The largest money manager in Northeast Ohio, which has been rather quietly amassing size for well over a century, has achieved explosive growth since a management-led and private equity supported separation from KeyCorp a few years ago.

Now, following a recent IPO, Brooklyn, Ohio-based Victory Capital Management’s parent company, Victory Capital Holdings, is setting the stage for its next era of growth driven by its multi-boutique model and a consistent acquisitions strategy.

“We saw an opportunity in the market to do something different than what was happening, which was our integrated, multi-boutique model that we have today,” said Victory CEO David Brown, who joined the firm in 2004 while it was still a part of Key.

That model, which truly started to develop at Victory following a management-led buyout from Key in 2013, is largely what Brown feels positions the firm to flourish as its industry evolves.

Key’s investment management business that eventually became Victory was more than a century old as the company looked to shed the division several years ago.

Many banking conglomerates were making similar moves around that time, shedding their money managers to cut costs and focus on core banking services in those years following the last recession. Key eventually sold the business to Victory employees — there were about 148 at the time — and New York private equity firm Crestview Partners for $246 million. Proceeds of Key’s sale were used to buy back stock, benefiting shareholders.

There was no animosity there. The relationship between Key and Victory is still strong, in fact — the latter’s headquarters off Tiedeman Road sits within a complex for KeyCorp staff it subleases from the company. The timing simply felt right, Brown said, for Victory to step out on its own and continue the work it had been doing for so long as Key refocused on other strategies.

“We eventually evolved to the point where it just didn’t make sense for Key to be the owners of Victory Capital,” Brown said.

That was nearly five years ago. And while Crestview is still a majority owner of the business — of which employees own a 35% stake — it’s given Brown and Victory’s board freedom to operate how it likes.

Once separate from Key, Victory set out on an acquisition streak to give it more scale. It’s bought three companies since then: Munder Capital (in 2014); Compass Efficient Model Portfolios (in 2015), which became known as CEMP; and RS Investments (in 2016). It also took a mi-

**Victory Capital at a glance**

- Victory Capital spun out of KeyCorp following a management-led, private equity-supported buyout valued at $246 million in 2013.
- Since that deal, the firm has gone from $18 billion in assets to $60.9 billion, 148 employees to 300, 18 investment strategies to 72 and five franchises to nine, plus a solutions platform, VictoryShares.
- The firm raised about $140 million in a recent IPO (NASDAQ: VCTR). That capital will help support its eventual separation from Crestview Partners, the New York private equity firm that still holds a majority stake in the business.
At the time of the spinout from Key, Victory had five different investment franchises. It has nine today, plus its exchange-traded fund (ETF) solutions platform, VictoryShares. All are separately branded, but united through Victory at the holding company level.

“And that’s our business model: this big, scaled platform and these investment franchises wrapped around them,” Brown said.

The scale is what felt critically important, Brown said, because through that model money managers can focus squarely on what they do best day in and day out: manage money. The firm, which now counts 300 employees today around the world (about 100 of whom are in Cleveland), has a staff of roughly 100 in sales and marketing. That centralized marketing group frees up people at firms like Integrity Asset Management, a Victory-owned firm in Rocky River, to focus squarely on investments instead of concerning themselves with things such as operations, technology or marketing.

Transformation

At the time of the 2013 buyout, the firm counted about $18 billion in assets. As of March, assets were just below $61 billion, an increase of 238%. The firm is the largest money manager in Northeast Ohio with at least $11.5 billion in AUM locally as of December 2017, according to Crain’s research.

In terms of strategies, it had 18 before the buyout, and now it has 72.

It’s managed to grab seasoned money managers from other firms throughout the world and grow its number of offices, which amounts to 13 globally including three outside the U.S. in Hong Kong, Singapore and London.

“We have totally transformed the business over the last four-and-a-half years,” Brown said, while acknowledging that prior to its IPO, the firm was somewhat flying under the wider public’s radar as a privately owned company.

“We are probably the best-kept secret from a financial industry perspective in Cleveland,” he suggests. “We kept a low profile while under Key, and then we were just busy doing things.”

With its IPO earlier this year (the firm is now trading under ticker NASDAQ: VCTR), Victory ultimately ended up raising about $140 million. While the firm is still eyeing additional acquisitions, that money is being used more as a source of permanent capital as Crestview — which Brown has described as “majority passive owners” — eventually exits its position in the firm. There isn’t a sense of when that might happen exactly, but it’s an inevitability. And as the exit occurs, the intention is for employees to take over the controlling stake of the business.

Although Brown declined to share what earnings looked like outside of what’s been disclosed publicly, post-IPO filings show net income for Victory Capital Holdings at the end of the first quarter of 2018 was $10.5 million, which was a significant increase over income for the same period in 2017 of $4.4 million.

In terms of how the business is changing, clients are generally more sophisticated as more information is accessible. As a function of that, there’s an increasing demand for hybrid investment strategies that combine things like index funds with active management, something that bridges the gap between overall actively and passively managed accounts.

They’re more commonly referred to as smart beta ETFs, and it’s an area Brown sees growing interest from clients.

Those products are an example of how Victory is positioning itself to offer something for every investor.

Their clientele, after all, is a pretty balanced mix as roughly 58% of all Victory assets belong to institutional accounts and the other 42% is with more retail clients.

“I think the old days of the industry, a lot of the products were sold, not bought,” Brown said. “I think today the clients are extremely sophisticated, the advisers are extremely sophisticated. And today, a lot of the products are bought, not sold.”

As Victory grows, it’ll keep working along its same path combining organic growth with acquisitions. It’ll likely be completely independent in a few years, and probably enjoying even greater reach as other firms are rolled up into its parent company.

“So we’re going to continue what we’re doing every day, and hopefully we get a lot more clients,” Brown said. “We think we will.”

Victory mutual funds are distributed by Victory Capital Advisers, Inc. VictoryShares ETFs are distributed by Foreside Fund Services, LLC. Neither Victory Capital nor Victory Capital Advisers, Inc. is affiliated with Foreside Fund Services, LLC.

All investing involves risk. Loss of principal is possible. Victory Capital’s business statistics are as of 3/31/2018 unless otherwise noted. Smart beta refers to a group of indexes and related investment products that aim to provide an alternative to traditional market-cap weighting strategies of passive investments.

An investor should consider a Fund’s investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about a Fund can be found in the Fund’s prospectus, or, if applicable, the summary prospectus. To obtain a copy, please visit www.victorysharessliterature.com for information on VictoryShares ETFs, www.vcm.com for information on Victory mutual funds, call your Financial Advisor, or call shareholder services at 1.866.376.7890. Please read the prospectus carefully before investing.

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