutions Platform and $2.4 billion in our fixed income, partially offset by total net outflows of $0.6 billion in our U.S. large cap equity strategies, $0.6 billion in our U.S. small cap equity strategies and $0.4 billion in our U.S. mid cap equity strategies.

GAAP Results of Operations

The following table presents our GAAP results of operations for the three and nine months ended September 30, 2019 and 2018. The financial results reflect the USAA AMCO Acquisition that closed on July 1, 2019. The acquisition significantly impacted our financial results for the three and nine months ended September 30, 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Revenue				
Investment management fees	$ 155,406	$ 92,525	$ 307,859	$ 270,653
Fund administration and distribution fees	59,574	15,557	85,960	46,792
Total revenue	**214,980**	**108,082**	**393,819**	**317,445**
Expenses				
Personnel compensation and benefits	55,556	38,027	125,599	111,970
Distribution and other asset-based expenses	57,202	24,269	89,151	73,557
General and administrative	17,654	6,951	31,828	23,095
Depreciation and amortization	7,768	5,574	18,253	17,917
Change in value of consideration payable for acquisition of business	—	—	(14)	(4)
Acquisition-related costs	16,386	1,451	21,950	1,446
Restructuring and integration costs	4,841	—	6,629	702
Total operating expenses	**159,407**	**76,272**	**293,396**	**228,683**
Income from operations	**55,573**	**31,810**	**100,423**	**88,762**
Other income (expense)				
Interest income and other income/(expense)	2,742	(200)	5,231	(229)
Interest expense and other financing costs	(16,856)	(4,458)	(26,000)	(16,256)
Loss on debt extinguishment	(7,409)	—	(7,409)	(6,058)
Total other income (expense), net	**(21,523)**	**(4,658)**	**(28,178)**	**(22,543)**
Income before income taxes	**34,050**	**27,152**	**72,245**	**66,219**
Income tax expense	**(8,058)**	**(6,562)**	**(17,343)**	**(16,430)**
Net income	**$ 25,992**	**$ 20,590**	**$ 54,902**	**$ 49,789**
Earnings per share of common stock				
Basic	$ 0.38	$ 0.30	$ 0.81	$ 0.76
Diluted	$ 0.35	$ 0.29	$ 0.75	$ 0.71
Weighted average number of shares outstanding				
Basic	67,724	67,972	67,610	65,817
Diluted	73,671	71,864	73,300	70,168
Dividends declared per share of common stock	$ 0.05	$ —	$ 0.05	$ —

Investment Management Fees

Three months ended September 30, 2019 compared to September 30, 2018 Investment management fees increased by $62.9 million, or 68.0%, to $155.4 million for the three months ended September 30, 2019 from $92.5 million for the same period in 2018 due to an increase in average AUM year over year, partially offset by a decrease in the realized fee rate due to a shift in asset mix. Average AUM was $145.9 billion for the three months ended September 30, 2019 compared to $63.4 billion for the same period in 2018, mostly attributable to acquired assets in the USAA AMCO Acquisition.

The Company adopted ASU 2014-09 on January 1, 2019. Mutual fund and ETF waivers and expense reimbursements are recorded as a reduction to investment management fees under the new standard ($5.2 million in the third quarter of 2019), whereas under legacy revenue recognition guidance these amounts were recorded as distribution and other asset-based expenses ($3.1 million in the third quarter of 2018). The comparative periods have not been restated and continue to be reported under the legacy guidance, as permitted by the FASB.

Nine months ended September 30, 2019 compared to September 30, 2018 Investment management fees increased by $37.2 million, or 13.7%, to $307.9 million for the nine months ended September 30, 2019 from $270.7 million for the same period in 2018 due to the same factors as discussed above in the quarterly section. Average AUM was $87.7 million and $62.4 million, respectively, for the nine months ended September 30, 2019 and 2018. The adoption of ASU 2014-09, as discussed above in the quarterly section, reduced investment management fees by $13.4 million for the nine months ended September 30, 2019 compared to $9.4 million recorded as distribution and other asset-based expenses for the same period in 2018 under legacy revenue recognition guidance.

Fund Administration and Distribution Fees

Three months ended September 30, 2019 compared to September 30, 2018 Fund administration and distribution fees increased by $44.0 million, or 282.9%, to $59.6 million for the three months ended September 30, 2019 from $15.6 million for the same period in 2018 due to an increase in average AUM year over year and the addition of $21.4 million in transfer agent fees with the USAA Funds related to the USAA AMCO Acquisition, partially offset by a shift in the mix of assets to lower 12b-1 paying share classes.

Nine months ended September 30, 2019 compared to September 30, 2018 Fund administration and distribution fees increased by $39.2 million, or 83.7%, to $86.0 million for the nine months ended September 30, 2019 from $46.8 million for the same period in 2018 due to the same factors as discussed above in the quarterly section.

Personnel Compensation and Benefits

The following table presents the components of GAAP personnel compensation and benefits expense for the three amd nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Salaries, payroll related taxes and employee benefits	$ 16,647	$ 11,928	$ 44,158	$ 37,104
Incentive compensation	29,493	18,580	60,137	53,237
Sales-based compensation(1)	3,397	3,514	9,984	10,334
Equity awards granted to employees(2)	4,814	4,005	10,115	11,295
Acquisition and transaction-related compensation	1,205	—	1,205	—
Total personnel compensation and benefits expense	**$ 55,556**	**$ 38,027**	**$ 125,599**	**$ 111,970**

(1) Represents sales-based commissions paid to our distribution teams. Sales-based compensation varies based on gross client cash flows and revenue earned on sales.

(2) Equity awards typically vest over several years based on service and the achievement of specific business and financial targets. The value of the equity awards is recognized as compensation expense over the vesting period.

Three months ended September 30, 2019 compared to September 30, 2018 Personnel compensation and benefits were $55.6 million for the three months ended September 30, 2019, an increase of $17.5 million, or 46.1%, from $38.0 million for the same period in 2018 primarily attributable to an increase in the headcount due to the USAA AMCO Acquisition. Incentive compensation was $29.5 million for the three months ended September 30, 2019 compared to $18.6 million for the same period in 2018. Salaries, payroll related taxes and employee benefits were $16.6 million and $11.9 million, respectively, for the three months ended September 30, 2019 and 2018.

Nine months ended September 30, 2019 compared to September 30, 2018 Personnel compensation and benefits increased by $13.6 million, or 12.2%, to $125.6 million for the nine months ended September 30, 2019 from $112.0 million for the same period in 2018 due to the same factors as discussed above in the quarterly section. Salaries, payroll related taxes and employee benefits were $44.2 million and $37.1 million, respectively, for the nine months ended September 30, 2019 and 2018. Incentive compensation was $60.1 million for the nine months ended September 30, 2019 compared to $53.2 million for the same period in 2018.

Distribution and Other Asset-Based Expenses

The following table presents the components of distribution and other asset-based expenses for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Broker-dealer distribution fees	$ 6,974	$ 8,689	$ 20,914	$ 26,832
Platform distribution fees	36,293	7,228	45,856	21,781
Fund expense reimbursements	—	3,072	—	9,352
Sub-administration	7,881	1,850	11,296	5,019
Sub-advisory	3,454	1,595	5,074	5,235
Middle-office	2,600	1,835	6,011	5,338
Total distribution and other asset-based expenses	**$57,202**	**$ 24,269**	**$ 89,151**	**$ 73,557**

Three months ended September 30, 2019 compared to September 30, 2018 Distribution and other asset-based expenses are primarily based on AUM. For the three months ended September 30, 2019, distribution and other asset-based expenses were $57.2 million, an increase of $32.9 million, or 135.7%, from $24.3 million for the same period in 2018, primarily due to the USAA AMCO Acquisition. The acquisition introduced new operating expenses that the Company did not incur prior to the acquisition, such as distribution costs paid to third parties and USAA, sub-transfer agent service costs, 529 College Savings Plan expenses, and direct member channel expenses.

Fund expense reimbursements declined by $3.1 million due to the change in the classification of such reimbursements with the adoption of ASU 2014-09 on January 1, 2019. Mutual fund and ETF waivers and expense reimbursements are recorded as a reduction to investment management fees under ASU 2014-09, whereas under legacy revenue recognition guidance these were recorded as a distribution and other asset-based expense. The comparative periods have not been restated and continue to be reported under the legacy guidance, as permitted by the FASB. Broker-dealer distribution fees decreased due to the shift in the mix of assets to lower 12b-1 paying share classes.

Nine months ended September 30, 2019 compared to September 30, 2018 Distribution and other asset-based expenses were $89.2 million for the nine months ended September 30, 2019, an increase of $15.6 million, or 21.2%, from $73.6 million for the same period in 2018 due to the same factors as discussed above in the quarterly section.

General and Administrative

Three months ended September 30, 2019 compared to September 30, 2018 General and administrative expenses were $17.7 million for the three months ended September 30, 2019 compared to $7.0 million for the same period in 2018. The increase of $10.7 million, or 154.0%, was primarily due to one-time debt repricing expenses of $4.3 million related to the 2019 Credit Agreement and the addition of transition service agreement costs related to the USAA AMCO Acquisition.

Nine months ended September 30, 2019 compared to September 30, 2018 For the nine months ended September 30, 2019 and 2018, general and administrative expenses were $31.8 million and $23.1 million, respectively, for a year over year increase of $8.7 million, or 37.8%. The increase was due to the same factors as discussed above in the quarterly section.

Depreciation and Amortization

Three months ended September 30, 2019 compared to September 30, 2018 Depreciation and amortization increased by $2.2 million, or 39.4%, to $7.8 million for the three months ended September 30, 2019 from $5.6 million for the same period in 2018, due to the addition of definite-lived intangible assets acquired in connection with the USAA AMCO Acquisition.

Nine months ended September 30, 2019 compared to September 30, 2018 Depreciation and amortization increased by $0.3 million, or 1.9%, to $18.3 million for the nine months ended September 30, 2019 from $17.9 million for the same period in 2018, due to the same factors as discussed above regarding the USAA AMCO Acquisition, partially offset by definite-lived intangible assets acquired in connection with the Compass Efficient Model Portfolios, LLC acquisition (the "CEMP Acquisition") and the management-led buyout with Crestview GP became fully amortized in 2018.

Acquisition-Related Costs

Three months ended September 30, 2019 compared to September 30, 2018 Acquisition-related costs for the three months ended September 30, 2019 were $16.4 million and $1.5 million for the three months ended September 30, 2018. The increase was primarily due to the USAA AMCO Acquisition which closed on July 1, 2019 and includes various transaction costs such as legal and filing fees, other professional fees, as well as certain integration-related costs.

Nine months ended September 30, 2019 compared to September 30, 2018 Acquisition-related costs for the nine months ended September 30, 2019 and 2018 were $22.0 million and $1.4 million, respectively. The increase was due to the same factors as discussed above in the quarterly section.

Restructuring and Integration Costs

Three months ended September 30, 2019 compared to September 30, 2018 Restructuring and integration costs for the three months ended September 30, 2019 and 2018 were $4.8 million and $0.0 million, respectively. The increase is due to severance costs and integration and conversion costs recorded in the third quarter of 2019 related to the USAA AMCO Acquisition.

Nine months ended September 30, 2019 compared to September 30, 2018 Restructing and integration costs were $6.6 million and $0.7 million, respectively, for the nine months ended September 30, 2019 and 2018, with the increase due to the same factors as discussed above in the quarterly section.

Interest Income and Other Income/(Expense)

Three months ended September 30, 2019 compared to September 30, 2018 Interest income and other income/(expense) was income of $2.7 million for the three months ended September 2019 compared to expense of $0.2 million for the same period in 2018. The increase was primarily due to a gain on sale of an equity method investment in Cerebellum Capital, LLC ("Cerebellum Capital").

Nine months ended September 30, 2019 compared to September 30, 2018 For the nine months ended September 30, 2019 and 2018, interest income and other income/(expense) was income of $5.2 million and expense of $0.2 million, respectively. The increase was primarily due to the same factors as discussed above in the quarterly section, as well as net unrealized gains on deferred compensation plan investments and higher yields on our cash invested in money market accounts.

Interest Expense and Other Financing Costs

Three months ended September 30, 2019 compared to September 30, 2018 Interest expense and other financing costs were $16.9 million for the three months ended September 30, 2019, compared to $4.5 million for the same period in 2018 due to the Company entering into the 2019 Credit Agreement, dated July 1, 2019, inconjunction with the USAA AMCO Acquisition. All indebtedness outstanding under the previous credit agreement was repaid and terminated as of July 1, 2019. Refer to Note 9, Debt, to the accompanying financial statements for further details on the 2019 Credit Agreement.

Nine months ended September 30, 2019 compared to September 30, 2018 For the nine months ended September 30, 2019 and 2018, interest expense and other financing costs were $26.0 million and $16.3 million, respectively, primarily due to the same factors as discussed above in the quarterly section.

Loss on Debt Extinguishment

<u>Three months ended September 30, 2019 compared to September 30, 2018</u>: Loss on debt extinguishment was $7.4 million and $0.0 million, respectively, for the three months ended September 30, 2019 and 2018. The Company wrote-off unamortized debt issuance costs and unamortized debt discount due to (i) the termination of the previous credit agreement, dated February 2018. ($5.5 million) and (ii) accelerating the paydown of debt principal under the 2019 Credit Agreement ($1.9 million). The Company paid down $63.0 million of debt during the third quarter of 2019. Refer to Note 9, Debt, to the accompanying financial statements for further details on the 2019 Credit Agreement.

<u>Nine months ended September 30, 2019 compared to September 30, 2018</u>: Loss on debt extinguishment was $7.4 million for the nine months ended September 30, 2019, due to the same factors as discussed above in the quarterly section. During the same period last year, the Company incurred a $6.1 million loss on debt extinguishment due to the termination of a previous credit agreement (dated October 2014).

Income Tax Expense

<u>Three months ended September 30, 2019 compared to September 30, 2018</u>: The effective tax rate for the three months ended September 30, 2019 and 2018 was 23.7% and 24.2%, respectively. The decrease in the effective tax rate was primarily due to higher excess tax benefits on share-based compensation net of expense related to recognizing a liability for unrecorded tax benefits.

<u>Nine months ended September 30, 2019 compared to September 30, 2018</u>: For the nine months ended September 30, 2019 and 2018, the effective tax rate was 24.0% and 24.8%, respectively, due to the same factors as discussed above in the quarterly section. Refer to Note 8, Income Taxes, for further details on our income taxes.

Supplemental Non-GAAP Financial Information

We use non-GAAP performance measures to evaluate the underlying operations of our business. Due to our acquisitive nature, there are a number of acquisition and restructuring related expenses included in GAAP measures that we believe distort the economic value of our organization and we believe that many investors use this information when assessing the financial performance of companies in the investment management industry. We have included these non-GAAP measures to provide investors with the same financial metrics used by management to assess the operating performance of our Company. The non-GAAP measures we report are Adjusted EBITDA and Adjusted Net Income.

The following table sets forth a reconciliation from GAAP financial measures to non-GAAP measures for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2019	2018	2019	2018
Reconciliation of non-GAAP financial measures:				
Net income (GAAP)	**$ 25,992**	**$ 20,590**	**$ 54,902**	**$ 49,789**
Income tax expense	(8,058)	(6,562)	(17,343)	(16,430)
Income before income taxes	**$ 34,050**	**$ 27,152**	**$ 72,245**	**$ 66,219**
Interest expense(1)	18,388	4,053	25,854	16,376
Depreciation(2)	682	775	1,865	2,247
Other business taxes(3)	146	350	1,125	1,168
Amortization of acquisition-related intangible assets(4)	7,086	4,799	16,388	15,670
Stock-based compensation(5)	4,326	4,005	9,125	11,295
Acquisition, restructuring and exit costs(6)	24,452	1,647	31,804	2,725
Debt issuance costs(7)	10,002	373	10,732	7,436
Pre-IPO governance expenses(8)	—	—	—	138
Earnings/losses from equity method investments(9)	(2,837)	167	(2,683)	506
Adjusted EBITDA	**$ 96,295**	**$ 43,321**	**$ 166,455**	**$ 123,780**

(in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Reconciliation of non-GAAP financial measures:				
Net income (GAAP)	**$ 25,992**	**$ 20,590**	**$ 54,902**	**$ 49,789**
Adjustments to reflect the operating performance of the Company:				
i. Other business taxes[3]	146	350	1,125	1,168
ii. Amortization of acquisition-related intangible assets[4]	7,086	4,799	16,388	15,670
iii. Stock-based compensation[5]	4,326	4,005	9,125	11,295
iv. Acquisition, restructuring and exit costs[6]	24,452	1,647	31,804	2,725
v. Debt issuance costs[7]	10,002	373	10,732	7,436
vi. Pre-IPO governance expenses[8]	—	—	—	138
Tax effect of above adjustments[10]	(11,503)	(2,794)	(17,293)	(9,608)
Adjusted Net Income	**$ 60,501**	**$ 28,970**	**$ 106,783**	**$ 78,613**
Tax benefit of goodwill and acquired intangibles[11]	$ 6,802	$ 3,318	$ 13,523	$ 9,958

Adjustments made to GAAP Net Income to calculate Adjusted EBITDA and Adjusted Net Income, as applicable, are:

(1) Adding back interest paid on debt and other financing costs, net of interest income.

(2) Adding back depreciation on property and equipment.

(3) Adding back other business taxes.

(4) Adding back amortization expense on acquisition-related intangible assets.

(5) Adding back stock-based compensation associated with equity awards issued from pools created in connection with the management-led buyout and various acquisitions and as a result of equity grants related to the IPO.

(6) Adding back direct incremental costs of acquisitions and the IPO, including restructuring costs.

(in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Acquisition-related costs	$ 16,386	$ 1,451	$ 21,950	$ 1,446
Restructuring and integration costs	4,841	—	6,629	702
General and administrative	2,020	—	2,020	267
Personnel compensation and benefits	1,205	—	1,205	—
Interest income and other income/(expense)	—	196	—	310
Total acquisition, restructuring and exit costs	**$ 24,452**	**$ 1,647**	**$ 31,804**	**$ 2,725**

(7) Adding back debt issuance cost expense.

(8) Adding back pre-IPO governance expenses paid to the Company's private equity partners that terminated as of the completion of the IPO.

(9) Adjusting for earnings/losses on equity method investments.

(10) Subtracting an estimate of income tax expense applied to the sum of the adjustments above.

(11) Represents the tax benefits associated with deductions allowed for intangible assets and goodwill generated from prior acquisitions in which we received a step-up in basis for tax purposes. Acquired intangible assets and goodwill may be amortized for tax purposes, generally over a 15-year period. The tax benefit from amortization on these assets is included to show the full economic benefit of deductions for all acquired intangible assets with a step-up in tax basis. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets and goodwill provide us with a significant supplemental economic benefit.

Non-GAAP measures should be considered in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP. Our non-GAAP measures may differ from similar measures at other companies, even if similar terms are used to identify these measures.

Liquidity and Capital Resources

Our primary uses of cash relate to repayment of our debt obligations, funding of acquisitions and working capital needs, and beginning in the third quarter of 2019, payment of dividends, which are all expected to be met through cash generated from our operations and available capital resources. The following table shows our liquidity position as of September 30, 2019 and December 31, 2018.

(in thousands)	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 78,963	$ 51,491
Accounts and other receivables	86,446	44,120
Undrawn commitment on revolving credit facility	100,000	100,000
Accounts and other payables	(146,707)	(50,578)

We manage our cash balances in order to fund our day-to-day operations. Our accounts receivable consist primarily of investment management fees that have been earned but not yet received from clients. Included in other receivables are income and other taxes receivable and amounts receivable from the funds. We perform a review of our receivables on a monthly basis to assess collectability. We maintained a $100.0 million revolving credit facility at September 30, 2019 (under the 2019 Credit Agreement) and December 31, 2018 (under the previous credit agreement terminated on July 1, 2019) which had $100.0 million undrawn as of September 30, 2019 and December 31, 2018.

2019 Credit Agreement

On July 1, 2019, concurrent with the USAA AMCO Acquisition, the Company (i) entered into the 2019 Credit Agreement, (ii) repaid all indebtedness outstanding under the previous credit agreement (dated February 2018), and (iii) terminated the previous credit agreement.

The purchase price paid in cash at closing was financed using a combination of the 2019 Credit Agreement and the Company's balance sheet resources. The 2019 Credit Agreement, dated as of July 1, 2019, was entered into among Victory, as borrower, the lenders from time to time party thereto and Barclays Bank PLC, as administrative agent and collateral agent, pursuant to which we obtained a seven-year term loan in an aggregate principal amount of $1.1 billion and established a five-year revolving credit facility (which was unfunded as of the closing date) with aggregate commitments of $100.0 million (with a $10.0 million sub-limit for the issuance of letters of credit). Amounts outstanding under the 2019 Credit Agreement bear interest at an annual rate equal to, at the option of the Company, either LIBOR (adjusted for reserves) plus a margin of 3.25% or an alternate base rate plus a margin of 2.25%.

A total of $63.0 million of the outstanding term loans under the 2019 Credit Agreement was repaid in the third quarter of 2019. Subsequent to September 30, 2019 and through October 31, 2019, we repaid an additional $40.0 million, for a total principal debt reduction of $103.0 million since July 1, 2019, thus satisfying the required principal amortization of 1.00% per annum through the term of the loan, June 2026.

Refer to Note 4, Acquisitions, and Note 9, Debt, to the accompanying financial statements for further details on the USAA AMCO Acquisition and the 2019 Credit Agreement.

Capital Requirements

VCA is a registered broker-dealer subject to the Uniform Net Capital requirements under the Exchange Act, which requires maintenance of certain minimum net capital levels. In addition, we have certain non-U.S. subsidiaries that have minimum capital requirements. As a result, such subsidiaries of our Company may be restricted in their ability to transfer cash to their parents.

Cash Flows

The following table is derived from our accompanying unaudited Condensed Consolidated Statements of Cash Flows:

	Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**
Net cash provided by operating activities	$ 167,685	$ 99,897
Net cash used in investing activities	(845,888)	(7,655)
Net cash provided by (used in) financing activities	705,708	(79,968)

Operating Activites – Cash provided by operating activities during the nine months ended September 30, 2019 was $167.7 million, compared to $99.9 million of cash provided by operating activities for the same period in 2018. The $67.8 million increase in cash provided by operating activities was primarily due to a $67.5 million net increase in working capital source of cash and a $5.1 million increase in net income, partially offset by a $4.9 million net decrease in certain non-cash items.

The net increase in working capital source of cash was primarily due to accounts payable and accrued expenses and compensation which was a $74.7 million source of cash for the nine months ended September 30, 2019 compared to a $2.7 million use of cash for the same period last year, due to the timing of new operating expenses as a result of the USAA AMCO Acquisition. The acquisition introduced new operating expenses that the Company did not incur prior to the acquisition, such as distribution costs paid to third parties and USAA, sub-transfer agent service costs, 529 College Savings Plan expenses, and direct member channel expenses.

Accounts receivables were an $11.4 million use of cash for the nine months ended September 30, 2019 compared to a $5.4 million source of cash for the nine months ended September 30, 2018 due to an increase in revenue.

Investing Activities – Cash used in investing activities during the nine months ended September 30, 2019 was $845.9 million and consisted primarily of $851.3 million paid in cash at the July 1, 2019 closing of the USAA AMCO Acquisition, partially offset by $10.6 million in proceeds from the Company selling 100% of its equity investment in Cerebellum Capital, LLC ("Cerebellum").

For the nine months ended September 30, 2018, cash used in investing activities was $7.7 million and consisted of $3.0 million of additional equity investments in Cerebellum, net trading activity of $2.9 million and $1.7 million of property and equipment purchases. The nature of our trading activites are further described in Note 2, Significant Accounting Policies, to the condensed consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Financing Activities – Cash provided by financing activities during the nine months ended September 30, 2019 was $705.7 million and was mostly attributable to $1,069 million of net proceeds from the 2019 Credit Agreement, partially offset by the repayment and termination of the previous credit agreement (dated February 2018) of $280.0 million. Victory also paid $63.0 million of the outstanding term loans under the 2019 Credit Agreement in the third quarter of 2019. Subsequent to September 30, 2019 and through October 31, 2019, the Company repaid an additional $40.0 million, for a total principal debt reduction of $103.0 million since July 1, 2019, thus satisfying the required principal amortization of 1.00% per annum through the term of the loan, June 2026. The Company also paid a dividend in the third quarter of 2019 to stockholders in the amount of $3.4 million and $0.5 million in cash bonuses and distributions related to dividends previously declared upon vesting of restricted stock and stock option awards.

Cash used in financing activities for the same period in 2018 was $80.0 million and consisted of the repayment and termination of a previous credit agreement (dated October 2014) of $580.0 million, partially offset by $356.6 million of net proceeds from the previous credit agreement, dated February 2018, and $156.5 million in the generation of net IPO proceeds.

Contractual Obligations

Effective July 1, 2019, we entered into the 2019 Credit Agreement in connection with our closing of the USAA AMCO Acquisition. In connection with our entry into the 2019 Credit Agreement, we repaid all indebtedness outstanding under the previous credit agreement (dated February 2018). The previous credit agreement and the credit documents entered in connection therewith were terminated on the closing date. A total of $63.0 million of the outstanding term loans under the 2019 Credit Agreement was repaid in the third quarter of 2019. Subsequent to September 30, 2019 and through October

31, 2019, we repaid an additional $40.0 million, for a total principal debt reduction of $103.0 million since July 1, 2019, thus satisfying the required principal amortization of 1.00% per annum through the term of the loan, June 2026. For further discussion regarding the USAA AMCO Acquisition and related entry into and termination of credit agreements, refer to Note 4, Acquisitions, to the accompanying financial statements.

In conjunction with the Company relocating its Corporate headquarters for the global investment management business from Brooklyn, Ohio to San Antonio, Texas, Victory entered into a lease agreement in mid-November to occupy the premises at 15935 La Cantera Parkway, San Antonio, Texas 78256 through January 15, 2027.

The Company recorded $102.8 million in contingent consideration arrangement liabilities representing the USAA AMCO Acquisition earn-out payment liability, which is included in "Consideration payable for acquisition of business" in the accompanying unaudited Condensed Consolidated Balance Sheets. A maximum of $150.0 million ($37.5 million per year) in contingent payments is payable to sellers based on the annual revenue of USAA Adviser attributable to all "non-managed money"-related AUM in each of the first four years following the closing.

There were no other significant changes to our contractual obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

In connection with dividends declared in February 2017 and December 2017, holders of restricted stock awards that were unvested at the time such dividends were declared are entitled to be paid the dividends as and when the restricted stock vests. Holders of stock options that were unvested at the time the December 2017 dividend was declared are entitled to receive a cash bonus equivalent of the December 2017 dividend as and when their stock options vest.

The Company announced the initiation of quarterly cash dividends in August 2019 and paid the first quarterly dividend in September 2019. Holders of restricted stock awards that are unvested at the time the quarterly dividends are declared are entitled to be paid these dividends as and when the restricted stock vests.

As of September 30, 2019 and December 31, 2018, the amount of cash bonuses and distributions related to dividends previously declared on unvested and outstanding restricted share awards and stock options totaled $1.2 million and $1.8 million, respectively, which was not recorded as a liability as of the balance sheet date. A liability will be recorded for these cash bonuses and dividends when the restricted shares and options vest.

Critical Accounting Policies and Estimates

Our financial statements and the accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates. Actual results will vary from these estimates. A discussion of our critical accounting policies and estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K. A complete description of our significant accounting policies is included in our Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Substantially all of our revenues are derived from investment management, fund administration and distribution fees, which are primarily based on the market value of our AUM. Accordingly, our revenues and net income may decline as a result of our AUM decreasing due to depreciation of our investment portfolios. In addition, such depreciation could cause our clients to withdraw their assets in favor of other investment alternatives that they perceive to offer higher returns or lower risk, which could cause our revenues and net income to decline further.

The value of our AUM was $145.8 billion at September 30, 2019. A 10% increase or decrease in the value of our AUM, if proportionately distributed over all of our strategies, products and client relationships, would cause an annualized increase or decrease in our revenues of approximately $85.3 million at our weighted-average fee rate of 58.5 basis points for the quarter ended September 30, 2019. Because of declining fee rates from larger relationships and differences in our fee rates across investment strategies, a change in the composition of our AUM, in particular, an increase in the proportion of our total AUM attributable to strategies, clients or relationships with lower effective fee rates, could have a material negative impact on our overall weighted-average fee rate. The same 10% increase or decrease in the value of our total AUM, if attributed entirely to a proportionate increase or decrease in the AUM of the Victory Funds and USAA Funds, to which we provide a range of services in addition to those provided to institutional separate accounts, would cause an annualized increase or decrease in our revenues of approximately $95.3 million at the Victory Funds' and USAA Funds' aggregate weighted-average fee rate of 65.3 basis points for the quarter ended September 30, 2019. If the same 10% increase or decrease in the value of our total AUM was attributable entirely to a proportionate increase or decrease in the assets of our institutional separate accounts, it would cause an annualized increase or decrease in our revenues of approximately $51.9 million at the weighted-average fee rate across all of our institutional separate accounts of 35.6 basis points for the quarter ended September 30, 2019.

As is customary in the investment management industry, clients invest in particular strategies to gain exposure to certain asset classes, which exposes their investment to the benefits and risks of those asset classes. We believe our clients invest in each of our strategies in order to gain exposure to the portfolio securities of the respective strategies and may implement their own risk management program or procedures. We have not adopted a corporate-level risk management policy regarding client assets, nor have we attempted to hedge at the corporate level or within individual strategies the market risks that would affect the value of our overall AUM and related revenues. Some of these risks, such as sector and currency risks, are inherent in certain strategies, and clients may invest in particular strategies to gain exposure to particular risks. While negative returns in our strategies and net client cash outflows do not directly reduce the assets on our balance sheet (because the assets we manage are owned by our clients, not us), any reduction in the value of our AUM would result in a reduction in our revenues.

Exchange Rate Risk

A portion of the accounts that we advise hold investments that are denominated in currencies other than the U.S. dollar. To the extent our AUM are denominated in currencies other than the U.S. dollar, the value of that AUM will decrease with an increase in the value of the U.S. dollar, or increase with a decrease in the value of the U.S. dollar. Each investment team monitors its own exposure to exchange rate risk and makes decisions on how to manage that risk in the portfolios they manage. We believe many of our clients invest in those strategies in order to gain exposure to non-U.S. currencies, or may implement their own hedging programs. As a result, we generally do not hedge an investment portfolio's exposure to non-U.S. currency.

We have not adopted a corporate-level risk management policy to manage this exchange rate risk. Assuming 8% of our AUM are invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangement, a 10% increase or decrease in the value of the U.S. dollar would decrease or increase the fair value of our AUM by approximately $1,167 million, which would cause an annualized increase or decrease in revenues of approximately $6.8 million at our weighted-average fee rate for the business of 58.5 basis points for the quarter ended September 30, 2019.

We operate in several foreign countries and incur operating expenses associated with these operations. In addition, we have revenue and revenue-sharing arrangements that are denominated in non-U.S. currencies. We do not believe foreign currency fluctuations materially affect our results of operations.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At September 30, 2019, we were exposed to interest rate risk as a result of the amounts outstanding under the 2019 Credit Agreement. Refer to Note 9, Debt, to the accompanying financial statements for a description of the amounts outstanding as of such date and the applicable interest rate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) at September 30, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act) during the quarter ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. The Company is not currently a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC and the information contained in this report. There have been no material changes to the risk factors in our Annual Report on Form 10-K for the year ended December 31, 2018, except for the initiation of a quarterly cash dividend of $0.05 per share of our common stock, beginning in the third quarter of 2019. The declaration, payment and determination of the amount of our quarterly dividends may change at any time. In making decisions regarding our quarterly dividends, we consider general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions (including under the terms of our 2019 Credit Agreement) and legal, tax, regulatory and such other factors as we may deem relevant.

On June 5, 2019, the SEC adopted a package of rulemakings and interpretations, including Regulation Best Interest and the new Form CRS Relationship Summary ("Form CRS") (collectively, the "Proposals") which are intended to improve the retail investor experience and provide greater clarity and transparency regarding retail investors' relationships with broker-dealers and investment advisers. Regulation Best Interest enhances the broker-dealer standard of conduct beyond existing suitability obligations and requires compliance with disclosure, care, conflict of interest and compliance obligations. Form CRS requires broker-dealers and registered investment advisers to provide a brief relationship summary to retail investors, including (i) the types of client and customer relationships and services we offer, (ii) the fees, costs, conflicts of interest and required standard of conduct associated with those relationships and services, (iii) whether we and any of our financial professionals currently have reportable legal or disciplinary history; and (iv) how to obtain additional information about us. The Proposals must be complied with by June 30, 2020 and may result in increased compliance and operational costs.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer purchases of equity securities.

On August 28, 2019, our Board of Directors authorized the Company to repurchase up to an aggregate of $15.0 million of the Company's Class A common stock through December 31, 2020. The share repurchase program authorized in 2018 for $15.0 million of the Company's Class A common stock was completed in September 2019. These repurchases may be made in privately negotiated transactions, through block trades, pursuant to open market purchases, or pursuant to any trading plan adopted in compliance with Rule 10b5-1. The manner, timing, share number and price, of the repurchases will be determined by the Company, subject to market conditions, applicable securities laws, alternative investment opportunities and other factors. The Board's authorization does not obligate the Company to acquire any particular amount of Class A common stock, and may be modified, suspended or terminated at any time. The following table sets out information regarding purchases of equity securities by the Company for the three months ended September 30, 2019.

Period	Total Number of Shares of Class A Common Stock Purchased	Average Price Paid Per Share of Class A Common Stock	Total Number of Shares of Class A Common Stock Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value That May Yet Be Purchased Under Outstanding Plans or Programs *(in millions)*
July 1-31, 2019	89,716	$ 18.59	89,716	$ 2.0
August 1-31, 2019	118,537	16.19	118,537	15.1
September 1-30, 2019	91,643	16.56	91,643	13.6
Total	299,896	$ 17.02	299,896	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description
10.1	Amendment No. 1 to the Stock Purchase Agreement with USAA Investment Corporation and USAA Capital Corporation, dated as of June 28, 2019 (filed as Exhibit 2.2 to the Company's Report on Form 8-K, File No. 001-38388, on July 1, 2019, and incorporated herein by reference).
10.2	2019 Credit Agreement among the Company, the lenders from time to time party thereto and Barclays Bank PLC, dated as of July 1, 2019 (filed as Exhibit 10.1 to the Company's Report on Form 8-K, File No. 001-38388, on July 1, 2019, and incorporated herein by reference).
10.3	Amendment and Restatement of the Victory Capital Management Inc. Deferred Compensation Plan, dated as of November 13, 2019.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following information formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018, (v) Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2019 and 2018; the three months ended June 30, 2019 and 2018 and the three months ended September 30, 2019 and 2018(vi) Notes to Unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2019 and 2018.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 13th day of November, 2019.

VICTORY CAPITAL HOLDINGS, INC.

By: /s/ MICHAEL D. POLICARPO
Name: Michael D. Policarpo
Title: President, Chief Financial Officer and Chief Administrative Officer

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Exhibit 10.3

VICTORY CAPITAL MANAGEMENT INC.
DEFERRED COMPENSATION PLAN

Prepared by
THE ERISA LAW GROUP
8700 MONROVIA STREET, SUITE 310
LENEXA, KANSAS 66215
(913) 647-7552

Victory Capital Management Inc.
Deferred Compensation Plan

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VICTORY CAPITAL MANAGEMENT INC.
DEFERRED COMPENSATION PLAN

Victory Capital Management Inc. ("Employer") has adopted and hereby amends and restates this unfunded Plan for the purpose of providing deferred compensation for a select group of management or highly compensated employees of the Employer ("Participants").

WITNESSETH:

WHEREAS, the services of the Participants and their experience and knowledge of the affairs of the Employer are extremely valuable to the Employer;

WHEREAS, each Participant is part of a select group of management or highly compensated employees who are essential to the Employer's success, and who have duties and responsibilities that play a unique and vital role in the well-being of the Employer's business;

WHEREAS, the Employer desires that Participants remain in its service, and to motivate and reward them for their performance;

WHEREAS, to accomplish these goals the Employer has established and adopted this deferred compensation plan which allows for Participant contributions and Employer contributions to it;

WHEREAS, the Employer desires that this Plan comply with applicable laws including the Employee Retirement Income Security Act of 1974, as amended, and the relevant provisions of the Internal Revenue Code, particularly, Section 409A; and

WHEREAS, the Employer desires to amend and restate this Plan to reflect the provisions of prior amendments and make certain other changes.

NOW THEREFORE, to accomplish these ends, this amended and restated Plan is adopted and reads as follows:

Article 1
Definitions

Section 1.1 "Account" means the one or more accounts maintained for a Participant to record his/her Salary Deferral Contributions, Matching Employer Contributions, and Discretionary Employer Contributions, and which are credited with Earnings pursuant to Article 4.

Section 1.2 "Accrued Benefit" means the Participant's interest in the Plan, as determined under Section 4.2, of the amount credited to a Participant's Account(s) as of any date.

Section 1.3 "Beneficiary" means a person or entity entitled to receive any Accrued Benefit which is payable by reason of a Participant's death.

Section 1.4 "Benefits" or "benefits" means the Accrued Benefit(s) that is (are) payable under this Plan.

Section 1.5 "Board" means the Board of Directors of the Employer.

Section 1.6 "Cause" means, with respect to any Participant and as determined by the Employer's Board of Directors: (a) the plea of guilty or *nolo contendere* to, or conviction for, the commission of a felony offense by the Participant; (b) willful misconduct by the Participant that is injurious to the Employer or an affiliate or an act of fraud, embezzlement, misrepresentation or breach of a fiduciary duty against the Employer or any of its affiliates, as determined by the Employer's Board of Directors; or (c) a breach by the Participant of any nondisclosure, non-solicitation or non-competition obligation owed to the Employer or any of its affiliates.

<u>Section 1.7 "Change in Control"</u> means a change in ownership or effective control of the Employer or a change in ownership of a substantial portion of the Employer's assets, all in accordance with Code Section 409A.

<u>Section 1.8 "Code"</u> means the Internal Revenue Code of 1986, as amended.

<u>Section 1.9 "Compensation"</u> means, with respect to each Plan Year or performance period, the Participant's gross regularly-paid salary, and the Participant's incentive compensation (as defined by the Employer and understood by it and each Participant pursuant to the Participant's employment by the Employer) otherwise received in cash (i.e., incentive compensation does not include any incentive compensation the Participant receives in shares of stock of the Employer or incentive compensation that is denominated in or calculated with reference to shares of stock of the Employer but otherwise settled in cash such as Restricted Stock Units or cash-settled Stock Appreciation Rights), excluding signing bonuses, retention bonuses, moving allowances, dividends on vested and unvested options, and dividends on vested and unvested restricted stock.

<u>Section 1.10 "Discretionary Employer Contribution Account"</u> means the individual account for a Participant to record the Discretionary Employer Contributions and which is credited for such Account's Earnings pursuant to Article 4.

<u>Section 1.11 "Discretionary Employer Contributions"</u> means the amounts contributed on a Participant's behalf pursuant to Section 3.3.

<u>Section 1.12 "Disability"</u>. A Participant is "Disabled" or incurs a "Disability" if either: (a) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (b) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, the Participant is receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer. The determination of Disability shall be made by the Employer.

<u>Section 1.13 "Earnings"</u> means gains and losses, realized and not realized.

<u>Section 1.14 "Effective Date"</u> means the effective date of this restatement of the Plan, which is January 1, 2020.

<u>Section 1.15 "Election Date"</u> is the respective date prescribed in Sections 3.1(d) and 5.1(a).

<u>Section 1.16 "Employee"</u> means an individual who is employed by the Employer as a common-law employee.

<u>Section 1.17 "Employer"</u> means Victory Capital Management Inc., incorporated in the State of New York.

Section 1.18 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Section 1.19 "Matching Employer Contribution Account" means the individual account for a Participant to record the Matching Employer Contributions and which is credited for such Account's Earnings pursuant to Article 4.

Section 1.20 "Matching Employer Contributions" means the amounts contributed on a Participant's behalf pursuant to Section 3.2.

Section 1.21 "Participant" means an Employee who: (a) is among a select group of management or highly compensated employees within the meaning of ERISA; (b) is designated in writing as a Participant by the Employer and who satisfies the eligibility requirements under Article 2; and (c) has not received a distribution of his or her entire Accrued Benefit. References herein to Participant include references to the Participant's Beneficiary each place where the context so requires or applies, as determined in the discretion of the Employer. Furthermore, the use of the word Beneficiary herein does not preclude the Employer's interpretation of the word "Participant" to include a Beneficiary elsewhere in the Plan.

Section 1.22 "Payment Event" is defined in Section 5.2.

Section 1.23 "Plan" means the nonqualified deferred compensation plan established by the Employer in the form of this document, as it may be amended from time to time.

Section 1.24 "Plan Administrator" means the Employer. The Plan Administrator is responsible for compliance with applicable requirements under ERISA.

Section 1.25 "Plan Year" means the twelve (12) consecutive month period ending every December 31.

Section 1.26 "Salary Deferral Agreement" means the agreement a Participant executes in accordance with Section 3.1.

Section 1.27 "Salary Deferral Contribution Account" means the individual account for a Participant to record the Salary Deferral Contributions and which is credited for such Account's Earnings pursuant to Article 4.

Section 1.28 "Salary Deferral Contributions" means the amounts credited on a Participant's behalf in accordance with the Participant's election to defer compensation pursuant to Section 3.1.

Section 1.29 "Section 401(a)(17)" means, for each Plan Year, the compensation limitation in effect under Code Section 401(a)(17).

Section 1.30 "Segregated Investment Account" means a Participant-directed Account pursuant to Section 4.5.

Section 1.31 "Separation from Service" means a Participant's termination of employment with the Employer by reason of death, retirement, or otherwise that qualifies as a separation from service within the meaning of Code Section 409A.

(a) For this purpose, the 20%, 36-month threshold of Treas. Reg. Section 1.409A-

1(h)(1)(ii) shall apply. Generally, under these regulations a Participant incurs a Separation from Service if the facts and circumstances indicate that the Employer and Participant reasonably anticipate that no further services after a certain date will be performed or the level of services after such date will permanently decrease significantly as described under the regulations.

(b) In the event of a conflict or inconsistency between this definition and the definition of "separation from service" or similar term as provided in Code Section 409A, the definition under Code Section 409A shall govern.

Section 1.32 "Spouse" means the person who is legally married to the Participant under the laws of a state or other recognized jurisdiction as of any relevant date, as evidenced by a valid marriage certificate or other proof acceptable to the Employer. This includes married individuals of the same sex, even if the married couple resides in a state or jurisdiction that does not recognize the validity of same sex marriages.

Section 1.33 "Trust" means the trust established and maintained in connection with this Plan, as amended from time to time.

Section 1.34 "Trustee" means the trustee appointed pursuant to this Plan and the Trust.

Section 1.35 "Valuation Date" means each business day of the Plan Year on which Plan assets for which there is an established market are valued and the Trustee is conducting business. Otherwise, the Valuation Date means the last day of each Plan Year, and/or such other Valuation Date(s) as selected by the Employer.

Section 1.36 "Valuation Period" with respect to any Valuation Date means the period since the preceding Valuation Date.

Article 2
Participation

Section 2.1 Eligibility. For one or more Plan Years, the Employer in its sole discretion shall designate the Employees who are eligible to participate in the Plan. The designation to participate shall not guarantee that an Employee will remain a Participant in the Plan. Participation in the Plan does not create any right to be employed by the Employer or to earn future benefits of any kind. Except for Salary Deferral Contributions made pursuant to Section 3.1, nothing in the Plan shall be construed to require any contributions to the Plan on behalf of the Participant.

Section 2.2 Change of Participation. The Employer in its sole discretion may remove any Participant from the Plan or designate new Participants in the Plan. Notwithstanding, an Employee designated to participate in the Plan shall cease to actively participate in the Plan (e.g., make Salary Deferral Contributions or receive Matching or Discretionary Employer Contributions) if he or she is determined to not be among a select group of management or highly compensated employees within the meaning of ERISA. Any Participant who ceases to actively participate under the Plan shall, until the Participant's Accrued Benefit has been distributed to him or her, enjoy the rights afforded to him or her as provided under the Plan.

Article 3
Contributions, Vesting, and Forfeiture

Section 3.1 Salary Deferral Contributions

(a) In General. A Participant may elect to defer a percentage or amount of his or her Compensation for a Plan Year and have the Employer credit the deferred amount to the Plan. A Participant's election to defer shall be made by executing a Salary Deferral Agreement in accordance with this Section 3.1.

(b) Form of Election. The Participant's Salary Deferral Agreement must be in writing, must be dated and signed or otherwise authenticated by the Participant, and must be delivered to the Employer in the medium the Employer designates, together with all other documents or information required as determined by the Employer. The Salary Deferral Agreement shall be in the form provided by the Employer and shall include the Participant's elections of the time and method of payment of the Participant's Accrued Benefit in accordance with Article 5.

(c) Election Periods

(i) In General. The Employer shall schedule an annual election period during which Participants who elect to complete Salary Deferral Agreements must complete such agreements. Such periods shall end each Plan Year no later than the day immediately prior to the beginning of the next Plan Year during which the services that are performed by the Participant give rise to the Compensation that may be deferred. The Employer may, in writing to the Employee, designate that said election period will end on a specified date earlier than the day immediately prior to the beginning of such next Plan Year.

(ii) Performance-Based Compensation. Notwithstanding the foregoing, the Employer in its sole discretion may schedule election periods for the deferral of compensation that is performance-based compensation (as defined in Code Section 409A) that will end no later than the date that is six (6) months before the end of the performance period, provided that the Participant performs services for the Employer continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Participant makes an election hereunder, and provided further that the Participant's election to defer shall not be made after the performance-based compensation has become readily ascertainable within the meaning of Code Section 409A.

(d) Election Date/Irrevocability. A Participant's Salary Deferral Agreement shall become irrevocable as of the end of the election period designated by the Employer ("Election Date") and shall remain irrevocable and in effect for Compensation paid (or deferred) with respect to services the Participant performs in the Plan Year (or performance period) next following the Election Date.

(e) Amount and Compensation. A Participant's Salary Deferral Contributions with respect to a Plan Year shall not be less than such amount the Employer prescribes in the Salary Deferral Agreement nor more than one hundred percent (100%) of the Participant's Compensation (minus required payroll deductions and deductions for any other Employer-sponsored plan or program) or such other amount the Employer establishes in the Salary Deferral Agreement. A Salary Deferral Agreement shall be made (and/or limited) with respect to such Compensation prescribed by the Employer and set forth in one or more Salary Deferral Agreements.

(f) Failure to Elect. In the event a Salary Deferral Agreement is not properly completed and in effect for a Plan Year or performance period, the Participant shall be deemed to have elected to not make any Salary Deferral Contributions for the subject Plan Year or performance period, as applicable.

(g) When Deferral Election Becomes Effective. A Participant's Salary Deferral Agreement will be effective, and Salary Deferral Contributions will be made, only if and when the Participant has Compensation as defined in Section 1.9 that exceeds the limit prescribed in Section 401(a)(17). The amount or percentage of Compensation that a Participant elects to defer is irrevocable as of the Election Date and shall not be subject to change during the Plan Year or performance period, as applicable.

(i) Salary Withholding. Beginning with the payroll period that commences after the Participant's Compensation exceeds the Section 401(a)(17) limit, the Employer shall withhold the amount or percentage of Compensation elected to be deferred that constitutes gross salary in approximately equal amounts for each payroll period within the remaining Plan Year or performance period at or proximate to the time or times such amounts otherwise would be paid to the Participant. Subject to Section 409A requirements, Compensation payable after the last day of the Plan Year solely for services provided during the final payroll period containing the last day of the Plan Year is treated as Compensation for services performed in the subsequent taxable year.

(ii) Incentive Compensation Withholding. The Participant's Salary Deferral Agreement with respect to incentive compensation shall apply and be effective immediately to such compensation if and once the Participant's Compensation exceeds the Section 401(a)(17) limit. The amount or percentage of incentive compensation that a Participant elects to defer is irrevocable as of the Election Date and shall not be subject to change during the Plan Year or performance period, as applicable. The Employer shall withhold the amount or percentage of any incentive compensation specified by the Participant to be deferred at or proximate to the time or times such incentive compensation otherwise would be paid to the Participant. Any incentive compensation that the Participant exchanges for shares of Employer stock may not be contributed under the Plan and credited to the Participant's Salary Deferral Contribution Account. Also with respect to incentive compensation, the amount that may be deferred for a Plan Year that is attributable to a period of time services are performed that precedes the beginning of a Plan Year generally shall be limited ratably to the extent required under Code Section 409A.

Section 3.2 Matching Employer Contributions

(a) In General. For all or any portion of one or more Plan Years the Employer may award an amount on behalf of Participants who make Salary Deferral Contributions for the Plan Year ("Matching Employer Contributions").

(b) Discretionary Amount. The amount of the Matching Employer Contributions, if any, shall be determined by the Employer in the Employer's sole discretion. Without limitation, the Employer may limit the amount of Matching Employer Contributions to a set percentage of either the Participant's Compensation or amount of Salary Deferral Contributions. Until a change is announced to Participants (which change shall be documented in an Amendment to the Plan before, on or after such announcement), the Matching Employer Contribution will equal the amount of each Participant's Salary Deferral Contributions with respect to a Plan Year, with a maximum Matching Employer Contribution equal to 5% of the Participant's Compensation for the Plan Year that exceeds the Section 401(a)(17) limit for such Plan Year. Notwithstanding, no Matching Employer Contribution shall be made for a Plan Year on Compensation for such Plan Year that exceeds $3,000,000.00. Notwithstanding the foregoing, any Compensation that is attributable to incentive compensation or eligible bonus earned in the 2019 Plan Year and paid to a Participant in the 2020 Plan Year will be subject to a Matching Employer Contribution percentage of 6%, which was the Matching Employer Contribution percentage under the Plan document in effect during 2019, but only to the extent that the Participant's total Compensation paid in 2020 (including any 2019 incentive compensation or bonus) exceeds the Section 401(a)(17) limit for the 2020 Plan Year. The maximum limit on Compensation that shall be used to calculate the Matching Employer Contribution shall remain at $3,000,000 for both the 2019 and 2020 Plan Years and all future Plan Years until changed in accordance with the Plan.

Section 3.3 Discretionary Employer Contributions

(a) In General. With respect to one or more Plan Years, other performance periods, or at any time with respect to any or no period, the Employer may award to the Plan on behalf of one or more Participants, as Discretionary Employer Contributions, an amount the Employer from time to time may deem advisable.

(b) Discretionary. Such amount, if any, shall be determined by the Employer on a Participant-by-Participant basis in the Employer's sole discretion and will be identified on an addendum issued with respect to a Plan Year or performance period identifying the amounts, if any, awarded on behalf of one or more Participants. For example, and without limitation, the Employer may choose to specify an amount of contribution equal to a specified percentage of Compensation for one or more Participants for a specified Plan Year.

Section 3.4 Vesting

(a) Full Vesting of Salary Deferrals. A Participant shall have a nonforfeitable vested interest in all of his or her Accrued Benefit attributable to the Participant's Salary Deferral Contribution Account.

(b) Vesting in Employer Contributions

(i) Vesting Schedule. Except as provided below in Section 3.4(b)(ii), a Participant shall have a nonforfeitable vested interest in his or her Accrued Benefit attributable to the Participant's Matching Employer Contribution Account and Discretionary Employer Contribution Account in accordance with the vesting schedule set forth below. A Participant's nonforfeitable vested benefits in such Accounts shall equal the applicable percentage which corresponds to the Participant's Years of Service multiplied by the value of such Account(s).

Years of Service	*Percentage*
Less than 3 years	0%
3 years or more	100%

(A) A "Year of Service," with respect separately to each Participant, means each twelve-consecutive month period during which the Participant is continuously employed by the Employer (i.e., the Participant must be employed throughout the entire twelve-month period). Such period begins on the first day of the Participant's employment with the Employer and each one-year anniversary thereof.

(B) All Years of Service of a Participant are taken into account. The Years of Service need not be consecutive Years of Service in order for a Participant to have earned three Years of Service.

(C) If a Participant is employed by the Employer at any particular time, he or she is treated as employed at such time for purposes of Section 3.4(b) even if the Participant is on any Employer authorized leave of absence. In addition, the Participant is treated as employed if any law requires the Participant to be treated as employed for purposes of Section 3.4(b) (for example, if the Family and Medical Leave Act of 1993, the Uniformed Services Employment and Reemployment Rights Act of 1994, or other mandate applies to this Plan).

(D) For purposes of calculating Years of Service, employment with Munder Capital Management prior to the Munder Effective Date shall be treated as employment with the

Employer. The "Munder Effective Date" is October 31, 2014, the date the Employer acquired the stock of Munder Capital Management.

(E) For purposes of calculating Years of Service, employment with RS Investment Management Company, LLC prior to the RS Effective Date shall be treated as employment with the Employer. The "RS Effective Date" is July 31, 2016, the date the Employer acquired the stock of RS Investment Management Company, LLC.

(F) For purposes of calculating Years of Service, employment with USAA Investment Management Company and USAA Transfer Agency Company dba USAA Shareholder Account Services (collectively, "USAA") prior to the USAA Effective Date shall be treated as employment with the Employer. The "USAA Effective Date" is July 1, 2019, the date the Employer acquired the stock of USAA.

(G) For purposes of calculating Years of Service, employment with Compass Efficient Model Portfolios ("Compass EMP") prior to April 30, 2015 ("Compass Closing Date") shall be treated as employment with the Employer if the Participant was employed by Compass EMP on the Compass Closing Date.

(ii) Full Vesting on Death, Disability or Change in Control. Notwithstanding the foregoing, a Participant shall at all times have a nonforfeitable vested interest in the Accrued Benefit attributable to his or her Matching Employer or Discretionary Employer Contribution Accounts (and any other Participant Accounts) upon his or her termination of employment by reason of his or her death or Disability, or if there is a Change in Control.

(c) Forfeiture. Notwithstanding any other provision herein, or any provision of any employment or other agreement, including if a Participant is 100% vested because the Participant has earned three Years of Service, a Participant (including a Beneficiary) will lose all of his or her interest in his or her Accrued Benefit, resulting in a complete forfeiture of Accrued Benefit, if either Section 3.4(c)(i) or (ii) below is satisfied.

(i) The Participant's employment terminates in connection with an event that constitutes Cause.

(ii) The Participant at any time is determined by the Employer, U.S. Department of Labor, or a court of law to not be among the select group of management or highly compensated employees and if the Employer in its sole discretion determines such forfeiture is required or advisable as a condition of maintaining the intended tax and/or ERISA status of the Plan.

(iii) If some or all of the Participant's Accrued Benefit has been paid, and Section 3.4(c)(i) is satisfied, or pursuant to Section 3.4(c)(ii) the Employer in its sole discretion determines that the Participant's repayment to the Employer is required or advisable, then within ninety (90) days of notice to the Participant or Beneficiary of such circumstance the Participant or Beneficiary shall repay to the Employer the amount of the Accrued Benefit requested to be repaid. The Employer's determination under Section 3.4(c)(ii) that a Participant is not among the select group of management or highly compensated employees, that a forfeiture is required, and/or that repayment is required, will be made only if the Employer concludes such determination or determinations is necessary in its opinion in order for the Plan to remain in compliance with the Code and/or ERISA.

Article 4
Plan Accounting, Earnings, and Funding

Section 4.1 Investment. The Employer shall invest contributions under the Plan in one or more designated investment vehicles for investment, including investments held in a Trust, within a period that is not longer than is reasonable for the proper administration of Accounts and in accordance with the participant direction of investments under section 4.5.

Section 4.2 Accounting. The Plan shall maintain one or more bookkeeping Accounts in the name of each Participant to reflect the Participant's Accrued Benefit under the Plan, including to record each type of contribution (Salary Deferral, Matching or Discretionary Employer Contributions) and Earnings thereon. A Participant's Accrued Benefit as of any applicable date is the balance of his or her Account(s) as determined in accordance with this Article 4.

Section 4.3 Account Adjustments. Except for Earnings of a Segregated Investment Account, as of each Valuation Date the applicable Account of each Participant shall be credited or charged, as the case may be, with:

(a) distributions made to or withdrawals by the Participant or his or her Beneficiaries during the Valuation Period;

(b) Salary Deferral, Matching and/or Discretionary Employer Contributions allocated to the Participant's Account(s) during the Valuation Period;

(c) Earnings allocated to the Participant's Account(s) for the Valuation Period;

(d) if contributions, Earnings, or other benefits under the Plan are subject to federal, state or local income, employment (e.g., taxes under the Federal Insurance Contributions Act or Federal Unemployment Tax Act), or other taxes, said taxes shall, in the discretion of the Employer, be withheld and deducted from a portion of the Participant's compensation and/or charged against the applicable Participant Account as determined by the Employer; and

(e) other amounts, if any, allocated to or charged against the Participant's Account(s) under the Plan (e.g., Plan expenses).

The provisions of Section 4.5 shall also apply to Accounts.

Section 4.4 Allocation of Earnings. As of each Valuation Date, and excluding for this purpose Segregated Investment Accounts, Earnings for all Accounts shall be allocated to each Participant's Account pursuant to a fraction, the numerator of which is the value of such Account and the denominator of which is the value of all Accounts. To calculate each fraction, the Accounts to which Earnings shall be allocated will be valued as of the preceding applicable Valuation Date (the "opening Account balance"), provided, however, the Employer may establish procedures that are uniformly applied to similarly-situated Participants to determine the Earnings with respect to each Plan Year contribution and to value Accounts which recognize increases and decreases in Accounts that occur during the Valuation Period, including, without limitation, a procedure that provides that each Account, or portion thereof, which is distributed during the applicable Valuation Period shall either not share in Earnings, shall be deemed to share in Earnings at an imputed rate of return or shall share in Earnings based on that period of time prior to the distribution of the Account or portion thereof, and also including a procedure which credits to such opening Account balances contributions that are made during the applicable Valuation Period. For example, the Earnings may be credited and allocated among Accounts by using a weighted average method. Such method may treat a weighted portion of the applicable contributions as if includable in the Participant's Account as of the beginning of the Valuation Period. The weighted portion may, without limitation, be a fraction, the numerator of which may be the number of months in the applicable Valuation Period following the date of the applicable contributions, and the denominator of which may be the total number of months in the Valuation Period.

Section 4.5 Participant Direction of Investment

(a) The Employer and/or if there is a Trust, its Trustee, shall invest the contributions under the Plan, and shall establish and prescribe such rules and limitations it deems appropriate.

(b) Subject to Section 4.5(a) above, each Participant shall designate the investment(s) in which the Participant's Account(s) shall be deemed to be invested for purposes of determining the Account's Earnings and value of the Participant's Accrued Benefit. The Employer will accept direction from each Participant on a written election form or by other means that the Employer may require pursuant to conditions, limitations and other provisions established by the Employer. The Employer may establish procedures relating to Participant direction of investment under this Section 4.5, including the establishment of a list of investments or funds selected by the Employer from which the Participant may choose for the deemed investment of the amounts allocated to the Participant's Account(s).

(c) The Plan will maintain a Segregated Investment Account(s) to the extent a Participant's Account(s) is subject to Participant investment direction and the Participant provides investment directions hereunder. A Segregated Investment Account will be deemed to receive Earnings credited/debited to it and will bear all of its expenses. A Segregated Investment Account, including one invested in a pooled fund (in which more than one Account is invested), shall be subject to such accounting procedures and/or Sections 4.3 and 4.4 as the Employer deems appropriate.

(d) The Participant's investment selections shall remain in effect until the Participant makes a new investment selection. If an investment selection is not made or if for any reason the selection becomes ineffective, the Earnings shall be determined by the Employer.

(e) The Participant's right to select the investment of his or her Account(s) does not give the Participant any vested interest or secured or preferred position with respect to the assets over which the Participant provides investment instructions.

Section 4.6 Trust and No Funding

(a) The Employer may establish the Trust for the purpose of retaining and managing assets set aside by the Employer for payment of all or a portion of the amounts payable pursuant to the Plan. Any Benefits not paid from the Trust shall be paid solely from the Employer's general funds, and any Benefits paid from the Trust shall be credited against and reduce by a corresponding amount the Employer's liability to Participants under the Plan. No special or separate fund, other than the Trust, shall be established and no other segregation of assets shall be made to provide the payment of any Accrued Benefit hereunder.

(b) All Trust funds, and any other amounts contributed under the Plan, and all Earnings thereon, shall be subject to the claims of general creditors of the Employer. The obligations of the Employer to pay Benefits under the Plan constitute an unfunded, unsecured promise to pay and Participants shall have no greater rights than general creditors of the Employer. Trust assets shall not, at any time, be located outside of the United States or be transferred outside of the United States.

(c) The right of a Participant or his or her Beneficiary to an Accrued Benefit hereunder shall be an unsecured claim against the general assets of the Employer, and neither the Participant nor his or her Beneficiary shall have any rights in or against any amount credited to his or her Account(s) or any other specific assets of the Employer, except as otherwise provided in the Trust. Except as provided under the Trust, nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between the Plan and the Employer or any other person. Nothing contained in the Plan shall constitute a guarantee by the Employer that the assets of the Employer will be sufficient to pay any benefit to any person.

(d) The Employer shall appoint and/or discharge the Trustee, if any, pursuant to the Trust document and/or other written agreement between the Employer and the Trustee. Except as otherwise provided herein, the services of the Trustee and the Trust provisions shall be set forth in the Trust document. To the extent provided therein and consistent with the Plan, the Trustee shall assume such responsibilities and duties of the Employer as the Employer and Trustee agree.

Section 4.7 Benefit Responsibility. The Employer shall be responsible for providing the Accrued Benefit of each Participant. Victory Capital Holdings Inc. agrees to not interfere directly or indirectly with the Employer's payments of benefits under the Plan. Such agreement will be evidenced by and effective with written Board of Director action which is hereby made a part of this Plan.

Article 5
Time and Method of Payment

Section 5.1 Election of Payment

(a) No later than the Election Date, the Participant will submit a written election form setting forth the time and method of payment of the Participant's Accrued Benefit. The Election Date is defined in Section 3.1(d) for Salary Deferral Contributions and with respect to Matching and Discretionary Employer Contributions is no later than the earlier of the last day of the Plan Year for Compensation attributable to services to be performed for the immediately following Plan Year and the date otherwise dictated by Code Section 409A (e.g., when such contribution is made to the Trust). The "Election Date" is determined under Code Section 409A with respect to each "plan" (i.e., each source of Benefits provided under the Plan pursuant to Sections 3.1, 3.2, and 3.3 respectively) as disaggregated to the greatest extent allowed under Code Section 409A.

(b) Subject to the other provisions herein, a Participant's election (or nonelection) is irrevocable as of the Election Date. Each Participant's election or change in election must be in compliance with this Article 5 and in accordance with and as limited by the election form the Employer provides. The Election Date, payment events and/or methods of payment provided in the election form may be sooner or narrower and more limited than as set forth in this Article, as determined each Plan Year by the Employer.

Section 5.2 Payment Events. A Participant's Accrued Benefit shall commence to be paid upon one or more of the following times or events ("Payment Event") as set forth and limited by the Participant's election form:

(a) upon the Participant's Separation from Service,

(b) a time or a fixed schedule under the Plan,

(c) upon a Change in Control,

(d) upon the Participant's Disability,

(e) upon the Participant's death,

(f) upon the earliest to occur of the events specified in Subsection (a) through (e).

The Participant's Accrued Benefit shall be paid or commence to be paid within ninety (90) days following the date set forth in the payment election form that follows or coincides with the Participant's Payment Event. The Employer, and specifically not the Participant, will determine and designate the exact date and taxable year of payment. This Section 5.2 is subject to a subsequent election made under Section 5.6.

Section 5.3 Method of Payment. A Participant's Accrued Benefit, or portion thereof, shall be paid under one of the following methods as set forth and limited by the Participant's election form:

(a) by payment in a lump sum;

(b) by payment in substantially five (5) equal annual installments, with each installment equaling the product of the Participant's Accrued Benefit as of the immediately preceding Valuation Date divided by the number of remaining installments; or

(c) by payment in any other form or under any other method approved by the Employer and set forth in the payment election form the Employer provides that is consistent with Code Section 409A.

Regardless of the method of payment, any distribution (including one that is not a lump sum payment) will be accelerated and paid in accordance with the second and third sentences of Section 5.2 upon the earliest to occur of the events as set forth in Section 5.2 and the election form (i.e., Separation from

Service, death, Disability or a Change in Control).

Section 5.4 Default Payment. If the Participant does not properly and timely elect a time and/or method of payment, the Participant's Accrued Benefit shall be paid in a lump sum to the Participant within the ninety (90) day period following his or her Separation from Service. The Employer, and specifically not the Participant, will determine and designate the exact date and taxable year of payment.

Section 5.5 Intervening Disability or Death. Unless the Participant elects otherwise in accordance with this Article 5, in the event the Participant incurs a Disability or death prior to payment or the completion of payment hereunder, the Participant's remaining Accrued Benefit shall be paid to the Participant or Beneficiary in a lump sum within the ninety (90) day period following the Participant's Disability or death. The Employer, and specifically not the Participant or Beneficiary, will determine and designate the exact date and taxable year of payment.

Section 5.6 Change in Election. In accordance with the written election form the Employer provides to the Participant, a Participant may change the time payment commences and/or method of payment established under Article 5 so long as the following conditions are satisfied:

(a) in the case of an election related to a payment to be made at a specified time or pursuant to a fixed schedule, the Participant's election to delay a payment must be made no later than twelve (12) months prior to the date of the first scheduled payment;

(b) the Participant's election must not take effect until at least twelve (12) months after the date on which the election is made;

(c) in the case of an election related to a payment other than a payment made on account of Disability, death, or Unforeseeable Emergency the payment with respect to which the election is made must be deferred for a period of at least five (5) years from the date such payment would otherwise have been made;

(d) a Participant may not accelerate the time or schedule of any payment under the Plan, except as provided in Code Section 409A; and

(e) the Participant may not elect payment earlier than the Participant's Separation from Service, Disability, death, a specified time or pursuant to a fixed schedule, or a Change in Control or upon Unforeseeable Emergency, all in accordance with Code Section 409A.

This Section 5.6 does not allow a payment change in the event payment is accelerated in accordance with the last sentence of Section 5.3 and/or the election form.

Section 5.7 Payment for Unforeseeable Emergency

(a) In the case of an Unforeseeable Emergency, and upon the Participant's request, the Employer may, in its sole discretion, direct that payments be made notwithstanding any other provision hereunder. Payment because of an Unforeseeable Emergency shall be limited to the amount reasonably necessary to satisfy the Unforeseeable Emergency (which may include amounts necessary or anticipated to pay any taxes or penalties resulting from the distribution).

(b) "Unforeseeable Emergency" means, as determined by the Employer in its sole discretion, a severe financial hardship to the Participant resulting from: an illness or accident of the Participant or Beneficiary, the Participant's Spouse, or a dependent (as defined in Code Section 152 without regard to Code Section 152(b)(1), (b)(2) and (d)(1)(B)) of such Participant; loss of the Participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. An Unforeseeable Emergency generally shall not include the purchase of a home or payment of college tuition, but may include the imminent foreclosure of or eviction from the Participant's primary residence, the need to pay for medical expenses, or the payment of funeral expenses of the Participant's Spouse, Beneficiary or dependent. To qualify as an Unforeseeable Emergency, the circumstance must satisfy the requirements of Code Section 409A.

Section 5.8 Permitted Payment Acceleration. To the extent permitted by Code Section 409A, the Employer may, in its sole discretion, commence distribution to a Participant, Beneficiary or other appropriate payee of the portion of a Participant's Accrued Benefit authorized for distribution for one or more of the following reasons: (a) a *de minimis* cashout payment that results in the termination of the entirety of a Participant's interest in the Plan (and any required aggregated plan), if the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B) and if the Employer exercises its discretion hereunder evidenced in writing no later than the date of such payment; (b) payment of the amount required to be included in a Participant's income as a result of any failure to comply with Code Section 409A; (c) payment to pay the Federal Insurance Contributions Act tax imposed under the Code as permitted under Code Section 409A; (d) payment to a party other than to the Participant pursuant to a domestic relations order; (e) termination of the Plan; and (f) any other circumstance permitted under Code Section 409A.

Section 5.9 Domestic Relations Orders. Nothing contained in this Plan prevents the Employer from complying with the provisions of a domestic relations order under the Plan which awards a Participant's Accrued Benefit to an alternate payee; provided, however, compliance with the order and payment will only be made to the extent the Employer determines such compliance and payment is in accordance with applicable law, including ERISA and the Code. For purposes of this Section, an alternate payee is the spouse, former spouse, child or other dependent of a Participant who is recognized by a domestic relations order as having a right to receive all, or a portion of, the Benefits payable under the Plan with respect to such Participant.

Section 5.10 Overpayment. If for any reason, including, without limitation, mathematical or administrative error, the amounts paid to the Participant or Beneficiary exceed the Accrued Benefit to which the Participant or Beneficiary is entitled under the Plan, such excess shall constitute an indebtedness of such party to the Employer. Such indebtedness shall be payable to the Employer by the Participant, or Beneficiary as the case may be, upon demand by the Employer, or as determined by the Employer, such indebtedness shall be charged against amounts credited to such Participant's Account(s).

Section 5.11 Facility of Payment. Whenever, in the Employer's opinion, a Participant or Beneficiary entitled to receive a payment of Benefits hereunder is under disability or is incapacitated so as to not receive or acknowledge payment hereunder, the Employer may make payments to the party's representative, relative or other person for the party's benefit or otherwise apply the payment for the benefit of such Participant or Beneficiary in such manner that the Employer considers advisable. Any payment of Benefits in accordance with the provision of this document shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

Section 5.12 Taxes. Amounts payable hereunder or the Participant's Compensation shall be reduced by applicable federal, state, and local taxes or charges that the Employer is required to withhold or the Employer deems appropriate.

Article 6
Participant Provisions

Section 6.1 Beneficiary Designation. Each Participant shall designate, in writing, any person or persons, who, contingently or successively, are to succeed to the Participant's Accrued Benefit under the Plan in the event of the Participant's death. The Employer shall prescribe a sample form for the written designation of the Beneficiary and, upon the Participant's filing the form with the Employer, it shall effectively revoke all designations filed prior to that date by the Participant.

Section 6.2 Community Property and Legal Effect. The Participant, and specifically not the Employer or any other party, shall be responsible for ensuring the legal validity and enforceability of the Participant's Beneficiary designation. The Participant is strongly encouraged to seek his or her own legal counsel for this purpose. If the Participant's Accrued Benefit is subject to the Spouse's or a former Spouse's community property interest, the Participant's designation of the Beneficiary shall be valid and enforceable only to the extent such Accrued Benefit is not subject to such community property interest and/or the Spouse has waived his or her election in accordance with applicable state law.

Section 6.3 No Beneficiary Designation. If a Participant fails to name a Beneficiary in accordance with Section 6.1, if the Beneficiary named by a Participant predeceases him or her or dies before complete distribution is made to the Beneficiary under the Plan, or there is a disclaimer pursuant to law, then the Beneficiary shall be the Participant's Spouse, but if the Spouse predeceases the Participant, then the Beneficiary shall be the Participant's descendants *per stirpes*, and if none survive the Participant, then the Beneficiary shall be the Participant's estate.

Section 6.4 Revocation Upon Divorce. Notwithstanding any provision of the Plan to the contrary, if a Participant designates his or her Spouse as a Beneficiary, a subsequent divorce decree that relates to such Spouse shall automatically revoke the Participant's designation of the Spouse as a Beneficiary unless the decree or a domestic relations order provides otherwise or unless the Participant designates such former Spouse as his or her Beneficiary, in accordance with this Article 6, at any time after the date of such divorce decree.

Section 6.5 Personal Data to Employer. Each Participant and each Beneficiary of a deceased Participant must furnish to the Employer such evidence, data or information as the Employer considers necessary or desirable for the purpose of administering the Plan. The provisions of this Plan are effective for the benefit of each Participant upon the condition precedent that each Participant will furnish promptly full, true and complete evidence, data and information when requested by the Employer.

Section 6.6 Assignment or Alienation. Neither a Participant nor a Beneficiary shall anticipate, transfer, assign or alienate (either at law or in equity) any Accrued Benefit provided under this Plan, and the Employer shall not recognize any such anticipation, transfer, assignment or alienation. To the extent permitted by law, the right of any Participant or any Beneficiary to any benefit or to any payment under this Plan shall not be subject in any manner to attachment or other legal process for the debts of such Participant or Beneficiary.

Article 7
Administration

Section 7.1 Authority and Responsibility of the Plan Administrator. Unless otherwise specifically provided herein, the Plan Administrator (i.e., the Employer) shall have full and complete authority, responsibility, discretion and control over the management, administration and operation of the Plan and investments hereunder, except to the extent the Trust otherwise provides, including but not limited to the authority to: (a) formulate, adopt, issue, revise and apply procedures and rules in accordance with law; (b) construe and apply the provisions of the Plan; (c) make all determinations under the Plan, including those concerning eligibility for Benefits and eligibility to receive payment of Benefits; (d) adopt and prescribe the use of necessary forms; (e) prepare and file reports, notices, and any other documents relating to the Plan which may be required by the United States Secretary of Labor or Secretary of the Treasury; (f) prepare and distribute to Participants any communication materials required by ERISA or the Code; (g) employ or retain agents and/or other professionals (including those who may be employed by or represent the Employer) to aid it in the administration of the Plan; (h) be the agent for service of legal process; (i) make available for inspection and provide upon request documents and instruments required to be disclosed by ERISA or the Code; (j) direct the payment of Benefits under the Plan and issue such other directions and instructions as are necessary for the proper administration of the Plan; and (k) analyze and report Plan activity. Any decisions or determinations the Plan Administrator may make under or with respect to the Plan shall be made in its sole discretion and shall be final and binding.

Section 7.2 Claims Procedures

(a) Initial Claim for Benefits and Timing. Each person entitled to Benefits under this Plan ("Claimant") must submit his or her claim for Benefits to the Employer in such form as is provided or approved by such Employer. A Claimant shall have no right to seek review of a denial of Benefits, or to bring any action in any court to enforce a claim for Benefits prior to his or her filing a claim and exhausting his or her rights under this Section. When a claim for Benefits has been filed properly, such claim shall be evaluated and the Claimant shall be notified by the Employer (or its agent) of its approval or denial within a reasonable period of time but not later than ninety (90) days after the Employer's receipt of such claim unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant by the Employer (or its agent) prior to the termination of the initial ninety (90) day period which shall specify the special circumstances requiring an extension and the date by which a final decision is expected to be reached (which date shall not be later than one hundred and eighty (180) days after the date on which the claim was received by the Employer).

(b) Content of Denial Notice. If a claim is denied, in whole or in part, the Claimant shall be given written notice which shall contain (i) the specific reason(s) for the denial, (ii) reference to the specific Plan provision(s) upon which the denial is based, (iii) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's appeal procedure and its applicable time limits, as set forth herein, including a statement of the Claimant's rights to bring a civil action under ERISA Section 502(a) following an adverse determination on appeal.

(c) Appeal of Claim Denial. The purpose of the review procedure set forth in this Section is to provide a procedure by which a Claimant under the Plan may have a reasonable opportunity to appeal a denial of a claim for a full and fair review. If a claim is denied, in whole or in part (or if within the time periods prescribed in Subsection (a), the Employer or its agent has not furnished the Claimant with a denial and the claim is therefore deemed denied), and if the Claimant wishes to appeal the denial, the Claimant must file a written request with the Plan Administrator within sixty (60) days after the date on which the Claimant received written notification of the denial that the Plan Administrator conduct a full and fair review of the denial of the claim for Benefits, which shall include a hearing if deemed necessary by the Plan Administrator.

(d) Review Requirements. The Claimant shall have the opportunity to submit written comments, documents, records, and other information relevant to the Claimant's claim for Benefits. The review shall take into account all such comments, documents, records, and other information submitted by the Claimant, without regard to whether such information was submitted or considered in the initial benefit determination.

(e) Decision on Review. Decision on review of a denied claim shall be made in the following manner:

(i) The decision on review shall be made and be communicated to the Claimant within a reasonable period of time but not later than sixty (60) days after the Plan Administrator receives the request for review unless the Plan Administrator determines that special circumstances (such as the need to hold a hearing) require an extension of time for processing the claim. If the Plan Administrator determines that an extension of time is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the determination on review.

(ii) The decision on review shall be set forth in a manner calculated to be understood by the Claimant, shall be in writing, and shall include: the specific reason(s) for the decision, reference to the specific Plan provision(s) on which the decision is based, a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for Benefits, and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(iii) In the event that the decision on review is not furnished within the time period set forth in this Subsection, the claim shall be deemed denied on review.

(e) Disability Claims. If your claim involves a determination of Disability under the Plan, different timeframes and rules may apply. Notwithstanding anything in the Plan to the contrary, the Plan Administrator shall follow procedures which conform to the requirements of Department of Labor Regulation §2560.503-1 with respect to Disability claims filed after April 1, 2018. If your claim involves a determination of Disability under the Plan, you will receive a separate notice of claims procedures that apply to your claim.

Section 7.3 Expenses. To the extent not inconsistent with the Trust, the Trustee is authorized to pay from the Trust all expenses, taxes and fees incurred in connection with the Plan and/or Trust (including without limitation recordkeeping, administration, attorneys' fees, and investment fees) to the extent they are not paid by the Employer. Such expenditures shall be charged against the Trust and as applicable the Participant's Account(s) pursuant to Section 4.3 or otherwise as determined by the Trustee and Employer in accordance with the Trust.

Article 8
Miscellaneous

Section 8.1 USERRA and Family and Medical Leave Act. The Plan shall comply with the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 and the Family and Medical Leave Act of 1993.

Section 8.2 Amendment or Termination

(a) In General. The Plan may be amended in whole or in part from time to time by the Employer and may be terminated by the Employer, in its sole discretion, but subject to compliance with Code Section 409A. Upon Plan termination, the Participants shall be entitled to receive their Accrued Benefits only in accordance with the Plan as if it had not terminated or as the Plan otherwise is amended or administered in compliance with the Code and ERISA, as applicable.

(b) Amendments and Administration. The Plan may be amended and administered by the Employer at any time and retroactively, if required, if warranted in the opinion of the Employer, to ensure that the Plan is characterized as a "top hat" plan maintained for a select group of management or highly compensated employees as described under ERISA, and/or to conform the Plan to the provisions and requirements of any applicable law (including but not limited to ERISA and the Code). Any reduction, elimination or change of a Participant's Benefits under this Section 8.2 shall not be deemed to prejudice nor impermissibly reduce in contravention of this Plan any interest of a Participant or a Beneficiary hereunder. Any payment election or provision in effect prior to any Plan amendment shall be conformed and interpreted as warranted to comply with the Code.

Section 8.3 No Liability. The Employer, Victory Capital Holdings Inc., and each of the respective affiliates, officers, directors and employees shall not be liable to any person for any action taken or omitted in connection with the Plan unless attributable to such person's own fraud or willful misconduct. The Employer shall not be responsible for any act or failure to act of any Trustee appointed to administer the Trust.

Section 8.4 Employment Relations. The adoption and maintenance of the Plan shall not be deemed to constitute a contract of employment between the Employer and its Employees or to be consideration for, or an inducement or condition of, the employment of any person. Nothing contained herein shall be deemed to: (a) give to any person the right to be retained in the employ of the Employer; (b) affect the right of the Employer to discipline or discharge any person at any time; (c) give the Employer the right to require any person to remain in its employ; or (d) affect any person's right to terminate his or her employment at any time.

Section 8.5 Enforceability. This Plan shall be binding upon the assigns, successors, and the legal representatives of the Participant and of the Employer, subject to Section 8.2, unless the Employer determines otherwise in writing.

Section 8.6 Construction

(a) Words used in the masculine shall apply to the feminine where applicable, and wherever the context of the Plan dictates, the plural shall be read as the singular and the singular as the plural. Reference to the provisions of any particular section of the Code, ERISA, other statute, regulation or release by governing authorities shall be deemed to be a reference to any section of the authority which may hereafter contain the same or similar provisions.

(b)This Plan shall be administered, construed and limited in the manner appropriate for the Plan to comply with the provisions of ERISA, particularly to qualify as an ERISA "top hat" plan and to comply with the provisions of the Code, including without limitation Code Section 409A. ERISA and Code sections and regulations are incorporated by reference as is necessary for such administration, interpretation and limitation.

(c)If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Plan shall be construed and enforced as if such provisions, to the extent invalid or unenforceable, had not been included herein.

(d)The headings of Articles, Sections and subsections hereunder are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

Section 8.7 Entire Agreement. Except as otherwise amended or incorporated herein, or supplemented with addenda, in writing by the Employer, this Plan document constitutes the entire agreement between the Employer, Participants and Beneficiaries and contains all of the agreements among such parties with respect to the subject matter hereof, and furthermore, to the extent conflicting, this Plan supersedes any and all other agreements, either oral or in writing, without limitation including in any employment agreement among the parties hereto, with respect to the subject matter hereof. Any such other agreement shall be null, void, and of no effect with respect to the subject matter of this Plan. This Section in no way limits or abrogates the provisions of the Trust nor the Employer's right to amend or terminate the Plan in any respect, including without limitation pursuant to Section 8.2.

Section 8.8 Governing Law. The Plan and all matters arising with respect thereto shall be governed by ERISA and the Code (and/or other federal law), except as otherwise not applicable, in which case New York State law shall govern.

IN WITNESS WHEREOF, the Employer has executed this amended and restated Plan this 13th day of November, 2019.

VICTORY CAPITAL MANAGEMENT INC.

By: /s/ DAVID C. BROWN
David C. Brown, CEO

Exhibit 31.1

CERTIFICATIONS

I, David C. Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Victory Capital Holdings, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

By: /s/ DAVID C. BROWN
David C. Brown
Chief Executive Officer and Chairman

Exhibit 31.2

CERTIFICATIONS

I, Michael D. Policarpo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Victory Capital Holdings, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 13, 2019

By: /s/ MICHAEL D. POLICARPO
Michael D. Policarpo
President, Chief Financial Officer and Chief Administrative Officer

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Exhibit 32.1

**CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, David C. Brown, Chief Executive Officer of Victory Capital Holdings, Inc. (the "Company"), hereby certify pursuant to Section 1350 of chapter 63 of title 18 of the United States Code, and Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge: (1) the Quarterly Report on Form 10-Q of the Company to which this Exhibit is attached (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID C. BROWN
David C. Brown
Chief Executive Officer and Chairman
November 13, 2019

Exhibit 32.2

**CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Policarpo, President, Chief Financial Officer and Chief Administrative Officer, of Victory Capital Holdings, Inc. (the "Company"), hereby certify pursuant to Section 1350 of chapter 63 of title 18 of the United States Code, and Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge: (1) the Quarterly Report on Form 10-Q of the Company to which this Exhibit is attached (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL D. POLICARPO
Michael D. Policarpo
President, Chief Financial Officer and Chief Administrative Officer
November 13, 2019