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<<Chris Shutler, Analyst, William Blair & Co. LLC>>

All right, good morning everybody. Welcome to day three of the conference. My name is Chris Shutler. I'm the Research Analyst at William Blair covering the asset management and investment services space. Before we start, I'm required to inform you that for a list of disclosures and potential conflicts of interest you should visit williamblair.com.

Up next we have Victory Capital. Victory is a recent IPO Company as an integrated multi-boutique model, which has some similarities to other models in the market, but also some very important differences. Investment performance across its franchise is quite good, M&A as a core competency, which I think is important giving the growing emphasis on scale in the asset management business.

With us today from the company we have Chairman and CEO, Dave Brown; CFO and Head of Strategy, Terry Sullivan. Dave joined the firm in 2004. He has been CEO, since the MBO from KeyCorp, and Terry joined just a little under a year ago from Morgan Stanley. With that, I'll turn it over to Dave

<<David C. Brown, Chairman and Chief Executive Officer>>

Thanks, Chris. So I'd like to kind of introduce you to our company and go over kind of who we are, how we fit into the industry and kind of how we're going to execute. We do have some slides in the appendix on financials. We'll save that for the Q&A side. Terry will be here to answer any questions. So on this first page, this is a good overview of really who we are and what we stand for. We are an integrated multi-boutique. I think we're very differentiated when you think about multi-boutiques and I think we've carved out a very nice lane in the industry for the future to be a future winner.

But some of the key components of really our culture, one is autonomy. So, every one of our investment franchises make independent investment decisions. They're all independent of each other. So respecting autonomy is really important in our company. We have this concept of ownership, investing personally in our business, investing personally in our products. So we have about a third of our company owned by our employees and that third is spread over about 80% of our employee base. We also have our employees, so we have about 286 employees. Those 286 employees have $100 million or so invested in our products, all by choice, no mandatory. So we are owners of our product. We're owners of our company and it really drives the culture to have an ownership field. Come in every day, act like an owner, think like an owner and we think that aligns us with our clients and creates the right alignment.

So who are we? $60.9 billion under management as of 3/31. We have one company, very different than the other multi-boutiques out there, that's why we call ourselves the integrated multi-boutique. One company with nine investment franchises, all branded differently, all logo differently, all have their own unique investment process and a lot of them are in different asset classes some overlapping. They all do their own work. In fact, I think, we have six of our investment professionals here at this conference representing three of our franchises all doing their own work.

We also have a solutions business, the solutions platform called VictoryShares. Within the solutions platform, we have an ETF business. We have 113 investment professionals in 13 offices globally, 10 within the U.S. And over the last 4.5 years, we did an MBO in July of 2013, an employee led MBO, since then we've done three acquisitions, and a minority investment, and then we went public in the first week of February. We have 72 investment strategies in a number of different market caps, asset classes, split between ETFs, institutional separate accounts and all kinds of structures and I'll go more into detail on that.

And then we have a pretty broad and deep distribution function. About a 100 people selling, servicing and marketing for our clients. One key concept that’s very different in our multi-boutique, that’s different than other multi-boutiques, those sales and marketing people sell all of the franchises, sell all of the products. So we don't have on-franchise sales people or marketing people. Part of our strategy, we think you need to approach the platforms, institutional consultants in a scaled way.

Centralized platform, on the sales and marketing, I talked about, but it's also centralized operationally and from a technology standpoint. So, we have one platform of sales and marketing, operations, technology. And then we're focused on asset classes, which we think can win today and in the future of active management. So where active is winning still, we think we're focused on. And then we also have some other strategies within asset classes that on the surface you would say hey that those are getting a move to passive. We actually think we have the right approach within those asset classes.

So just to go over a little bit about our model and kind of how it slots in, I'm sure some of you are familiar with the other multi-boutiques, so we did a little bit of a compare and contrast here, which I think will help to bring the light kind of how we fit in. So from a brand perspective, we have our investment franchises all have different brands, nine of them. They’re branded separately, they’re logoed separately and they're actually sold that way. Victory Capital is not really on any one of our investment franchises. The investment process all independent and autonomous, they’re doing their own work, they’re doing their own research, they have their own edge in their investment process and we're okay with that.

One of the big differentiated points is centralized distribution and marketing. I don't know of any other multi-boutique that does it the way we do it, but it centralized. So these 96 sales client services marketing professionals, they're selling everything. They're going to financial advisors, they're going to consultants and they're representing all of the franchises. It allows us again to take advantage of our size and scale and to really bring product to these large platforms in a scaled way.

Operations and back office – centralized but not standardized. And what I mean by that is we have the scale and the size of a larger company, but we do deliver information technology, operations in more of a unique way. But it allows us to have a one platform to reinvest in one platform. So when you think about the reinvestment that's required for the industry and what's happening, we're reinvesting once because we have one platform, not nine times.

That model, our model is very conducive to M&A. And what we do is, what we've traditionally done is we bought businesses, bought 100% of the business and kind of rolled that business from an operations, administration and distribution side into our platform and then allowed the investment professionals, the investment process to kind of exist as is. So really take the investment professional and really give them an opportunity to spend all of their time managing money and then bring everything else in. And what that does is it preserves the investment culture and the brand, but it also allows for a great amount of synergies. So you think about all the duplication around operations, technology, sales and marketing and we're able to cut those costs out. It gives us a head start in some of the M&A transactions.

Our business is very well diversified. If you look at it from an institutional and retail perspective, as of 3/31, 58% of our clients are institutional, 42% U.S. retail and retirement and within there they're split within different sub-channels. So very balanced client-base and very balanced distribution. We think that's somewhat unique. And then we have mutual funds. We have about a $40 billion mutual fund complex, close to $3 billion in ETFs and then obviously institutional accounts, UMA, wrap, variable insurance products and then collective trust funds, so very well diversified from a product perspective.

Asset classes where we're in. And this has been purposeful over a number of years. We've transitioned from about 38% in 2013 in focused asset classes to pushing about 80% today. The focused asset classes are U.S. mid-cap, U.S. small cap, global/non-U.S. and then ETFs, which is under the solutions business, about close to 80%. These asset classes, if you look at today, they actually are not as under pressure as some of the other asset classes when you think about the active to passive move. These are asset classes that are higher fee, higher margin and where if you're good at what you do as an active manager, you have a chance to outperform and people are willing to pay active fees for these asset classes. It doesn't mean the other asset classes we're in that we don't think that they can grow, but in today's environment these are the areas we think the growth is going to come from. We've shifted our business here. They have the right attributes from a product perspective.

We think the platform, where you have an investment professional spending all their time managing money. You have an investment professional having access to best-of-class operations trading technology and where their mind share is on managing money, really gives them an advantage on doing what they're doing every day. And the results I think speak for themselves. We have about 23 four and five star funds in ETFs, about 70% of our assets are four and five stars. And then if you look at the percentage of AUM that's outperformed its benchmark, it's very much industry leading. So 87% of our AUM has outperformed its benchmark on a one year period and this is by the way as of 3/31. 71% over a three year and really the numbers we look at it over five and ten its 83% and 79%. Our franchises, our investment professionals are performing at a very high level.

Barron's ranks the top 25 fund families in the country. We've been on that list for the last four years and most recently we've been the number 10 and that's really done on investment performance over a number of different asset classes. eVestment has a brand awareness ranking. We were number one from $25 billion to $50 million in 2015, and then most recently on the $50 billion to $100 billion category we were number four.

So more statistics on investment performance. I can just tell you when you look at these and I won't go all through the numbers. They're consistent and they're consistently good. And we think this gives us a platform to grow with our existing franchises and just a different way to look at it with some pie charts here. Again, the point here on these pages are the investment performance is good and it's good across the board.

How are we going to turn good investment performance into organic growth? That is the question that is what everybody is seeking in the industry is how do you grow your business in an environment like this. I talked about the focused asset classes. Focused asset classes for us again: solutions, inclusive of an ETF business, and I'll talk more about that later, global/non-U.S., U.S. Mid, U.S. Small. Just looking at those asset classes, we've got multiple franchises. You see the logos: Trivalent, Sophus, RS Investments, Expedition, Munder, VictoryShares or ETF brand and Integrity. So really spread between number of franchises. And what I did is we put together the four star and five star funds. How many of the funds and how many in total are four star and five star?

So six of the nine in solutions, six of the seven in global non-U.S. and then I put the open capacity. And what you'll see on the point of this page is that, we have a really good performance in our focused asset classes, with open capacity, which is really important. So we have an opportunity. If we were to fill up all of this capacity, this would more than triple the size of the firm. We're $61 billion. We've $116 billion of open capacity. So not that we will do this, but this just gives you an opportunity to see we have a lot of runway to grow organically with what we have.

I will focus a few minutes on our ETF business. The ETF business is a really good example of what we've done from our acquisitions. So this came to us through an acquisition in April 2015. We bought a company at that time that was called Compass. It has evolved into VictoryShares. It was an acquisition that had about $190 million in ETF AUM in April 2015. That's pushing close to $3 billion today. We've grown that through our platform, through our distribution network. So we're buying businesses with products that are part of, what I would say, the future portfolio and then we're pushing it through our really developed distribution network to grow organically.

So our ETF business is not competing with the one basis point State Street, BlackRock, market cap-weighted indices. That is not what we – that is not where are positioned. We are, if you think about active, on the right, if you look at the top boxes to the right is true active, to the left is pure passive. Our ETFs are in the middle. Think of them as hybrid solutions for portfolios. By the way three of our ETFs, all three of our ETFs that have a three year track record, are five star rated. These ETFs are being sold by our retail distribution network, so we don't have an ETF only sales force, our salespeople are selling mutual funds and they're also selling ETFs. And these are being sold through all the major platforms in the U.S.

We've gained market share, significant market share, over the year, 71% market share increase year-over-year and then I'll direct you to the third bullet from the bottom, the second fastest growing ETF provider with more than $1 billion in assets. I talked about our three ETFs that are rated five star over a three year time period and maybe the most important number on this page is that our products are priced from 30 basis points to 45 basis points. It gives you an idea that it is not in competition with the one basis point or two basis point products. We think that this is a really compelling growth part of our story. It’s grown quite significantly and we think there is a huge runway going forward. And if you think about this as an example of what we've done on some of the acquisitions, this will be a good case study.

So speaking about acquisitions I want to spend a little bit of time on how we think of acquisitions, what we're trying to do and what we're really offering to the firms that we’re purchasing. So first, when I think about the value proposition, I think about the issues in the marketplace. The people that we're speaking to, the people that we're targeting, these are businesses that are good, high quality businesses; good, high quality investment professionals, that probably have an issue or two that they're trying to solve because of what's happening in the industry.

One, distribution consolidation. So, when you think about all these major platforms that are shrinking the number of firms that they’re doing business with, many firms don't have access to these large retail and retirement platforms. Many firms, on the institutional side, don't have access to the largest institutional consultants, but they are really good. They are really good at managing money.

Many firms are worried about today, operations and technology. How do I keep up with the technology, kind of arms race? How do I keep up with the new systems? How do I keep up on reinvesting? Those are the groups that we're primarily talking to. What we're not doing is we are not a succession plan, we're not a monetization avenue. There are other multi-boutiques, target that, that is not the people we're talking to.

Our value proposition to the firms that we're talking to are: one, is retain your brand and your investment process; two, spend all of your time managing money. So you think about I don’t want to worry about the operations, I don’t want to worry about distribution spend all of your time managing money. From an operational perspective you’re going to come on to our platform, you're going to tell us what you need, and we're hopefully going to deliver that.

And then lastly, you're going to get access to our scale, distribution, and marketing. If you do a good job and its in-demand, we're going to sell, we're going to grow your business. And then from an alignment perspective, we use revenue share and we use equity ownership. So you're aligned, we’re going to create alignment around the success of your platform.

This proposition positions us very uniquely. Very few firms of our size and of our structure can offer what we're offering. And because of that, we think about our opportunity set, we think that our offering is unique, it’s value-added and we think there is a lot of opportunity coming into the middle market. If you think about consolidation in the industry, and you look at this triangle that we have here, we talk about $10 billion to $75 billion within the U.S. Think of the size, managers that are getting boxed out of access to distribution, that are not able to access the institutional consultants, that are thinking about the active, the passive, or the fee pressures, when we think about consolidation in the industry we think about it in this triangle.

So from $10 billion to $75 billion of assets under management within the $6 trillion in the U.S., thousands of managers, that's really if you think about our universe and actually we are talking to people overseas. But if you think about the U.S. universe, this is our universe.

We've done transactions, I talked about that the Compass or the CEMP transaction. We did that in 2015, couple of hundred million dollars, very small, very strategic. But we've also done larger transactions where we've doubled the size of the business. When we bought Munder, it actually doubled the size of our business, about $15 billion, $16 billion deal, we doubled the size of our business. RS was about a $16 billion or $17 billion deal. We were about thirty some billion at that point, very large transaction.

Our scope from an M&A perspective is at the top-end of this triangle to the bottom-end. And I would tell you that, as I said on the earnings call in the first quarter, our M&A pipeline is as busy as it's ever been. We think one, being a public company has gotten our model out there as if you’ve advertised who we are, more than we were when we were a private company. Two, we've spent the last five years building our network, talking to people. And then three, we also think that the industry from a consolidation standpoint is forcing people to really think about the future and think about acquisitions and consolidation, and we're getting a lot of inbound calls because of our value-added platform.

So, one of the things that, I think, is really important to who we are, is our culture. And I think the culture of our company and we have a culture. Each one of the investment franchises has their own unique culture. Most of them are officed in separate office spaces all of them have their own unique investment culture.

But part of the corporate culture is all about and I talked about in the first page alignment and ownership culture. So the way we compensate our investment professionals and our employees is really important, because we think that's a big driver in culture. One is it’s the employee ownership. So, all of our investment professionals are owners in VCTR. They don't own a separate little stock in their franchise. In fact, their franchisees aren't separate companies. They are if you will, divisions of our company, but they're not separate companies. So, the ownership is really important and the ownership in the stock and then the ownership in the products. So, every one of our investment professionals for the most part and the sales professionals, own the products. So they care just a little bit more. They really feel like they own the company and then they own the product.

And then lastly, we've utilized revenue share. Revenue share is paid out on revenue off of the franchise's platform. It's a percentage of revenue that comes off the platform. That revenue share, we think, aligns the mindset, the time that they think about compensation where they're not thinking about cost allocations, they are not thinking about, well if I spend this dollar here to go travel to a conference it comes out of my compensation. We think it generates the right mind share and the right mindset, and aligns them really with the client, which is the client is paying us to spend all of your time – all of their time managing money and thinking about the client. We think that is really the platform for success.

So before I end, I do want to spend, just leave you with a couple of thoughts on how we're going to grow. So we really have multiple levers of growth. Think about organically. We are concentrated, 80% of our assets today, approximately 80% of our assets today are in these focused asset classes, they're high fee, high margin. And by the way our business, average about 68 basis points to 69 basis points, about 38% operating margins, industry-leading on both of them if you think about competitors.

The reason is we have one platform and also because we're in these focused asset classes which are higher fee and higher margin. So these focused asset classes with really good investment performance, really good distribution, and these asset classes are still generating flows, are still growing organically, U.S. small cap, there’s demand for that, because of the capacity constraints.

Our ETF business is a lot – there’s tailwind in that space and we're actually gaining market share. They’re global/non-U.S. in demand. So we're in the right asset classes with really good investment performance with deep distribution. We're going to grow those products. We have grown them we're going to grow those products. And we’re going to continue to reinvest in the platform, we’re going to continue to reinvest in the products and in ETF business. That's our organic growth strategy.

If you think about the inorganic side, and what we're trying to accomplish there, we first look for firms from an inorganic perspective. We're looking for firms that actually have products that are part of the future. And what I mean by that is, part of the future is, if you think about a portfolio, be it a retail, retirement, institution, they're looking at their portfolio and they’re saying where am I willing to pay active fees, where am I willing just to get market exposure beta. Where am I willing to pay one basis point? Where am I willing to pay 80 basis points, 100 basis points, 150 basis points?

We want to have products that are on the side where they're willing to pay alpha. Where the products actually matter to the portfolio, where they still believe active can win. We're searching for those products. There are a lot of strategies that overlap with what we have today, international, global, ETFs, U.S. small cap. But there are also strategies that we don't have today. There are volatility-based strategies, there are income-based strategies, and other solutions.

We're going to go out and buy those products. We have this capability, a proven capability from an acquisition standpoint, we're going to go out and buy those products. We're going to do, do they fit culturally, are they good at what they do? All the things you do in due diligence we're going to make sure. But we're going to buy those products. We’re going to take those products, we’re going to bring them on our platform. And when we bring them on the platform, as an ancillary benefit, we're going to take a lot of cost out typically. In a typical deal what we've done in the past, we’re going to take cost out. Take cost out because we're eliminating the duplication because we have one platform.

And then from there we're going to take those products, get the investment professionals to spend all their time managing money, hopefully do a really good job on our platform and then we're going to sell the products. And then they're going to turn into the organic growers. That's our M&A strategy. We think there's a lot of opportunity there. I showed you the triangle that shows you the universe. And we think that combined organic and then the inorganic side with the synergies as if you will a head start, really uniquely positions us in the industry.

So that's all I have from my prepared remarks. We can take questions now if you like. We have a couple more minutes, I believe. Or we can go to the breakout room. Up to you Chris.

Q&A

<Q – Chris Shutler>: I’ll probably ask one or two, before we go to breakout.

<A – David C. Brown>: Okay.

<Q – Chris Shutler>: So, Dave, preference between, as you think about M&A do you have any preference between buying – how do you think about the type of manager that you'd be interested in and beyond just that if they have good performance and growth, is there a certain distribution channel? What do you say the U.S., non-U.S., certain asset classes, what are your preferences right now?

<A – David C. Brown>: Well starting with the product side looking for products that have – that fit the attributes that I discussed, they are going to fit into this the side of the buyers’ portfolio, where they're willing to put it in active, where it can't be passive, we start there. We're leaning towards larger acquisitions and we've done a very small acquisition because it was highly strategic and actually has grown and been very successful for us and gotten us into the ETF business. We would consider that. But if you think about that triangle, we're probably looking at the larger side, but also looking at the smaller.

We found in our experience that doing a small transaction, a large transaction requires the same amount of time. So we want to spend the time to get the benefit. But, I would also say one of the things that is unique with us is we're $61 billion, everything we do. Even that super small transaction, really is meaningful for us. So if we do a $5 billion, or $10 billion transaction, it's meaningful for us. If we do a large transaction, it's obvious meaningful for us.

And from a distribution perspective, one of the checks that we're looking at is, can we sell these products into one or more distribution channels? Indifferent on the channel, because we have great distribution or a great penetration within both distribution channels, institutional, and the retail and retirement, but we want to make sure that we can actually sell the product, meaning the client actually has seen demand.

<<Chris Shutler, Analyst, William Blair & Company>>

No other questions. Alright, we’ll wrap it with that.

<<David C. Brown, Chairman and Chief Executive Officer>>

Thank you.

<<Chris Shutler, Analyst, William Blair & Company>>

Thank you.

<<David C. Brown, Chairman and Chief Executive Officer>>

Thanks.