

Manning & Napier, Inc.  
Form 10-Q  
August 08, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2017

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: 001-35355

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MANNING & NAPIER, INC.

(Exact name of registrant as specified in its charter)

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|                                                                |                                      |
|----------------------------------------------------------------|--------------------------------------|
| Delaware                                                       | 45-2609100                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

|                                                     |            |
|-----------------------------------------------------|------------|
| 290 Woodcliff Drive                                 | 14450      |
| Fairport, New York                                  |            |
| (Address of principal executive offices)            | (Zip Code) |
| Registrant's telephone number, including area code: |            |
| (585) 325-6880                                      |            |

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
|--------------------------------------------------|-------------------------------------------------------|

|                                                                                              |                                                    |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|

|                                                  |
|--------------------------------------------------|
| Emerging growth company <input type="checkbox"/> |
|--------------------------------------------------|

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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 x

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Class                                            | Outstanding at August 4, 2017 |
|--------------------------------------------------|-------------------------------|
| Class A common stock, \$0.01 par value per share | 15,079,347                    |
| Class B common stock, \$0.01 par value per share | 1,000                         |

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In this Quarterly Report on Form 10-Q, “we”, “our”, “us”, the “Company”, “Manning & Napier” and the “Registrant” refers to Manning & Napier, Inc. and, unless the context otherwise requires, its consolidated direct and indirect subsidiaries and predecessors.

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

Manning &amp; Napier, Inc.

Consolidated Statements of Financial Condition

(In thousands, except share data)

|                                                                                                                                                                                     | June 30,<br>2017<br>(unaudited) | December<br>31, 2016 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                       |                                 |                      |
| Cash and cash equivalents                                                                                                                                                           | \$ 92,958                       | \$ 100,819           |
| Accounts receivable                                                                                                                                                                 | 11,727                          | 15,434               |
| Accounts receivable—affiliated mutual funds                                                                                                                                         | 5,988                           | 6,761                |
| Investment securities                                                                                                                                                               | 45,251                          | 36,475               |
| Investment securities - consolidated funds                                                                                                                                          | —                               | 995                  |
| Prepaid expenses and other assets                                                                                                                                                   | 3,850                           | 4,883                |
| Total current assets                                                                                                                                                                | 159,774                         | 165,367              |
| Property and equipment, net                                                                                                                                                         | 5,599                           | 5,680                |
| Net deferred tax assets, non-current                                                                                                                                                | 39,922                          | 41,905               |
| Goodwill                                                                                                                                                                            | 4,829                           | 4,829                |
| Other long-term assets                                                                                                                                                              | 2,796                           | 2,818                |
| Total assets                                                                                                                                                                        | \$ 212,920                      | \$ 220,599           |
| <b>Liabilities</b>                                                                                                                                                                  |                                 |                      |
| Accounts payable                                                                                                                                                                    | \$ 1,315                        | \$ 2,053             |
| Accrued expenses and other liabilities                                                                                                                                              | 25,735                          | 35,115               |
| Deferred revenue                                                                                                                                                                    | 10,483                          | 10,210               |
| Total current liabilities                                                                                                                                                           | 37,533                          | 47,378               |
| Other long-term liabilities                                                                                                                                                         | 3,684                           | 4,034                |
| Amounts payable under tax receivable agreement, non-current                                                                                                                         | 34,709                          | 34,709               |
| Total liabilities                                                                                                                                                                   | 75,926                          | 86,121               |
| Commitments and contingencies (Note 8)                                                                                                                                              |                                 |                      |
| Shareholders' equity                                                                                                                                                                |                                 |                      |
| Class A common stock, \$0.01 par value; 300,000,000 shares authorized; 15,079,347 and 14,982,880 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively | 151                             | 150                  |
| Class B common stock, \$0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at June 30, 2017 and December 31, 2016                                         | —                               | —                    |
| Additional paid-in capital                                                                                                                                                          | 198,486                         | 200,158              |
| Retained deficit                                                                                                                                                                    | (36,074 )                       | (37,383 )            |
| Accumulated other comprehensive income (loss)                                                                                                                                       | (28 )                           | (13 )                |
| Total shareholders' equity                                                                                                                                                          | 162,535                         | 162,912              |
| Noncontrolling interests                                                                                                                                                            | (25,541 )                       | (28,434 )            |
| Total shareholders' equity and noncontrolling interests                                                                                                                             | 136,994                         | 134,478              |
| Total liabilities, shareholders' equity and noncontrolling interests                                                                                                                | \$ 212,920                      | \$ 220,599           |
| The accompanying notes are an integral part of these consolidated financial statements.                                                                                             |                                 |                      |



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Manning & Napier, Inc.  
Consolidated Statements of Operations  
(In thousands, except share data)  
(Unaudited)

|                                                                     | Three months ended<br>June 30, |            | Six months ended June<br>30, |            |
|---------------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                                     | 2017                           | 2016       | 2017                         | 2016       |
| Revenues                                                            |                                |            |                              |            |
| Investment management services revenue                              | \$51,536                       | \$ 64,505  | \$ 107,021                   | \$ 126,547 |
| Expenses                                                            |                                |            |                              |            |
| Compensation and related costs                                      | 22,233                         | 24,379     | 45,614                       | 46,346     |
| Distribution, servicing and custody expenses                        | 7,084                          | 8,950      | 14,495                       | 17,792     |
| Other operating costs                                               | 7,234                          | 8,213      | 15,212                       | 16,666     |
| Total operating expenses                                            | 36,551                         | 41,542     | 75,321                       | 80,804     |
| Operating income                                                    | 14,985                         | 22,963     | 31,700                       | 45,743     |
| Non-operating income (loss)                                         |                                |            |                              |            |
| Interest expense                                                    | (2                             | ) (106     | ) (12                        | ) (212     |
| Interest and dividend income                                        | 238                            | 180        | 418                          | 316        |
| Change in liability under tax receivable agreement                  | —                              | —          | —                            | (18        |
| Net gains (losses) on investments                                   | 610                            | 206        | 1,582                        | 1,272      |
| Total non-operating income (loss)                                   | 846                            | 280        | 1,988                        | 1,358      |
| Income before provision for income taxes                            | 15,831                         | 23,243     | 33,688                       | 47,101     |
| Provision for income taxes                                          | 1,242                          | 1,545      | 2,585                        | 3,219      |
| Net income attributable to controlling and noncontrolling interests | 14,589                         | 21,698     | 31,103                       | 43,882     |
| Less: net income attributable to noncontrolling interests           | 12,904                         | 19,093     | 27,521                       | 38,859     |
| Net income attributable to Manning & Napier, Inc.                   | \$ 1,685                       | \$ 2,605   | \$ 3,582                     | \$ 5,023   |
| Net income per share available to Class A common stock              |                                |            |                              |            |
| Basic                                                               | \$0.12                         | \$ 0.17    | \$0.25                       | \$0.34     |
| Diluted                                                             | \$0.12                         | \$ 0.17    | \$0.25                       | \$0.33     |
| Weighted average shares of Class A common stock outstanding         |                                |            |                              |            |
| Basic                                                               | 14,111,368                     | 13,960,768 | 14,077,313                   | 13,852,949 |
| Diluted                                                             | 14,298,834                     | 14,243,579 | 14,256,911                   | 14,209,811 |
| Cash dividends declared per share of Class A common stock           | \$0.08                         | \$ 0.16    | \$0.16                       | \$0.32     |

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

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Manning & Napier, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

|                                                                         | Three months<br>ended June 30, |          | Six months ended<br>June 30, |          |
|-------------------------------------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                                                         | 2017                           | 2016     | 2017                         | 2016     |
| Net income attributable to controlling and noncontrolling interests     | \$14,589                       | \$21,698 | \$31,103                     | \$43,882 |
| Net unrealized holding gain (loss) on investment securities, net of tax | (9                             | ) 3      | (15                          | ) 6      |
| Comprehensive income                                                    | \$14,580                       | \$21,701 | \$31,088                     | \$43,888 |
| Less: Comprehensive income attributable to noncontrolling interests     | 12,895                         | 19,096   | 27,506                       | 38,865   |
| Comprehensive income attributable to Manning & Napier, Inc.             | \$1,685                        | \$2,605  | \$3,582                      | \$5,023  |

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

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Manning &amp; Napier, Inc.

Consolidated Statements of Shareholders' Equity

(In thousands, except share data)

(Unaudited)

|                                                                                                   | Common Stock –<br>class A |        | Common Stock – class B |        | Additional<br>Paid in<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Non<br>Controlling<br>Interests | Total     |
|---------------------------------------------------------------------------------------------------|---------------------------|--------|------------------------|--------|----------------------------------|---------------------|-----------------------------------------------------------|---------------------------------|-----------|
|                                                                                                   | Shares                    | Amount | Shares                 | Amount | Capital                          |                     |                                                           |                                 |           |
| Balance—December 31, 2015                                                                         | 14,755,130                | \$ 148 | 1,000                  | \$ —   | \$205,760                        | \$(37,149)          | \$ (3 )                                                   | \$(33,976 )                     | \$134,780 |
| Net income                                                                                        | —                         | —      | —                      | —      | —                                | 5,023               | —                                                         | 38,859                          | 43,882    |
| Distributions to noncontrolling interests                                                         | —                         | —      | —                      | —      | —                                | —                   | —                                                         | (20,153 )                       | (20,153 ) |
| Net changes in unrealized investment securities gains or losses                                   | —                         | —      | —                      | —      | —                                | —                   | 6                                                         | —                               | 6         |
| Common stock issued under equity compensation plan                                                | 277,750                   | 2      | —                      | —      | (2 )                             | —                   | —                                                         | —                               | —         |
| Shares withheld to satisfy tax withholding requirements related to restricted stock units granted | —                         | —      | —                      | —      | (162 )                           | —                   | —                                                         | (791 )                          | (953 )    |
| Equity-based compensation                                                                         | —                         | —      | —                      | —      | 357                              | —                   | —                                                         | 1,747                           | 2,104     |
| Dividends declared on Class A common stock - \$0.32 per share                                     | —                         | —      | —                      | —      | —                                | (4,754 )            | —                                                         | —                               | (4,754 )  |
| Impact of changes in ownership of Manning & Napier Group, LLC                                     | —                         | —      | —                      | —      | (2,144 )                         | —                   | —                                                         | (13,991 )                       | (16,135 ) |
| Balance—June 30, 2016                                                                             | 15,032,880                | \$ 150 | 1,000                  | \$ —   | \$203,809                        | \$(36,880)          | \$ 3                                                      | \$(28,305 )                     | \$138,777 |
| Balance—December 31, 2016                                                                         | 14,982,880                | \$ 150 | 1,000                  | \$ —   | \$200,158                        | \$(37,383)          | \$ (13 )                                                  | \$(28,434 )                     | \$134,478 |
| Net income                                                                                        | —                         | —      | —                      | —      | —                                | 3,582               | —                                                         | 27,521                          | 31,103    |
| Distributions to noncontrolling interests                                                         | —                         | —      | —                      | —      | —                                | —                   | —                                                         | (17,660 )                       | (17,660 ) |
| Net changes in unrealized investment securities gains or losses                                   | —                         | —      | —                      | —      | —                                | —                   | (15 )                                                     | —                               | (15 )     |
| Common stock issued under equity compensation plan, net of forfeitures                            | 96,467                    | 1      | —                      | —      | (1 )                             | —                   | —                                                         | —                               | —         |
|                                                                                                   | —                         | —      | —                      | —      | (48 )                            | —                   | —                                                         | (224 )                          | (272 )    |



Shares withheld to  
satisfy tax withholding  
requirements related to  
restricted stock units  
vested

|                                                                        |   |   |   |   |        |        |   |        |        |        |   |
|------------------------------------------------------------------------|---|---|---|---|--------|--------|---|--------|--------|--------|---|
| Equity-based compensation                                              | — | — | — | — | 253    | —      | — | 1,183  | 1,436  |        |   |
| Dividends declared on Class A common stock - \$0.16 per share          | — | — | — | — | —      | (2,273 | ) | —      | (2,273 | )      |   |
| Impact of changes in ownership of Manning & Napier Group, LLC (Note 4) | — | — | — | — | (1,876 | )      | — | (7,927 | )      | (9,803 | ) |

Balance—June 30, 2017 15,079,347 \$ 151 1,000 \$ -\$198,486 \$(36,074) \$ (28 ) \$(25,541 ) \$136,994

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

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Manning & Napier, Inc.  
Consolidated Statements of Cash Flows  
(In thousands)  
(Unaudited)

|                                                                                           | Six months ended<br>June 30, |           |
|-------------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                           | 2017                         | 2016      |
| Cash flows from operating activities:                                                     |                              |           |
| Net income attributable to controlling and noncontrolling interests                       | \$31,103                     | \$43,882  |
| Adjustment to reconcile net income to net cash provided by operating activities:          |                              |           |
| Equity-based compensation                                                                 | 1,436                        | 2,104     |
| Depreciation and amortization                                                             | 875                          | 1,133     |
| Change in amounts payable under tax receivable agreement                                  | —                            | 18        |
| Net (gains) losses on investment securities                                               | (1,582 )                     | (1,272 )  |
| Deferred income taxes                                                                     | 1,983                        | 1,794     |
| Amortization of debt issuance costs                                                       | —                            | 78        |
| (Increase) decrease in operating assets and increase (decrease) in operating liabilities: |                              |           |
| Accounts receivable                                                                       | 3,387                        | 1,701     |
| Accounts receivable—affiliated mutual funds                                               | 773                          | 1,398     |
| Due from broker - consolidated funds                                                      | —                            | 3,795     |
| Prepaid expenses and other assets                                                         | 1,033                        | 367       |
| Accounts payable                                                                          | (738 )                       | (523 )    |
| Accrued expenses and other liabilities                                                    | (8,017 )                     | (10,596 ) |
| Deferred revenue                                                                          | 273                          | (469 )    |
| Other long-term liabilities                                                               | (315 )                       | (243 )    |
| Net cash provided by operating activities                                                 | 30,211                       | 43,167    |
| Cash flows from investing activities:                                                     |                              |           |
| Purchase of property and equipment                                                        | (750 )                       | (147 )    |
| Sale of investments                                                                       | 4,243                        | 7,283     |
| Purchase of investments                                                                   | (25,822 )                    | (2,849 )  |
| Due from broker                                                                           | —                            | 4,015     |
| Proceeds from maturity of investments                                                     | 15,364                       | —         |
| Acquisitions, net of cash received                                                        | 320                          | (9,328 )  |
| Net cash used in investing activities                                                     | (6,645 )                     | (1,026 )  |
| Cash flows from financing activities:                                                     |                              |           |
| Distributions to noncontrolling interests                                                 | (17,660 )                    | (20,153 ) |
| Dividends paid on Class A common stock                                                    | (3,596 )                     | (4,718 )  |
| Payment of shares withheld to satisfy withholding requirements                            | (271 )                       | (953 )    |
| Payment of capital lease obligations                                                      | (97 )                        | (109 )    |
| Purchase of Class A units of Manning & Napier Group, LLC                                  | (9,803 )                     | (16,135 ) |
| Net cash used in financing activities                                                     | (31,427 )                    | (42,068 ) |
| Net (decrease) increase in cash and cash equivalents                                      | (7,861 )                     | 73        |
| Cash and cash equivalents:                                                                |                              |           |
| Beginning of period                                                                       | 100,819                      | 117,591   |
| End of period                                                                             | \$92,958                     | \$117,664 |

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



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Manning & Napier, Inc.

Notes to Consolidated Financial Statements

Note 1—Organization and Nature of the Business

Manning & Napier, Inc. ("Manning & Napier", or the "Company") provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trusts, as well as a variety of consultative services that complement its investment process. Founded in 1970, the Company offers U.S. and non-U.S. equity, fixed income and a range of blended asset portfolios, such as life cycle funds and actively-managed exchange-traded fund ("ETF")-based portfolios. Headquartered in Fairport, New York, the Company serves a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations.

The Company is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts the Company's organization structure as of June 30, 2017.

The consolidated operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC ("MNA"), Manning & Napier Alternative Opportunities, LLC, Perspective Partners LLC, Manning & Napier (1) Information Services, LLC, Manning & Napier Benefits, LLC, Manning & Napier Investor Services, Inc., Exeter Trust Company and Rainier Investment Management, LLC.

Note 2—Summary of Significant Accounting Policies

Critical Accounting Policies

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, these financial statements should be read in conjunction with the financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2016. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and related rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial reporting and include all adjustments, consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates or assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from these estimates or assumptions.

## Revision of Previously Reported Consolidated Statements of Operations

In the quarter ended September 30, 2016, the Company revised its treatment of payments made to certain advisory clients, in accordance with Accounting Standard Codification ("ASC") 605-50, Revenue Recognition - Customer Payments and Incentives to properly present these payments as a reduction to revenue. The Company assessed the materiality of this item on its fiscal year ended December 31, 2015, and all prior and subsequent periods, and concluded that the reclassification was not material to any such periods. The statements of operations for the three and six months ended June 30, 2016 included herein have been revised to reflect the proper presentation of investment management services revenue and distribution, servicing and custody expenses. The reclassification has no impact on operating income or net income. The impact is illustrated below:

|                                                                      | Three<br>months<br>ended<br>June 30,<br>2016<br>(in thousands) | Six<br>months<br>ended<br>June 30,<br>2016 |
|----------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------|
| Investment management services revenue, as previously reported       | \$67,541                                                       | \$132,079                                  |
| Revision                                                             | (3,036 )                                                       | (5,532 )                                   |
| Investment management services revenue, as revised                   | \$64,505                                                       | \$126,547                                  |
| Distribution, servicing and custody expenses, as previously reported | \$11,986                                                       | \$23,324                                   |
| Revision                                                             | (3,036 )                                                       | (5,532 )                                   |
| Distribution, servicing and custody expenses, as revised             | \$8,950                                                        | \$17,792                                   |

## Principles of Consolidation

The Company consolidates all majority-owned subsidiaries. In addition, as of June 30, 2017, Manning & Napier holds an economic interest of approximately 17.8% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC").

All material intercompany transactions have been eliminated in consolidation.

In accordance with Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design, a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance, and whether a company is obligated to absorb losses or receive benefits that could potentially be significant to the entity. The standard also requires ongoing assessments of whether a company is the primary beneficiary of a variable interest entity ("VIE"). When utilizing the voting interest entity ("VOE") model, controlling financial interest is generally defined as majority ownership of voting interests.

The Company provides seed capital to its investment teams to develop new products and services for its clients. The original seed investment may be held in a separately managed account, comprised solely of the Company's investments or within a mutual fund, where the Company's investments may represent all or only a portion of the total equity investment in the mutual fund. Pursuant to U.S. GAAP, the Company evaluates its investments in mutual funds on a regular basis and consolidates such mutual funds for which it holds a controlling financial interest. When no longer deemed to hold a controlling financial interest, the Company would deconsolidate the fund and classify the remaining investment as either an equity method investment or as trading securities, as applicable.

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the "Fund"), Exeter Trust Company Collective Investment Trusts ("CIT"), Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust. The Fund, CIT, Rainier Investment Management Mutual Funds and Rainier Multiple Investment

Manning & Napier, Inc.  
Notes to Consolidated Financial Statements (Continued)

Trust are legal entities, the business and affairs of which are managed by their respective boards of directors. As a result, each of these entities is a VOE. The Company holds, in limited cases, direct investments in a mutual fund (which are made on the same terms as are available to other investors) and consolidates each of these entities where it has a controlling financial interest or a majority voting interest. The Company's investments in the Fund amounted to approximately \$1.4 million as of June 30, 2017 and \$1.3 million as of December 31, 2016. As of December 31, 2016, the Company maintained a controlling financial interest in one mutual fund, Manning & Napier Fund, Inc. Quality Equity Series, and consolidated the mutual fund. As of June 30, 2017, the Company no longer maintained a controlling financial interest, but did retain significant influence in the mutual fund, which was accounted for as an equity method investment.

Cash and Cash Equivalents

The Company generally considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in operating accounts at major financial institutions and also in money market securities. Cash equivalents are stated at cost, which approximates market value due to the short-term maturity of these investments. The fair value of cash equivalents have been classified as Level 1 in accordance with the fair value hierarchy.

Investment Securities

Investment securities are classified as either trading, equity method investments or available-for-sale and are carried at fair value. Fair value is determined based on quoted market prices in active markets for identical or similar instruments.

Investment securities classified as trading consist of equity securities, fixed income securities, and investments in mutual funds for which the Company provides advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At June 30, 2017, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

Investments classified as equity method investments represent seed investments in which the Company owns between 20-50% of the outstanding voting interests in the affiliated fund or when it is determined that the Company is able to exercise significant influence but not control over the investments. If the seed investment results in significant influence, but not control, the investment will be accounted for as an equity method investment. When using the equity method, the Company recognizes its share of the investee's net income or loss for the period which is recorded in net gains (losses) on investments in the consolidated statements of operations.

Investment securities classified as available-for-sale consist of U.S. Treasury notes and other short-term investments. Unrealized gains and losses on available-for-sale securities are excluded from earnings and are reported, net of deferred income tax, as a separate component of accumulated other comprehensive income in stockholders' equity until realized. The Company periodically reviews each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other-than-temporary. If impairment is determined to be other-than-temporary, the carrying value of the security will be written down to fair value and the loss will be recognized in earnings. Realized gains and losses on sales of available-for-sale securities are computed on a specific identification basis and are recorded in net gains (losses) on investments in the consolidated statements of operations.

Property and Equipment

Property and equipment is presented net of accumulated depreciation of approximately \$11.9 million and \$11.6 million as of June 30, 2017 and December 31, 2016, respectively.

Goodwill and Intangible Assets

Goodwill represents the excess cost over the fair value of the identifiable net assets of acquired companies. Identifiable intangible assets generally represent the cost of client relationships and investment management agreements acquired as well as trademarks. Goodwill and indefinite-lived assets are tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable. Intangible assets subject to amortization are tested for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill and intangible assets require significant management estimate and judgment,

including the valuation and expected life determination in connection with the initial purchase price allocation and the ongoing evaluation for impairment.

On May 10, 2017, the Company entered into an agreement to sell certain U.S. mutual funds to a third party. The transaction is expected to close during the third quarter of 2017, with the selling price based on the total assets under management on the transaction closing date. As of June 30, 2017, the assets under management for these products was approximately \$0.5 billion. The carrying value of the intangible assets for client relationships associated with these products was \$0 as of June 30, 2017.

Operating Segments



Manning & Napier, Inc.  
Notes to Consolidated Financial Statements (Continued)

The Company operates in one segment, the investment management industry.

Revenue

The majority of the Company's revenues are based on fees charged to manage customers' portfolios. Investment management fees are generally computed as a percentage of assets under management ("AUM") and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For the Company's separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, the Company defers the revenue and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenues based on AUM market values as of the most recent month end date, and adjusts to actual when billed. For mutual funds and collective investment trust vehicles, the Company's fees are calculated and earned daily based on AUM. Investment management fees are presented net of cash rebates and fees waived pursuant to contractual expense limitations of the funds.

The Company is contractually obligated to make payments to certain advisory clients with the intent of providing those clients a discounted fee. In accordance with ASC 605-50, Revenue Recognition - Customer Payments and Incentives, these payments are presented as a reduction to revenue. Incentives reported as a reduction to revenue for the three and six months ended June 30, 2017 were less than \$0.1 million and \$3.4 million, respectively, and \$3.0 million and \$5.5 million for the three and six months ended June 30, 2016, respectively.

The Company has agreements with third parties who provide distribution and administrative services for its mutual funds, collective investment trusts and certain separately managed accounts. Third party agreements are evaluated against ASC 605-45 Revenue Recognition - Principal Agent Considerations to determine whether revenue should be reported gross or net of payments to third-party service providers. In management's judgment there are various indicators that support gross revenue reporting, the most notable being the Company acts as primary obligor and therefore principal service provider. Based on this evaluation, investment management service revenue is recorded gross of distribution and administrative fees paid to third parties.

Advisory Agreements

The Company derives significant revenue from its role as advisor to affiliated mutual funds and collective investment trusts. Fees earned for advisory related services were approximately \$21.1 million and \$45.2 million for the three and six months ended June 30, 2017, respectively, and \$29.9 million and \$57.8 million for the three and six months ended June 30, 2016, respectively, which represents greater than 10% of the Company's revenue in each period.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes existing accounting standards for revenue recognition and creates a single framework. The revenue standard contains principals that will be applied to determine the measurement of revenue and timing of recognition. We will adopt the new standard on its effective date of January 1, 2018. We have not yet selected whether we will adopt the standard using the retrospective approach with adjustment to each prior period or modified retrospective approach with the cumulative effect of initial application recognized at the date of initial application. We are continuing to assess the impact of adoption though early conclusions indicate the standard will not have a material impact on our financial condition and results of operations. While we have not identified material changes in the timing of revenue recognition, we continue to evaluate the presentation of certain revenue related costs on a gross versus net basis as well as the additional disclosures required by the standard.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the balance sheet upon adoption. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the

balance sheet as a lease liability and a right-of-use asset (as defined). The new guidance will be effective for fiscal years beginning after December 15, 2018, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

payment award transactions. The guidance is effective for fiscal years beginning after December 15, 2016. The Company's adoption of these amendments on January 1, 2017 did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, to clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice regarding eight types of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company is evaluating the effect of adopting this new accounting standard.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. The ASU requires goodwill impairments to be measured on the basis of the fair value of the reporting unit relative to the reporting unit's carrying amount rather than on the basis of the implied amount of goodwill relative to the goodwill balance of the reporting unit. The ASU is effective for annual and interim impairment tests for periods beginning after December 15, 2019. Early adoption is allowed for annual and interim impairment tests occurring after January 1, 2017. The Company is evaluating the effect of adopting this new accounting standard.

## Note 3—Acquisitions

On April 30, 2016, the Company acquired a majority ownership interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm. Under the terms of the transaction, the Company initially acquired a 75% ownership interest in Rainier, with the remaining 25% ownership maintained by key professionals at Rainier. As of June 30, 2017, the Company's ownership interest in Rainier increased to 86%, due to the forfeiture of unvested ownership interests by certain individuals retiring from Rainier subsequent to the acquisition.

Consideration transferred included an upfront cash payment on the transaction closing date of \$13.0 million, a portion of which was held in escrow. During the second quarter of 2017, the Company received approximately \$0.3 million from amounts held in escrow for post closing adjustments. Additional cash payments of up to \$32.5 million over a four year period are contingent upon Rainier's achievement of certain annual financial targets. The fair value of the liability for this contingent consideration recognized on the acquisition date was \$3.5 million. As of June 30, 2017 and December 31, 2016, the fair value of this contingent liability was \$0.

The transaction was accounted for by the Company using the acquisition method under ASC 805, Business Combinations. During the second quarter of 2016, the Company completed a preliminary allocation of the April 30, 2016 purchase price to the assets acquired and liabilities assumed. During the first quarter of 2017, certain adjustments were recorded to liabilities assumed and the purchase price allocation was finalized as of March 31, 2017. The final purchase price was allocated as follows (in thousands):

## Assets acquired

|                             |         |
|-----------------------------|---------|
| Current assets              | \$6,998 |
| Property and equipment, net | 783     |
| Intangible assets           |         |
| Client relationships        | 9,320   |
| Trademarks                  | 270     |
| Goodwill                    | 3,958   |
| Total assets acquired       | 21,329  |

## Liabilities assumed

|                                       |          |
|---------------------------------------|----------|
| Accounts payable and accrued expenses | 4,023    |
| Other liabilities                     | 1,204    |
| Total liabilities assumed             | 5,227    |
| Purchase price                        | \$16,102 |

## Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 17.8% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statement of financial condition with respect to the remaining approximately 82.2% aggregate economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

Manning & Napier, Inc.  
Notes to Consolidated Financial Statements (Continued)

The following provides a reconciliation from "Income before provision for income taxes" to "Net income attributable to Manning & Napier, Inc.":

|                                                                                              | Three months ended<br>June 30,<br>2017 |           | Six months ended<br>June 30,<br>2017 |           | 2016 |  |
|----------------------------------------------------------------------------------------------|----------------------------------------|-----------|--------------------------------------|-----------|------|--|
|                                                                                              |                                        |           |                                      |           |      |  |
|                                                                                              | (in thousands)                         |           |                                      |           |      |  |
| Income before provision for income taxes                                                     | \$ 15,831                              | \$ 23,243 | \$ 33,688                            | \$ 47,101 |      |  |
| Less: gain (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup> | 4                                      | (2 )      | 7                                    | (19 )     |      |  |
| Income before provision for income taxes, as adjusted                                        | 15,827                                 | 23,245    | 33,681                               | 47,120    |      |  |
| Controlling interest percentage <sup>(2)</sup>                                               | 17.8 %                                 | 17.2 %    | 17.6 %                               | 17.0 %    |      |  |
| Net income attributable to controlling interest                                              | 2,826                                  | 4,010     | 5,928                                | 7,988     |      |  |
| Plus: gain (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup> | 4                                      | (2 )      | 7                                    | (19 )     |      |  |
| Income before income taxes attributable to Manning & Napier, Inc.                            | 2,830                                  | 4,008     | 5,935                                | 7,969     |      |  |
| Less: provision for income taxes of Manning & Napier, Inc. <sup>(3)</sup>                    | 1,145                                  | 1,403     | 2,353                                | 2,946     |      |  |
| Net income attributable to Manning & Napier, Inc.                                            | \$ 1,685                               | \$ 2,605  | \$ 3,582                             | \$ 5,023  |      |  |

(1) Manning & Napier, Inc. incurs certain gains or expenses that are only attributable to it and are therefore excluded from the net income attributable to noncontrolling interests.

Income before provision for income taxes is allocated to the controlling interest based on the percentage of units of

(2) Manning & Napier Group held by Manning & Napier, Inc. The amount represents the Company's weighted ownership of Manning & Napier Group for the respective periods.

The consolidated provision for income taxes is equal to the sum of (i) the provision for income taxes for entities other than Manning & Napier, Inc. and (ii) the provision for income taxes of Manning & Napier, Inc. which

(3) includes all U.S. federal and state income taxes. The consolidated provision for income taxes was \$1.2 million and \$2.6 million for the three and six months ended June 30, 2017, respectively, and \$1.5 million and \$3.2 million for the three and six months ended June 30, 2016, respectively.

As of June 30, 2017, a total of 63,941,860 units of Manning & Napier Group were held by the noncontrolling interests. Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the value of one share of the Company's Class A common stock less a market discount and expected expenses, or, at the Company's election, (ii) issue shares of the Company's Class A common stock on a one-for-one basis, subject to customary adjustments. As the Company receives units of Manning & Napier Group that are exchanged, the Company's ownership of Manning & Napier Group will increase.

On March 31, 2017, M&N Group Holdings and MNCC exchanged a total of 1,842,711 Class A units of Manning & Napier Group for approximately \$9.8 million in cash. Subsequent to the exchange the Class A units were retired, resulting in an increase in Manning & Napier's ownership in Manning & Napier Group. In addition, during the six months ended June 30, 2017, Class A common stock was issued under the Company's 2011 Equity Compensation Plan (the "Equity Plan") for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group, net of forfeitures of unvested restricted stock awards. The following is the impact to the Company's equity ownership interest in Manning & Napier Group for the six months ended June 30, 2017:

Manning & Napier, Inc.  
Notes to Consolidated Financial Statements (Continued)

Manning & Napier Group Class A Units  
Held

|                                     | Manning<br>& Napier | Noncontrolling<br>Interests | Total        | Manning & Napier Ownership % |
|-------------------------------------|---------------------|-----------------------------|--------------|------------------------------|
| As of December 31, 2016             | 13,826,575          | 65,784,571                  | 79,611,146   | 17.4%                        |
| Class A Units issued <sup>(1)</sup> | 46,467              | —                           | 46,467       | —%                           |
| Class A Units exchanged             | —                   | (1,842,711 )                | (1,842,711 ) | 0.4%                         |
| As of June 30, 2017                 | 13,873,042          | 63,941,860                  | 77,814,902   | 17.8%                        |

(1) The impact of the transaction of Manning & Napier's ownership was less than 0.1%.

Since the Company continues to have a controlling interest in Manning & Napier Group, the aforementioned changes in ownership of Manning & Napier Group were accounted for as equity transactions under ASC 810, Consolidation. Additional paid-in capital and noncontrolling interests in the Consolidated Statements of Financial Position are adjusted to reallocate the Company's historical equity to reflect the change in ownership of Manning & Napier Group. At June 30, 2017 and December 31, 2016, the Company had recorded a liability of \$37.1 million representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the other holders of Class A Units of Manning & Napier Group. Of these amounts, \$2.4 million were included in accrued expenses and other liabilities at June 30, 2017 and December 31, 2016. The Company made no payments pursuant to the TRA during the six months ended June 30, 2017 and 2016. Obligations pursuant to the TRA are obligations of Manning & Napier. They do not impact the noncontrolling interests. These obligations are not income tax obligations. Furthermore, the TRA has no impact on the allocation of the provision for income taxes to the Company's net income.

Note 5—Investment Securities

The following represents the Company's investment securities holdings as of June 30, 2017 and December 31, 2016:

|                               | June 30, 2017  |                     |                      |               |
|-------------------------------|----------------|---------------------|----------------------|---------------|
|                               | Cost           | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|                               | (in thousands) |                     |                      |               |
| Available-for-sale securities |                |                     |                      |               |
| U.S. Treasury notes           | \$7,119        | \$ 5                | \$ (13 )             | \$7,111       |
| Short-term investments        | 22,192         | —                   | —                    | 22,192        |
|                               |                |                     |                      | 29,303        |
| Trading securities            |                |                     |                      |               |
| Equity securities             |                |                     |                      | 6,514         |
| Fixed income securities       |                |                     |                      | 8,023         |
| Mutual funds                  |                |                     |                      | 314           |
|                               |                |                     |                      | 14,851        |
| Equity method investments     |                |                     |                      |               |
| Mutual funds                  |                |                     |                      | 1,097         |
| Total investment securities   |                |                     |                      | \$45,251      |

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

|                                   | December 31, 2016 |                     |                      |               |
|-----------------------------------|-------------------|---------------------|----------------------|---------------|
|                                   | Cost              | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|                                   | (in thousands)    |                     |                      |               |
| Available-for-sale securities     |                   |                     |                      |               |
| U.S. Treasury notes               | \$7,093           | \$ 13               | \$ (6 )              | \$7,100       |
| Short-term investments            | 14,744            | —                   | —                    | 14,744        |
|                                   |                   |                     |                      | 21,844        |
| Trading securities                |                   |                     |                      |               |
| Equity securities                 |                   |                     |                      | 7,176         |
| Fixed income securities           |                   |                     |                      | 7,167         |
| Mutual funds                      |                   |                     |                      | 288           |
| Mutual funds - consolidated funds |                   |                     |                      | 995           |
|                                   |                   |                     |                      | 15,626        |
| Total investment securities       |                   |                     |                      | \$37,470      |

Investment securities are classified as either trading or available-for-sale and are carried at fair value. Fair value is determined based on quoted market prices in active markets for identical or similar instruments.

Investment securities classified as trading consist of equity securities, fixed income securities and investments in mutual funds for which the Company provides advisory services. At June 30, 2017 and December 31, 2016, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately \$1.2 million and \$1.7 million of net unrealized gains related to investments classified as trading during the six months ended June 30, 2017 and 2016, respectively.

Investment securities classified as available-for-sale consist of U.S. Treasury notes and other short-term investments for compliance with certain regulatory requirements and to optimize cash management opportunities. As of June 30, 2017 and December 31, 2016, \$0.6 million of these securities was considered restricted. The Company periodically reviews each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other-than-temporary. No other-than-temporary impairment charges have been recognized by the Company during the six months ended June 30, 2017 and 2016.

#### Note 6—Fair Value Measurements

Fair value is defined as the price that the Company would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A fair value hierarchy is provided that gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

- Level 1—observable inputs such as quoted prices in active markets for identical securities;
- Level 2—other significant observable inputs (including but not limited to quoted prices for similar securities, interest rates, prepayment rates, credit risk, etc.); and
- Level 3—significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

The following provides the hierarchy of inputs used to derive the fair value of the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

| June 30, 2017                      |                |          |         |           |
|------------------------------------|----------------|----------|---------|-----------|
|                                    | Level 1        | Level 2  | Level 3 | Totals    |
|                                    | (in thousands) |          |         |           |
| Equity securities                  | \$6,514        | \$—      | \$      | —\$6,514  |
| Fixed income securities            | 1,165          | 6,858    | —       | 8,023     |
| Mutual funds                       | 1,411          | —        | —       | 1,411     |
| U.S. Treasury notes                | —              | 7,111    | —       | 7,111     |
| Short-term investments             | 22,192         | —        | —       | 22,192    |
| Total assets at fair value         | \$31,282       | \$13,969 | \$      | —\$45,251 |
| Contingent consideration liability | \$—            | \$—      | \$      | —\$—      |
| Total liabilities at fair value    | \$—            | \$—      | \$      | —\$—      |
| December 31, 2016                  |                |          |         |           |
|                                    | Level 1        | Level 2  | Level 3 | Totals    |
|                                    | (in thousands) |          |         |           |
| Equity securities                  | \$7,176        | \$—      | \$      | —\$7,176  |
| Fixed income securities            | 1,071          | 6,096    | —       | 7,167     |
| Mutual funds                       | 288            | —        | —       | 288       |
| Mutual funds - consolidated funds  | 995            | —        | —       | 995       |
| U.S. Treasury notes                | —              | 7,100    | —       | 7,100     |
| Short-term investments             | 14,744         | —        | —       | 14,744    |
| Total assets at fair value         | \$24,274       | \$13,196 | \$      | —\$37,470 |
| Contingent consideration liability | \$—            | \$—      | \$      | —\$—      |
| Total liabilities at fair value    | \$—            | \$—      | \$      | —\$—      |

Short-term investments consists of certificate of deposits ("CDs") that are stated at cost, which approximate fair value due to the short maturity of the investments.

Valuations of investments in fixed income securities and U.S. Treasury notes can generally be obtained through independent pricing services. For most bond types, the pricing service utilizes matrix pricing, which considers one or more of the following factors: yield or price of bonds of comparable quality, coupon, maturity, current cash flows, type and current day trade information, as well as dealer supplied prices. These valuations are categorized as Level 2 in the hierarchy.

Contingent consideration was a component of the purchase price of Rainier (Note 3). The contingent consideration is payable over a four year period upon Rainier's achievement of certain financial targets. The fair value of the contingent consideration is calculated on a quarterly basis by forecasting Rainier's adjusted earnings before interest, taxes and amortization ("EBITA") as defined by the purchase agreement over the contingency period with changes in the fair value included in other operating costs in the consolidated statements of operations.

There were no changes in contingent consideration liability measured at fair value using significant unobservable inputs (Level 3) for the six months ended June 30, 2017. The fair value was \$0 at June 30, 2017 and December 31, 2016.

The Company's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Levels during the six months ended June 30, 2017.



## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 7—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of June 30, 2017 and December 31, 2016 consisted of the following:

|                                                | June 30, December |          |
|------------------------------------------------|-------------------|----------|
|                                                | 2017              | 31, 2016 |
|                                                | (in thousands)    |          |
| Accrued bonus and sales commissions            | \$13,292          | \$18,342 |
| Accrued payroll and benefits                   | 2,601             | 3,430    |
| Accrued sub-transfer agent fees                | 2,787             | 4,785    |
| Dividends payable                              | 1,206             | 2,397    |
| Amounts payable under tax receivable agreement | 2,364             | 2,364    |
| Other accruals and liabilities                 | 3,485             | 3,797    |
| Total accrued expenses and other liabilities   | \$25,735          | \$35,115 |

## Note 8—Commitments and Contingencies

The Company may from time to time enter into agreements that contain certain representations and warranties and which provide general indemnifications. The Company may also serve as a guarantor of such obligations of one or more of the Manning & Napier Group entities. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company expects any risk of liability associated with such guarantees to be remote.

## Regulation

As an investment adviser to a variety of investment products, the Company and its affiliated broker-dealer are subject to routine reviews and inspections by the SEC, Financial Industry Regulatory Authority, Inc., National Futures Association and U.S. Commodity Futures Trading Commission. From time to time, the Company may also be subject to claims, be involved in various legal proceedings arising in the ordinary course of its business and be subject to other contingencies. The Company does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on its consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is difficult to predict. The Company will establish accruals for matters that are probable, can be reasonably estimated, and may take into account any related insurance recoveries to the extent of such recoveries. As of June 30, 2017 and December 31, 2016, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

## Note 9—Earnings per Common Share

Basic earnings per share ("basic EPS") is computed using the two-class method to determine net income available to Class A common stock. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's restricted Class A common shares granted under the 2011 Equity Compensation Plan (the "Equity Plan") have non-forfeitable dividend rights during their vesting period and are therefore considered participating securities under the two-class method. Under the two-class method, the Company's net income available to Class A common stock is reduced by the amount allocated to the unvested restricted Class A common stock. Basic EPS is calculated by dividing net income available to Class A common stock by the weighted average number of common shares outstanding during the period.

Diluted earnings per share ("diluted EPS") is computed under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, the weighted average number of common shares outstanding during the period is increased by the assumed conversion into Class A common stock of the unvested equity awards and the exchangeable units of Manning & Napier Group, to the extent that such conversion would dilute earnings per share.

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2017 and 2016 under the two-class method:

|                                                                       | Three months ended<br>June 30,    |            | Six months ended<br>June 30, |            |
|-----------------------------------------------------------------------|-----------------------------------|------------|------------------------------|------------|
|                                                                       | 2017                              | 2016       | 2017                         | 2016       |
|                                                                       | (in thousands, except share data) |            |                              |            |
| Net income attributable to controlling and noncontrolling interests   | \$ 14,589                         | \$ 21,698  | \$ 31,103                    | \$ 43,882  |
| Less: net income attributable to noncontrolling interests             | 12,904                            | 19,093     | 27,521                       | 38,859     |
| Net income attributable to Manning & Napier, Inc.                     | \$ 1,685                          | \$ 2,605   | \$ 3,582                     | \$ 5,023   |
| Less: allocation to participating securities                          | 102                               | 172        | 212                          | 334        |
| Net income available to Class A common stock                          | \$ 1,583                          | \$ 2,433   | \$ 3,370                     | \$ 4,689   |
| Weighted average shares of Class A common stock outstanding - basic   | 14,111,368                        | 13,960,768 | 14,077,311                   | 13,852,949 |
| Dilutive effect from unvested equity awards                           | 187,466                           | 282,811    | 179,598                      | 356,862    |
| Weighted average shares of Class A common stock outstanding - diluted | 14,298,834                        | 14,243,579 | 14,256,910                   | 14,209,811 |
| Net income available to Class A common stock per share - basic        | \$ 0.12                           | \$ 0.17    | \$ 0.25                      | \$ 0.34    |
| Net income available to Class A common stock per share - diluted      | \$ 0.12                           | \$ 0.17    | \$ 0.25                      | \$ 0.33    |

The Company's Class B common stock represent voting interests and do not participate in the earnings of the Company. Accordingly, there is no basic or diluted EPS related to the Company's Class B common stock.

For both the three and six months ended June 30, 2017, 830,000 unvested equity awards were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive. For the three and six months ended June 30, 2016, 990,000 and 1,010,000, respectively, unvested equity awards were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive.

At June 30, 2017 and 2016 there were 63,941,860 and 65,784,571 Class A Units of Manning & Napier Group outstanding, respectively, which, subject to certain restrictions, may be exchangeable for up to an equivalent number of the Company's Class A common stock. These units were not included in the calculation of diluted earnings per common share for the three and six months ended June 30, 2017 or for the three and six months ended June 30, 2016, because the effect would have been anti-dilutive.

#### Note 10—Equity Based Compensation

The Equity Plan was adopted by the Company's board of directors and approved by stockholders prior to the consummation of the Company's 2011 initial public offering. Under the Equity Plan, a total of 13,142,813 equity interests are authorized for issuance, and may be issued in the form of Class A common stock, restricted stock units, units of Manning & Napier Group, or certain classes of membership interests in the Company which may convert into units of Manning & Napier Group.

The following table summarizes the award activity for the six months ended June 30, 2017 under the Equity Plan:

|                                             | Restricted<br>Stock<br>Awards | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|---------------------------------------------|-------------------------------|----------------------------------------------------|
| Stock awards outstanding at January 1, 2017 | 1,207,788                     | \$ 12.56                                           |
| Granted                                     | 70,399                        | \$ 5.55                                            |
| Vested                                      | (276,064)                     | \$ 12.41                                           |
| Forfeited                                   | (110,000)                     | \$ 12.20                                           |
| Stock awards outstanding at June 30, 2017   | 892,123                       | \$ 12.10                                           |

For the three and six months ended June 30, 2017, the Company recorded approximately \$0.7 million and \$1.4 million, respectively, of compensation expense related to awards under the Equity Plan. For the three and six months ended June 30, 2016, the Company recorded approximately \$0.8 million and \$2.1 million, respectively, of

compensation expense related to

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## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

awards under the Equity Plan. As of June 30, 2017, there was unrecognized compensation expense related to Equity Plan awards of approximately \$6.6 million, which the Company expects to recognize over a weighted average period of approximately 3.7 years.

During the six months ended June 30, 2017 and 2016, the Company withheld a total of 69,597 and 111,729 restricted shares, respectively, as a result of net share settlements to satisfy employee tax withholding obligations. The Company paid approximately \$0.3 million and \$1.0 million in employee tax withholding obligations related to these settlements during the six months ended June 30, 2017 and 2016, respectively. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the number of shares outstanding.

#### Note 11—Income Taxes

The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC") or a "C-Corporation". As such, the entities functioning as LLC's are not liable for or able to benefit from U.S. federal and most state income taxes on their earnings, and earnings (losses) will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal and state and local income taxes on their earnings and losses, respectively.

The Company's income tax provision and effective tax rate were as follows:

|                                                         | Three months ended<br>June 30, |            | Six months ended June<br>30, |             |
|---------------------------------------------------------|--------------------------------|------------|------------------------------|-------------|
|                                                         | 2017                           | 2016       | 2017                         | 2016        |
|                                                         | (in thousands)                 |            |                              |             |
| Earnings from continuing operations before income taxes | \$15,831                       | \$23,243   | \$33,688                     | \$47,101    |
| Effective tax rate                                      | 7.8                            | % 6.6      | % 7.7                        | % 6.8       |
| Provision for income taxes                              | 1,242                          | 1,545      | 2,585                        | 3,219       |
| Provision for income taxes @ statutory rate             | 5,383                          | 8,135      | 11,454                       | 16,485      |
| Difference between tax at effective vs. statutory rate  | \$(4,141 )                     | \$(6,590 ) | \$(8,869 )                   | \$(13,266 ) |

For the three and six months ended June 30, 2017 and 2016, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 34% and 35%, respectively, is primarily attributable to the benefit resulting from the fact that a significant portion of the Company's operations include a series of flow-through entities which are generally not subject to federal and most state income taxes. Accordingly, a portion of the Company's earnings are not subject to corporate level taxes.

#### Note 12—Related Party Transactions

##### Transactions with noncontrolling members

From time to time, the Company may be asked to provide certain services, including accounting, legal and other administrative functions for the noncontrolling members of Manning & Napier Group. While immaterial, the Company has not received any reimbursement for such services.

The Company manages the personal funds of certain of the Company's executive officers, including William Manning. Pursuant to the respective investment management agreements, in some instances the Company waives or reduces its regular advisory fees for these accounts and personal funds utilized to incubate products. The aggregate value of the fees earned and fees waived was less than \$0.1 million for the six months ended June 30, 2017 and 2016.

##### Affiliated fund transactions

The Company earns investment advisory fees and administrative service fees under agreements with affiliated mutual funds and collective investment trusts. The aggregate value of revenue earned was approximately \$21.1 million and \$45.2 million for the three and six months ended June 30, 2017, respectively, and \$29.9 million and \$57.8 million for the three and six months ended June 30, 2016, respectively. As of June 30, 2017 and December 31, 2016, amounts due from the affiliated mutual funds was approximately \$6.0 million and \$6.8 million, respectively. As of June 30, 2017 and December 31, 2016, amounts due from affiliated collective investment trusts was approximately \$2.4 million and \$4.5 million, respectively.

The Company incurs certain expenses on behalf of the collective investment trusts and has contractually agreed to limit its fees and reimburse expenses to limit operating expenses incurred by certain affiliated fund series. The

aggregate value of fees waived and expenses reimbursed to, or incurred for, affiliated mutual funds and collective investment trusts was \$2.7 million and \$2.4 million for the six months ended June 30, 2017 and 2016, respectively.

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 13—Subsequent Events

Distributions and dividends

On July 25, 2017, the Board of Directors approved a distribution from Manning & Napier Group to Manning & Napier and the noncontrolling interests of Manning & Napier Group. The amount of the distribution will be based on earnings for the quarter ended September 30, 2017, with a maximum amount of \$9.0 million. Concurrently, the Board of Directors declared an \$0.08 per share dividend to the holders of Class A common stock. The dividend is payable on or about November 1, 2017 to shareholders of record as of October 13, 2017.

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

This report contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our views with respect to, among other things, our operations and financial performance. Words like "believes," "expects," "may," "estimates," "will," "should," "could," "intends," "likely," "plans," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, are used to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ materially from our expectations or beliefs are disclosed in the "Risk Factors" section, as well as other sections, of our Annual Report on Form 10-K which include, without limitation: changes in securities or financial markets or general economic conditions; a decline in the performance of our products; client sales and redemption activity; any loss of an executive officer or key personnel; changes in our business related to strategic acquisitions and other transactions; and changes of government policy or regulations. All forward-looking statements speak only as of the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### Overview

##### Our Business

We are an independent investment management firm that provides a broad range of investment solutions, as well as a variety of consultative services that complement our investment process. Founded in 1970, we offer U.S. and non-U.S. equity, fixed income, and a range of blended asset portfolios, such as life cycle funds and exchange-traded fund ("ETF")-based portfolios. We serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations. Our operations are based principally in the United States, with our headquarters located in Fairport, New York.

##### Market Developments

Financial markets have had and are likely to continue to have a significant impact on asset flows and the market value of our assets under management ("AUM"). Our one, three, and five year annualized returns for our key investment strategies have generally fallen short of their related benchmarks. In addition, we have experienced increased competition as a result of lower fee passive investment products which have gained popularity over the last decade, such as index funds and ETFs. As a result, we have seen AUM decline since 2014. We anticipate a continued decline in AUM through 2017 as our ability to improve cash flows going forward is dependent in part on our ability to achieve and sustain improved performance. Cash outflows will continue to be a challenge as we have received partial redemption or cancellation notices from several institutional relationships. Our current estimate of the remaining cash outflows resulting from these notices is approximately \$0.7 to \$1.0 billion. Though the timing is not certain, the outflows are expected to occur over the third and fourth quarters of 2017.

##### Our Products

We derive substantially all of our revenues from investment management fees earned from providing advisory services to separately managed accounts and mutual funds and collective investment trusts—including those offered by the Manning & Napier Fund, Inc., Exeter Trust Company, Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust.

Our separate accounts are primarily distributed through our Direct Channel, where our representatives form relationships with high net worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our Intermediary Channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our Platform/Sub-Advisory Channel, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account products are a primary driver of our blended asset portfolios for high net worth and middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

Our mutual funds and collective investment trusts are distributed through financial intermediaries, including brokers, financial advisors, retirement plan advisors and platform relationships. We also distribute our mutual fund and collective investment trusts through our direct sales representatives, in particular within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust products are an important driver of both our blended asset class and equity portfolios.



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Our AUM was \$27.1 billion as of June 30, 2017. The composition of our AUM by vehicle and portfolio is illustrated in the table below:

| AUM - by investment vehicle and portfolio     | June 30, 2017 |           |              |            |
|-----------------------------------------------|---------------|-----------|--------------|------------|
|                                               | Blended Asset | Equity    | Fixed Income | Total      |
|                                               | (in millions) |           |              |            |
| Separately managed accounts                   | \$10,859.2    | \$5,589.9 | \$ 1,265.8   | \$17,714.9 |
| Mutual funds and collective investment trusts | 5,754.6       | 3,504.4   | 101.6        | 9,360.6    |
| Total                                         | \$16,613.8    | \$9,094.3 | \$ 1,367.4   | \$27,075.5 |

The composition of our separately managed accounts as of June 30, 2017, by channel and portfolio, is set forth in the table below:

|                                    | June 30, 2017         |           |              |            |   |
|------------------------------------|-----------------------|-----------|--------------|------------|---|
|                                    | Blended Asset         | Equity    | Fixed Income | Total      |   |
|                                    | (dollars in millions) |           |              |            |   |
| Separate account AUM               |                       |           |              |            |   |
| Direct Channel                     | \$8,181.2             | \$4,030.3 | \$ 1,104.1   | \$13,315.6 |   |
| Intermediary Channel               | 2,674.3               | 705.9     | 161.7        | 3,541.9    |   |
| Platform/Sub-advisor Channel       | 3.7                   | 853.7     | —            | 857.4      |   |
| Total                              | \$10,859.2            | \$5,589.9 | \$ 1,265.8   | \$17,714.9 |   |
| Percentage of separate account AUM |                       |           |              |            |   |
| Direct Channel                     | 46                    | % 23      | % 6          | % 75       | % |
| Intermediary Channel               | 15                    | % 4       | % 1          | % 20       | % |
| Platform/Sub-advisor Channel       | 0                     | % 5       | % —          | % 5        | % |
| Total                              | 61                    | % 32      | % 7          | % 100      | % |
| Percentage of portfolio by channel |                       |           |              |            |   |
| Direct Channel                     | 75                    | % 72      | % 87         | % 75       | % |
| Intermediary Channel               | 25                    | % 13      | % 13         | % 20       | % |
| Platform/Sub-advisor Channel       | 0                     | % 15      | % —          | % 5        | % |
| Total                              | 100                   | % 100     | % 100        | % 100      | % |
| Percentage of channel by portfolio |                       |           |              |            |   |
| Direct Channel                     | 62                    | % 30      | % 8          | % 100      | % |
| Intermediary Channel               | 75                    | % 20      | % 5          | % 100      | % |
| Platform/Sub-advisor Channel       | 0                     | % 100     | % —          | % 100      | % |

Our separate accounts contributed 46% of our total gross client inflows for the six months ended June 30, 2017 and represented 65% of our total AUM as of June 30, 2017.

Our separate account business has historically been driven primarily by our Direct Channel, where sales representatives form a relationship with high net worth investors, middle market institutions, and large institutional clients working in conjunction with a consultant. The Direct Channel contributed 63% of the total gross client inflows for our separate account business for the six months ended June 30, 2017 and represented 75% of our total separate account AUM as of June 30, 2017. We anticipate the Direct Channel to continue to be the largest driver of new separate account business going forward, given the Direct Channel's high net worth and middle market institutional client-type focus.

During the six months ended June 30, 2017, blended asset portfolios represented 75% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios represented 7% and 18% respectively. As of June 30, 2017, blended asset and equity portfolios represented 62% and 30%, respectively, of total Direct Channel separate account AUM, while our fixed income portfolios were 8%. We expect our focus on individuals and middle market institutions to continue to drive interest in our blended asset class portfolios, where we provide a comprehensive portfolio of stocks and bonds managed to a client's specific investment objectives. Our

relationships with larger institutions may also be a driver of growth in separately managed account equity strategies, though many of these larger institutions may seek exposure to non-U.S. equity strategies through commingled vehicles rather than separately managed accounts to limit related custody expenses.

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To a lesser extent, we also obtain separate account business from third parties, including financial advisors or unaffiliated registered investment advisor programs or platforms. During the six months ended June 30, 2017, 23% of the total gross client inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 15% came from registered investment advisor platforms (Platform/Sub-advisor Channel). The Intermediary and Platform/Sub-advisor Channels represented 25% of our total separate account AUM as of June 30, 2017.

New separate account business through the Intermediary Channel flowed into both our blended asset and equity portfolios, driven by advisors' needs to identify either a one-stop solution (blended asset portfolio) or to fill a mandate within a multi-strategy portfolio. During the six months ended June 30, 2017, blended asset and equity portfolios represented 48% and 16%, respectively, of the separate account gross client inflows from the Intermediary Channel. As of June 30, 2017, 75% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 20% allocated to equity and 5% allocated to fixed income. We expect that equity and fixed income portfolios may see additional interest from financial advisors over time as more advisors structure a multi-strategy portfolio for their clients.

During the six months ended June 30, 2017, 100% of our separate account gross client inflows from the Platform/Sub-advisory Channel were into equity portfolios. Gross client inflows through the Platform/Sub-advisor Channel are primarily directed to our equity strategies, where we are filling a specific mandate within the investment program or platform product.

Our annualized separate account retention rate across all channels was 76% during the six months ended June 30, 2017, a decrease from our historical retention rate, which was 85% for the twelve months ended December 31, 2016. The composition of our mutual fund and collective investment trust AUM as of June 30, 2017, by portfolio, is set forth in the table below:

|                                                 | June 30, 2017    |           |              |           |
|-------------------------------------------------|------------------|-----------|--------------|-----------|
|                                                 | Blended<br>Asset | Equity    | Fixed Income | Total     |
|                                                 | (in millions)    |           |              |           |
| Mutual fund and collective investment trust AUM | \$5,754.6        | \$3,504.4 | \$ 101.6     | \$9,360.6 |

Our mutual funds and collective investment trusts contributed 54% of our total gross client inflows for the six months ended June 30, 2017 and represented 35% of our total AUM as of June 30, 2017. As of June 30, 2017, our mutual fund and collective investment trust AUM consisted of 61% from blended asset portfolios and 36% from equity portfolios compared to 67% and 32% for blended asset and equity portfolios as of June 30, 2016. During the six months ended June 30, 2017, 70% and 27% of the gross client inflows were attributable to blended assets and equity portfolios, respectively.

Our mutual fund and collective investment trust business is driven by financial intermediaries and to a lesser extent, our direct sales representatives. Intermediary distribution of our mutual fund and collective investment trust vehicles is achieved via financial advisors, brokers and retirement plan advisors. Through our Intermediary Channel, we are focused on our blended asset life cycle fund vehicles given our emphasis on advisors who work with retirement plans. Our blended asset portfolios are also used by advisors seeking a multi-asset class solution for their retail clients. In addition, we are focused on equity and fixed income portfolios within the Intermediary Channel for intermediaries who wish to use our mutual funds as a component of a larger portfolio.

Through our Platform/Sub-advisor Channel, we have relationships with consultants and manager research teams at platforms in order to distribute our funds within advisory programs, or through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have approximately 290 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business. Our Direct Sales Representatives distribute our equity portfolios to large institutional clients with which we have direct relationships and often, the client's consultant. Through the Direct Channel, we also form relationships with middle market and large market defined contribution plan sponsors seeking to use our life cycle mutual funds and collective investment trusts as default options on their investment menu. We expect this channel to focus on distributing blended asset and equity portfolio funds in the future.

Results of Operations

Below is a discussion of our consolidated results of operations for the three and six months ended June 30, 2017 and 2016.

Components of Results of Operations

Overview

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An important factor influencing inflows and outflows of our AUM is the investment performance of our various investment approaches. Our variety of stock selection strategies, absolute pricing discipline and active asset allocation management approach generally results in specific absolute and relative return characteristics in different market environments. For example, during a fundamental-driven bull market when prices are rising alongside improving fundamentals, we are likely to experience positive absolute returns and competitive relative returns. However, in a more momentum-driven bull market, when prices become disconnected from underlying fundamentals, or narrow market environment where a small handful of stocks outperform the average stock, we are likely to experience positive absolute returns but lagging relative returns. Similarly, during a valuation-driven bear market, when markets experience a period of price correction following a momentum-driven bull market, we are likely to experience negative absolute returns but strong relative returns. However, in a momentum-driven bear market, which is typically characterized by broad price declines in a highly correlated market, we are likely to experience negative absolute returns and potentially lagging relative returns. Essentially, our approach is likely to do well when markets are driven by fundamentals, but lag when markets are driven primarily by momentum.

Other components impacting our operating results include:

- asset-based fee rates and changes in those rates;
- the composition of our AUM among various portfolios, vehicles and client types;
- changes in our variable costs, including incentive compensation and distribution, servicing and custody expenses, which are affected by our investment performance, level of our AUM and revenue; and
- fixed costs, including changes to base compensation, vendor-related costs and investment spending on new products.

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## Assets Under Management and Investment Performance

The following table reflects the indicated components of our AUM for our investment vehicles for the three and six months ended June 30, 2017 and 2016:

|                                                           | Separately<br>managed<br>accounts | Mutual funds<br>and collective<br>investment<br>trusts<br>(in millions) | Total      | Separately<br>managed<br>accounts | Mutual funds<br>and collective<br>investment<br>trusts | Total |
|-----------------------------------------------------------|-----------------------------------|-------------------------------------------------------------------------|------------|-----------------------------------|--------------------------------------------------------|-------|
| As of March 31, 2017                                      | \$18,762.8                        | \$12,866.6                                                              | \$31,629.4 | 59 %                              | 41 %                                                   | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 621.2                             | 450.0                                                                   | 1,071.2    |                                   |                                                        |       |
| Gross client outflows <sup>(1)</sup>                      | (2,316.8 )                        | (4,375.2 )                                                              | (6,692.0 ) |                                   |                                                        |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 647.7                             | 419.2                                                                   | 1,066.9    |                                   |                                                        |       |
| As of June 30, 2017                                       | \$17,714.9                        | \$9,360.6                                                               | \$27,075.5 | 65 %                              | 35 %                                                   | 100 % |
| Average AUM for period                                    | \$18,424.4                        | \$10,218.0                                                              | \$28,642.4 |                                   |                                                        |       |
| As of March 31, 2016                                      | \$20,289.2                        | \$14,407.2                                                              | \$34,696.4 | 58 %                              | 42 %                                                   | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 536.5                             | 813.8                                                                   | 1,350.3    |                                   |                                                        |       |
| Gross client outflows <sup>(1)</sup>                      | (1,765.0 )                        | (1,989.3 )                                                              | (3,754.3 ) |                                   |                                                        |       |
| Acquired assets                                           | 1,234.2                           | 1,660.1                                                                 | 2,894.3    |                                   |                                                        |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 290.1                             | 239.4                                                                   | 529.5      |                                   |                                                        |       |
| As of June 30, 2016                                       | \$20,585.0                        | \$15,131.2                                                              | \$35,716.2 | 58 %                              | 42 %                                                   | 100 % |
| Average AUM for period                                    | \$20,920.1                        | \$15,331.8                                                              | \$36,251.9 |                                   |                                                        |       |
|                                                           | Separately<br>managed<br>accounts | Mutual funds<br>and collective<br>investment<br>trusts<br>(in millions) | Total      | Separately<br>managed<br>accounts | Mutual funds<br>and collective<br>investment<br>trusts | Total |
| As of December 31, 2016                                   | \$18,801.9                        | \$12,881.1                                                              | \$31,683.0 | 59 %                              | 41 %                                                   | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 977.1                             | 1,161.0                                                                 | 2,138.1    |                                   |                                                        |       |
| Gross client outflows <sup>(1)</sup>                      | (3,839.7 )                        | (5,879.6 )                                                              | (9,719.3 ) |                                   |                                                        |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 1,775.6                           | 1,198.1                                                                 | 2,973.7    |                                   |                                                        |       |
| As of June 30, 2017                                       | \$17,714.9                        | \$9,360.6                                                               | \$27,075.5 | 65 %                              | 35 %                                                   | 100 % |
| Average AUM for period                                    | \$18,694.9                        | \$11,541.0                                                              | \$30,235.9 |                                   |                                                        |       |
| As of December 31, 2015                                   | \$20,735.4                        | \$14,706.8                                                              | \$35,442.2 | 59 %                              | 41 %                                                   | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 921.3                             | 1,781.9                                                                 | 2,703.2    |                                   |                                                        |       |
| Gross client outflows <sup>(1)</sup>                      | (2,952.4 )                        | (3,531.5 )                                                              | (6,483.9 ) |                                   |                                                        |       |
| Acquired assets                                           | 1,234.2                           | 1,660.1                                                                 | 2,894.3    |                                   |                                                        |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 646.5                             | 513.9                                                                   | 1,160.4    |                                   |                                                        |       |
| As of June 30, 2016                                       | \$20,585.0                        | \$15,131.2                                                              | \$35,716.2 | 58 %                              | 42 %                                                   | 100 % |
| Average AUM for period                                    | \$20,530.7                        | \$14,600.7                                                              | \$35,131.4 |                                   |                                                        |       |

(1) Transfers of client assets between portfolios are included in gross client inflows and gross client outflows.

Market appreciation/(depreciation) and other includes investment gains/(losses) on assets under management, the

(2) impact of changes in foreign exchange rates and net flows from non-sales related activities including net reinvested dividends.



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The following table reflects the indicated components of our AUM for our portfolios for the three and six months ended June 30, 2017 and 2016:

|                                                           | Blended<br>Asset | Equity<br>(in millions) | Fixed<br>Income | Total      | Blended<br>Asset | Equity | Fixed<br>Income | Total |
|-----------------------------------------------------------|------------------|-------------------------|-----------------|------------|------------------|--------|-----------------|-------|
| As of March 31, 2017                                      | \$19,851.8       | \$10,496.4              | \$1,281.2       | \$31,629.4 | 63 %             | 33 %   | 4 %             | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 560.7            | 318.0                   | 192.5           | 1,071.2    |                  |        |                 |       |
| Gross client outflows <sup>(1)</sup>                      | (4,251.0 )       | (2,314.4 )              | (126.6 )        | (6,692.0 ) |                  |        |                 |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 452.3            | 594.3                   | 20.3            | 1,066.9    |                  |        |                 |       |
| As of June 30, 2017                                       | \$16,613.8       | \$9,094.3               | \$1,367.4       | \$27,075.5 | 61 %             | 34 %   | 5 %             | 100 % |
| Average AUM for period                                    | \$17,249.6       | \$10,061.2              | \$1,331.6       | \$28,642.4 |                  |        |                 |       |
| As of March 31, 2016                                      | \$22,036.2       | \$11,472.2              | \$1,188.0       | \$34,696.4 | 64 %             | 33 %   | 3 %             | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 889.6            | 296.9                   | 163.8           | 1,350.3    |                  |        |                 |       |
| Gross client outflows <sup>(1)</sup>                      | (1,698.4 )       | (1,938.8 )              | (117.1 )        | (3,754.3 ) |                  |        |                 |       |
| Acquired assets                                           | —                | 2,719.8                 | 174.5           | 2,894.3    |                  |        |                 |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 449.4            | 58.8                    | 21.3            | 529.5      |                  |        |                 |       |
| As of June 30, 2016                                       | \$21,676.8       | \$12,608.9              | \$1,430.5       | \$35,716.2 | 61 %             | 35 %   | 4 %             | 100 % |
| Average AUM for period                                    | \$22,119.4       | \$12,791.1              | \$1,341.4       | \$36,251.9 |                  |        |                 |       |
|                                                           | Blended<br>Asset | Equity<br>(in millions) | Fixed<br>Income | Total      | Blended<br>Asset | Equity | Fixed<br>Income | Total |
| As of December 31, 2016                                   | \$19,909.4       | \$10,463.9              | \$1,309.7       | \$31,683.0 | 63 %             | 33 %   | 4 %             | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 1,265.9          | 636.1                   | 236.1           | 2,138.1    |                  |        |                 |       |
| Gross client outflows <sup>(1)</sup>                      | (6,127.6 )       | (3,367.6 )              | (224.1 )        | (9,719.3 ) |                  |        |                 |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 1,566.1          | 1,361.9                 | 45.7            | 2,973.7    |                  |        |                 |       |
| As of June 30, 2017                                       | \$16,613.8       | \$9,094.3               | \$1,367.4       | \$27,075.5 | 61 %             | 34 %   | 5 %             | 100 % |
| Average AUM for period                                    | \$18,600.4       | \$10,323.8              | \$1,311.7       | \$30,235.9 |                  |        |                 |       |
| As of December 31, 2015                                   | \$22,442.4       | \$11,828.4              | \$1,171.4       | \$35,442.2 | 64 %             | 33 %   | 3 %             | 100 % |
| Gross client inflows <sup>(1)</sup>                       | 1,828.4          | 643.0                   | 231.8           | 2,703.2    |                  |        |                 |       |
| Gross client outflows <sup>(1)</sup>                      | (3,353.9 )       | (2,937.6 )              | (192.4 )        | (6,483.9 ) |                  |        |                 |       |
| Acquired assets                                           | —                | 2,719.8                 | 174.5           | 2,894.3    |                  |        |                 |       |
| Market appreciation/(depreciation) & other <sup>(2)</sup> | 759.9            | 355.3                   | 45.2            | 1,160.4    |                  |        |                 |       |
| As of June 30, 2016                                       | \$21,676.8       | \$12,608.9              | \$1,430.5       | \$35,716.2 | 61 %             | 35 %   | 4 %             | 100 % |
| Average AUM for period                                    | \$21,913.5       | \$11,952.6              | \$1,265.3       | \$35,131.4 |                  |        |                 |       |

(1) Transfers of client assets between portfolios are included in gross client inflows and gross client outflows.

Market appreciation/(depreciation) and other includes investment gains/(losses) on assets under management, the (2) impact of changes in foreign exchange rates and net flows from non-sales related activities including net reinvested dividends.





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The following table summarizes the annualized returns for our key investment strategies and the relative performance of the industry benchmark over the periods indicated. Since inception and over long-term periods, these strategies have earned attractive returns on both an absolute and relative basis. These strategies are used across separate account, mutual fund and collective investment trust vehicles, and represent approximately 82% of our AUM as of June 30, 2017.

| Key Strategies                                                                                                   | AUM as of                      | Inception Date | Annualized Returns as of June 30, 2017 (3) |            |           |          |                    |           |
|------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------|--------------------------------------------|------------|-----------|----------|--------------------|-----------|
|                                                                                                                  | June 30, 2017<br>(in millions) |                | One Year                                   | Three Year | Five Year | Ten Year | Market Cycle (1)   | Inception |
| Long-Term Growth (30%-80% Equity Exposure)                                                                       | \$ 7,551.6                     | 1/1/1973       | 9.5%                                       | 2.5%       | 7.7%      | 4.6%     | 6.4%               | 9.6%      |
| Blended Benchmark: 55% S&P 500<br>Total Return / 45% Bloomberg<br>Barclays Government/Credit Bond                |                                |                | 9.4%                                       | 6.6%       | 9.1%      | 6.3%     | 5.3%               | 9.2%      |
| Core Non-U.S. Equity<br>Benchmark: ACWIXUS Index                                                                 | \$ 4,771.6                     | 10/1/1996      | 14.2%                                      | (1.5)%     | 6.4%      | 1.2%     | 5.7%               | 7.6%      |
| Growth with Reduced Volatility<br>(20%-60% Equity Exposure)                                                      | \$ 3,402.2                     | 1/1/1973       | 20.5%                                      | 0.8%       | 7.2%      | 1.1%     | 3.5%               | 5.1%      |
| Blended Benchmark: 40% S&P 500<br>Total Return / 60% Bloomberg<br>Barclays Government/Credit Bond                |                                |                | 7.0%                                       | 1.9%       | 6.0%      | 4.2%     | 5.9%               | 8.8%      |
| Equity-Oriented (70%-100% Equity Exposure)                                                                       | \$ 1,548.8                     | 1/1/1993       | 6.6%                                       | 5.5%       | 7.2%      | 5.9%     | 5.4%               | 8.8%      |
| Blended Benchmark: 65% Russell<br>3000® / 20% ACWIXUS / 15%<br>Bloomberg Barclays U.S. Aggregate<br>Bond         |                                |                | 13.5%                                      | 3.1%       | 10.3%     | 4.6%     | 6.8%               | 9.9%      |
| Equity-Focused Blend (50%-90%<br>Equity Exposure)                                                                | \$ 1,094.4                     | 4/1/2000       | 16.0%                                      | 6.5%       | 11.3%     | 5.8%     | 5.1%               | 8.5%      |
| Blended Benchmark: 53% Russell<br>3000/ 17% ACWIXUS/ 30%<br>Bloomberg Barclays U.S. Aggregate<br>Bond            |                                |                | 11.2%                                      | 2.8%       | 8.8%      | 4.8%     | 6.9%               | 6.9%      |
| Core Equity (Unrestricted) (90%-100%<br>Equity Exposure)                                                         | \$ 941.0                       | 1/1/1995       | 12.9%                                      | 5.8%       | 9.7%      | 5.7%     | 5.2%               | 5.2%      |
| Blended Benchmark: 80% Russell<br>3000® / 20% ACWIXUS                                                            |                                |                | 16.1%                                      | 3.7%       | 12.4%     | 5.6%     | 7.6%               | 11.0%     |
| Core U.S. Equity<br>Benchmark: Russell 3000® Index                                                               | \$ 700.9                       | 7/1/2000       | 19.0%                                      | 7.5%       | 13.1%     | 6.1%     | 4.9%               | 9.0%      |
| Conservative Growth (5%-35% Equity<br>Exposure)                                                                  | \$ 591.5                       | 4/1/1992       | 18.1%                                      | 5.2%       | 13.3%     | 6.2%     | N/A <sup>(2)</sup> | 7.4%      |
| Blended Benchmark:15% Russell<br>3000/ 5% ACWIXUS/ 80% Bloomberg<br>Barclays U.S. Intermediate Aggregate<br>Bond |                                |                | 18.5%                                      | 9.1%       | 14.6%     | 7.3%     | N/A <sup>(2)</sup> | 5.5%      |
| Aggregate Fixed Income<br>Benchmark: Bloomberg Barclays U.S.<br>Aggregate Bond                                   | \$ 530.1                       | 1/1/1984       | 3.7%                                       | 1.5%       | 3.6%      | 3.9%     | 5.2%               | 6.0%      |
|                                                                                                                  |                                |                | 3.5%                                       | 3.1%       | 4.1%      | 4.6%     | 5.0%               | 6.2%      |
|                                                                                                                  |                                |                | 0.3%                                       | 2.1%       | 2.1%      | 4.5%     | 4.9%               | 7.3%      |
|                                                                                                                  |                                |                | (0.3)%                                     | 2.5%       | 2.2%      | 4.5%     | 5.1%               | 7.3%      |

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|                                            |          |           |       |      |       |            |         |       |
|--------------------------------------------|----------|-----------|-------|------|-------|------------|---------|-------|
| Rainier International Small Cap            | \$ 560.7 | 3/28/2012 | 14.4% | 6.9% | 15.1% | N/A<br>(2) | N/A (2) | 13.8% |
| Benchmark: MSCI ACWIxUS Small<br>Cap Index |          |           | 20.3% | 3.3% | 10.0% | N/A<br>(2) | N/A (2) | 5.8%  |
| Disciplined Value                          | \$ 427.1 | 11/1/2003 | 15.5% | 7.8% | 12.0% | 8.1%       | N/A (2) | 10.7% |
| Benchmark: Russell 1000 Value              |          |           | 15.5% | 7.4% | 13.9% | 5.6%       | N/A (2) | 8.4%  |

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The market cycle performance numbers are calculated from April 1, 2000 to June 30, 2017. We believe that a full market cycle time period should contain a wide range of market conditions and usually consists of a bear market, recovery and bull market stage. Our definition of the current market cycle includes the bear market that began with (1) an abrupt decline in the technology sector (4/1/2000 - 9/30/2002), the subsequent failed recovery (10/1/2002 - 10/31/2007), the financial crisis bear market (11/1/2007 - 2/28/2009), and the current bull market (3/1/2009 - current). The period utilized in our current market cycle may differ from periods used by other investment managers.

(2) Performance not available given the product's inception date.

(3) Key investment strategy returns are presented net of fees. Benchmark returns do not reflect any fees or expenses.

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### Revenue

Our revenues primarily consist of investment management fees earned from managing our clients' AUM. We earn our investment management fees as a percentage of our clients' AUM either as of a specified date or on a daily basis. Our investment management fees can fluctuate based on the average fee rate for our investment management products, which are affected by the composition of our AUM among various portfolios and investment vehicles.

The Company serves as the investment adviser for Manning & Napier Fund, Inc., Rainier Investment Management Mutual Funds, Exeter Trust Company Collective Investment Trusts and Rainier Multiple Investment Trust. The mutual funds are open-end mutual funds that primarily offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company, an affiliated New Hampshire-chartered trust company and Rainier Multiple Investment Trust sponsor collective investment trusts for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised \$9.4 billion, or 35%, of our AUM as of June 30, 2017. MNA and Rainier also serve as the investment advisor to all of our separately managed accounts, managing \$17.7 billion, or 65%, of our AUM as of June 30, 2017, including assets managed as a sub-advisor to pooled investment vehicles. For the period ended June 30, 2017 approximately 97% of our revenue was earned from clients located in the United States.

In response to industry trends and increasing fee pressure from passive strategies offered by our competitors as well as the anticipated impact of regulatory changes, management is in the midst of an effort to restructure fees across our fund product set. We anticipate that the majority of the financial impacts, including reduced management fees and distribution and servicing charges, will occur in the first half of 2018 and the impact on our overall revenue margins will vary depending on the business mix at the time of the fee change. Given the overall pressure on fees that all active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future.

### Operating Expenses

Our largest operating expenses are employee compensation and distribution, servicing and custody expenses, discussed further below, with a significant portion of these expenses varying in a direct relationship to our absolute and relative investment management performance, as well as AUM and revenues. We review our operating expenses in relation to the investment market environment and changes in our revenues. However, we are generally willing to make expenditures as necessary even when faced with declining rates of growth in revenues in order to support our investment products, our client service levels, strategic initiatives and our long-term value.

**Compensation and related costs.** Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals and equity-based compensation issued under our equity compensation plan. These costs are affected by changes in the employee headcount, the mix of existing job descriptions, competitive factors, the addition of new skill sets, variations in the level of our AUM and revenues, changes in our stock price reflected in our share-based compensation and/or the number of awards issued. In addition, incentive compensation for our research team considers the cumulative impact of both absolute and relative investment performance over the trailing one-, two- and three-year time periods, with more weight placed on the recent periods. As such, incentive compensation paid to our research team will vary based on absolute and relative investment performance.

**Distribution, servicing and custody expenses.** Distribution, servicing and custody expense represent amounts paid to various platforms that distribute our mutual funds and collective trust funds, as well as costs for custodial services, shareholder services, and 12b-1 distribution. These expenses generally increase or decrease in line with changes in our mutual fund and collective investment trust AUM or services performed by these intermediaries.

**Other operating costs.** Other operating costs include accounting, legal and other professional service fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses and all other miscellaneous costs associated with managing the day-to-day operations of our business.

### Non-Operating Income (Loss)

Non-operating income (loss) includes interest expense, interest and dividend income, changes in liability under the tax receivable agreement ("TRA") entered into between Manning & Napier and the other holders of Class A units of Manning & Napier Group, gains (losses) related to investment securities sales and changes in values of those

investment securities designated as trading and equity method investments.

We expect the interest and investment components of non-operating income (loss) to fluctuate based on market conditions, the performance of our investments and the overall amount of our investments held by the Company to provide initial cash seeding for product development purposes and short-term investment for cash management opportunities.

Provision for Income Taxes

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The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC") or a "C-Corporation". As such, the entities functioning as LLC's are not liable for or able to benefit from U.S. federal or most state and local income taxes on their earnings, and their earnings (losses) will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal and state and local income taxes on their earnings and losses, respectively.

**Noncontrolling Interests**

Manning & Napier, Inc. holds an economic interest of approximately 17.8% in Manning & Napier Group as of June 30, 2017 but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

**Critical Accounting Policies and Estimates**

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

This management's discussion and analysis should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 together with the consolidated financial statements and related notes and the other financial information that appear elsewhere in this report.

**Recent Accounting Pronouncements**

See Note 2, "Summary of Significant Accounting Policies - Recent Accounting Pronouncements" to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information.

**Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016****Assets Under Management**

The following table reflects changes in our AUM for the three months ended June 30, 2017 and 2016:

|                                                           | Three months ended<br>June 30, |            | Period-to-Period |        |
|-----------------------------------------------------------|--------------------------------|------------|------------------|--------|
|                                                           | 2017                           | 2016       | \$               | %      |
|                                                           | (in millions)                  |            |                  |        |
| <b>Separately managed accounts</b>                        |                                |            |                  |        |
| Beginning assets under management                         | \$18,762.8                     | \$20,289.2 | \$(1,526.4)      | (8 )%  |
| Gross client inflows <sup>(1)</sup>                       | 621.2                          | 536.5      | 84.7             | 16 %   |
| Gross client outflows <sup>(1)</sup>                      | (2,316.8 )                     | (1,765.0 ) | (551.8 )         | 31 %   |
| Acquired assets                                           | —                              | 1,234.2    | (1,234.2 )       | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 647.7                          | 290.1      | 357.6            | 123 %  |
| Ending assets under management                            | \$17,714.9                     | \$20,585.0 | \$(2,870.1)      | (14 )% |
| <b>Mutual funds and collective investment trusts</b>      |                                |            |                  |        |
| Beginning assets under management                         | \$12,866.6                     | \$14,407.2 | \$(1,540.6)      | (11 )% |
| Gross client inflows <sup>(1)</sup>                       | 450.0                          | 813.8      | (363.8 )         | (45 )% |
| Gross client outflows <sup>(1)</sup>                      | (4,375.2 )                     | (1,989.3 ) | (2,385.9 )       | 120 %  |
| Acquired assets                                           | —                              | 1,660.1    | (1,660.1 )       | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 419.2                          | 239.4      | 179.8            | 75 %   |
| Ending assets under management                            | \$9,360.6                      | \$15,131.2 | \$(5,770.6)      | (38 )% |
| <b>Total assets under management</b>                      |                                |            |                  |        |
| Beginning assets under management                         | \$31,629.4                     | \$34,696.4 | \$(3,067.0)      | (9 )%  |
| Gross client inflows <sup>(1)</sup>                       | 1,071.2                        | 1,350.3    | (279.1 )         | (21 )% |
| Gross client outflows <sup>(1)</sup>                      | (6,692.0 )                     | (3,754.3 ) | (2,937.7 )       | 78 %   |
| Acquired assets                                           | —                              | 2,894.3    | (2,894.3 )       | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 1,066.9                        | 529.5      | 537.4            | 101 %  |
| Ending assets under management                            | \$27,075.5                     | \$35,716.2 | \$(8,640.7)      | (24 )% |



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(1) Transfers of client assets between portfolios are included in gross client inflows and gross client outflows.

Market appreciation/(depreciation) and other includes investment gains/(losses) on assets under management, the  
(2) impact of changes in foreign exchange rates and net flows from non-sales related activities including net reinvested dividends.

The total AUM decrease of \$4.6 billion, to \$27.1 billion at June 30, 2017 from \$31.6 billion at March 31, 2017 was attributable to net client cash outflows of \$5.6 billion, partially offset by market appreciation of \$1.1 billion. Our separate accounts and mutual fund and collective investment trust vehicles had net client outflows of approximately \$1.7 billion and \$3.9 billion, respectively. Mutual fund and collective investment trust cash outflows were primarily from a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017. The blended investment gain was 3% in separately managed accounts and 3% in mutual funds and collective investment trusts. By portfolio, our AUM decreased by \$3.2 billion in our blended asset portfolio and \$1.4 billion in our equity portfolio, and increased by \$86.2 million in our fixed income portfolio.

Our ability to improve cash flows going forward will depend in part on our ability to sustain improved performance and thus improve our one, three and five year track record across our key strategies. Cash outflows will continue to be a challenge as we have received partial redemption or cancellation notices from several institutional relationships. Our current estimate of cash outflows from these relationships is approximately \$0.7 to \$1.0 billion. Though the timing is not certain, the outflows are expected to occur over the third and fourth quarters of 2017.

Our total AUM decreased by \$8.6 billion from \$35.7 billion at June 30, 2016 to \$27.1 billion at June 30, 2017. The decrease was attributable to net client outflows of \$11.9 billion, partially offset by market appreciation of \$3.2 billion. Net client outflows consisted of approximately \$4.8 billion of net outflows for separate accounts and \$7.1 billion for mutual funds and collective investment trusts. By portfolio, the rates of change in AUM from June 30, 2016 to June 30, 2017 consisted of a \$3.5 billion, or 28% decrease in our equity portfolio, a \$5.1 billion, or 23% decrease in our blended asset portfolio, and a decrease of \$63.1 million, or 4% in our fixed income portfolio.

As of June 30, 2017, the composition of our AUM was 65% in separate accounts and 35% in mutual funds and collective investment trusts, compared to 58% in separate accounts and 42% in mutual funds and collective investment trusts at June 30, 2016. The composition of our AUM across portfolios at June 30, 2017 was 61% in blended assets, 34% in equity, and 5% in fixed income, compared to 61% in blended assets, 35% in equity, and 4% in fixed income at June 30, 2016.

With regard to our separate accounts, gross client inflows of \$0.6 billion were offset by approximately \$2.3 billion of gross client outflows during the three months ended June 30, 2017. The \$0.6 billion gross client inflows include approximately \$0.3 billion into our blended asset portfolio, \$0.1 billion into our equity portfolio and \$0.2 billion into our fixed income portfolio. During the three months ended June 30, 2017, 63% of our separate account gross client inflows were derived from our Direct Channel. With regard to gross client outflows, cancellations were approximately \$1.5 billion, with six institutional relationships comprising \$1.0 billion of those cancellations. Withdrawals from existing accounts were approximately \$0.8 billion. Outflows during the second quarter were 26%, 70% and 4% from blended, equity and fixed income portfolios, respectively. In light of challenging relative returns, our separate account clients redeemed assets at a rate of 49% during the quarter, compared to a 32% redemption rate over the trailing twelve months ended June 30, 2017. The annualized separate account retention rate was 67% for the three months ended June 30, 2017 compared to 81% for the rolling twelve months ended June 30, 2017.

Net client outflows of \$3.9 billion from our mutual fund and collective investment trusts included gross client inflows of \$0.5 billion, offset by gross client outflows of \$4.4 billion during the three months ended June 30, 2017. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$0.3 billion, or 57%, of mutual fund and collective trust fund gross client inflows during the three months ended June 30, 2017. With regard to gross client outflows, \$3.6 billion, or 83%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products. Blended asset outflows were primarily from a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017.





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The following table sets forth our results of operations and related data for the three months ended June 30, 2017 and 2016:

|                                                                           | Three months ended<br>June 30,    |            | Period-to-Period |        |
|---------------------------------------------------------------------------|-----------------------------------|------------|------------------|--------|
|                                                                           | 2017                              | 2016       | \$               | %      |
|                                                                           | (in thousands, except share data) |            |                  |        |
| Revenues                                                                  |                                   |            |                  |        |
| Investment management services revenue                                    | \$51,536                          | \$ 64,505  | \$(12,969)       | (20 )% |
| Expenses                                                                  |                                   |            |                  |        |
| Compensation and related costs                                            | 22,233                            | 24,379     | (2,146 )         | (9 )%  |
| Distribution, servicing and custody expenses                              | 7,084                             | 8,950      | (1,866 )         | (21 )% |
| Other operating costs                                                     | 7,234                             | 8,213      | (979 )           | (12 )% |
| Total operating expenses                                                  | 36,551                            | 41,542     | (4,991 )         | (12 )% |
| Operating income                                                          | 14,985                            | 22,963     | (7,978 )         | (35 )% |
| Non-operating income (loss)                                               |                                   |            |                  |        |
| Non-operating income (loss), net                                          | 846                               | 280        | 566              | 202 %  |
| Income before provision for income taxes                                  | 15,831                            | 23,243     | (7,412 )         | (32 )% |
| Provision for income taxes                                                | 1,242                             | 1,545      | (303 )           | (20 )% |
| Net income attributable to controlling and noncontrolling interests       | 14,589                            | 21,698     | (7,109 )         | (33 )% |
| Less: net income attributable to noncontrolling interests                 | 12,904                            | 19,093     | (6,189 )         | (32 )% |
| Net income attributable to Manning & Napier, Inc.                         | \$1,685                           | \$ 2,605   | \$(920 )         | (35 )% |
| Per Share Data                                                            |                                   |            |                  |        |
| Net income per share available to Class A common stock                    |                                   |            |                  |        |
| Basic                                                                     | \$0.12                            | \$ 0.17    |                  |        |
| Diluted                                                                   | \$0.12                            | \$ 0.17    |                  |        |
| Weighted average shares of Class A common stock outstanding               |                                   |            |                  |        |
| Basic                                                                     | 14,111,368                        | 13,960,768 |                  |        |
| Diluted                                                                   | 14,298,834                        | 14,243,579 |                  |        |
| Cash dividends declared per share of Class A common stock                 | \$0.08                            | \$ 0.16    |                  |        |
| Other financial and operating data                                        |                                   |            |                  |        |
| Economic net income <sup>(1)</sup>                                        | \$9,657                           | \$ 14,178  | \$(4,521 )       | (32 )% |
| Economic net income per adjusted share <sup>(1)</sup>                     | \$0.12                            | \$ 0.17    |                  |        |
| Weighted average adjusted Class A common stock outstanding <sup>(1)</sup> | 79,189,372                        | 82,029,881 |                  |        |

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Supplemental (1)Non-GAAP Financial Information” for Manning & Napier’s reasons for including these non-GAAP measures in this report in addition to a reconciliation of non-GAAP financial measures to GAAP measures for the periods indicated.

## Revenues

Our investment management services revenue decreased by \$13.0 million, or 20%, to \$51.5 million for the three months ended June 30, 2017 from \$64.5 million for the three months ended June 30, 2016. This decrease is driven primarily by a \$7.6 billion, or 21%, decrease in our average AUM to \$28.6 billion for the three months ended June 30, 2017 from \$36.3 billion for the three months ended June 30, 2016. Average AUM decreased as a result of net client outflows of \$11.9 billion, partially offset by market appreciation of \$3.2 billion during the rolling twelve months ended June 30, 2017. By portfolio, our AUM decreases were concentrated in our equity and blended asset portfolios, which decreased by 28% and 23%, respectively, compared to June 30, 2016. The outflows were largely attributable to challenging portfolio performance relative to benchmarks and increased competition as a result of an industry shift to

lower fee passive investment products.

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Our average separately managed account fee for the three months ended June 30, 2017 remained consistent at 0.62% when compared to the three months ended June 30, 2016. For the three months ended June 30, 2017 and 2016, separately managed account standard fees ranged from 0.15% to 1.25% depending on investment objective and account size. As of June 30, 2017, the concentration of investments in our separately managed account assets was 61% blended assets, 32% equity and 7% fixed income, compared to 56% blended assets, 37% equity and 7% fixed income as of June 30, 2016.

Our average fee on mutual fund and collective investment trust products increased to 0.84% for the three months ended June 30, 2017 from 0.78% for three months ended June 30, 2016. This increase was primarily due to a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017 where the fees were lower than those associated with the remaining population of mutual fund and collective AUM. The management fees earned on our mutual fund and collective investment trust management fees ranged from 0.24% to 1.00%, depending on investment strategy, for the three months ended June 30, 2017 and 2016. As of June 30, 2017, the concentration of assets in our mutual fund and collective investment trusts was 61% blended assets, 36% equity and 1% fixed income, compared to 67% blended assets, 32% equity and 1% fixed income as of June 30, 2016.

### Operating Expenses

Our operating expenses decreased by \$5.0 million, or 12%, to \$36.6 million for the three months ended June 30, 2017 from \$41.5 million for the three months ended June 30, 2016.

Compensation and related costs decreased by \$2.1 million, or 9%, to \$22.2 million for the three months ended June 30, 2017 from \$24.4 million for the three months ended June 30, 2016. This decrease was driven by lower variable incentive costs as a result of the reduction in AUM. When considered as a percentage of revenue, compensation and related costs for the three months ended June 30, 2017 was 43% compared to 38% for the three months ended June 30, 2016.

Distribution, servicing and custody expenses decreased by \$1.9 million, or 21%, to \$7.1 million for the three months ended June 30, 2017 from \$9.0 million for the three months ended June 30, 2016. The decrease was generally driven by a 33% decrease in mutual fund and collective investment trust average AUM for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The percentage decrease in AUM exceeds the percentage decrease in expense since redemptions during the second quarter of 2017 were concentrated in those relationships where we did not have distribution and servicing obligations. Specifically, we had a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017 where there was no associated distribution obligation. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.28% for the three months ended June 30, 2017, compared to 0.23% for the three months ended June 30, 2016.

Other operating costs for the three months ended June 30, 2017 was \$7.2 million, compared to \$8.2 million for the three months ended June 30, 2016. As a percentage of revenue, other operating costs was 14% the three months ended June 30, 2017 and 13% for the three months ended June 30, 2016.

### Non-Operating Income (Loss)

Non-operating income for the three months ended June 30, 2017 was \$0.8 million, compared to net income of \$0.3 million for the three months ended June 30, 2016. Included within non-operating income for the three months ended June 30, 2017 and 2016 was \$0.6 million and \$0.2 million of net gains, respectively, on investments held by us to provide initial cash seeding for product development purposes. Interest expense for the three months ended June 30, 2017 decreased by approximately \$0.1 million compared to the three months ended June 30, 2016, driven by the termination of our credit facility in early 2017 and the unused commitment fee on our credit facility paid in 2016.

### Provision for Income Taxes

Our tax provision decreased by \$0.3 million to \$1.2 million for the three months ended June 30, 2017 from \$1.5 million for the three months ended June 30, 2016. The change was primarily driven by a decrease in taxable earnings compared to the prior year.

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Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

## Assets Under Management

The following table reflects changes in our AUM for the six months ended June 30, 2017 and 2016:

|                                                           | Six months ended June 30, |            | Period-to-Period |        |
|-----------------------------------------------------------|---------------------------|------------|------------------|--------|
|                                                           | 2017                      | 2016       | \$               | %      |
|                                                           | (in millions)             |            |                  |        |
| Separately managed accounts                               |                           |            |                  |        |
| Beginning assets under management                         | \$18,801.9                | \$20,735.4 | \$(1,933.5)      | (9)%   |
| Gross client inflows <sup>(1)</sup>                       | 977.1                     | 921.3      | 55.8             | 6%     |
| Gross client outflows <sup>(1)</sup>                      | (3,839.7)                 | (2,952.4)  | (887.3)          | 30%    |
| Acquired assets                                           | —                         | 1,234.2    | (1,234.2)        | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 1,775.6                   | 646.5      | 1,129.1          | 175%   |
| Ending assets under management                            | \$17,714.9                | \$20,585.0 | \$(2,870.1)      | (14)%  |
| Mutual funds and collective investment trusts             |                           |            |                  |        |
| Beginning assets under management                         | \$12,881.1                | \$14,706.8 | \$(1,825.7)      | (12)%  |
| Gross client inflows <sup>(1)</sup>                       | 1,161.0                   | 1,781.9    | (620.9)          | (35)%  |
| Gross client outflows <sup>(1)</sup>                      | (5,879.6)                 | (3,531.5)  | (2,348.1)        | 66%    |
| Acquired assets                                           | —                         | 1,660.1    | (1,660.1)        | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 1,198.1                   | 513.9      | 684.2            | 133%   |
| Ending assets under management                            | \$9,360.6                 | \$15,131.2 | \$(5,770.6)      | (38)%  |
| Total assets under management                             |                           |            |                  |        |
| Beginning assets under management                         | \$31,683.0                | \$35,442.2 | \$(3,759.2)      | (11)%  |
| Gross client inflows <sup>(1)</sup>                       | 2,138.1                   | 2,703.2    | (565.1)          | (21)%  |
| Gross client outflows <sup>(1)</sup>                      | (9,719.3)                 | (6,483.9)  | (3,235.4)        | 50%    |
| Acquired assets                                           | —                         | 2,894.3    | (2,894.3)        | (100)% |
| Market appreciation (depreciation) & other <sup>(2)</sup> | 2,973.7                   | 1,160.4    | 1,813.3          | 156%   |
| Ending assets under management                            | \$27,075.5                | \$35,716.2 | \$(8,640.7)      | (24)%  |

(1) Transfers of client assets between portfolios are included in gross client inflows and gross client outflows.

Market appreciation/(depreciation) and other includes investment gains/(losses) on assets under management, the  
 (2) impact of changes in foreign exchange rates and net flows from non-sales related activities including net reinvested dividends.

The total AUM decrease of \$4.6 billion, or 15%, to \$27.1 billion at June 30, 2017 from \$31.7 billion at December 31, 2016 was attributable to net client cash outflows of \$7.6 billion offset by market appreciation of \$3.0 billion. Included in net client flows during the six months ended June 30, 2017 were net client outflows in separately managed accounts of approximately \$2.9 billion and mutual funds and collective investment trusts of approximately \$4.7 billion. The blended investment gain was 9.4% in separately managed accounts and 9.3% in mutual funds and collective investment trusts. By portfolio, our net \$4.6 billion AUM decrease was derived from a decrease of \$3.3 billion, or 17%, in our blended asset portfolio and \$1.4 billion, or 13%, in our equity portfolio, offset by an increase of \$57.7 million, or 4%, in our fixed income portfolio.

Our ability to improve cash flows going forward will depend in part on our ability to sustain improved performance and thus improve our one, three and five year track record across our key strategies. Cash outflows will continue to be a challenge as we have received partial redemption or cancellation notices from several institutional relationships. Our current estimate of cash outflows from these relationships is approximately \$0.7 to \$1.0 billion. Though the timing is not certain, the outflows are expected to occur over the third and fourth quarters of 2017.

Our total AUM decreased by \$8.6 billion from \$35.7 billion at June 30, 2016 to \$27.1 billion at June 30, 2017. The decrease was attributable to net client outflows of \$11.9 billion, partially offset by market appreciation of \$3.2 billion. Net client outflows consisted of approximately \$4.8 billion of net outflows for separate accounts and \$7.1 billion for mutual funds and collective investment trusts. By portfolio, the rates of change in AUM from June 30, 2016 to June 30, 2017 consisted of a

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\$3.5 billion, or 28% decrease in our equity portfolio, a \$5.1 billion, or 23% decrease in our blended asset portfolio, and a decrease of \$63.1 million, or 4% in our fixed income portfolio.

As of June 30, 2017, the composition of our AUM was 65% in separate accounts and 35% in mutual funds and collective investment trusts, compared to 58% in separate accounts and 42% in mutual funds and collective investment trusts at June 30, 2016. The composition of our AUM across portfolios at June 30, 2017 was 61% in blended assets, 34% in equity, and 5% in fixed income, compared to 61% in blended assets, 35% in equity, and 4% in fixed income at June 30, 2016.

With regard to our separate accounts, gross client inflows of \$1.0 billion were offset by approximately \$3.8 billion of gross client outflows during the six months ended June 30, 2017. The \$1.0 billion of gross client inflows included \$0.5 billion into our blended asset portfolios, \$0.3 billion into our equity portfolios and \$0.2 billion into fixed income portfolios. During the six months ended June 30, 2017, 63% of our separate account gross client inflows were derived from our Direct Channel. Gross client inflows were split with 55% contributions from existing accounts and 45% from new relationships. Gross client outflows were split with 38% withdrawals from existing accounts and 62% representing client cancellations. Our blended asset and equity portfolios experienced net client outflows of approximately \$1.4 billion and \$2.3 billion, respectively. In light of challenging relative returns, our separate account clients redeemed assets at a rate of 41% during the six months ended June 30, 2017, compared to a 32% redemption rate over the trailing twelve months ended June 30, 2017. The annualized separate account retention rate was 76% for the six months ended June 30, 2017, down from 81% for the rolling twelve months ended June 30, 2017.

Net client outflows of \$4.7 billion from our mutual fund and collective investment trusts included gross client inflows of \$1.2 billion offset by gross client outflows of \$5.9 billion during the six months ended June 30, 2017. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$0.8 billion, or 70%, of mutual fund and collective trust fund gross client inflows during the six months ended June 30, 2017. With regard to gross client outflows, \$4.7 billion, or 80%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products. Blended asset outflows were primarily from a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017.

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The following table sets forth our results of operations and other data for the six months ended June 30, 2017 and 2016:

|                                                                           | Six months ended<br>June 30,      |            | Period-to-Period |       |
|---------------------------------------------------------------------------|-----------------------------------|------------|------------------|-------|
|                                                                           | 2017                              | 2016       | \$               | %     |
|                                                                           | (in thousands, except share data) |            |                  |       |
| Revenues                                                                  |                                   |            |                  |       |
| Investment management services revenue                                    | \$ 107,021                        | \$ 126,547 | \$(19,526)       | (15)% |
| Expenses                                                                  |                                   |            |                  |       |
| Compensation and related costs                                            | 45,614                            | 46,346     | (732)            | (2)%  |
| Distribution, servicing and custody expenses                              | 14,495                            | 17,792     | (3,297)          | (19)% |
| Other operating costs                                                     | 15,212                            | 16,666     | (1,454)          | (9)%  |
| Total operating expenses                                                  | 75,321                            | 80,804     | (5,483)          | (7)%  |
| Operating income                                                          | 31,700                            | 45,743     | (14,043)         | (31)% |
| Non-operating income (loss)                                               |                                   |            |                  |       |
| Non-operating income (loss), net                                          | 1,988                             | 1,358      | 630              | 46%   |
| Income before provision for income taxes                                  | 33,688                            | 47,101     | (13,413)         | (28)% |
| Provision for income taxes                                                | 2,585                             | 3,219      | (634)            | (20)% |
| Net income attributable to controlling and noncontrolling interests       | 31,103                            | 43,882     | (12,779)         | (29)% |
| Less: net income attributable to noncontrolling interests                 | 27,521                            | 38,859     | (11,338)         | (29)% |
| Net income attributable to Manning & Napier, Inc.                         | \$ 3,582                          | \$ 5,023   | \$(1,441)        | (29)% |
| Per Share Data                                                            |                                   |            |                  |       |
| Net income per share available to Class A common stock                    |                                   |            |                  |       |
| Basic                                                                     | \$0.25                            | \$ 0.34    |                  |       |
| Diluted                                                                   | \$0.25                            | \$ 0.33    |                  |       |
| Weighted average shares of Class A common stock outstanding               |                                   |            |                  |       |
| Basic                                                                     | 14,077,313                        | 13,852,949 |                  |       |
| Diluted                                                                   | 14,256,911                        | 14,209,811 |                  |       |
| Cash dividends declared per share of Class A common stock                 | \$0.16                            | \$ 0.32    |                  |       |
| Other financial and operating data                                        |                                   |            |                  |       |
| Economic net income <sup>(1)</sup>                                        | \$ 20,550                         | \$ 29,209  | \$(8,659)        | (30)% |
| Economic net income per adjusted share <sup>(1)</sup>                     | \$0.26                            | \$ 0.35    |                  |       |
| Weighted average adjusted Class A common stock outstanding <sup>(1)</sup> | 80,097,023                        | 82,844,447 |                  |       |

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Supplemental (1)Non-GAAP Financial Information” for Manning & Napier’s reasons for including these non-GAAP measures in this report in addition to a reconciliation of non-GAAP financial measures to GAAP measures for the periods indicated.

Revenues

Our investment management services revenue decreased by \$19.5 million, or 15%, to \$107.0 million for the six months ended June 30, 2017 from \$126.5 million for the six months ended June 30, 2016. This decrease was driven primarily by a \$4.9 billion, or 14%, decrease in our average AUM to \$30.2 billion for the six months ended June 30, 2017 from \$35.1 billion for the six months ended June 30, 2016. Average AUM decreased as a result of net client outflows of \$11.9 billion offset by market appreciation and other changes of \$3.2 billion for the rolling twelve months ended June 30, 2017. By portfolio, our equity and blended asset portfolios decreased by 28% and 23%, respectively, compared to June 30, 2016. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our average separately managed account fee remained consistent at 0.62% for the six months ended June 30, 2017 compared to 0.63% for the six months ended June 30, 2016. For both the six months ended June 30, 2017 and 2016,



separately managed account management fees ranged from 0.15% to 1.25%, depending on investment objective and account size. As of June 30, 2017, the concentration of assets in our separately managed accounts was 61% blended assets, 32% equity and 7% fixed income, compared to 56% blended assets, 37% equity and 7% fixed income as of June 30, 2016.

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Our average fee on mutual fund and collective investment trust products was 0.79% for the six months ended June 30, 2017, an increase from 0.78% for the six months ended June 30, 2016. This increase was primarily due to a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017 where the fees were lower than those associated with the remaining population of mutual fund and collective AUM. For both the six months ended June 30, 2017 and 2016, mutual fund and collective investment trust management fees ranged from 0.24% to 1.00%, depending on investment strategy. As of June 30, 2017 the concentration of assets in our mutual fund and collective investment trusts was 61% blended assets, 36% equity and 1% fixed income, compared to 67% blended assets and 32% equity of June 30, 2016.

### Operating Expenses

Our operating expenses decreased by \$5.5 million, or 7%, to \$75.3 million for the six months ended June 30, 2017 from \$80.8 million for the six months ended June 30, 2016.

Compensation and related costs decreased by \$0.7 million, or 2%, to \$45.6 million for the six months ended June 30, 2017 from \$46.3 million for the six months ended June 30, 2016. The decrease was primarily due to a reduction in equity based compensation driven by the timing and amount of unvested equity awards. When considered as a percentage of revenue, compensation and related costs for the six months ended June 30, 2017 was 43% compared to 37% in 2016.

Distribution, servicing and custody expenses decreased by \$3.3 million, or 19%, to \$14.5 million for the six months ended June 30, 2017 from \$17.8 million for the six months ended June 30, 2016. The decrease was generally attributable to a 21% decrease in mutual fund and collective investment trust average AUM for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The percentage decrease in AUM exceeds the percentage decrease in expense since redemptions during the second quarter of 2017 were concentrated in those relationships where we did not have distribution and servicing obligations. Specifically, we had a single retirement plan relationship which redeemed approximately \$2.5 billion during the second quarter of 2017 where there was no associated distribution obligation. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.25% for the six months ended June 30, 2017, compared to 0.25% for the six months ended June 30, 2016.

Other operating costs decreased by \$1.5 million, or 9%, to \$15.2 million for the six months ended June 30, 2017 from \$16.7 million for the six months ended June 30, 2016. As a percentage of revenue, other operating costs for the six months ended June 30, 2017 was 14% compared to 13% for 2016.

### Non-Operating Income (Loss)

Non-operating income for the six months ended June 30, 2017 was \$2.0 million, compared to \$1.4 million for the six months ended June 30, 2016. Included in non-operating income (loss) was a net gain of \$1.6 million on investments held by us to provide initial cash seeding for product development purposes for the six months ended June 30, 2017, compared to \$1.3 million in 2016. Interest expense for the six months ended June 30, 2017 decreased by \$0.2 million compared to the six months ended June 30, 2016, driven by the termination of our credit facility in early 2017 and the unused commitment fee on our credit facility paid in 2016.

### Provision for Income Taxes

Our tax provision decreased by \$0.6 million, or 20%, to \$2.6 million for the six months ended June 30, 2017 from \$3.2 million for the six months ended June 30, 2016. The change was primarily driven by a decrease in taxable earnings as compared to the prior year.

### Supplemental Non-GAAP Financial Information

To provide investors with greater insight, promote transparency and allow for a more comprehensive understanding of the information used by management in its financial and operational decision-making, we supplement our consolidated statements of operations presented on a GAAP basis with non-GAAP financial measures of earnings. Management uses economic net income and economic net income per adjusted share as financial measures to evaluate the profitability and efficiency of its business. Economic net income and economic net income per adjusted share are not presented in accordance with GAAP.



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Economic net income is a non-GAAP measure of after-tax operating performance and equals our income before provision for income taxes less adjusted income taxes. Adjusted income taxes are estimated assuming the exchange of all outstanding units of Manning & Napier Group into Class A common stock on a one-to-one basis. Therefore, all income of Manning & Napier Group allocated to the units of Manning & Napier Group is treated as if it were allocated to us and represents an estimate of income tax expense at an effective rate of 39.0% for the three months ended June 30, 2017 and 2016, and 39.0% and 38.0% for the six months ended June 30, 2017 and 2016, respectively, reflecting assumed federal, state and local income taxes. Economic net income per adjusted share is equal to economic net income divided by the weighted average adjusted Class A common shares outstanding. The number of weighted average adjusted Class A common shares outstanding for all periods presented is determined by assuming the weighted average exchangeable units of Manning & Napier Group and unvested equity awards are converted into our outstanding Class A common stock as of the respective reporting date, on a one-to-one basis. Our management uses economic net income, among other financial data, to determine the earnings available to distribute as dividends to holders of its Class A common stock and to the holders of the units of Manning & Napier Group.

Non-GAAP measures are not a substitute for financial measures prepared in accordance with GAAP. Additionally, our non-GAAP measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures.

The following table sets forth our other financial and operating data for the six months ended June 30, 2017 and 2016:

|                                                                       | Three months ended<br>June 30,<br>2017 |            | Six months ended<br>June 30,<br>2016 |            |
|-----------------------------------------------------------------------|----------------------------------------|------------|--------------------------------------|------------|
|                                                                       | 2017                                   | 2016       | 2017                                 | 2016       |
|                                                                       | (in thousands, except share data)      |            |                                      |            |
| Income before provision for income taxes                              | \$ 15,831                              | \$ 23,243  | \$ 33,688                            | \$ 47,101  |
| Economic net income (Non-GAAP)                                        | \$ 9,657                               | \$ 14,178  | \$ 20,550                            | \$ 29,209  |
| Economic net income per adjusted share (Non-GAAP)                     | \$ 0.12                                | \$ 0.17    | \$ 0.26                              | \$ 0.35    |
| Weighted average adjusted Class A common stock outstanding (Non-GAAP) | 79,189,372                             | 82,029,881 | 80,097,025                           | 82,844,447 |

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

|                                                                                          | Three months<br>ended June 30,<br>2017 |            | Six months ended<br>June 30,<br>2016 |            |
|------------------------------------------------------------------------------------------|----------------------------------------|------------|--------------------------------------|------------|
|                                                                                          | 2017                                   | 2016       | 2017                                 | 2016       |
|                                                                                          | (in thousands, except share data)      |            |                                      |            |
| Net income attributable to Manning & Napier, Inc.                                        | \$ 1,685                               | \$ 2,605   | \$ 3,582                             | \$ 5,023   |
| Add back: Net income attributable to noncontrolling interests                            | 12,904                                 | 19,093     | 27,521                               | 38,859     |
| Add back: Provision for income taxes                                                     | 1,242                                  | 1,545      | 2,585                                | 3,219      |
| Income before provision for income taxes                                                 | 15,831                                 | 23,243     | 33,688                               | 47,101     |
| Adjusted income taxes (Non-GAAP)                                                         | 6,174                                  | 9,065      | 13,138                               | 17,892     |
| Economic net income (Non-GAAP)                                                           | \$ 9,657                               | \$ 14,178  | \$ 20,550                            | \$ 29,209  |
| Weighted average shares of Class A common stock outstanding - Basic                      | 14,111,368                             | 16,960,768 | 14,077,311                           | 13,852,949 |
| Assumed vesting, conversion or exchange of:                                              |                                        |            |                                      |            |
| Weighted average Manning & Napier Group, LLC units outstanding (noncontrolling interest) | 63,941,860                             | 63,879,755 | 64,847,946                           | 67,142,229 |
| Weighted average unvested restricted share-based awards                                  | 1,136,144                              | 1,681,138  | 1,171,768                            | 1,849,269  |
| Weighted average adjusted shares (Non-GAAP)                                              | 79,189,372                             | 82,029,881 | 80,097,025                           | 82,844,447 |
| Economic net income per adjusted share (Non-GAAP)                                        | \$ 0.12                                | \$ 0.17    | \$ 0.26                              | \$ 0.35    |



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Historically, our cash and liquidity needs have been met primarily through cash generated by our operations. Our current financial condition is highly liquid, with a significant amount of our assets comprised of cash and cash equivalents, accounts receivable and investment securities held by us for the purpose of optimizing short-term cash management and providing initial cash seeding for product development purposes.

The following table sets forth certain key financial data relating to our liquidity and capital resources as of June 30, 2017 and December 31, 2016:

|                                                               | June 30, December<br>2017 31, 2016<br>(in thousands) |           |
|---------------------------------------------------------------|------------------------------------------------------|-----------|
| Cash and cash equivalents                                     | \$92,958                                             | \$100,819 |
| Accounts receivable                                           | \$17,715                                             | \$22,195  |
| Investment securities                                         | \$45,251                                             | \$36,475  |
| Investment securities - consolidated funds                    | \$—                                                  | \$995     |
| Amounts payable under tax receivable agreement <sup>(1)</sup> | \$37,073                                             | \$37,073  |
| Contingent consideration liability <sup>(2)</sup>             | \$—                                                  | \$—       |

In light of numerous factors affecting our obligation to make such payments, the timing and amounts of any such (1) actual payments are based on our best estimate as of June 30, 2017 and December 31, 2016, including our ability to realize the expected tax benefits. Actual payments may significantly differ from estimated payments.

(2) Represents the fair value of additional cash payments related to our acquisition of Rainier of up to \$32.5 million over the period ending December 31, 2019, contingent upon Rainier's achievement of certain financial targets.

In determining the sufficiency of liquidity and capital resources to fund our business, we regularly monitor our liquidity position, including among other things, cash, working capital, long-term liabilities, lease commitments and operating company distributions. On January 12, 2017, we terminated our revolving credit agreement that provided borrowing capacity of up to \$100.0 million. No amounts had been borrowed and thus none were outstanding. Our decision to terminate the facility was based on an evaluation of factors including the cost of the facility, the anticipated need to finance capital or other projects, and the sufficiency of liquidity and capital resources.

On May 10, 2017, the Company entered into an agreement to sell certain U.S. equity products to a third party. The selling price will be determined by the assets under management on the date of closing, which is expected to be in the third quarter of 2017. The amount of the assets under management to be sold as of June 30, 2017 was approximately \$0.5 billion.

We believe that cash on hand and cash generated from operations will be sufficient over the next twelve months to meet our working capital requirements. Further, we expect that cash on hand, including short-term investments and cash generated by operations will be sufficient to meet our liquidity needs for the foreseeable future.

**Cash Flows**

The following table sets forth our cash flows for the six months ended June 30, 2017 and 2016. Operating activities consist primarily of net income subject to adjustments for changes in operating assets and liabilities, equity-based compensation expense, changes in the liability under the TRA, deferred income tax expense and depreciation and amortization. Investing activities consist primarily of the purchase and sale of investments for the purpose of providing initial cash seeding for product development and for cash management purposes, and purchases of property and equipment. Financing activities consist primarily of distributions to noncontrolling interests, dividends paid on our Class A common stock, and purchases of Class A units held by noncontrolling interests of Manning & Napier Group.

|                                           | Six months ended<br>June 30,<br>2017 2016<br>(in thousands) |          |
|-------------------------------------------|-------------------------------------------------------------|----------|
| Net cash provided by operating activities | \$30,211                                                    | \$43,167 |

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|                                         |            |           |
|-----------------------------------------|------------|-----------|
| Net cash used in investing activities   | (6,645 )   | (1,026 )  |
| Net cash used in financing activities   | (31,427 )  | (42,068 ) |
| Net change in cash and cash equivalents | \$(7,861 ) | \$73      |

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### Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

#### Operating Activities

Operating activities provided \$30.2 million and \$43.2 million of net cash for the six months ended June 30, 2017 and 2016, respectively. This overall \$13.0 million decrease in net cash provided by operating activities for the six months ended June 30, 2017 compared to 2016 was due to a decrease in net income after adjustment for non-cash items of approximately \$13.9 million driven by lower revenues resulting primarily from changes in our average AUM. This decrease was also due to \$3.8 million of cash from consolidated funds due to the timing of trading activity in 2016, partially offset by an increase of \$4.8 million in operating assets and liabilities.

#### Investing Activities

Investing activities used \$6.6 million and \$1.0 million of net cash for the six months ended June 30, 2017 and 2016, respectively. This increase in cash used was primarily driven by changes in investing activities of \$14.7 million due to our funding of and timing of activity within our investment securities. During the six months ended June 30, 2017, we used approximately \$7.4 million net for the purchase of short-term investments for cash management purposes, which was partially offset by cash provided of approximately \$1.5 million net within our investment securities for the purposes of new product development due to the redemption of a portfolio and the seeding of a new portfolio. In addition, we utilized \$9.3 million for acquisitions during 2016. Our purchases of property and equipment was approximately \$0.8 million during the six months ended June 30, 2017 compared to \$0.1 million in 2016.

#### Financing Activities

Financing activities used \$31.4 million and \$42.1 million of net cash for the six months ended June 30, 2017 and 2016, respectively. This overall \$10.6 million decrease in net cash used in financing activities was primarily the result of a reduction in distributions to noncontrolling interests of \$2.5 million and dividends paid on Class A common stock of \$1.1 million driven by lower income after adjustment for non-cash items in 2017 compared to 2016. The decrease in cash used in financing activities was also driven by a decrease of \$6.3 million of cash used for the purchase of Class A units of Manning & Napier Group pursuant to the exchange agreement entered into at the time of our IPO of \$9.8 million during the six months ended June 30, 2017, compared to \$16.1 million in 2016. This decrease was due to a lower exchange price and a lower number of units exchanged in 2017. In addition, during the six months ended June 30, 2017 and 2016 we utilized cash of approximately \$0.3 million and \$1.0 million, respectively, for the payment of shares withheld to satisfy tax withholdings due to the vesting of equity awards during the respective periods.

#### Dividends

On October 25, 2016, the Board of Directors declared a \$0.16 per share dividend to the holders of Class A common stock. The dividend was paid on February 1, 2017 to shareholders of record as of January 13, 2017.

On March 7, 2017, the Board of Directors declared an \$0.08 per share dividend to the holders of Class A common stock. The dividend was paid on May 1, 2017 to shareholders of record as of April 14, 2017.

On April 25, 2017, the Board of Directors declared an \$0.08 per share dividend to the holders of Class A common stock. The dividend was paid on August 1, 2017 to shareholders of record as of July 14, 2017.

On July 25, 2017, the Board of Directors declared an \$0.08 per share dividend to the holders of Class A common stock. The dividend is payable on or about November 1, 2017 to shareholders of record as of October 13, 2017.

We currently intend to pay quarterly cash dividends on our Class A common stock. We intend to fund such dividends from our portion of distributions made by Manning & Napier Group, from its available cash generated from operations. William Manning, as the holder of our Class B common stock, will not be entitled to any cash dividends in his capacity as a Class B stockholder, but will, in his capacity as an indirect holder of Class A units of Manning & Napier Group, generally participate on a pro rata basis in distributions by Manning & Napier Group.

The declaration and payment of all future dividends, if any, will be at the sole discretion of our board of directors. In determining the amount of any future dividends, our board of directors will take into account:

- the financial results of Manning & Napier Group;

- our available cash, as well as anticipated cash requirements, including any debt servicing and payments required under the TRA;

- our capital requirements and the capital requirements of our subsidiaries, including Manning & Napier Group;





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contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our stockholders or distributions by Manning & Napier Group to us, including the obligation of Manning & Napier Group to make tax distributions to its unitholders, including us;  
 general economic and business conditions; and  
 any other factors that our board of directors may deem relevant.

We have no material assets other than our ownership of Class A units of Manning & Napier Group and, accordingly, will depend on distributions from Manning & Napier Group to fund any dividends we may pay. As managing member of Manning & Napier Group, we will determine the timing and amount of any distributions to be paid to its members, other than mandatory tax distributions required under Manning & Napier Group's operating agreement. We intend to cause Manning & Napier Group to distribute cash to its members, including us, in an amount sufficient to cover dividends, if any, declared by us. If we do cause Manning & Napier Group to make such distributions, M&N Group Holdings, MNCC and any other holders of units of Manning & Napier Group will be entitled to receive equivalent distributions on a pari passu basis.

### Contractual Obligations

There have been no material changes in our contractual obligations as set forth in our Annual Report on Form 10-K for the year ended December 31, 2016.

### Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2017.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Market Risk

Our exposure to market risk is directly related to the role of our operating company as an investment advisor for the mutual funds and separate accounts it manages. Substantially all of our revenues are derived from investment management agreements with these funds and accounts. Under these agreements, the investment management fees we receive are based on the value of our AUM and our fee rates. 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 a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenues to decline further.

The value of our AUM was \$27.1 billion as of June 30, 2017. Assuming a 10% increase or decrease in the value of our AUM and the change being proportionally distributed over all our products, the value would increase or decrease by approximately \$2.7 billion, which would cause an annualized increase or decrease in revenues of approximately \$19.2 million at our current weighted average fee rate of 0.71%.

We have not adopted a corporate-level risk management policy regarding client assets, nor have we attempted to hedge at the corporate level the market risks that would affect the value of our overall AUM and related revenues. Some of these risks (e.g., sector risks and currency risks) are inherent in certain strategies, and clients may invest in particular strategies to gain exposure to these risks.

We also are subject to market risk from a decline in the prices of investment securities that we own. These securities consist primarily of equity securities, fixed-income securities, investments in mutual funds, including the Fund for which MNA provides advisory services and short-term investment for cash management purposes. The value of these investments was \$45.3 million as of June 30, 2017 of which approximately \$14.9 million is investment securities classified as trading, \$1.1 million is classified as equity method investments and \$29.3 million is investment securities classified as available-for-sale. Management regularly monitors the value of these investments; however, given their nature and relative size, we have not adopted a specific risk management policy to manage the associated market risk. Assuming a 10% increase or decrease in the values of these investment securities, the fair value would increase or decrease by approximately \$4.5 million at June 30, 2017. Due to the nature of our business, we believe that we do not face any material risk from inflation.

### Exchange Rate Risk

A substantial portion of the accounts that we advise, or sub-advise, hold investments that are denominated in currencies other than the U.S. dollar. Movements in the rate of exchange between the U.S. dollar and the underlying foreign currency affect the values of assets held in accounts we manage, thereby affecting the amount of revenues we

earn. The value of the assets we manage was \$27.1 billion as of June 30, 2017. As of June 30, 2017, approximately 18% of our AUM across our investment strategies was invested in securities 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 those AUM would 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.

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We monitor our exposure to exchange rate risk and make decisions on how to manage such risk accordingly; however, we have not adopted a corporate-level risk management policy to manage exchange rate risk. Assuming that 18% of our AUM is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would increase or decrease the fair value of our AUM by approximately \$0.5 billion, which would cause an annualized increase or decrease in revenues of approximately \$3.5 million at our current weighted average fee rate of 0.71%.

**Interest Rate Risk**

The Company was exposed to interest-rate risk primarily due to our AUM that is invested in debt securities, as well as corporate assets that are invested in debt securities and short-term investments. Management considered a hypothetical 100 basis point fluctuation in interest rates and estimated the impact of such a fluctuation on these investments. Management determined there was no material impact as of June 30, 2017. Additionally, given the current level of income we earn from our cash and cash equivalent balances and short-term investments, interest rate changes would not have a material impact on us.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017 pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of June 30, 2017, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1A. Risk Factors

We have set forth in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2016 risk factors relating to our business, our industry, our structure and our Class A common stock. Readers of this Quarterly Report on Form 10-Q are referred to such Item 1A for a more complete understanding of risks concerning our company. There have been no material changes in our risk factors since those published in such Form 10-K for the year ended December 31, 2016.

Item 6. Exhibits

Exhibit No. Description

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                        |
| 31.2 | Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                        |
| 32.1 | Certification of the Company's 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 the Company's 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  | Materials from the Manning & Napier, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Unaudited Consolidated Financial Statements. |

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SIGNATURES

Pursuant to the requirements 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.

MANNING & NAPIER, INC.

Dated: August 8, 2017 By: /s/ WILLIAM MANNING  
William Manning  
Chief Executive Officer  
(principal executive officer)

/s/ BETH H. GALUSHA  
Beth H. Galusha  
Principal Financial Officer  
(principal financial officer)