

Manning & Napier, Inc.  
Form 10-K  
March 16, 2017  
Table of Contents

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

---

FORM 10-K

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

For the fiscal year ended December 31, 2016

☐ 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

---

MANNING & NAPIER, INC.

(Exact name of registrant as specified in its charter)

Delaware 45-2609100

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

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

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

Title of each class	Name of each exchange in which registered
Class A common stock, \$0.01 par value per share	New York Stock Exchange

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

None

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: Manning & Napier, Inc. - Form 10-K

x

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

Large accelerated filer

Accelerated filer x

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No x

The aggregate market value of the registrant's common equity held by non-affiliates of the registrant (assuming for purposes of this computation only that the directors and executive officers may be affiliates) at June 30, 2016, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$140.1 million based on the closing price of \$9.50 for one share of common stock, as reported on the New York Stock Exchange on that date.

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 March 13, 2017
Class A common stock, \$0.01 par value per share	14,982,880
Class B common stock, \$0.01 par value per share	1,000

---

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be held June 14, 2017 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>2</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>21</u>
Item 2. <u>Properties</u>	<u>21</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>21</u>
<u>Part II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>49</u>
Item 9A. <u>Controls and Procedures</u>	<u>49</u>
Item 9B. <u>Other Information</u>	<u>49</u>
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>50</u>
Item 11. <u>Executive Compensation</u>	<u>50</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>50</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>50</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>50</u>
<u>Part IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>51</u>
Item 16. <u>Form 10-K Summary</u>	<u>53</u>

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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,” “intend” 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” as well as other sections of this report which include, without limitation: changes in securities or financial markets or general economic conditions; a decline in the performance of the Company’s 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.

Table of Contents

PART I

Item 1. Business.

Overview

Manning & Napier, Inc. is an independent investment management firm that provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trust funds, as well as a variety of consultative services that complement its investment process. Founded in 1970, we offer equity, fixed income and a range of blended asset portfolios which includes life cycle funds and exchange-traded fund ("ETF")-based portfolios. Headquartered in Fairport, New York, we serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans ("Taft-Hartley"), endowments and foundations.

Since our inception, we have taken the view that an active, team-based approach to portfolio management is the best way to manage risk for clients as market conditions change. Across our variety of equity, fixed income and blended asset portfolios, our goal is to provide competitive absolute returns over full market cycles. Our strategies employ disciplined processes that seek to avoid areas of speculation by focusing on investments with strong fundamentals at reasonable prices or stable fundamentals at attractive prices. To ensure a focus on absolute returns, we employ a compensation structure for our research team that rewards positive and above benchmark results and penalizes negative and below benchmark results. This active, absolute-returns based approach requires flexibility to invest where opportunities are and avoid speculation, regardless of the allocations within a comparative benchmark. Initially, this approach helped us build a client base of high net worth individuals, small business owners and middle market institutions, and we maintain these relationships in many targeted geographic regions. This foundation allowed us to expand our business to serve the needs of larger institutions, investment consultants and other intermediaries. A key aspect of our client service approach is a commitment to internal subject matter experts that can provide consultative services beyond investment management, which we believe helps us attract new clients and build close relationships through multiple service touch points and a solutions-oriented approach. We have designed solutions that are specific to our clients' needs, such as our family wealth management service, endowment and foundation services, and trust services. This service-oriented approach combined with competitive long-term investment performance across portfolios, has allowed us to achieve a high average annual separate account retention rate throughout our history.

Our commitment to team-based research, an absolute return focus and a flexible process have been central to our success, and we believe are distinctive within the industry. Over the course of our 45+ year history our mutual funds have earned several industry accolades, including a finalist ranking for Morningstar's international manager of the decade during the 2000s and multiple Lipper awards. As of December 31, 2016 we have eight mutual funds rated with four or five stars by Morningstar. Several of our investment strategies have value-added track records over multiple decades, which has led to strong growth in our total discretionary assets under management ("AUM") over the long-term. This included significant growth in our non U.S. and U.S. core equity strategies. More recently, these strategies have faced performance headwinds and a trend towards passive investing especially amongst institutional investors, both of which have resulted in AUM declines starting in 2014. Our active approach causes us to be out of favor relative to benchmarks and/or peers over shorter time periods and these short-term periods can lead to changes in AUM trends over time. The following chart reflects our AUM as of December 31 for each of the last 10 years.

Table of Contents

We offer our investment management capabilities primarily through direct sales to high net worth individuals and institutions, as well as through third-party intermediaries, platforms and institutional investment consultants. As of December 31, 2016, our investment management offerings include 40 distinct separate account composites and 65 mutual funds and collective investment trusts. We have cultivated a robust menu of products with a range of fees to address our clients' needs including traditional actively managed portfolios, ETF allocations, target date and goal based funds and collectives.

Our AUM as of December 31, 2016 by investment vehicle and portfolio were as follows:

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 December 31, 2016.

Table of Contents

Key Strategies	AUM as of December 31, 2016 (in millions)	Inception Date	Annualized Returns as of December 31, 2016 (3)					
			One Year	Three Year	Five Year	Ten Year	Market Cycle (1)	Inception
Long-Term Growth 30%-80% Equity Exposure	\$ 8,765.8	1/1/1973	3.7%	2.0%	6.9%	4.3%	6.0%	9.4%
Blended Benchmark: 55% S&P 500 Total Return / 45% Bloomberg Barclays Government/Credit Bond			8.0%	6.4%	9.1%	6.1%	5.1%	9.2%
Core Non-U.S. Equity	\$ 5,433.5	10/1/1996	2.2%	(4.1)%	4.6%	1.1%	5.0%	7.1%
Benchmark: ACWIXUS Index			4.5%	(1.8)%	5.0%	1.0%	2.8%	4.6%
Growth with Reduced Volatility 20%-60% Equity Exposure	\$ 4,077.1	1/1/1973	3.0%	1.6%	5.5%	4.0%	5.6%	8.7%
Blended Benchmark: 40% S&P 500 Total Return / 60% Bloomberg Barclays Government/Credit Bond			6.7%	5.5%	7.2%	5.7%	5.2%	8.8%
Equity-Oriented	\$ 2,670.0	1/1/1993	4.3%	1.7%	8.9%	4.2%	6.2%	9.5%
Blended Benchmark: 65% Russell 3000® / 20% ACWIXUS / 15% Bloomberg Barclays U.S. Aggregate Bond			9.7%	5.6%	10.9%	5.7%	4.7%	8.3%
Equity-Focused Blend	\$ 1,085.3	4/1/2000	4.0%	2.1%	7.8%	4.5%	6.5%	6.5%
Blended Benchmark: 53% Russell 3000/ 17% ACWIXUS/ 30% Bloomberg Barclays U.S. Aggregate Bond			8.4%	5.2%	9.3%	5.6%	4.9%	4.9%
Core Equity (Unrestricted) 90%-100% Equity Exposure	\$ 1,043.6	1/1/1995	5.5%	2.5%	10.6%	5.1%	6.9%	10.6%
Blended Benchmark: 80% Russell 3000® / 20% ACWIXUS			11.1%	6.4%	12.7%	5.9%	4.5%	8.7%
Core U.S. Equity	\$ 762.8	7/1/2000	7.6%	4.0%	11.3%	5.6%	N/A <sup>(2)</sup>	6.7%
Benchmark: Russell 3000® Index			12.7%	8.4%	14.7%	7.1%	4.8%	5.1%
Conservative Growth	\$ 710.3	4/1/1992	2.3%	1.5%	3.4%	3.8%	5.1%	6.0%
Blended Benchmark: 15% Russell 3000/ 5% ACWIXUS/ 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond			3.8%	3.2%	4.0%	4.5%	5.0%	6.2%
Aggregate Fixed Income	\$ 511.4	1/1/1984	2.6%	2.4%	2.3%	4.4%	4.9%	7.4%
Benchmark: Bloomberg Barclays U.S. Aggregate Bond			2.7%	3.0%	2.2%	4.3%	5.2%	7.3%
Rainier International Small Cap	\$ 466.6	3/28/2012	(6.7)%	2.5%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	11%
Benchmark: MSCI ACWIXUS Small Cap Index			3.9%	0.8%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	5.2%
Disciplined Value	\$ 367.8	11/1/2003	13.4%	7.2%	11.3%	8.4%	N/A <sup>(2)</sup>	10.4%
Benchmark: Russell 1000 Value			17.3%	8.6%	14.8%	5.7%	6.6%	8.3%

(1) The market cycle performance numbers are calculated from April 1, 2000 to December 31, 2016. 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 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.



## Table of Contents

### Our Strategy

Our approach for continued success is focused on the strategies described below.

#### Maintain a Strong, Team-Based Research Engine

With a research department of nearly 70 investment professionals, we are committed to a team-based approach to portfolio management to ensure that success can be repeated over time. All of our investment products are managed by portfolio teams, so that stability of process takes precedence over any individual personality. We take a home-grown approach to maintaining this strong research engine. Analysts begin their employment with us as Research Assistants or Associates, and progress to the Analyst level only after learning our process and disciplines in a role that supports the portfolio management teams. We believe this ensures consistency with our time-tested philosophies and also provides a source of future analysts to address growth and turnover. Over time and as product development warrants, we may add to our research team or supplement that team with additional investment professionals through corporate development activities as evidenced by our acquisition of Rainier Investment Management, LLC ("Rainier") in 2016. The Director of Investments and Managing Directors of the firm's investment groups are responsible for talent management and ensuring day-to-day adherence to our strategies and disciplines.

#### Broad, Multi Channel Distribution Team

We continue to focus on the depth of our multi-channel distribution structure, which includes Direct, Intermediary and Platform/Sub-Advisory channels. Within our Direct Channel our representatives form relationships with high net worth individuals, middle market institutions or large institutions working with a consultant. Our high-touch distribution strategy has allowed us to build strong relationships over time. Through our Intermediary Channel national brokerage firm representatives, independent financial advisors and retirement plan advisors select our strategies for their clients. Manager Research teams approve our strategies for their product platforms through our Platform/Sub-Advisory Channel. Beyond deepening these current channels and territories, we continue to look at ways to expand our global distribution, including leveraging our current relationships in Europe and expanding into new markets.

#### Innovative Product Development

Our on-going development of products and consultative services in response to current and prospective client needs historically has been a source of growth. As an example, today's market and regulatory environment presents new challenges for investors. Historically low yields on fixed income securities, the potential for rising interest rates and future inflation, a complex and changing regulatory environment, and continued global uncertainty have created an investing landscape that requires new solutions to meeting objectives. We understand that we must stay relevant and competitive by ensuring that we are consistently providing innovative solutions that address today's challenges. As of December 31, 2016, we have approximately \$17.1 million invested in seed capital to our investment teams to develop new products and services for our clients.

#### Enhanced Consultative Services

Offering consultative services alongside our team-based, process-driven investment management has been a source of both new business and client retention over our history. Currently, we offer a variety of consultative services to individual and institutional clients, including estate and tax planning, asset/liability modeling for defined benefit pension plans, retirement and health plan design analysis for employers, and donor relations and planned giving services for endowment and foundation clients.

Many of these services are offered through our Client Analytics Group, which consists of internal consultants whose primary responsibilities include working with prospective and current clients to solve investment and planning-related problems. This group includes several chartered financial analysts, certified financial planners, an accredited investment fiduciary and professionals with law and masters degrees.

We also offer practice management concepts and tools to both wealth advisors and retirement plan advisors to assist in their new business and service efforts, and certain technology-driven products and services aimed at the middle market employer marketplace to assist both employers and employees with their health and wealth planning.

#### Digital Marketing

We have invested in a digital marketing strategy to help us identify new prospects through targeted content marketing. In addition, our investment in digital communication technologies has been valuable in servicing our existing clients,

providing an opportunity for more frequent and transparent communication.

#### Products, Services and Investment Fundamentals

We manage a variety of equity, fixed income, and blended asset strategies, using primarily traditional asset classes such as stocks and bonds. These strategies may include a mix of the different vehicles we offer, including separate accounts, mutual

## Table of Contents

funds, and collective investment trusts. Our goal is to help our clients meet their investment objectives by providing competitive positive returns over full stock market cycles, including both bull and bear market environments. Three key elements of our investment process help to keep us focused on that goal:

**Team-Based Research.** Our analysts and economists work together to understand market opportunities from both a broad, macro level and a more detailed industry and company level. This combination of both "top-down" and "bottom-up" research allows us to identify trends, themes and company specific investment opportunities across the globe, and has been a key factor in our success. The use of a team rather than an individual to manage strategies means we emphasize repeatable processes over personalities.

**A Focus on Absolute Returns.** Whether investing in a country, industry or individual company, we hold a strong belief that price matters. We are focused on helping our clients avoid permanent loss of capital over their time horizon, which is different than day-to-day volatility, which could in fact present opportunities. We believe that active management has consistently been the most appropriate and relevant investment strategy to achieve these goals across changing market environments. To that end, we believe we have aligned the incentives of our analysts with the goals of our clients by structuring our analyst compensation system such that returns that are both negative and below benchmarks produce a negative bonus the analyst has to offset before earning a positive bonus. The analysts earn their largest bonus, which could be multiples of their salary and the largest part of their total compensation, when they earn returns that are both positive and above benchmarks for our clients. We believe this focus on price has provided capital preservation in many valuation-based bear markets during our history, and reduces the risk of permanent, downside price fluctuation from our buy price.

**Flexibility to be Benchmark Agnostic.** The flexibility to invest across sectors, countries and asset classes allows us to focus on companies we view as having greater upside potential than downside risk, and allows us to have a broad enough opportunity set to freely navigate away from areas of excess or speculation without limiting the number of investment opportunities. While this approach may often result in our strategies having meaningfully different allocations and exposures when compared to market benchmarks, we believe this type of differentiation is necessary to manage risk in many environments and provides a good complement to passive investing in investors' pursuit of real life financial goals.

### **Sales and Distribution**

We distribute our products and services through direct sales to high net worth individuals, middle market institutions and larger institutional clients that are working with consultants. In addition, we have dedicated efforts to sell through financial intermediaries and platforms. In identifying prospective new business, we focus on individuals and institutions that have long-term objectives and needs, and are looking for a partner in addressing those objectives. We believe our problem-solving approach fosters strong relationships, and our focus on communicating our investment process helps to manage long-term expectations and minimize AUM turnover.

As of December 31, 2016, we have over 50 sales and distribution professionals, with an average of approximately 19 years of industry experience. Our Managing Director of Sales, who has been with us for nearly 25 years, oversees 12 direct institutional and regional sales representatives. Our Managing Director of Regional Sales and Managing Director of Intermediary Distribution, who have respectively been with us for 18 and 7 years, report to our Managing Director of Sales and help to manage our various sales and service representatives. Specifically, our direct national sales representatives cover large, multiple state territories prospecting large plans. Our direct regional sales representatives cover smaller territories and pursue both individual and middle market institutional business opportunities, and our regional service representatives focus on servicing individual and small institutional clients. Our Intermediary Channel includes external and internal wholesalers, separately covering retirement plan advisors and wealth management advisors, and key account representatives. Lastly, we have Portfolio Strategists who are primarily responsible for consultant relations and also work with members of our Client Analytics Group to properly position our products in light of our varied distribution teams and client types.

Sales representatives have different areas of focus in terms of client type, product and vehicle, but are highly knowledgeable about the investment markets, our investment process and our product and service offerings, so as to lessen the need for our research department personnel to assist in bringing new relationships on board. Our sales representatives are responsible for generating new business as well as maintaining existing business. Referrals are an

important source of new business in both our direct and intermediary marketing efforts. To assist the sales representatives, we have over 30 service professionals who are responsible for responding to client requests and questions.

Our separate accounts are primarily distributed by direct sales representatives that market to individuals and institutions in defined territories within North America. Our regional sales representatives form separate account relationships with high net worth individuals that own businesses, sit on boards of endowments or foundations, or are generally well-connected in their communities, and leverage those relationships to obtain middle market, institutional separate account business. Our high net worth and middle market separate account clients also often use the consultative services of our Client Analytics Group, which

Table of Contents

includes a variety of planning services. Our regional sales representatives focus more on large institutional mandates across the United States. We obtain a smaller portion of our separate account business through our external and internal wholesalers, who work with intermediaries, including national brokerage firm representatives and independent financial advisors working with high net worth individuals, and unaffiliated registered investment advisor platforms that select our strategies for inclusion in their investment programs.

Our mutual funds and collective investment trusts are distributed through intermediaries, platforms and investment consultants, as well as direct to institutional clients. Our internal and external wholesale professionals are focused on distributing through retirement plan advisors who work with defined contribution plans, as well as through brokers and advisors who work with retail clients. Our consultant relations specialists are dedicated to building relationships with investment consultants. The primary responsibilities of these individuals are to educate consultants, platform providers and advisors on our investment products and process and to ensure our products are among those considered for placement within mutual fund advisory programs, on platforms' approved lists and in active searches conducted by consultants. Our direct institutional and regional sales representatives also contribute to mutual fund and collective investment trust distribution through sales and servicing of fund vehicles to large market retirement plan sponsors and institutions.

Structure

The Company was incorporated in 2011 as a Delaware corporation, and 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 our organization structure as of December 31, 2016.

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

## Table of Contents

As of December 31, 2016, we had 468 employees, including William Manning, our Chairman, Chief Executive Officer and controlling stockholder, and other current employee-owners, most of whom are based in Fairport, New York. Collectively, these owners and former employee-owners own approximately 82.6% of our operating subsidiary, Manning & Napier Group. We believe that our culture of employee ownership aligns our interests with those of our clients and shareholders by delivering strong long-term investment performance and solutions.

### Competition

Historically, we have competed to attract assets to manage principally on the basis of:

- a broad portfolio and service offering that provides solutions for our clients;
- the disciplined and repeatable nature of our team-based investment processes;
- the quality of the service we provide to our clients and the duration of our relationships with them;
- our pricing compared to other investment management products offered;
- the tenure and continuity of our management and team-based investment professionals; and
- our long-term investment track record.

Our ability to continue to compete effectively will also depend upon our ability to retain our current investment professionals and employees and to attract highly qualified new investment professionals and employees. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions.

### Regulation

Our business is subject to extensive regulation in the United States at the federal level and, to a lesser extent, the state level, as well as by self-regulatory organizations and regulations outside the United States. Under certain of these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines.

### SEC Regulation

Manning & Napier Advisors, LLC ("MNA") is registered with the U.S. Securities and Exchange Commission, or SEC, as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended, ("the Advisers Act"). Additionally, the Manning & Napier Fund, Inc., (the "Fund"), and certain of the third-party investment companies we sub-advise are registered under the U.S. Investment Company Act of 1940, (the "1940 Act"). The Advisers Act and the 1940 Act, together with the SEC's regulations and interpretations thereunder, impose substantive and material restrictions and requirements on the operations of advisers and mutual funds. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the 1940 Act, ranging from fines and censures to termination of an adviser's registration.

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted these duties to impose standards, requirements and limitations on, among other things:

- trading for proprietary, personal and client accounts;
- allocations of investment opportunities among clients;
- use of soft dollars;
- execution of transactions; and
- recommendations to clients.

We manage accounts for all of our clients on a discretionary basis, with authority to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with these transactions, we receive soft dollar credits from broker-dealers that have the effect of reducing certain of our expenses. All of our soft dollar arrangements are intended to be within the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act"). If our ability to use soft dollars were reduced or eliminated as a result of statutory amendments or new regulations, our operating expenses would increase.

As a registered adviser, we are subject to many additional requirements that cover, among other things:

- disclosure of information about our business to clients;



## Table of Contents

- maintenance of formal policies and procedures;
- maintenance of extensive books and records;
- restrictions on the types of fees we may charge;
- custody of client assets;
- client privacy;
- advertising; and
- solicitation of clients.

The SEC has authority to inspect any investment adviser and typically inspects a registered adviser periodically to determine whether the adviser is conducting its activities (i) in accordance with applicable laws, (ii) consistent with disclosures made to clients and (iii) with adequate policies, procedures and systems to ensure compliance.

For the year ended December 31, 2016, 42% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 42% derived from our advisory services to the Fund. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs of the Fund and the investment portfolios of the Fund and the funds we sub-advise, our own operations are subject to oversight and management by each fund's board of directors. Under the 1940 Act, a majority of the directors must not be "interested persons" with respect to us (sometimes referred to as the "independent director" requirement). The responsibilities of the board include, among other things, approving our investment management agreement with the Fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates. Our investment management agreements with the Fund may be terminated by the funds on not more than 60 days' notice, and are subject to annual renewal by the Fund board after their initial term.

The 1940 Act also imposes on the investment adviser to a mutual fund a fiduciary duty with respect to the receipt of the adviser's investment management fees. That fiduciary duty may be enforced by the SEC through administrative action or litigation by investors in the fund pursuant to a private right of action.

Under the Advisers Act, our investment management agreements may not be assigned without the client's consent. Under the 1940 Act, investment management agreements with registered funds (such as the mutual funds we manage) terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct assignments as well as assignments that may be deemed to occur upon the transfer, directly or indirectly, of a controlling interest in us.

Manning & Napier Investor Services, Inc. ("MNBD"), our SEC-registered broker-dealer subsidiary, is subject to the SEC's Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer's assets be kept in relatively liquid form. As of December 31, 2016, MNBD was in compliance with its net capital requirements.

### ERISA-Related Regulation

We are a fiduciary under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, with respect to assets that we manage for benefit plan clients subject to ERISA. ERISA, regulations promulgated thereunder and applicable provisions of the Internal Revenue Code of 1986, as amended, impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions.

The fiduciary duties under ERISA may be enforced by the U.S. Department of Labor by administrative action or litigation and by our benefit plan clients pursuant to a private right of action. In addition, the IRS may assess excise taxes against us if we engage in prohibited transactions on behalf of or with our benefit plan clients.

### CFTC/NFA Regulation

MNA is registered with the Commodity Futures Trading Commission, or CFTC, as a commodity pool operator ("CPO") and is also a member of the National Futures Association, or NFA. The CFTC and NFA each administer a regulatory system covering futures contracts and various other financial instruments in which certain of our clients may invest.

### New Hampshire Banking Regulation



Exeter Trust Company is a state-chartered non-depository trust company subject to the laws of the State of New Hampshire and the regulations promulgated thereunder by the New Hampshire Bank Commissioner.

## Table of Contents

### Insurance-Related Regulation

Manning & Napier Benefits, LLC is a registered insurance broker in multiple states including the District of Columbia and, as such, is subject to various state insurance and health-related rules and regulations.

### Non-U.S. Regulation

In addition to the extensive regulation our investment management industry is subject to in the United States, we are also subject to regulation by various Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. We are authorized to act as a non-resident sub-advisory investment manager to collective investment vehicles in Ireland. Our business is also subject to the rules and regulations of the more than 30 countries in which we currently buy and sell portfolio investments.

### Employees

As of December 31, 2016, we had 468 employees, most of whom are based in Fairport, New York. None of our employees are subject to a collective bargaining agreement.

### Available Information

All annual, quarterly and current reports, and amendments to those reports, proxy statements and other filings we file or furnish with the SEC are available free of charge from the SEC's website at <http://www.sec.gov/> or from the Public Reference Room at 100 F Street N.E., Washington, D.C. 20549; 1-800-SEC-0330.

We also make the documents listed above available without charge through the Investor Relations section of our website at <http://ir.manning-napier.com/>. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. The contents of our website are not incorporated by reference into this Annual Report.

## Item 1A. Risk Factors.

### Risks Related to our Business

Our revenues are dependent on the market value and composition of our AUM, which are subject to significant fluctuations.

We derive the majority of our revenue from investment management fees, typically calculated as a percentage of the market value of our AUM. As a result, our revenues are dependent on the value and composition of our AUM, all of which are subject to fluctuation due to many factors, including:

Declines in prices of securities in our portfolios. The prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, declining stock or commodities markets, changes in interest rates, a general economic downturn, political uncertainty or acts of terrorism. The U.S. and global financial markets continue to be subject to uncertainty and instability. Such factors could cause an unusual degree of volatility and price declines for securities in the portfolios we manage.

Redemptions and other withdrawals. Our clients generally may withdraw their funds at any time, on very short notice and without any significant penalty. A substantial portion of our revenue is derived from investment advisory agreements that are terminable by clients upon short notice or no notice and investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice. Also, new clients and portfolios may not have the same client retention characteristics as we have experienced in the past. In addition, in a declining stock market, the pace of redemptions could accelerate.

Investment performance. Our ability to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, our investment performance could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors including general market conditions. If our portfolios perform poorly, even over the short-term, as compared with our competitors or applicable third-party benchmarks, or the rankings of mutual funds we manage decline, we may lose existing AUM and have difficulty attracting new assets.

Competition from passive strategies. There has been an increasing preference for passive investment products, such as index and ETFs, over active strategies managed by asset managers. If this market preference continues, existing and prospective clients may choose to invest in passive investment products, our growth strategy may be impaired and our

AUM may be negatively impacted.

9

---

## Table of Contents

If any of these factors cause a decline in our AUM, it would result in lower investment management revenues. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced and our business will be adversely affected.

We derive substantially all of our revenues from contracts and relationships that may be terminated upon short or no notice.

We derive substantially all of our revenues from investment advisory and sub-advisor agreements, all of which are terminable by clients upon short notice or no notice and without any significant penalty.

Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' board of directors or a vote of the majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by such fund's board, including by its independent members. Our mutual fund and collective investment trust relationships may be terminated or not renewed for any number of reasons. As of December 31, 2016, mutual fund and collective investment trust relationships represent 41% of our AUM and 45% of our revenue.

The decrease in revenues that could result from the termination of a material client relationship or group of client relationships could have an adverse effect on our business. During the fiscal year ended December 31, 2016, there were no customers that provided over 10 percent of our total revenue. However, we have received a cancellation notice from a retirement plan relationship that represented approximately 7% of our AUM as of December 31, 2016. Our portfolios may not obtain attractive returns under certain market conditions or at all.

The goal of our investment process is to provide competitive absolute returns over full market cycles. Accordingly, our portfolios may not perform well compared to benchmarks or other investment managers' strategies during certain periods of time, under certain market conditions, or after specific market shocks. Underperformance may negatively affect our ability to retain clients and attract new clients. We are likely to be most out of favor when the markets are running on positive or negative price momentum and market prices become disconnected from underlying investment fundamentals. During and shortly following such periods of relative under performance, we are likely to see our highest levels of client turnover, even if our absolute returns are positive. Loss of client assets and the failure to attract new clients could adversely affect our revenues and growth.

The loss of key investment professionals or members of our senior management team could have an adverse effect on our business.

We depend on the skills and expertise of qualified investment professionals and our success depends on our ability to retain key employees, including members of our senior management team. Our investment professionals possess substantial experience in investing and have been primarily responsible for the historically attractive investment performance we have achieved. We particularly depend on our executive officers as well as senior members of our research department. The loss of any of these key individuals could limit our ability to successfully execute our business strategy and could have an adverse effect on our business.

Any of our investment or management professionals may resign at any time, subject to various covenants not to compete with us. In addition, employee-owners are subject to additional covenants not to compete.

Competition for qualified investment, management, marketing and client service professionals is intense and we may fail to attract and retain qualified personnel in the future. Our ability to attract and retain our executive officers and other key employees will depend heavily on the amount and structure of compensation and opportunities for equity ownership we offer. We utilize a compensation structure that uses a combination of cash and equity-based incentives as appropriate. However, our compensation may not be effective to recruit and retain the personnel we need, especially if our equity-based compensation does not return significant value to employees. Any cost-reduction initiative or adjustments or reductions to compensation could negatively impact our ability to retain key personnel. In addition, changes to our management structure, corporate culture and corporate governance arrangements could negatively impact our ability to retain key personnel.

We may be required to reduce the fees we charge, or our fees may decline due to changes in our AUM composition, which could have an adverse effect on our profit margins and results of operations.

Our current fee structure may be subject to downward pressure due to a variety of factors, including a trend in recent years toward lower fees in the investment management industry. We may be required to reduce fees with respect to

both the separate accounts we manage and the mutual funds and collective trust funds we advise. In addition, we may charge lower fees to attract future new business as compared to our existing business, which may result in us having to reduce our fees with respect to our existing business accordingly. The investment management agreements pursuant to which we advise mutual funds are terminable on short notice and, after an initial term, are subject to an annual process of review and renewal by the funds' boards. As part of that annual review process, the fund board considers, among other things, the level of compensation that the fund has been paying us for our services, and that process may result in the renegotiation of our fee structure or

## Table of Contents

increase our obligations, thus increasing the cost of our performance. Any fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

Our AUM is concentrated in certain portfolios.

As of December 31, 2016, 63% of our AUM was invested in products that comprise our blended asset portfolio. As a result, a substantial portion of our operating results depends upon the performance of these products, and our ability to retain client assets in such products. If a significant portion of the investors in our blended asset portfolio decide to withdraw their investments or terminate their investment management agreements for any reason, including poor investment performance or adverse market conditions, our revenues from these portfolios would decline, which could have an adverse effect on our earnings and financial condition.

Several of our portfolios involve investing principally in the securities of non-U.S. companies, which involve foreign currency exchange risk, and tax, political, social and economic uncertainties and risks.

As of December 31, 2016, approximately 30% of our AUM across all of our portfolios was invested in securities of non-U.S. companies. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our AUM, which, in turn, could result in lower revenue since we report our financial results in U.S. dollars.

Investments in non-U.S. issuers may also be affected by tax positions taken in countries or regions in which we are invested as well as political, social and economic uncertainty. Declining tax revenues may cause governments to assert their ability to tax the local gains and/or income of foreign investors (including our clients), which could adversely affect clients' interests in investing outside their home markets. Many financial markets are not as developed, or as efficient, as the U.S. financial markets and, as a result, those markets may have limited liquidity and higher price volatility and may lack established regulations. Liquidity may also be adversely affected by political or economic events, government policies, social or civil unrest within a particular country, and our ability to dispose of an investment may also be adversely affected if we increase the size of our investments in smaller non-U.S. issuers. Non-U.S. legal and regulatory environments, including financial accounting standards and practices, may also be different, and there may be less publicly available information about such companies. These risks could adversely affect the performance of our strategies that are invested in securities of non-U.S. issuers and may be particularly acute in the emerging or less developed markets in which we invest.

The historical returns of our existing portfolios may not be indicative of their future results or of the portfolios we may develop in the future.

The historical returns of our portfolios and the ratings and rankings we or the mutual funds that we advise have received in the past should not be considered indicative of the future results of these portfolios or of any other portfolios that we may develop in the future. The investment performance we achieve for our clients varies over time and the variance can be wide. The ratings and rankings we or the mutual funds we advise have received are typically revised monthly. The historical performance and ratings and rankings included in this report are as of December 31, 2016 and for periods then ended except where otherwise stated. The performance we have achieved and the ratings and rankings received at subsequent dates and for subsequent periods may be higher or lower and the difference could be material. Our portfolios' returns have benefited during some periods from investment opportunities and positive economic and market conditions. In other periods, general economic and market conditions have negatively affected our portfolios' returns. These negative conditions may occur again, and in the future we may not be able to identify and invest in profitable investment opportunities within our current or future portfolios.

We may elect to pursue growth in the United States and abroad through acquisitions or joint ventures, which would expose us to risks inherent in assimilating new operations, expanding into new jurisdictions, and making non-controlling minority investments in other entities.

In order to maintain and enhance our competitive position, we may review and pursue acquisition and joint venture opportunities. We cannot assure we will identify and consummate any such transactions on acceptable terms or have sufficient resources to accomplish such a strategy. In addition, any strategic transaction can involve a number of risks, including:

- additional demands on our staff;

unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees;  
adverse effects in the event acquired intangible assets or goodwill become impaired;  
the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing such a transaction; and

## Table of Contents

dilution to our public stockholders if we issue shares of our Class A common stock, or units of Manning & Napier Group with exchange rights, in connection with future acquisitions.

A portion of our separate account business, mutual funds, and collective investment trusts are distributed through intermediaries, platforms, and consultants. Changes in key distribution relationships could reduce our revenues and adversely affect our profitability.

Given that a portion of our product offerings are distributed through intermediaries, platforms, and investment consultants, a share of our success is dependent on access to these various distribution systems. These distributors are not contractually required to distribute or consider our products for placement within advisory programs, on platforms' approved lists, or in active searches conducted by investment consultants. Additionally, these intermediaries typically offer their clients various investment products and services, in addition to and in competition with our products and services. If we are unable to cultivate and build strong relationships within these distribution channels, the sales of our products could lead to a decline in revenues and profitability. Additionally, increasing competition for these distribution channels could cause our distribution costs to rise, which could have an adverse effect on our profitability. Our efforts to establish new portfolios or new products or services may be unsuccessful and could negatively impact our results of operations and our reputation.

As part of our growth strategy, we may seek to take advantage of opportunities to develop new portfolios consistent with our philosophy of managing portfolios to meet our clients' objectives and using a team-based investment approach. The costs associated with establishing a new portfolio initially likely will exceed the revenues that the portfolio generates. If any such new portfolio performs poorly or fails to attract sufficient assets to manage, our results of operations could be negatively impacted. Further, a new portfolio's poor performance may negatively impact our reputation and the reputation of our other portfolios within the investment community. In addition, we have developed and may seek from time to time to develop new products and services to take advantage of opportunities involving technology, insurance, participant and plan sponsor education and other products beyond investment management. The development of these products and services could involve investment of financial and management resources and may not be successful in developing client relationships, which could have an adverse effect on our business. The cost to develop these products initially will likely exceed the revenue they generate and additional investment in these products could negatively impact short term financial results. If establishing new portfolios or offering new products or services requires hiring new personnel, to the extent we are unable to recruit and retain sufficient personnel, we may not be successful in further diversifying our portfolios, client assets and business, which could have an adverse effect on our business and future prospects.

Our failure to comply with investment guidelines set by our clients and limitations imposed by applicable law, could result in damage awards against us and a loss of our AUM, either of which could adversely affect our reputation, results of operations or financial condition.

When clients retain us to manage assets on their behalf, they generally specify certain guidelines regarding investment allocation that we are required to follow in managing their portfolios. We are also required to invest the mutual funds' assets in accordance with limitations under the 1940 Act, and applicable provisions of the Internal Revenue Code of 1986, as amended. Other clients, such as plans subject to ERISA, or non-U.S. funds, require us to invest their assets in accordance with applicable law. Our failure to comply with any of these guidelines and other limitations could result in losses to clients or investors in our products which, depending on the circumstances, could result in our obligation to make clients whole for such losses. If we believed that the circumstances did not justify a reimbursement, or clients believed the reimbursement we offered was insufficient, clients could seek to recover damages from us, withdraw assets from our products or terminate their investment management agreement with us. Any of these events could harm our reputation and adversely affect our business.

A change of control of our company could result in termination of our investment advisory agreements.

Under the 1940 Act, each of the investment advisory agreements for SEC registered mutual funds that our affiliate, MNA, advises automatically terminates in the event of its assignment, as defined under the 1940 Act. If such an assignment were to occur, MNA could continue to act as adviser to any such fund only if that fund's board of directors and stockholders approved a new investment advisory agreement, except in the case of certain of the funds that we sub-advise for which only board approval would be necessary. In addition, under the Advisers Act each of the



investment advisory agreements for the separate accounts we manage may not be assigned without the consent of the client. An assignment may occur under the 1940 Act and the Advisers Act if, among other things, MNA undergoes a change of control. In certain other cases, the investment advisory agreements for the separate accounts we manage require the consent of the client for any assignment. If such an assignment occurs, we cannot be certain that MNA will be able to obtain the necessary approvals from the boards and stockholders of the mutual funds that it advises or the necessary consents from separate account clients.

## Table of Contents

Operational risks may disrupt our business, result in losses or limit our growth.

We are heavily dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by us or by third parties. Operational risks such as trading or operational errors or interruption of our financial, accounting, trading, compliance and other data processing systems, whether caused by fire, natural disaster or pandemic, power or telecommunications failure, act of terrorism or war or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus adversely affect our business. Some types of operational risks, including, for example, trading errors, may be increased in periods of increased volatility, which can magnify the cost of an error. Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate, and the fact that we operate our business out of multiple physical locations may make such failures and interruptions difficult to address on a timely and adequate basis. As and if our client base, number of portfolios and/or physical locations increase, developing and maintaining our operational systems and infrastructure may become increasingly challenging, which could constrain our ability to expand our business. Any upgrades or expansions to our operations or technology to accommodate increased volumes of transactions or otherwise may require significant expenditures and may increase the probability that we will suffer system degradations and failures. We also depend on our headquarters in Fairport, New York, where a majority of our employees, administration and technology resources are located, for the continued operation of our business. Any significant disruption to our headquarters could have an adverse effect on our business.

We depend on third-party service providers for services that are important to our business, and an interruption or cessation of such services by any such service providers could have an adverse effect on our business.

We depend on a number of service providers, including custodial and clearing firms, and vendors of communications and networking products and services. We are not assured that these providers will be able to continue to provide these services in an efficient manner or that they will be able to adequately expand their services to meet our needs. An interruption or malfunction in or the cessation of an important service by any third-party and our inability to make alternative arrangements in a timely manner, or at all, could have an adverse impact on our business, financial condition and operating results.

Employee misconduct could expose us to significant legal liability and reputational harm.

We operate in an industry in which integrity and the confidence of our clients are of critical importance. Accordingly, if any of our employees engage in illegal or suspicious activities or other misconduct, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial condition, client relationships and ability to attract new clients. For example, our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, even if inadvertently, we could suffer serious harm to our reputation, financial condition and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in an adverse effect on our reputation and our business.

Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt operations and cause financial losses that could result in a decrease in earnings.

We are dependent on the effectiveness of our information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential client or competitive information and could result in material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause a decline in the Company's earnings.

Failure to properly address conflicts of interest could harm our reputation, business and results of operations.

We must monitor and address any conflicts between our interests and those of our clients. The SEC and other regulators scrutinize potential conflicts of interest, and we have implemented procedures and controls that we believe are reasonably designed to address these issues. However, appropriately dealing with conflicts of interest is complex

and if we fail, or appear to fail, to deal appropriately with conflicts of interest, we could face reputational damage, litigation or regulatory proceedings or penalties, any of which could adversely affect our reputation, business and results of operations.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design or implementation, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could

## Table of Contents

have an adverse effect on our financial condition or operating results. Additionally, we could be subject to litigation, particularly from our clients, and sanctions or fines from regulators. Our techniques for managing risks in client portfolios may not fully mitigate the risk exposure in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate.

The cost of insuring our business is substantial and may increase.

We believe our insurance costs are reasonable but they could fluctuate significantly from year to year. In addition, certain insurance coverage may not be available or may only be available at prohibitive costs. As we renew our insurance policies, we may be subject to additional costs resulting from rising premiums, the assumption of higher deductibles or co-insurance liability and, to the extent certain of our mutual funds purchase separate director and officer or errors and omissions liability coverage, an increased risk of insurance companies disputing responsibility for joint claims. Higher insurance costs and incurred deductibles, as with any expense, would reduce our net income.

### **Risks Related to our Industry**

We are subject to extensive regulation.

We are subject to extensive regulation for our investment management business and operations, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, by the Financial Industry Regulatory Authority, Inc., or FINRA, by the National Futures Association and U.S. Commodity Futures Trading Commission. The U.S. mutual funds we advise are registered with and regulated by the SEC as investment companies under the 1940 Act. The Advisers Act imposes numerous obligations on investment advisers including record keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The 1940 Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies, which must be adhered to by their investment advisers. The U.S. mutual funds that we advise and our broker-dealer subsidiary are each subject to the USA PATRIOT Act of 2001, which requires them to know certain information about their clients and to monitor their transactions for suspicious financial activities, including money laundering. The U.S. Office of Foreign Assets Control, or OFAC, has issued regulations requiring that we refrain from doing business, or allow our clients to do business through us, in certain countries or with certain organizations or individuals on a list maintained by the U.S. government. In addition, Manning & Napier Benefits, LLC is a registered insurance broker with the New York State Insurance Department and, as such, is subject to various insurance and health-related rules and regulations.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation, result in withdrawal by our clients from our products and impede our ability to retain clients and develop new client relationships, which may reduce our revenues.

We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Accordingly, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

The regulatory environment in which we operate is subject to continual change, and regulatory developments designed to increase oversight could adversely affect our business.

The legislative and regulatory environment in which we operate undergoes continuous change and we believe that this trend will intensify, subjecting industry participants to additional, more costly and potentially more punitive regulation. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us and our clients could adversely affect our business. Any or all of the regulators who oversee us could adopt new rules or rule amendments that could substantially impact how we operate and may necessitate significant expenditures in order to adapt and comply.

Our ability to function in an uncertain and ever-changing regulatory environment will depend on our ability to constantly monitor and promptly react to legislative and regulatory changes, which inevitably result in intangible costs and resource drains. The compliance burden resulting from regulatory changes and uncertainty is likely to increase, particularly as regulators grow more technologically advanced and more reliant on data analytics. As a result, we may be forced to divert resources and expenditures to information technology in order to analyze data and risk in the same manner as regulators and to be able to provide regulators with the data output they may expect going forward.

## Table of Contents

Regulations may accelerate industry trends towards passive or lower cost investment options, centralized due diligence and shrinking platform ability, making access to intermediary decision-makers more challenging. Mutual fund intermediaries may be forced to eliminate or curtail the availability of certain mutual fund share classes, which may hamper our distribution efforts and reduce assets in the mutual fund. Similarly, platform consolidations may prevent our separate account intermediaries from supporting our products, which could result in AUM declines and fewer distribution channels.

There have been a number of highly publicized regulatory inquiries that have focused on the investment management industry. These inquiries have resulted in increased scrutiny of the industry and new rules and regulations for mutual funds and investment managers. This regulatory scrutiny may limit our ability to engage in certain activities that might be beneficial to our shareholders. Further, adverse results of regulatory investigations of mutual fund, investment advisory and financial services firms could tarnish the reputation of the financial services industry generally and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their account balances. Redemptions would decrease our AUM, which would reduce our advisory revenues and net income.

Further, due to acts of serious fraud in the investment management industry and perceived lapses in regulatory oversight, U.S. and non-U.S. governmental and regulatory authorities may continue to increase regulatory oversight of our business.

The investment management industry is intensely competitive.

The investment management industry is intensely competitive, with competition based on a variety of factors, including investment performance, investment management fee rates, recent trend towards favor for passive investment products, continuity of investment professionals and client relationships, the quality of services provided to clients, corporate positioning and business reputation, continuity of selling arrangements with intermediaries and differentiated products. A number of factors, including the following, serve to increase our competitive risks: some competitors, including those with passive investment products and exchange traded funds, charge lower fees for their investment services than we do;

- a number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do;

- potential competitors have a relatively low cost of entering the investment management industry;

- the recent trend toward consolidation in the investment management industry, and the securities business in general, has served to increase the size and strength of a number of our competitors;

- some investors may prefer to invest with an investment manager that is not publicly traded based on the perception that a publicly traded asset manager may focus on the manager's own growth to the detriment of investment performance for clients;

- some competitors may invest according to different investment styles or in alternative asset classes that the markets may perceive as more attractive than the portfolios we offer;

- some competitors may have more attractive investment returns due to current market conditions;

- some competitors may operate in a different regulatory environment than we do, which may give them certain competitive advantages in the investment products and portfolio structures that they offer; and

- other industry participants, hedge funds and alternative asset managers may seek to recruit our investment professionals.

If we are unable to compete effectively, our revenues could be reduced and our business could be adversely affected.

The investment management industry faces substantial litigation risks, which could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

We depend to a large extent on our network of relationships and on our reputation to attract and retain client assets. If a client is not satisfied with our services, its dissatisfaction may be more damaging to our business than client dissatisfaction would be to other types of businesses. We make investment decisions on behalf of our clients that could result in substantial losses to them. If our clients suffer significant losses, or are otherwise dissatisfied with our services, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of

fiduciary duty, breach of contract, unjust enrichment and/or fraud. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time, even after an action has been commenced. We may incur significant legal expenses in defending against litigation whether or not we engaged in conduct as a result of which we might be subject to legal liability. Substantial legal liability or significant regulatory action against us could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

## Table of Contents

Catastrophic and unpredictable events could have an adverse effect on our business.

A terrorist attack, war, power failure, cyber-attack, natural disaster or other catastrophic or unpredictable event could adversely affect our future revenues, expenses and earnings by:

- decreasing investment valuations in, and returns on, the assets that we manage;
- causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive;
- interrupting our normal business operations;
- sustaining employee casualties, including loss of our key members of our senior management team or our investment team;
- requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and
- reducing investor confidence.

We have a disaster recovery plan to address certain contingencies, but we cannot be assured that this plan will be sufficient in responding or ameliorating the effects of all disaster scenarios. If our employees or vendors we rely upon for support in a catastrophic event are unable to respond adequately or in a timely manner, we may lose clients resulting in a decrease in AUM which may have an adverse effect on revenues and net income.

### Risks Related to Our Structure

Control of a majority of the combined voting power of our capital stock by William Manning, and ownership of approximately 83% of Manning & Napier Group's ownership interests by our current and former employee owners, including William Manning, may give rise to conflicts of interest; failure to properly address these or other conflicts of interests could harm our reputation, business and results of operations.

William Manning holds a majority of the combined voting power of our capital stock through his ownership of 100% of our outstanding Class B common stock. Accordingly, William Manning, acting alone, has the ability to approve or disapprove substantially all transactions and other matters submitted to a vote of shareholders, including those relating to the tax receivable agreement, the exchange agreement and other material corporate transactions, such as a merger, consolidation, dissolution or sale of all or substantially all of our assets, the issuance or redemption of certain additional equity interests, and the election of directors. These voting and class approval rights could enable William Manning to consummate transactions that may not be in the best interests of holders of our Class A common stock or, conversely, prevent the consummation of transactions that may be in the best interests of holders of our Class A common stock. In addition, although he has voting control of Manning & Napier, all of William Manning's economic interest in us is in the form of his indirect interests in Manning & Napier Group. Through William Manning's economic interest, he may receive payments from Manning & Napier under the tax receivable agreement entered into with him at the time of the reorganization transactions and the proceeds he may receive as a result of M&N Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC") exchanging the interests attributable to him in Manning & Napier Group for cash or, at our election, shares of our Class A common stock and, in the case of exchanges for shares of our Class A common stock, from selling such Class A common stock. As a result, William Manning's economic interests may conflict with the interests of Manning & Napier and its public stockholders.

Our current and former employee owners, including William Manning, directly and through their ownership of M&N Group Holdings and MNCC, indirectly hold approximately 83% of the ownership interests in Manning & Napier Group which, as discussed elsewhere, is our sole source of revenue. M&N Group Holdings and MNCC are entities controlled by William Manning, who, through his ownership indirectly owns a total of approximately 75% of the ownership interests in Manning & Napier Group. All of the other owners of interests in M&N Group Holdings and MNCC are current or former management team members of ours, including our executive officers. Further, such owners have the right to cause M&N Group Holdings and MNCC to exchange their indirect interests in Manning & Napier Group for cash or shares of our Class A common stock. If they exercise this right in sufficient amounts, receive shares of our Class A common stock and do not resell such shares, it is possible that after the cancellation of our Class B common stock, these owners may control us. The interests of these owners may conflict with our interests and the interests of the holders of our Class A common stock. Decisions of these owners with respect to Manning & Napier Group, including those relating to the tax receivable agreement, the exchange agreement and the structuring of



future transactions, may take into consideration these owners' tax or other considerations even where no similar benefit would accrue to us or the holders of our Class A common stock.

Table of Contents

Because we are a “controlled company” within the meaning of the New York Stock Exchange listing rules, our board of directors is not required to consist of a majority of independent directors, and our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange. William Manning has a controlling influence over our board, and the interests of William Manning may conflict with the interests of our other stockholders.

Because William Manning holds a majority of the combined voting power of our capital stock through his ownership of 100% of our outstanding Class B common stock, we are considered a “controlled company” for the purposes of the New York Stock Exchange (the “NYSE”) listing requirements. As such, we are permitted to, and may, opt out of the corporate governance requirements that our board of directors, our compensation committee and our nominating and corporate governance committee meet the standard of independence established by the NYSE. As a result, our board of directors and compensation committee may have more directors who do not meet the independence standards than they would if those standards were to apply. In particular, so long as we are a “controlled company,” we are exempt from the NYSE rule that requires that a board be comprised of a majority of “independent directors.” Although we have a majority independent board at December 31, 2016, William Manning has a controlling influence over our board, and has sufficient voting power to elect the entire board, and our certificate of incorporation permits stockholders to remove directors at any time with or without cause. In addition, although we have established a nominating and corporate governance committee, we may opt out of the NYSE’s requirement that such committee contain independent directors. Our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE, and circumstances may occur in which the interests of William Manning could conflict with the interests of our other stockholders.

Our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our structure and applicable provisions of Delaware law.

We intend to declare cash dividends on our Class A common stock, however, our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, because of our structure, we will be dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends to our stockholders. We expect to cause Manning & Napier Group to make distributions to its members, including us, in an amount sufficient for us to pay dividends. However, its ability to make such distributions will be subject to its and its subsidiaries’ operating results, cash requirements and financial condition, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it has or may incur in the future. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock.

We depend on distributions from Manning & Napier Group to pay taxes and expenses, including payments under the tax receivable agreement, but Manning & Napier Group’s ability to make such distributions will be subject to various limitations and restrictions.

We have no material assets other than our ownership of Class A units of Manning & Napier Group and have no independent means of generating revenue. Manning & Napier Group is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, taxable income is allocated to holders of its units, including us. Accordingly, we incur income taxes on our allocable share of any net taxable income of Manning & Napier Group. Under the terms of its operating agreement, Manning & Napier Group is obligated to make tax distributions to holders of its units, including us. In addition to tax expenses, we also incur expenses related to our operations, including expenses under the tax receivable agreement, which we expect to be significant. We intend, as its managing member, to cause Manning & Napier Group to make distributions in an amount sufficient to allow us to pay our taxes and operating expenses, including any payments due under the tax receivable agreement. However, Manning & Napier Group’s ability to make such distributions is subject to various limitations and restrictions including, but not limited to, restrictions on distributions that would violate any contract or agreement to which Manning & Napier Group is then a party or any applicable law or that would have the effect of rendering Manning & Napier Group insolvent. If we do not have sufficient funds to pay tax or other liabilities to fund our

operations, we may have to borrow funds, which could adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. To the extent that we are unable to make payments under the tax receivable agreement for any reason, such payments will be deferred and will accrue interest until paid. We are required to pay holders of units of Manning & Napier Group for certain tax benefits we may claim as a result of the tax basis step up we realize in connection with the future purchases or exchanges of those units for shares of our Class A common stock, and the amounts we may pay could be significant.

Our current and former employee owners indirectly hold a substantial majority of the ownership interests in Manning & Napier Group. Any future purchases or exchanges of their units of Manning & Napier Group for cash or, at our election, shares

## Table of Contents

of our Class A common stock are expected to produce favorable tax attributes for us. When we acquire such units, both the existing basis and the anticipated basis adjustments are likely to increase, for tax purposes, depreciation and amortization deductions allocable to us from Manning & Napier Group and therefore reduce the amount of income tax we would otherwise be required to pay in the future. This increase in tax basis may also decrease gain, or increase loss, on future dispositions of certain capital assets to the extent the increased tax basis is allocated to those capital assets.

We entered into a tax receivable agreement with the other holders of Class A units of Manning & Napier Group, pursuant to which we are required to pay to such holder of such Class A units 85% of the applicable cash savings, if any, in U.S. federal, state, local and foreign income tax that we actually realize, or is deemed to realize in certain circumstances, as a result of any step-up in tax basis in Manning & Napier Group's assets as a result of (i) certain tax attributes of our purchase of such Class A units or exchanged (for shares of Class A common stock) and that are created as a result of the sales or exchanges and payments under the tax receivable agreement and (ii) payments under the tax receivable agreement, including any tax benefits related to imputed interest deemed to be paid by us as a result of such agreement.

We expect that the payments we will be required to make under the tax receivable agreement will be substantial. Assuming no material changes in the relevant tax law, that the purchase or exchange of Class A units would result in depreciable or amortizable basis and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreement, we expect that the reduction in tax payments for us is approximately \$40.8 million as of December 31, 2016. Under such scenario, we would be required to pay the holders of such Class A units 85% of such amount, or approximately \$37.1 million. The actual amounts may materially differ from these estimated amounts, as potential future reductions in tax payments for us and tax receivable agreement payments by us will be calculated using the market value of our Class A common stock and the prevailing tax rates at the time of purchase or exchange and will be dependent on us generating sufficient future taxable income to realize the benefit. In general, increases in the market value of our shares or in prevailing tax rates will increase the amounts we pay under the tax receivable agreement.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending upon a number of factors, including:

- the timing of exchanges by the holders of units of Manning & Napier Group, the number of units purchased or exchanged, or the price of our Class A common stock, as the case may be, at the time of the purchase or exchange;
- the amount and timing of the taxable income we generate in the future and the tax rate then applicable; and
- the portion of our payments under the tax receivable agreement constituting imputed interest and whether the purchases or exchanges result in depreciable or amortizable basis.

There is a possibility that not all of the 85% of the applicable cash savings will be paid to the selling or exchanging holder of Class A units at the time described above. If we determine that all or a portion of such applicable tax savings is in doubt, we will pay to the holders of such Class A units the amount attributable to the portion of the applicable tax savings that we determine is not in doubt and pay the remainder at such time as we determine the actual tax savings or that the amount is no longer in doubt.

Payments under the tax receivable agreement, if any, will be made pro rata among all tax receivable agreement holders entitled to payments on an annual basis to the extent we have sufficient taxable income to utilize the increased depreciation and amortization expense. The availability of sufficient taxable income to utilize the increased depreciation and amortization expense will not be determined until such time as the financial results for the year in question are known and tax estimates prepared.

In certain cases, payments under the tax receivable agreement to holders of Manning & Napier Group units may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, or if, at any time, we elect an early termination of the tax receivable agreement, our obligations under the tax receivable agreement with respect to all Class A units of Manning & Napier Group, whether or not such units have been purchased or exchanged before or after such transaction, would be based on certain

assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As a result, (i) we could be required to make payments under the tax receivable agreement that are greater than or less than the specified percentage of the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement and (ii) if we elect to terminate the tax receivable agreement early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which payment may be made significantly in advance of the actual realization of such future benefits. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes

## Table of Contents

of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreement. If we were to elect to terminate the tax receivable agreement immediately as of December 31, 2016, we estimate that we would be required to pay \$32.8 million in the aggregate under the tax receivable agreement. If we were deemed an investment company under the 1940 Act as a result of our ownership of Manning & Napier Group, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

We do not believe that we are an “investment company” under the 1940 Act. Because we, as the sole managing member of Manning & Napier Group, control the management of and operations of Manning & Napier Group, we believe that our interest in Manning & Napier Group is not an “investment security” as such term is used in the 1940 Act. If we were to cease participation in the management of Manning & Napier Group or not be deemed to control Manning & Napier Group, our interest in Manning & Napier Group could be deemed an “investment security” for purposes of the 1940 Act. A person may be an “investment company” if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items). Our sole asset is our equity investment in Manning & Napier Group. A determination that such investment is an investment security could cause us to be deemed an investment company under the 1940 Act and to become subject to the registration and other requirements of the 1940 Act. In addition, we do not believe that we are an investment company under Section 3(b)(1) of the 1940 Act because we are not primarily engaged in a business that causes us to fall within the definition of “investment company.” The 1940 Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We and Manning & Napier Group intend to conduct our operations so that we will not be deemed an investment company. However, if we nevertheless were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business, financial condition and results of operations.

### Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, investors may be unable to sell shares of Class A common stock at or above their purchase price, if at all. The market price of our Class A common stock may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A common stock, or result in fluctuations in the price or trading volume of our Class A common stock, include:

- actual or anticipated variations in our quarterly operating results;
- failure to meet the market’s earnings expectations;
- publication of negative research reports about us or the investment management industry, or the failure of securities analysts to cover our Class A common stock;
- a limited float and low average daily trading volume, which may result in illiquidity as investors try to buy and sell and thereby exacerbating positive or negative pressure on our stock;
- departures of any members of our senior management team or additions or departures of other key personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- changes in market valuations of similar companies;
- actual or anticipated poor performance in one or more of the portfolios we offer;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- adverse publicity about the investment management industry generally, or particular scandals, specifically;
- litigation and governmental investigations;
- consummation by us or our competitors of significant acquisitions, strategic partnerships or divestitures;

actions by stockholders;

19

---

Table of Contents

exchange of units of Manning & Napier Group for shares of our Class A common stock or the expectation that such conversions or exchanges may occur; and

general market and economic conditions.

William Manning and our other owners directly and indirectly own interests in M&N Group Holdings and directly own interests in MNCC, and they will have the right to exchange and cause M&N Group Holdings and MNCC to exchange, as applicable, such interests for cash or an aggregate of 65,784,571 shares of our Class A common stock pursuant to the terms of an exchange agreement; future sales of such shares in the public market, or the perception that such sales may occur, could lower our stock price.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock available for sale, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

We have 14,982,880 shares of Class A common stock outstanding as of December 31, 2016. We have entered into an exchange agreement with M&N Group Holding and MNCC, the other direct holders of all of the units of Manning & Napier Group that are not held by the Company and, subject to certain restrictions, are entitled to exchange such units for an aggregate of up to 65,784,571 shares of our Class A common stock, subject to customary adjustments. In addition, the holders of any units of Manning & Napier Group will also become parties to the exchange agreement and, pursuant to the terms of the exchange agreement, we may also purchase or exchange such units for shares of our Class A common stock. We are party to a registration rights agreement pursuant to which the shares of Class A common stock issued upon such exchanges are eligible for resale, subject to certain limitations set forth therein.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

The disparity in the voting rights among the classes of our capital stock may have a potential adverse effect on the price of our Class A common stock.

Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally, while the holder of our Class B common stock controls a majority of the vote on all matters submitted to a vote of all stockholders. The difference in voting rights could adversely affect the value of our Class A common stock if, for example, investors view, or any potential future purchaser of our company views, the superior voting rights of the Class B common stock to have value or to delay or deter a change of control.

Our Class A common stockholders may experience dilution in the future as a result of the issuance of Class A common stock or units of Manning & Napier Group in connection with future acquisitions and/or equity grants under our 2011 Equity Compensation Plan.

We may issue shares of our Class A common stock or units of Manning & Napier Group in connection with future acquisitions or grants under the 2011 Plan. If we grant exchange rights with respect to the issuance of the units of Manning & Napier Group that allow its holder to exchange such units for shares of our Class A common stock, stockholders will incur dilution in the percentage of the issued and outstanding shares of Class A common stock that are owned at such time.

If we fail to comply with fulfilling our public company financial reporting and other regulatory obligation, our business and stock price could be adversely affected.

As a public company, we are subject to the reporting requirements of the Exchange Act, and have implemented specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, as well as the rules of the New York Stock Exchange (the "NYSE").

Our management is required to conduct an annual assessment of the effectiveness of our internal controls over financial reporting and include a report on our internal controls in our annual reports on Form 10-K pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we are required to have our independent registered public



accounting firm attest to and report on the effectiveness of our internal controls over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

## Table of Contents

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of the Company.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult. These provisions:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of our Class A common stock;

prohibit stockholder action by written consent and instead require all stockholder actions to be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter, or repeal our amended and restated bylaws;

establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

establish a dual class structure of our voting stock, granting the holder of our Class B common stock majority voting rights.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit the holders of our Class A common stock.

Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our Class A common stock.

Our board of directors has the authority to issue preferred stock and to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our Class A common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our Class A common stock at a premium over the market price, and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We conduct our principal operations through leased offices located in Fairport, New York; St. Petersburg, Florida; Dublin, Ohio; Seattle, Washington; and Portsmouth, New Hampshire. We also lease office space in various other locations throughout the United States. We do not own any facilities. Most of our business operations are based in our corporate headquarters in Fairport.

We believe our properties are in good operating condition and adequately serve our current business operations. We also anticipate suitable additional or alternative space will be available at commercially reasonable terms for future expansion and to replace existing facilities at lease terminations to the extent necessary.

Item 3. Legal Proceedings.

As an investment adviser to a variety of investment products, we are subject to routine reviews and inspections by the SEC and FINRA. From time to time we may also be involved in various legal proceedings arising in the ordinary course of our business. We do not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on our consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

Item 4. Mine Safety Disclosures.  
Not applicable.

21

---

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases and Equity Securities.

## Market for the Registrant's Common Equity

Our Class A common stock is traded on the New York Stock Exchange under the symbol "MN". Our Class B common stock is not listed on the New York Stock Exchange and there is no established trading market for such shares.

The following table presents information on the high and low sales prices per share as reported on the New York Stock Exchange for our Class A common stock for the periods indicated and dividends declared during such periods:

	2016			2015		
	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
First quarter	\$8.84	\$5.68	\$ 0.16	\$13.80	\$10.71	\$ 0.16
Second quarter	\$10.23	\$7.36	\$ 0.16	\$13.60	\$9.97	\$ 0.16
Third quarter	\$10.06	\$6.78	\$ 0.16	\$11.40	\$7.09	\$ 0.16
Fourth quarter	\$8.05	\$6.05	\$ 0.16	\$9.57	\$7.28	\$ 0.16

## Holders

As of March 13, 2017 there were 43 holders of record of our Class A common stock and one holder of record of our Class B common stock. A substantial number of holders of our Class A common stock are held in "street name" and thereby held of record by depositories, banks, brokers, and other financial institutions.

## Dividends

We currently intend to pay quarterly cash dividends of 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. Distributions to members upon a liquidation of Manning & Napier Group or a capital transaction, such as a sale of all or substantially all of its assets or any financing or refinancing of all or substantially all of its assets or debt, generally will be made to its members pro rata in proportion to their capital account balances, subject to the claims of creditors.

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 tax receivable agreement;
- our capital requirements and the capital requirements of our subsidiaries, including Manning & Napier Group; contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our stockholders or 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. 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.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, Manning & Napier Group is unable to make distributions to us as a result of its operating results, cash requirements and



## Table of Contents

financial condition, its making certain mandatory distributions to its members relating to their income tax liability, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it may incur in the future. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

We are taxable as a corporation for U.S. federal income tax purposes and therefore holders of our Class A common stock will not be taxed directly on our earnings. Distributions of cash or other property that we pay to our stockholders will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax rules. If the amount of a distribution by us to our stockholders exceeds our current and accumulated earnings and profits, such excess will be treated first as a tax-free return of capital to the extent of a holder’s adjusted tax basis in the Class A common stock and thereafter as capital gain.

### Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended December 31, 2016.

### Performance Graph

The following graph compares the cumulative total stockholder return on our common stock from December 31, 2011, through December 31, 2016, with the cumulative total return of the Standard & Poor’s 500 Stock Index and the SNL Asset Manager Index. The SNL Manager Index is a composite of 42 publicly traded asset management companies prepared by SNL Financial, Charlottesville, Virginia. The graph assumes the investment of \$100 in our Class A common stock and in each of the two indexes on December 31, 2011 and the reinvestment of all dividends, if any.

Company/Index	Period Ending					
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Manning & Napier, Inc.	\$ 100.00	\$ 100.88	\$ 141.31	\$ 110.65	\$ 67.97	\$ 60.45
S&P 500® Index	\$ 100.00	\$ 113.41	\$ 146.97	\$ 163.72	\$ 162.53	\$ 178.02
SNL Asset Manager Index	\$ 100.00	\$ 124.39	\$ 186.14	\$ 190.40	\$ 156.50	\$ 159.96

In accordance with the rules of the SEC, this section entitled “Performance Graph” shall not be incorporated by reference into any future filings by us under the Securities Act or Exchange Act, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

Table of Contents

## Item 6. Selected Financial Data.

The following tables set forth selected consolidated financial data of Manning & Napier, Inc. The audited consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014 and the audited consolidated statements of financial condition as of December 31, 2016 and 2015 are included elsewhere in this report.

The selected consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the selected consolidated statements of financial condition data as of December 31, 2014, 2013 and 2012 have been derived from our audited financial statements for such periods which are not included in this report.

The consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and accompanying notes in “Item 8. Financial Statements and Supplemental Data.”

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share data)				
Investment management services revenue, net	\$248,937	\$318,043	\$396,998	\$369,572	\$334,255
Total operating expenses	159,729	189,491	262,505	284,733	250,111
Operating income	89,208	128,552	134,493	84,839	84,144
Non-operating income (loss)	1,574	(6,961)	1,902	1,230	435
Income before provision for income taxes	90,782	121,591	136,395	86,069	84,579
Provision for income taxes	8,374	4,639	12,660	9,128	8,160
Net income attributable to controlling and noncontrolling interests	82,408	116,952	123,735	76,941	76,419
Less: net income attributable to noncontrolling interests	73,134	103,738	114,418	74,285	73,950
Net income attributable to Manning & Napier, Inc.	\$9,274	\$13,214	\$9,317	\$2,656	\$2,469
Net income per share available to Class A common stock					
Basic	\$0.63	\$0.91	\$0.68	\$0.20	\$0.18
Diluted	\$0.62	\$0.90	\$0.67	\$0.19	\$0.18
Weighted average shares of Class A common stock outstanding					
Basic	13,948,433	13,736,042	13,678,494	13,617,823	13,583,873
Diluted	14,161,782	13,964,846	13,881,437	13,741,647	13,583,873
Cash dividends declared per share of Class A common stock	\$0.64	\$0.64	\$0.72	\$0.72	\$0.64
Other financial and operating data					
Economic income <sup>(1)</sup>	\$90,782	\$121,591	\$174,971	\$167,492	\$156,853
Economic net income <sup>(1)</sup>	\$55,377	\$78,333	\$108,045	\$103,426	\$96,857
Economic net income per adjusted share <sup>(1)</sup>	\$0.68	\$0.92	\$1.22	\$1.15	1.08
Weighted average adjusted Class A common stock outstanding <sup>(1)</sup>	81,981,998	84,763,495	88,508,381	89,891,854	89,983,873

(1) Economic income, economic net income and economic net income per adjusted share are not financial measures prepared in accordance with GAAP. Our management used economic income for fiscal years ended December 31, 2014 and prior, and continues to use the non-GAAP financial measures of economic net income and economic net income per adjusted share to evaluate the profitability and efficiency of our business. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Supplemental Non-GAAP Financial Information” for our reasons for including these non-GAAP measures in this report and a reconciliation of these non-GAAP measures to GAAP measures. Our non-GAAP financial measures may differ from similar measures used by other

companies, even if similar terms are used to identify such measures.



Table of Contents

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except as noted)				
Statements of financial condition data:					
Cash and cash equivalents	\$ 100,819	\$ 117,591	\$ 124,992	\$ 125,250	\$ 108,324
Investment securities <sup>(1)</sup>	\$ 37,470	\$ 22,567	\$ 26,915	\$ 21,321	\$ 13,082
Due from broker <sup>(1)</sup>	\$—	\$ 7,472	\$ 5,391	\$ 5,816	\$—
Total assets	\$ 220,599	\$ 230,796	\$ 257,473	\$ 252,604	\$ 218,180
Total liabilities	\$ 86,121	\$ 96,016	\$ 108,762	\$ 106,815	\$ 94,434
Assets Under Management (in millions)					
Assets under management <sup>(2)</sup>	\$ 31,683.0	\$ 35,442.2	\$ 47,801.6	\$ 50,826.2	\$ 45,208.9

<sup>(1)</sup> Investment securities and due from broker includes consolidated funds for which we hold a financial controlling interest.

<sup>(2)</sup> Reflects the amount of money we managed for our clients as of the last day of the period.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### 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. 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

The global economic environment during the last several years generally persisted during 2016. Most notably, the global economy remained on its slow growth trajectory, and despite a notable increase during the fourth quarter, U.S. interest rates finished the year only slightly above where they began. From an economic perspective, the recent election results in the United States raises the prospects for improved confidence and business spending; however, it would be difficult to envision sustainably higher growth and inflation without governments pursuing true structural reform and/or undertaking a definitive shift in policy.

U.S. equity markets experienced positive returns during 2016, led by Energy, Telecom, Financials, and Industrials. Broad international equity markets also posted positive returns for the year. Emerging market equities significantly outperformed developed markets due to very strong returns in the more commodity-dependent equity markets such as Brazil and Russia, buoyed by generally increasing natural resource and energy prices. The U.S. dollar broadly appreciated during the year, which reduced international equity returns for U.S. based investors.

Results of select major equity market indexes for the year ended December 31, 2016 were as follows:

S&P 500 Index 11.23%

MSCI World ex USA Index 2.75%

MSCI Emerging Markets Index 11.19%

Bond markets were subject to significant fluctuations resulting from investors reacting to geopolitical uncertainty-stemming from the vote by referendum of a majority of voters in the United Kingdom to leave the European Union, or Brexit, China, and contagion effects from low oil prices-and interest rate movements such as negative rates in the developed world and increasing U.S. Treasury rates. Domestic fixed income markets posted positive returns in 2016, though to varying degrees. In a reversal from the previous year, high yield bonds were the strongest performing asset class. Of the broad fixed income sectors, municipal bonds posted the weakest returns, followed by Treasuries. Alternatively, returns across international fixed income markets were mixed.



Table of Contents

Results of select major bond market indexes for the year ended December 31, 2016 were as follows:

Barclays U.S. Aggregate Bond Index	2.65%
Barclays U.S. Govt/Credit Bond Index	3.05%
BAML High Yield Cash Pay BB-B Rated Index	14.79%
BAML Global Broad Market Index	2.17%

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. 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 and ETFs. As a result, we have seen AUM decline over 2014, 2015, and 2016. 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. Specifically, we have received a cancellation notice from a retirement plan relationship that represents approximately 7% of our AUM as of December 31, 2016. Cash outflows from this relationship are expected to occur during the second quarter 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 our blended asset class portfolios. In addition, financial intermediaries, mutual fund advisory programs and retail platforms are a driver of equity strategies within our mutual fund offerings.

Our assets under management ("AUM") were \$31.7 billion as of December 31, 2016. The composition of our AUM by vehicle and portfolio is set forth in the table below:

AUM - by investment vehicle and portfolio:	December 31, 2016			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Separately managed accounts	\$10,939.8	\$6,671.3	\$1,190.8	\$18,801.9
Mutual funds and collective investment trusts	8,969.6	3,792.6	118.9	12,881.1
Total	\$19,909.4	\$10,463.9	\$1,309.7	\$31,683.0

Table of Contents

The composition of our separately managed accounts as of December 31, 2016, by channel and portfolio, is set forth in the table below:

	December 31, 2016				
	Blended Asset	Equity	Fixed Income	Total	
	(dollars in millions)				
Separate account AUM					
Direct Channel	\$8,012.3	\$5,265.6	\$1,059.9	\$14,337.8	
Intermediary Channel	2,923.7	660.2	130.9	3,714.8	
Platform/Sub-advisor Channel	3.8	745.5	—	749.3	
Total	\$10,939.8	\$6,671.3	\$1,190.8	\$18,801.9	
Percentage of separate account AUM					
Direct Channel	42	% 28	% 6	% 76	%
Intermediary Channel	16	% 3	% 1	% 20	%
Platform/Sub-advisor Channel	1	% 3	% —	4	%
Total	59	% 34	% 7	% 100	%
Percentage of portfolio by channel					
Direct Channel	72	% 79	% 89	% 76	%
Intermediary Channel	27	% 10	% 11	% 20	%
Platform/Sub-advisor Channel	1	% 11	% —	4	%
Total	100	% 100	% 100	% 100	%
Percentage of channel by portfolio					
Direct Channel	56	% 37	% 7	% 100	%
Intermediary Channel	78	% 18	% 4	% 100	%
Platform/Sub-advisor Channel	1	% 99	% —	100	%

Our separate accounts contributed 36% of our total gross client inflows for the year ended December 31, 2016 and represented 59% of our total AUM as of December 31, 2016.

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 66% of the total gross client inflows for our separate account business for the year ended December 31, 2016, compared to 56% for the year ended December 31, 2015. The Direct Channel represented 76% of our total separate account AUM as of December 31, 2016. 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 2016, the blended asset portfolios represented 68% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios accounted for 15% and 17%, respectively. As of December 31, 2016, blended asset and equity portfolios represented 56% and 37% of total Direct Channel separate account AUM, while our fixed income portfolios were 7%. 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.

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 2016, 15% of the total gross client inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 20% came from registered investment advisor platforms (Platform/Sub-advisor Channel). The Intermediary and Platform/Sub-advisor Channels represented 24% of our total separate account AUM as of December 31, 2016.

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 2016, blended asset and equity portfolios represented 71% and 23%, respectively, of the

27

---

## Table of Contents

separate account gross client inflows from the Intermediary Channel, while fixed income portfolios represented 6%. As of December 31, 2016, 78% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 18% allocated to equity and 4% 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 year ended December 31, 2016, 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 approximately 85% during the calendar year 2016, representing the strong relationship focus that is inherent in our direct sales model, which is the primary driver of our separate account business.

The composition of our mutual fund and collective investment trust AUM as of December 31, 2016, by portfolio, is set forth in the table below:

	December 31, 2016			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Mutual funds and collective investment trusts AUM	\$8,969.6	\$3,792.6	\$118.9	\$12,881.1

Our mutual funds and collective investment trusts contributed 64% of our total gross client inflows for the year ended December 31, 2016 and represented 41% of our total AUM as of December 31, 2016. As of December 31, 2016, our mutual funds and collective investment trust AUM consisted of 70% from blended asset portfolios, 29% from equity portfolios and 1% from fixed income portfolios, compared to 71% and 29% for blended asset and equity portfolios as of December 31, 2015. During the twelve months ended December 31, 2016, 78% and 20% 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. We are focused on equity and fixed income portfolio assets in this channel through the selection of 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 years ended December 31, 2016, 2015 and 2014.

### Components of Results of Operations

#### Overview

Changes to our operating results over time are largely driven by net client asset flows and changes to the market value of our AUM. The line item "market appreciation/(depreciation) and other" within our AUM tables throughout

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes investment gains/(losses) on AUM and net flows from non-sales related activities including net reinvested dividends. 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

Table of Contents

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.

#### Assets Under Management and Investment Performance

The following tables reflect the indicated components of our AUM for our investment vehicles for the years ended December 31, 2016, 2015, and 2014:

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in millions)					
As of December 31, 2013	\$26,835	\$ 23,991.2	\$50,826.2	53%	47%	100%
Gross client inflows	3,000.7	6,235.6	9,236.3			
Gross client outflows	(5,313.8 )	(7,213.7 )	(12,527.5 )			
Market appreciation/(depreciation) & other	886.8	(620.2 )	266.6			
As of December 31, 2014	\$25,408.7	\$ 22,392.9	\$47,801.6	53%	47%	100%
Gross client inflows	2,426.5	4,227.6	6,654.1			
Gross client outflows	(6,391.2 )	(11,260.4 )	(17,651.6 )			
Market appreciation/(depreciation) & other	(708.6 )	(653.3 )	(1,361.9 )			
As of December 31, 2015	\$20,735.4	\$ 14,706.8	\$35,442.2	59%	41%	100%
Gross client inflows	1,760.1	3,130.5	4,890.6			
Gross client outflows	(5,729.0 )	(7,215.4 )	(12,944.4 )			
Acquired assets	1,234.2	1,660.1	2,894.3			
Market appreciation/(depreciation) & other	801.2	599.1	1,400.3			
As of December 31, 2016	\$18,801.9	\$ 12,881.1	\$31,683.0	59%	41%	100%
Average AUM:		Separately Managed accounts investment trusts	Total			
	(in millions)					
Average AUM for the year ended December 31, 2014	\$26,823.8	\$ 24,798.3			\$51,622.1	
Average AUM for the year ended December 31, 2015	\$23,720.0	\$ 18,780.5			\$42,500.5	
Average AUM for the year ended December 31, 2016	\$20,266.1	\$ 14,407.5			\$34,673.6	





# Table of Contents

The following tables reflect the indicated components of our AUM for our portfolios for the years ended December 31, 2016, 2015, and 2014:

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
As of December 31, 2013	\$23,710.2	\$25,977.0	\$1,139	\$50,826.2	47%	51%	2%	100%
Gross client inflows	4,820.5	4,094.8	321.0	9,236.3				
Gross client outflows	(4,404.3 )	(7,772.5 )	(350.7 )	(12,527.5 )				
Market appreciation/(depreciation) & other	1,152.6	(1,015.2 )	129.2	266.6				
As of December 31, 2014	\$25,279.0	\$21,284.1	\$1,238.5	\$47,801.6	53%	44%	3%	100%
Gross client inflows	4,327.3	2,047.1	279.7	6,654.1				
Gross client outflows	(6,285.7 )	(11,005.5 )	(360.4 )	(17,651.6 )				
Market appreciation/(depreciation) & other	(878.2 )	(497.3 )	13.6	(1,361.9 )				
As of December 31, 2015	\$22,442.4	\$11,828.4	\$1,171.4	\$35,442.2	64%	33%	3%	100%
Gross client inflows	3,240.0	1,286.9	363.7	4,890.6				
Gross client outflows	(6,623.6 )	(5,891.8 )	(429.0 )	(12,944.4 )				
Acquired assets	—	2,719.8	174.5	2,894.3				
Market appreciation/(depreciation) & other	850.6	520.6	29.1	1,400.3				
As of December 31, 2016	\$19,909.4	\$10,463.9	\$1,309.7	\$31,683.0	63%	33 %	4%	100%

Average AUM:	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Average AUM for the year ended December 31, 2014	\$25,033.3	\$25,386.0	\$1,202.8	\$51,622.1
Average AUM for the year ended December 31, 2015	\$24,490.1	\$16,815.8	\$1,194.6	\$42,500.5
Average AUM for the year ended December 31, 2016	\$21,485.5	\$11,884.5	\$1,303.6	\$34,673.6

Table of Contents

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 December 31, 2016.

Key Strategies	AUM as of December 31, 2016 (in millions)	Inception Date	Annualized Returns as of December 31, 2016 (3)						Market Cycle Inception (1)
			One Year	Three Year	Five Year	Ten Year			
Long-Term Growth 30%-80% Equity Exposure	\$ 8,765.8	1/1/1973	3.7%	2.0%	6.9%	4.3%	6.0%		9.4%
Blended Benchmark: 55% S&P 500 Total Return / 45% Bloomberg Barclays Government/Credit Bond			8.0%	6.4%	9.1%	6.1%	5.1%		9.2%
Core Non-U.S. Equity	\$ 5,433.5	10/1/1996	2.2%	(4.1)%	4.6%	1.1%	5.0%		7.1%
Benchmark: ACWIXUS Index			4.5%	(1.8)%	5.0%	1.0%	2.8%		4.6%
Growth with Reduced Volatility 20%-60% Equity Exposure	\$ 4,077.1	1/1/1973	3.0%	1.6%	5.5%	4.0%	5.6%		8.7%
Blended Benchmark: 40% S&P 500 Total Return / 60% Bloomberg Barclays Government/Credit Bond			6.7%	5.5%	7.2%	5.7%	5.2%		8.8%
Equity-Oriented	\$ 2,670.0	1/1/1993	4.3%	1.7%	8.9%	4.2%	6.2%		9.5%
Blended Benchmark: 65% Russell 3000® / 20% ACWIXUS / 15% Bloomberg Barclays U.S. Aggregate Bond			9.7%	5.6%	10.9%	5.7%	4.7%		8.3%
Equity-Focused Blend	\$ 1,085.3	4/1/2000	4.0%	2.1%	7.8%	4.5%	6.5%		6.5%
Blended Benchmark: 53% Russell 3000/ 17% ACWIXUS/ 30% Bloomberg Barclays U.S. Aggregate Bond			8.4%	5.2%	9.3%	5.6%	4.9%		4.9%
Core Equity (Unrestricted) 90%-100% Equity Exposure	\$ 1,043.6	1/1/1995	5.5%	2.5%	10.6%	5.1%	6.9%		10.6%
Blended Benchmark: 80% Russell 3000® / 20% ACWIXUS			11.1%	6.4%	12.7%	5.9%	4.5%		8.7%
Core U.S. Equity	\$ 762.8	7/1/2000	7.6%	4.0%	11.3%	5.6%	N/A <sup>(2)</sup>		6.7%
Benchmark: Russell 3000® Index			12.7%	8.4%	14.7%	7.1%	4.8%		5.1%
Conservative Growth	\$ 710.3	4/1/1992	2.3%	1.5%	3.4%	3.8%	5.1%		6.0%
Blended Benchmark: 15% Russell 3000/ 5% ACWIXUS/ 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond			3.8%	3.2%	4.0%	4.5%	5.0%		6.2%
Aggregate Fixed Income	\$ 511.4	1/1/1984	2.6%	2.4%	2.3%	4.4%	4.9%		7.4%
Benchmark: Bloomberg Barclays U.S. Aggregate Bond			2.7%	3.0%	2.2%	4.3%	5.2%		7.3%
Rainier International Small Cap	\$ 466.6	3/28/2012	(6.7)%	2.5%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>		11%
Benchmark: MSCI ACWIXUS Small Cap Index			3.9%	0.8%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>		5.2%

Edgar Filing: Manning & Napier, Inc. - Form 10-K

Disciplined Value	\$ 367.8	11/1/2003	13.4%	7.2%	11.3%	8.4%	N/A <sup>(2)</sup>	10.4%
Benchmark: Russell 1000 Value			17.3%	8.6%	14.8%	5.7%	6.6%	8.3%

- 
- The market cycle performance numbers are calculated from April 1, 2000 to December 31, 2016. 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 (1) began with 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.

## Table of Contents

### 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. These 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 \$12.9 billion, or 41%, of our AUM as of December 31, 2016. MNA and Rainier also serve as the investment advisor to all of our separately managed accounts, managing \$18.8 billion, or 59%, of our AUM as of December 31, 2016, including assets managed as a sub-advisor to pooled investment vehicles and assets in client accounts invested in the Fund. For the years ended December 31, 2016, 2015 and 2014, approximately 97%, 95% and 95%, respectively, of our revenue was earned from clients located in the United States.

### 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. In addition, included within other operating costs are any goodwill and/or intangible asset impairment charges and the net change in the fair value of our contingent consideration obligations related to our acquisition of Rainier.

### 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. Interest expense primarily related to unused commitment fees and amortization of debt issuance costs. Due to the termination of our revolving credit agreement in early 2017, we do not anticipate these costs to continue in 2017. 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.

Provision for 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 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

## Table of Contents

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 17.4% in Manning & Napier Group as of December 31, 2016, 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

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting ("GAAP") and related rules and regulations of the SEC. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates or assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Accordingly, actual results could differ from these estimates or assumptions and may have a material effect on the consolidated financial statements.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Our management has identified the following significant accounting policies that are critical to understanding our business and prospects for future performance, as these policies affect the reported amounts of revenue and other significant areas that involve management's judgment and estimates.

These policies and our procedures related to these policies are described in detail below. In addition, please refer to the notes to our consolidated financial statements included elsewhere in this report for further discussion of our accounting policies.

### Revenue Recognition

The majority of our revenues are based on fees charged to manage customers' portfolios. Investment management fees are generally computed as a percentage of 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 our 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, we defer the revenue and recognize it over the applicable period. When investment management fees are paid in arrears, we estimate revenues based on AUM market values as of the most recent month end date, and adjust to actual when billed. For mutual funds and collective investment trust vehicles, our 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.

We are contractually obligated to make payments to certain advisory clients with the intent of providing those clients a discounted fee. In accordance with Accounting Standard Codification ("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 years ended December 31, 2016, 2015 and 2014 were approximately \$12.1 million, \$9.8 million and \$8.5 million, respectively.

We have 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 Financial Accounting Standards Board ("FASB") 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 we act 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.

In the quarter ended September 30, 2016, we revised our treatment of payments made to certain advisory clients, in accordance with ASC 605-50, Revenue Recognition - Customer Payments and Incentives to properly present these

payments as a reduction to revenue. We assessed the materiality of this item on the 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 years ended December 31, 2015 and 2014 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



Table of Contents

on operating income or net income. Average fees and expenses presented as a percentage of revenue throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" have been revised to reflect the reclassification. See Note 2, "Summary of Significant Accounting Policies - Basis of Presentation" to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K for additional information.

Because the majority of our revenues are earned based on AUM that has been determined using fair value methods and since market appreciation/depreciation has a significant impact on our revenue, we have presented our AUM using the GAAP framework for measuring fair value. A fair value hierarchy is provided that gives the highest priority to unadjusted quoted prices in active markets for identical assets or 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 our own assumptions in determining the fair value of investments).

The table below summarizes the approximate amount of AUM for the periods indicated for which fair value is measured based on Level 1, Level 2 and Level 3:

	Level 1	Level 2	Level 3	Total
	(in millions)			
December 31, 2016 AUM	\$20,108	\$11,575	\$	—\$31,683
December 31, 2015 AUM	\$21,188	\$14,254	\$	—\$35,442

As substantially all our AUM is valued by independent pricing services based upon observable market prices or inputs, we believe market risk is the most significant risk underlying valuation of our AUM, as discussed in this Form 10-K under "Item 1A. Risk Factors" and "Item 7A. Quantitative and Qualitative Disclosure About Market Risk."

All other revenue earned by us is recognized on a GAAP accounting basis as earned per the terms of the specific contract.

#### Consolidation

We assess each legal entity in which we hold a variable interest to determine whether consolidation is appropriate at the onset of the relationship and upon certain reconsideration events. First we evaluate each entity that we manage to determine whether it is an investment company, as the Financial Accounting Standards Board ("FASB") deferred the application of the revised consolidation model for certain investment entities that have the attributes of an investment company subject to ASC 946 (the "investment company guide"). We then determine whether we have a controlling financial interest in the entity by evaluating whether the entity is a voting interest entity ("VOE") or a variable interest entity ("VIE") under GAAP. Assessing whether an entity is a VOE or VIE and if it requires consolidation involves judgment and analysis. Factors considered in this assessment include the legal organization of the entity, our equity ownership and contractual involvement with the entity and any related party or de facto agent implications of our involvement with the entity.

We serve as the investment adviser for 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 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. We hold, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors) and consolidate each of these entities where it has a controlling financial interest or a majority voting interest.

We make initial seed investments in sponsored investment portfolios to develop new products and services for our clients. The original seed investment may be held in a separately managed account, comprised solely of the our investments or within a mutual fund, where our investment may represent all or only a portion of the total equity invested in the mutual fund. We evaluate our seed investments on a regular basis and consolidate such mutual funds for which it holds a controlling financial interest. When we no longer hold a financial controlling interest, we deconsolidate the fund and classify the remaining investment as either an equity method investment or as trading

securities, as applicable.

#### Equity-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award for the portion of the shares that are expected to vest. Therefore, we apply estimated

## Table of Contents

forfeiture rates. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

### Investment Securities

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 we provide advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains on investments in the consolidated statements of operations. Realized gains and losses on sales of trading securities are computed on a specific identification basis.

### Goodwill

Goodwill represents the excess of the cost of our investment in net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. We attribute all goodwill associated with our acquisition of Rainier in 2016 and all past acquisitions to our single reporting unit. Goodwill is tested for impairment by comparing the fair value of the reporting unit associated with the goodwill to the reporting unit's recorded value. If the fair value of the reporting unit is less than its recorded value an impairment loss will be recorded.

The annual test of goodwill indicated that there were no facts or circumstances occurring in 2016 suggesting possible impairment. The impairment tests included certain underlying key assumptions regarding future overall market trends and our operating performance. If actual future market results and our operating performance vary unfavorably to those included in our financial forecast, we may be subject to impairment charges related to its goodwill.

### Intangible Assets

Indefinite-lived intangible assets primarily represent the cost of mutual fund management contracts acquired.

Investment management agreements without a contractual termination date are classified as indefinite-lived intangible assets based upon the following: (i) there is no legal or statutory limitation on the contract period to manage these investment products; (ii) we expect to, and have the ability to operate these investment products indefinitely; (iii) the investment products have multiple investors and are not reliant on an individual investor or small group of investors for their continued operation; (iv) the current competitive environment does not indicate a finite life; and (v) there is a high likelihood of continued renewal based on historical experience. The assumption that investment management agreements are indefinite-lived assets is reviewed at least annually or more frequently if facts and circumstances indicate that the useful life is no longer indefinite. Indefinite-lived intangible assets are tested for impairment by comparing the fair value of the assets to their recorded values.

Amortizing identifiable intangible assets generally represent the cost of client relationships and trademarks acquired.

In valuing these assets, we make assumptions regarding useful lives, projected growth rates and expected cash flows, and significant judgment is required. Definite-lived intangible assets are tested only when there are indications of impairment. To complete the tests for potential impairment of definite-lived intangible assets, we use a two-step process. The first step compares the fair value of the asset, based on undiscounted cash flows, to the recorded value of the asset. If the recorded value of the asset exceeds the fair value, a second step must be performed. The second step compares the fair value of the asset, based on discounted cash flows, to the carrying value of the asset.

During the year ended December 31, 2016, we recorded an impairment loss of approximately \$6.6 million as further discussed in Note 9, "Goodwill and Intangible Assets" to the Consolidated Financial Statements included in Item 8 of Part II of this Form 10-K. No impairment charges were recognized during the years ended December 31, 2015 and 2014.

### Income Tax Provision

Management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowance that might be required against deferred tax assets. As of December 31, 2016, we have not recorded a valuation allowance on deferred tax assets. In the event that sufficient taxable income does not result in future years, among other things, a valuation allowance for certain of our deferred tax assets may be required. Because the determination of our annual income tax provision is subject to judgments and estimates, it is likely that the actual results will vary from those recorded in our financial statements. Hence, we recognize additions to and reductions in income tax expense during a reporting period that pertains to prior period

provisions as our estimated liabilities are revised and our actual tax returns and tax audits are completed.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position.

The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized.

Table of Contents

Payments Pursuant to the Tax Receivable Agreement

As a result of Manning & Napier's purchase of Class A units of Manning & Napier Group or exchange for Class A common stock of Manning & Napier for Class A units of Manning & Napier Group and Manning & Napier Group's election under Section 754 of the Internal Revenue Code, the Company expects to benefit from depreciation and amortization deductions from an increase in tax basis of tangible and intangible assets of Manning & Napier Group. Those deductions allocated to the Company will be taken into account in reporting the Company's taxable income. In connection with the Company's initial public offering ("IPO"), the TRA was entered into between Manning & Napier and the holders of Manning & Napier Group, pursuant to which Manning & Napier is required to pay to such holders 85% of the applicable cash savings, if any, in U.S. federal, state, local and foreign income tax that Manning & Napier actually realizes, or is deemed to realize in certain circumstances, as a result of (i) certain tax attributes of their units sold to Manning & Napier or exchanged (for shares of Class A common stock) and that are created as a result of the sales or exchanges and payments under the TRA and (ii) tax benefits related to imputed interest.

At December 31, 2016 we have recorded a total liability of \$37.1 million, representing the payments due to the selling unit holders under the TRA. Payments are anticipated to be made annually commencing from the date of each event that gives rise to the TRA benefits. The actual amount and timing of any payments may vary from this estimate due to a number of factors, including a material change in the relevant tax law or our failure to earn sufficient taxable income to realize all estimated tax benefits. The expected payment obligation assumes no additional uncertain tax positions that would impact the TRAs.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies - Recent accounting pronouncements" to the Consolidated Financial Statements included in Item 8 of Part II of this Form 10-K.

Table of Contents

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

## Assets Under Management

The following table reflects changes in our AUM for the years ended December 31, 2016 and 2015:

	Year Ended December 31,		Period-to-Period	
	2016	2015	\$	%
	(in millions)			
Separately managed accounts				
Beginning assets under management	\$20,735.4	\$25,408.7	\$(4,673.3)	(18)%
Gross client inflows	1,760.1	2,426.5	(666.4)	(27)%
Gross client outflows	(5,729.0)	(6,391.2)	662.2	10%
Acquired assets	1,234.2	—	1,234.2	*
Market appreciation/(depreciation) & other	801.2	(708.6)	1,509.8	213%
Ending assets under management	\$18,801.9	\$20,735.4	\$(1,933.5)	(9)%
Mutual funds and collective investment trusts				
Beginning assets under management	\$14,706.8	\$22,392.9	\$(7,686.1)	(34)%
Gross client inflows	3,130.5	4,227.6	(1,097.1)	(26)%
Gross client outflows	(7,215.4)	(11,260.4)	4,045.0	36%
Acquired assets	1,660.1	—	1,660.1	*
Market appreciation/(depreciation) & other	599.1	(653.3)	1,252.4	192%
Ending assets under management	\$12,881.1	\$14,706.8	\$(1,825.7)	(12)%
Total assets under management				
Beginning assets under management	\$35,442.2	\$47,801.6	\$(12,359.4)	(26)%
Gross client inflows	4,890.6	6,654.1	(1,763.5)	(27)%
Gross client outflows	(12,944.4)	(17,651.6)	4,707.2	27%
Acquired assets	2,894.3	—	2,894.3	*
Market appreciation/(depreciation) & other	1,400.3	(1,361.9)	2,762.2	203%
Ending assets under management	\$31,683.0	\$35,442.2	\$(3,759.2)	(11)%

(\*)Percentage change not meaningful

Our AUM decreased by \$3.8 billion, or 11%, to \$31.7 billion at December 31, 2016 from \$35.4 billion at December 31, 2015 as a result of net client outflows of \$8.1 billion, partially offset by market appreciation and other changes of \$1.4 billion and acquired assets of \$2.9 billion. We believe the decrease is driven by recent performance headwinds and a trend towards passive investing especially amongst institutional investors. We experienced a decline in the volume of gross client outflows and gross client inflows during the year ended December 31, 2016 compared to 2015. Gross client outflows decreased 27% from \$17.7 billion for the year ended December 31, 2015 to \$12.9 billion for the year ended December 31, 2016, while gross client inflows also decreased by 27%. We believe the decline in gross client outflows is the result of improved short term performance over the first three quarters of 2016 and servicing efforts to stabilize client relationships. Our performance advantage was eroded in the fourth quarter with strong post U.S. election rallies in Financials, Energy and other areas under-represented in our portfolios. 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. In addition, we have received a cancellation notice from a retirement plan relationship that represents approximately 7% of our AUM as of December 31, 2016. Cash outflows from this relationship are expected to occur during the second quarter of 2017.

By portfolio, our net client outflows were concentrated in our equity portfolios, which experienced net outflows of \$4.6 billion during the year ended December 31, 2016 while our blended asset and fixed income portfolios experienced net outflows of \$3.4 billion and \$0.1 billion, respectively.

The composition of our AUM was 59% in separate accounts and 41% in mutual funds and collective investment trusts as of December 31, 2016, consistent with December 31, 2015. The composition of our AUM across portfolios at December 31,

37

---

Table of Contents

2016 was 63% in blended assets, 33% in equity, and 4% in fixed income, compared to 64% in blended assets, 33% in equity, and 3% in fixed income at December 31, 2015.

With regard to our separate accounts, gross client inflows of \$1.8 billion were offset by approximately \$5.7 billion of gross client outflows during the year ended December 31, 2016. The \$1.8 billion of gross client inflows included \$0.8 billion into our blended asset portfolios, \$0.7 billion into our equity portfolios and \$0.3 billion into fixed income.

During the year ended December 31, 2016, 66% of our separate account gross client inflows were derived from our Direct Channel with 45% representing contributions from existing Direct Channel relationships. Across all channels, gross client outflows were split with 43% withdrawals from existing accounts and 57% representing client cancellations. Our blended asset and equity portfolios experienced net client outflows of approximately \$1.5 billion and \$2.4 billion, respectively. Our separate account clients redeemed assets at a rate of 28% during the year ended December 31, 2016, compared to a 25% for the year ended December 31, 2015. The annualized separate account retention rate was 85% for the year ended December 31, 2016 down slightly from 89% for the year ended December 31, 2015.

Net client outflows of \$4.1 billion from our mutual fund and collective investment trusts included gross client inflows of \$3.1 billion offset by gross client outflows of \$7.2 billion during the year ended December 31, 2016. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$2.4 billion, or 78%, of mutual fund and collective trust fund gross client inflows during the year ended December 31, 2016. Gross client outflows were predominantly direct and intermediary channel cancellations and withdrawals from defined contribution and institutional relationships. With regard to gross client outflows, \$4.3 billion, or 60%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products. The remaining net cash flow was concentrated in our Non U.S. Equity products including our World Opportunities Series and Overseas Series.

The following table sets forth our results of operations and other data for the years ended December 31, 2016 and 2015:



Table of Contents

	Year Ended December 31, 2016		Period-to-Period	
	2016	2015	\$	%
	(in thousands, except share data)			
Revenues				
Investment management services revenue, net	\$248,937	\$318,043	\$(69,106)	(22)%
Expenses				
Compensation and related costs	88,622	103,992	(15,370)	(15)%
Distribution, servicing and custody expenses	34,468	49,238	(14,770)	(30)%
Other operating costs	36,639	36,261	378	1%
Total operating expenses	159,729	189,491	(29,762)	(16)%
Operating income	89,208	128,552	(39,344)	(31)%
Non-operating income (loss)				
Non-operating income (loss), net	1,574	(6,961)	8,535	*
Income before provision for income taxes	90,782	121,591	(30,809)	(25)%
Provision for income taxes	8,374	4,639	3,735	81%
Net income attributable to controlling and noncontrolling interests	82,408	116,952	(34,544)	(30)%
Less: net income attributable to noncontrolling interests	73,134	103,738	(30,604)	(30)%
Net income attributable to Manning & Napier, Inc.	\$9,274	\$13,214	\$(3,940)	(30)%
Per Share Data				
Net income per share available to Class A common stock				
Basic	\$0.63	\$0.91		
Diluted	\$0.62	\$0.90		
Weighted average shares of Class A common stock outstanding				
Basic	13,948,433	13,736,042		
Diluted	14,161,782	13,964,846		
Cash dividends declared per share of Class A common stock	\$0.64	\$0.64		
Other financial and operating data				
Economic net income <sup>(1)</sup>	\$55,377	\$78,333	\$(22,956)	(29)%
Economic net income per adjusted share <sup>(1)</sup>	\$0.68	\$0.92		
Weighted average adjusted Class A common stock outstanding <sup>(1)</sup>	81,981,998	84,763,495		

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.

(\*)Percentage change not meaningful

#### Revenues

Our investment management services revenue decreased by \$69.1 million, or 22%, to \$248.9 million for the year ended December 31, 2016 from \$318.0 million for the year ended December 31, 2015. This decrease was driven primarily by a \$7.8 billion or 18%, decrease in our average AUM to \$34.7 billion for the year ended December 31, 2016 from \$42.5 billion for the year ended December 31, 2015. Average AUM decreased as a result of net client outflows of \$8.1 billion partially offset by market appreciation and other changes of \$1.4 billion and acquired assets of \$2.9 billion. Our blended asset and equity portfolios experienced AUM decreases of 11% and 12%, respectively, during the year ended December 31, 2016. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our average separately managed account fee was 0.63% for the years ended December 31, 2016 and 2015. For the years ended December 31, 2016 and 2015, separately managed account standard fees ranged from 15 basis points to 125 basis points depending investment objective and account size. As of December 31, 2016, the concentration of

investments in our separately managed account assets was 59% blended assets, 34% equity and 7% fixed income, compared to 58% blended assets, 37% equity and 5% fixed income as of December 31, 2015.

## Table of Contents

Our average fee on mutual fund and collective investment trust products decreased to 0.77% for the year ended December 31, 2016 from 0.82% for the year ended December 31, 2015. This decrease was primarily due to a shift in the mix of our AUM from higher fee mutual funds and collective investments trusts to those with lower fees. For the years ended December 31, 2016 and 2015 the management fees earned on our mutual funds and collective investment trusts ranged from 24 basis points to 100 basis points, depending on investment strategy. As of December 31, 2016, the concentration of investments in our mutual fund and collective investment trusts was 70% blended assets, 29% equity and 1% fixed income, compared to 71% blended assets and 29% equity of December 31, 2015.

### Operating Expenses

Our operating expenses decreased by \$29.8 million, or 16%, to \$159.7 million for the year ended December 31, 2016 from \$189.5 million for the year ended December 31, 2015.

Compensation and related costs decreased by \$15.4 million, or 15%, to \$88.6 million for the year ended December 31, 2016 from \$104.0 million for the year ended December 31, 2015. The decrease of \$15.4 million was primarily due to lower incentive compensation costs, including compensation costs for our investment team and sales professionals, resulting from investment performance and net client outflows during the respective periods. In addition, included within compensation and related costs for the years ended December 31, 2016 and 2015 is \$2.9 million and \$5.5 million, respectively, of equity-based compensation under our long-term incentive plan. This decrease was driven by the vesting of previously issued equity awards and the forfeiture of awards during the year ended December 31, 2016. When considered as a percentage of revenue, compensation and related costs for the year ended December 31, 2016 were 36%, compared to 33% in 2015.

Distribution, servicing and custody expenses decreased by \$14.8 million, or 30%, to \$34.5 million for the year ended December 31, 2016 from \$49.2 million for the year ended December 31, 2015. The decrease was generally attributable to a 23% decrease in mutual funds and collective investment trusts average AUM for the year ended December 31, 2016 compared to December 31, 2015. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expenses was 31% for the year ended December 31, 2016, compared to 31% for the year ended December 31, 2015.

Other operating costs increased by \$0.4 million, or 1%, to \$36.6 million for the year ended December 31, 2016 from \$36.3 million for the year ended December 31, 2015. As a percentage of revenue, other operating costs for the year ended December 31, 2016 was 15%, compared with 11% for the year ended December 31, 2015. Other operating costs for 2016 include a non-cash intangible asset impairment charge of \$6.6 million, partially offset by a reduction in our contingent consideration liability of \$3.5 million, both related to our acquisition of Rainier. The remaining change in other operating costs is driven by a general reduction in costs associated with managing the day-to-day operations given the reduction in our AUM. Excluding the impacts from the non-cash intangible asset impairment charge and reduction in our contingent liability, our other operating costs as a percentage of revenue was 13% for 2016, compared with 11% for 2015.

### Non-Operating Income (Loss)

Non-operating income for the year ended December 31, 2016 was \$1.6 million, an increase of \$8.5 million, from non-operating loss of \$7.0 million for the year ended December 31, 2015. Included in non-operating income for 2016 was \$0.2 million in net income on investments we held to provide initial cash seeding for product development purposes, compared to a net loss of \$4.4 million in 2015. In addition, we recognized \$1.5 million of non-operating income in 2016 and \$2.8 million of non-operating loss in 2015, both related to changes in our expected tax benefits under the tax receivable agreement and the corresponding payment of such benefits under the agreement. The change in non-operating income during the year ended December 31, 2016 as compared to 2015 was partially offset by an increase in interest expense, which was \$0.8 million in 2016 and \$0.3 million in 2015. This increase was driven primarily by the credit facility we entered into in 2015 and we do not anticipate significant interest expense in future years with the termination of the credit facility in early 2017.

### Provision for Income Taxes

The Company's tax provision increased by \$3.7 million, or 81%, to \$8.4 million for the year ended December 31, 2016 from \$4.6 million for the year ended December 31, 2015. The increase was primarily driven by a benefit of \$3.2 million during the year ended December 31, 2015 resulting from the release of uncertain tax positions that increased

our expectation of future tax benefits under the tax receivable agreement and from a reduction in the effective tax rate during the year ended December 31, 2016, which led to decrease in our expected future tax benefits. This increase was partially offset by a decrease in the taxable earnings as compared to the prior year.

40

---

Table of Contents

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

## Assets Under Management

The following table reflects changes in our AUM for the years ended December 31, 2015 and 2014:

	Year Ended December 31,		Period-to-Period	
	2015	2014	\$	%
Separately managed accounts	(in millions)			
Beginning assets under management	\$25,408.7	\$26,835.0	\$(1,426.3)	(5)%
Gross client inflows	2,426.5	3,000.7	(574.2)	(19)%
Gross client outflows	(6,391.2)	(5,313.8)	(1,077.4)	(20)%
Market appreciation/(depreciation) & other	(708.6)	886.8	(1,595.4)	(180)%
Ending assets under management	\$20,735.4	\$25,408.7	\$(4,673.3)	(18)%
Mutual funds and collective investment trusts				
Beginning assets under management	\$22,392.9	\$23,991.2	\$(1,598.3)	(7)%
Gross client inflows	4,227.6	6,235.6	(2,008.0)	(32)%
Gross client outflows	(11,260.4)	(7,213.7)	(4,046.7)	(56)%
Market appreciation/(depreciation) & other	(653.3)	(620.2)	(33.1)	5%
Ending assets under management	\$14,706.8	\$22,392.9	\$(7,686.1)	(34)%
Total assets under management				
Beginning assets under management	\$47,801.6	\$50,826.2	\$(3,024.6)	(6)%
Gross client inflows	6,654.1	9,236.3	(2,582.2)	(28)%
Gross client outflows	(17,651.6)	(12,527.5)	(5,124.1)	(41)%
Market appreciation/(depreciation) & other	(1,361.9)	266.6	(1,628.5)	(611)%
Ending assets under management	\$35,442.2	\$47,801.6	\$(12,359.4)	(26)%

The total AUM decrease of \$12.4 billion, or 26%, to \$35.4 billion at December 31, 2015 from \$47.8 billion at December 31, 2014 as a result of net client outflows of \$11.0 billion and market depreciation and other changes of \$1.4 billion. The net client outflows during the year were primarily driven by challenging near-term investment performance in a number of our key investment strategies. By portfolio, our AUM decreases were concentrated in our equity portfolios, which decreased by 44% during the year ended December 31, 2015 while our blended asset and fixed income portfolios decreased by 11% and 5%, respectively. Market depreciation and other changes during the year ended December 31, 2015 constituted a 2.8% decrease in our total AUM. The blended investment loss was 2.8% in separately managed accounts and 2.9% in mutual funds and collective investment trusts.

The composition of our AUM was 59% in separate accounts and 41% in mutual funds and collective investment trusts as of December 31, 2015, compared to 53% in separate accounts and 47% in mutual funds and collective investment trusts as of December 31, 2014.

Our separate account products gathered \$2.4 billion of gross client inflows during the year ended December 31, 2015, which was offset by approximately \$6.4 billion of gross client outflows. The \$2.4 billion of gross client inflows included \$1.2 billion into our blended asset portfolios, \$1.0 billion into our U.S. Equity products and \$0.2 billion into our Non-U.S. Equity objectives. The 2015 allocation of separate account gross client inflows across portfolios is consistent with 2014 when gross client inflows were \$1.2 billion, \$1.0 billion, and \$0.4 billion into blended asset, U.S. Equity and Non-U.S. Equity products, respectively. For the year ended December 31, 2015, 56% of our separate account gross client inflows were derived from our Direct Channel with 21% representing new client relationships. With regard to gross client outflows, \$3.4 billion, or 54%, of outflows resulted from withdrawals from existing accounts, particularly accounts invested in our equity portfolios. Specifically, two existing equity portfolio relationships accounted for \$1.1 billion of the withdrawals. Client cancellations of \$2.9 billion make up the remaining 46% of gross client outflows. Cancellations were also primarily from accounts invested in equity portfolios. Our equity and blended asset portfolios experienced net client outflows of \$3.1 billion and \$0.7 billion, respectively, over the twelve months ended December 31, 2015. The annualized separate account retention rate was 89% for the twelve months ended December 31, 2015 compared to 92% for 2014.

Net client outflows of \$7.0 billion from our mutual fund and collective investment trusts included gross client inflows of \$4.2 billion offset by gross client outflows of \$11.2 billion. Gross client inflows directed toward our Life Cycle mutual fund and collective trust products, which includes both risk based and target date strategies, represented \$3.2 billion, or 75%, of

41

---

Table of Contents

mutual fund and collective trust fund gross client inflows during the period ended December 31, 2015. With regard to gross client outflows, \$6.9 billion, or 61%, of mutual fund and collective investment trust gross client outflows were from equity portfolios. Gross client outflows resulted from certain platform relationship cancellations, withdrawals from platform and intermediary relationships and institutional client cancellations. Client outflows by fund were concentrated in our World Opportunities, Overseas and Equity series where outflows were \$4.3 billion, \$1.1 billion and \$0.9 billion, respectively, during the twelve months ended December 31, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks. In addition, approximately \$1.1 billion of net client outflows were from our Life Cycle mutual fund and collective trust products.

The following table sets forth our results of operations and other data for the years ended December 31, 2015 and 2014:

	Year Ended December 31,		Period-to-Period	
	2015	2014	\$	%
	(in thousands, except share data)			
Revenues				
Investment management services revenue, net	\$318,043	\$ 396,998	\$(78,955)	(20)%
Expenses				
Compensation and related costs	103,992	158,183	(54,191)	(34)%
Distribution, servicing and custody expenses	49,238	68,698	(19,460)	(28)%
Other operating costs	36,261	35,624	637	2 %
Total operating expenses	189,491	262,505	(73,014)	(28)%
Operating income	128,552	134,493	(5,941)	(4 )%
Non-operating income (loss)				
Non-operating income (loss), net	(6,961)	) 1,902	(8,863)	) *
Income before provision for income taxes	121,591	136,395	(14,804)	(11)%
Provision for income taxes	4,639	12,660	(8,021)	(63)%
Net income attributable to controlling and noncontrolling interests	116,952	123,735	(6,783)	(5 )%
Less: net income attributable to noncontrolling interests	103,738	114,418	(10,680)	(9 )%
Net income attributable to Manning & Napier, Inc.	\$13,214	\$ 9,317	\$3,897	42 %
Per Share Data				
Net income per share available to Class A common stock				
Basic	\$0.91	\$ 0.68		
Diluted	\$0.90	\$ 0.67		
Weighted average shares of Class A common stock outstanding				
Basic	13,736,042	13,678,494		
Diluted	13,964,846	13,881,437		
Cash dividends declared per share of Class A common stock	\$0.64	\$ 0.72		
Other financial and operating data				
Economic income <sup>(1)</sup>	\$121,591	\$ 174,971	\$(53,380)	(31)%
Economic net income <sup>(1)</sup>	\$78,333	\$ 108,045	\$(29,712)	(27)%
Economic net income per adjusted share <sup>(1)</sup>	\$0.92	\$ 1.22		
Weighted average adjusted Class A common stock outstanding <sup>(1)</sup>	84,763,495	88,508,381		

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.

(\*)Percentage change not meaningful





## Table of Contents

### Revenues

Our investment management services revenue decreased by 79.0 million, or 20%, to \$318.0 million for the year ended December 31, 2015 from \$397.0 million for the year ended December 31, 2014. This decrease was driven primarily by a \$9.1 billion or 18%, decrease in our average AUM to \$42.5 billion for the year ended December 31, 2015 from \$51.6 billion for the year ended December 31, 2014. Average AUM decreased as a result of net client outflows of \$11.0 billion and market depreciation and other changes of \$1.4 billion. By portfolio, our AUM decreases were concentrated in our equity portfolios, which decreased by 44% during the year ended December 31, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our average separately managed account fee was 63 basis points for the year ended December 31, 2015 and 62 basis points for the year ended December 31, 2014. For the years ended December 31, 2015 and 2014, separately managed account standard fees ranged from 15 basis points to 125 basis points depending investment objective and account size. As of December 31, 2015, the concentration of investments in our separately managed account assets was 58% blended assets, 37% equity and 5% fixed income, compared to 53% blended assets, 42% equity and 5% fixed income as of December 31, 2014.

Our average fee on mutual fund and collective investment trust products decreased to 82 basis points for the year ended December 31, 2015 from 86 basis points for the year ended December 31, 2014. This decrease was primarily due to a shift in the mix of our AUM from higher fee mutual funds and collective investments trusts to those with lower fees. For the years ended December 31, 2015 and 2014 the management fees earned on our mutual funds and collective investment trusts ranged from 24 basis points to 100 basis points, depending on investment strategy. As of December 31, 2015, the concentration of investments in our our mutual fund and collective investment trusts was 71% blended assets and 29% equity, compared to 54% blended assets and 46% equity of December 31, 2014.

### Operating Expenses

Our operating expenses decreased by \$73.0 million, or 28%, to \$189.5 million for the year ended December 31, 2015 from \$262.5 million for the year ended December 31, 2014.

Compensation and related costs decreased by \$54.2 million, or 34%, to \$104.0 million for the year ended December 31, 2015 from \$158.2 million for the year ended December 31, 2014. This change was driven primarily by the completion of the vesting of pre-IPO ownership interests in 2014 and as such, we no longer record non-cash reorganization-related share based compensation. Included within compensation and related costs for the year ended December 31, 2014 was approximately \$38.6 million of non-cash reorganization-related share based compensation. The remaining decrease of \$15.6 million was primarily due to lower incentive compensation costs for our investment team and sales professionals resulting from investment performance and net client outflows during the respective periods, partially offset by an increase of equity-based compensation charges under our 2011 long-term incentive plan. Included within compensation and related costs for the years ended December 31, 2015 and 2014 is \$5.5 million and \$3.0 million, respectively, of equity-based compensation under our long-term incentive plan. This increase is primarily due to the 2015 purchase of unvested pre-IPO ownership interests that were subsequently re-issued as Class A common stock with a six-year vesting period as well as the 2015 expense recognized for equity awards granted during 2014. When considered as a percentage of revenue, compensation and related costs for the year ended December 31, 2015 were 32%, compared to 29% in 2014, when excluding non-cash reorganization-related share-based compensation charges.

Distribution, servicing and custody expenses decreased by \$19.5 million, or 28%, to \$49.2 million for the year ended December 31, 2015 from \$68.7 million for the year ended December 31, 2014. The decrease was generally attributable to a 24% decrease in mutual funds and collective investment trusts average AUM for the year ended December 31, 2015 compared to December 31, 2014. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expenses was 31% for the years ended December 31, 2015 and 2014.

Other operating costs increased by \$0.6 million, or 2%, to \$36.3 million for the year ended December 31, 2015 from \$35.6 million for the year ended December 31, 2014. As a percentage of revenue, other operating costs for the year ended December 31, 2015 was 11%, compared with 9% for the year ended December 31, 2014.

### Non-Operating Income (Loss)

Non-operating loss for the year ended December 31, 2015 was \$7.0 million, a decrease of \$8.9 million, from non-operating income of \$1.9 million for the year ended December 31, 2014. Included in non-operating loss for 2015 and 2014 was \$4.4 million and \$0.8 million, respectively, in net losses on investments we held to provide initial cash seeding for product development purposes. In addition, we recognized \$2.8 million of non-operating expense in 2015 and \$2.0 million of non-operating income in 2014, both related to changes in our expected tax benefits under the tax receivable agreement and the corresponding payment of such benefits under the agreement. The remaining decrease in non-operating income is due to interest expense of \$0.3 million recorded during the year ended December 31, 2015, driven primarily by the credit facility we entered into in 2015.

Table of Contents

Provision for Income Taxes

The Company's tax provision decreased by \$8.0 million, or 63%, to \$4.6 million for the year ended December 31, 2015 from \$12.7 million for the year ended December 31, 2014. The decrease was primarily driven by a benefit of \$3.2 million during the year ended December 31, 2015 resulting from the release of uncertain tax positions that increased our expectation of future tax benefits under the tax receivable agreement and a \$1.9 million expense during the year ended December 31, 2014 from enacted changes in tax laws in 2014 that reduced our expectation of future tax benefits under the tax receivable agreement. The remaining decrease is driven by a decrease in the 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 used economic income and continues to use economic net income and economic net income per adjusted share as financial measures to evaluate the profitability and efficiency of its business. Economic income and economic net income are not presented in accordance with GAAP.

Economic income for the twelve months ended December 31, 2014, 2013 and 2012 excluded from income before provision for income taxes the reorganization-related share-based compensation, which resulted in non-cash compensation expense reported over the vesting period. Upon the consummation of our IPO, the vesting terms related to the ownership by our employees, other than William Manning, were modified such that 85% of their pre-IPO ownership interests were subject to service and performance-based vesting through 2014. Such new vesting terms did not result in an increase to the number of outstanding shares of the Company's Class A common stock or the adjusted share count. As a result of such vesting requirements, the Company recognized non-cash compensation charges through 2014. For periods beginning in 2015, economic income is equivalent to income before provision for income taxes.

Economic net income is a non-GAAP measure of after-tax operating performance and equals the Company's economic income less adjusted income taxes. Adjusted income taxes are estimated assuming the exchange of all outstanding units of Manning & Napier Group, LLC into Class A common stock on a one-to-one basis. Therefore, all income of Manning & Napier Group, LLC allocated to the units of Manning & Napier Group, LLC is treated as if it were allocated to Manning & Napier and represents an estimate of income tax expense at an effective rate of 39.0% for 2016, 35.6% for 2015 and 38.25% for 2014, 2013 and 2012, reflecting assumed federal, state and local income taxes. Economic net income per adjusted share is equal to economic net income divided by the total number of adjusted Class A common shares outstanding. The number of adjusted Class A common shares outstanding for all periods presented is determined by assuming the weighted average exchangeable units of Manning & Napier Group, LLC and unvested equity awards are converted into the Company's outstanding Class A common stock as of the respective reporting date, on a one-to-one basis. The Company's 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, LLC.

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

Table of Contents

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share data)				
Net income attributable to Manning & Napier, Inc.	\$9,274	\$ 13,214	\$ 9,317	\$ 2,656	\$ 2,469
Add back: Net income attributable to noncontrolling interests	73,134	103,738	114,418	74,285	73,950
Add back: Provision for income taxes	8,374	4,639	12,660	9,128	8,160
Income before provision for income taxes	90,782	121,591	136,395	86,069	84,579
Add back: reorganization-related share-based compensation	—	—	38,576	81,423	72,274
Economic income	90,782	121,591	174,971	167,492	156,853
Adjusted income taxes (Non-GAAP)	35,405	43,258	66,926	64,066	59,996
Economic net income (Non-GAAP)	\$55,377	\$ 78,333	\$ 108,045	\$ 103,426	\$ 96,857
Weighted average shares of Class A common stock outstanding - Basic	13,948,433	13,736,042	13,678,494	13,617,823	13,583,873
Assumed vesting, conversion or exchange of:					
Weighted average Manning & Napier Group, LLC units outstanding (noncontrolling interest)	66,459,669	69,280,947	74,162,792	75,993,040	76,400,000
Weighted average unvested restricted share-based awards	1,573,874	1,746,506	667,095	280,991	—
Weighted average adjusted shares (Non-GAAP)	81,981,984	84,763,495	88,508,381	89,891,854	89,983,873
Economic net income per adjusted share (Non-GAAP)	\$0.68	\$ 0.92	\$ 1.22	\$ 1.15	\$ 1.08

Liquidity and Capital Resources

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 purposes 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 December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Cash and cash equivalents	\$100,819	\$117,591	\$124,992
Accounts receivable	\$22,195	\$24,280	\$39,283
Due from broker	\$—	\$3,962	\$5,391
Due from broker - consolidated funds	\$—	\$3,510	\$—
Investment securities	\$36,475	\$21,460	\$26,915
Investment securities - consolidated funds	\$995	\$1,107	\$—
Amounts payable under tax receivable agreement <sup>(1)</sup>	\$37,073	\$41,939	\$41,249

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 the end of each period presented, including the ability to realize the



Table of Contents

expected tax benefits. Actual payments may significantly differ from estimated payments. See “Critical Accounting Policies – Payments under the Tax Receivable Agreement” for more information.

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. As of December 31, 2016, we had a revolving credit agreement that provided borrowing capacity of up to \$100.0 million. As discussed further in Note 20, "Subsequent Events", we terminated the revolving credit agreement on January 12, 2017 and 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.

We believe 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 years ended December 31, 2016, 2015 and 2014. 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 tax receivable agreement and contingent consideration, deferred income tax expense, impairments 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 purposes, purchases and redemptions of investments classified as available-for-sale, purchases of property and equipment and net cash paid for acquisitions. 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 the noncontrolling interests of Manning & Napier Group.

	Years Ended December 31,		
	2016	2015	2014
	(in thousands)		
Net cash provided by operating activities	\$89,698	\$128,718	\$174,037
Net cash (used in) provided by investing activities	(20,672 )	2,073	(11,567 )
Net cash used in financing activities	(85,798 )	(138,192 )	(162,728 )
Net change in cash flows	\$(16,772)	\$(7,401 )	\$(258 )

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

**Operating Activities**

Operating activities provided \$89.7 million and \$128.7 million of net cash for the years ended December 31, 2016 and 2015, respectively. This overall \$39.0 million decrease in net cash provided by operating activities was due to a decrease in net income after adjustment for non-cash items of approximately \$37.2 million driven by lower revenues resulting primarily from changes in our average AUM. This decrease in cash provided by operating activities for the year ended December 31, 2016 compared to 2015 was also due to a decrease of \$11.8 million in operating assets and liabilities attributable to lower revenues, partially offset by an increase in \$10.0 million of cash from trading activity of consolidated funds due to the timing of product seeding.

**Investing Activities**

Investing activities used \$20.7 million and provided \$2.1 million of net cash for the years ended December 31, 2016 and 2015, respectively. The increase in cash used by investing activities was primarily driven by changes in investing activities of \$14.0 million due to our funding of and timing of activity within our investment securities. We used approximately \$19.7 million for the purchase of short-term investments for short-term cash management during the year ended December 31, 2016, which was partially offset by a decrease of approximately \$5.8 million compared to 2015 in investing activity within our investment securities for the seeding of new products. In addition, we utilized \$9.3 million for acquisitions during 2016 and property and equipment purchases decreased by \$0.5 million for the year ended December 31, 2016 compared with 2015.

**Financing Activities**

Financing activities used \$85.8 million and \$138.2 million of net cash for the years ended December 31, 2016 and 2015, respectively. This overall \$52.4 million decrease in net cash used was primarily the result of a reduction in distributions to noncontrolling interests of \$30.4 million due to lower income after adjustment for non-cash items in 2016 compared to 2015. This decrease in cash used in financing activities was also driven by a decrease of \$21.6 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 \$16.1

Table of Contents

million in 2016, compared to \$37.7 million in 2015. This decrease was due to a lower exchange price and a lower number of units exchanged in 2016. In addition, we used cash of \$9.5 million for dividends paid on Class A common stock in 2016, compared to \$10.2 million in 2015. These decreases were partially offset by an increase in cash used for the payment of shares withheld to satisfy tax withholding of \$0.9 million in 2016 due to the timing and amount of restricted share units vesting during the period.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

**Operating Activities**

Operating activities provided \$128.7 million and \$174.0 million of net cash for the years ended December 31, 2015 and 2014, respectively. This overall \$45.3 million decrease in net cash provided by operating activities was due to a decrease in net income after adjustment for non-cash items of approximately \$40.2 million driven by decreased revenues resulting primarily from changes in our average AUM. This decrease was also due to \$6.2 million of cash used by consolidated funds as trading activity in 2015, partially offset by an increase of \$1.0 million in operating assets and liabilities.

**Investing Activities**

Investing activities provided \$2.1 million and used \$11.6 million of net cash for the years ended December 31, 2015 and 2014, respectively. The increase in cash provided by investing activities was primarily driven by changes in investing activities of \$8.7 million due to our funding of and timing of activity within our investment securities for the seeding of new products. In addition, we utilized \$2.1 million for acquisitions during 2014 and property and equipment purchases decreased by \$2.8 million for the year ended December 31, 2015 compared with 2014. The decrease in property and equipment purchases was mainly driven by leasehold improvements in 2014 for our primary office facility in Fairport, New York.

**Financing Activities**

Financing activities used \$138.2 million and \$162.7 million of net cash for the years ended December 31, 2015 and 2014, respectively. This overall \$24.5 million decrease in net cash used was primarily the result of a decrease in distributions to noncontrolling interests of \$30.9 million due to lower income after adjustment for non-cash items in 2015 compared to 2014. This decrease was partially offset by an additional \$5.3 million of cash related to the purchase of Class A units of Manning & Napier Group pursuant to the exchange agreement entered into at the time of our IPO of \$37.7 million in 2015, compared to \$32.4 million in 2014. This increase in cash used was due to a larger number of units exchanged in 2015. In addition, we incurred approximately \$0.6 million of payment of debt issuance costs during 2015 to enter into the revolving credit agreement.

**Certain Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2016:

	Payment Due By Period				Total
	Less than 1 year (in thousands)	1-3 years	4-5 years	More than 5 years	
Operating lease obligations	\$4,240	\$8,125	\$7,591	\$6,041	\$25,997
Capital lease obligations	164	157	16	—	337
Amounts payable under tax receivable agreement <sup>(1)</sup>	2,364	5,035	5,438	24,236	37,073
Total	\$6,768	\$13,317	\$13,045	\$30,277	\$63,407

In light of numerous factors affecting our obligation to make such payments, the timing and amounts of any such actual payments are based on the Company's best estimate as of December 31, 2016, including the Company's ability to realize the expected tax benefits. Actual payments may significantly differ from estimated payments. See "Critical Accounting Policies – Payments under the Tax Receivable Agreement" for more information.

**Off Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2016.





## Table of Contents

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

#### 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 adviser for the mutual funds and separate accounts it manages. Substantially all of our revenues are derived from investment management agreements with these funds and account holders. 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 \$31.7 billion as of December 31, 2016. 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 \$3.2 billion, which would cause an annualized increase or decrease in revenues of approximately \$22.5 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, and investment in mutual funds, including the Fund for which MNA provides advisory services and short-term investments for cash management purposes. The value of these investment securities was approximately \$37.5 million as of December 31, 2016 of which \$15.6 million is classified as trading and \$21.8 million is 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 \$3.7 million. 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 \$31.7 billion as of December 31, 2016. As of December 31, 2016, approximately 16% 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.

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 16% 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 decrease or increase the fair value of our AUM by \$0.5 billion, which would cause an annualized increase or decrease in revenues of approximately \$3.7 million at our current weighted average fee rate of 0.71%.

##### Interest Rate Risk

At December 31, 2016, 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. 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 December 31, 2016. Additionally, given the current level of income we earn from our cash and cash equivalent balances, interest rate changes would not have a material impact on us.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements listed in Item 15 are filed as part of this report on pages F-2 through F-31 and are incorporated by reference in this Item 8.

48

---

## Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of 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 December 31, 2016 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 December 31, 2016, 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

On April 30, 2016, we completed the acquisition of Rainier Investment Management, LLC ("Rainier"). We extended our oversight and monitoring processes that support our internal control over financial reporting, as appropriate, to include Rainier's financial position, results of operations and cash flow into our consolidated financial statements from the April 30, 2016 date of acquisition through December 31, 2016. We are continuing to integrate the acquired operations of Rainier into our overall internal control over financial reporting and related processes. Except as disclosed in this paragraph, there were no other changes in our internal control over financial reporting (as the term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and our Principal Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013).

Consistent with the guidance issued by the SEC that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting in the year of acquisition, management excluded an assessment of the effectiveness of internal control over financial reporting related to Rainier. The Company acquired Rainier in a business combination on April 30, 2016. Rainier's total assets represented 4% of the Company's consolidated total assets as of December 31, 2016. Rainier's total revenues for the period April 30, 2016 through December 31, 2016 represented 5% of the Company's revenue for the year ended December 31, 2016.

Based on the assessment using those criteria, management concluded that, as of December 31, 2016, our internal control over financial reporting was effective.

Our independent registered public accounting firm, which has audited the financial statements included in this Annual Report, has also issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2016. This report appears on page F-2 of this Annual Report.

Item 9B. Other Information.

None.



Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item will be in our definitive Proxy Statement for our 2017 Annual Meeting of Stockholders to be held on June 14, 2017, which will be filed within 120 days of the end of our fiscal year ended December 31, 2016 (our “Proxy Statement”) and is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item will be set forth in our Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements

(i) Consolidated Statements of Financial Condition as of December 31, 2016 and 2015

(ii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014

(iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014

(iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014

(v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014

(vi) Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

There are no Financial Statement Schedules filed as part of this Annual Report on 10-K, as the required information is included in our consolidated financial statements and in the notes thereto.

(b) Exhibit Index:

Exhibit No. Description

3.1	Amended and Restated Certificate of Incorporation of Manning & Napier, Inc.(3)
3.2	Amended and Restated Bylaws of Manning & Napier, Inc.(3)
4.1	Form of specimen certificate representing Manning & Napier, Inc.'s Class A common stock.(1)
10.1	Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC.(3)
10.2	Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC.(3)
10.3	Exchange Agreement, dated as of November 23, 2011, by and among Manning & Napier, Inc. and the other parties thereto.(3)
10.4	Tax Receivable Agreement, dated as of November 23, 2011, by and among Manning & Napier, Inc. and the other parties thereto.(3)
10.5	Registration Rights Agreement, dated as of November 23, 2011, by and among Manning & Napier, Inc. and the other parties thereto.(3)
10.6*	Manning & Napier, Inc. 2011 Equity Compensation Plan(3)
10.7*	Form of Restricted Stock Award Agreement under the Manning & Napier, Inc. 2011 Equity Compensation Plan (6)
10.8*	Form of Stock Option Agreement under the Manning & Napier, Inc. 2011 Equity Compensation Plan.(2)
10.9	Amended and Restated Shareholders Agreement of MNA Advisors, Inc.(3)
10.10	Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C.(3)
10.11*	Form of Indemnification Agreement.(2)
10.12*	Employment Agreement, dated September 8, 1992, of Patrick Cunningham(2)
10.13*	Employment Agreement, dated August 1, 1993, of Jeff Coons(2)
10.14*	Employment Agreement, dated June 28, 1993, of Charles Stamey(2)
10.15*	Employment Agreement, effective September 12, 2011, by and between Manning & Napier Advisors, Inc. and James Mikolaichik(2)
10.16	Purchase Agreement, by and between Manning & Napier, Inc. and Manning & Napier Group, LLC(3)
10.17	Purchase Agreement, by and between Manning & Napier, Inc. and M&N Group Holdings, LLC(3)

Table of Contents

10.18*	Letter, dated October 31, 2011, by and between Manning & Napier Group, LLC and James Mikolaichik(3)
10.19*	Letter, dated October 27, 2011, by and between Manning & Napier Group, LLC and Patrick Cunningham(3)
10.20	First Amendment to Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC(4)
10.21	First Amendment to Amended and Restated Shareholder Agreement of MNA Advisors, Inc.(4)
10.22	Second Amendment to Amended and Restated Shareholder Agreement of MNA Advisors, Inc.(5)
10.23	Amendment to Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC.(6)
10.24	Amendment to Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C.(6)
10.25	Amendment to Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC.(6)
10.26	Amendment to Amended and Restated Shareholder Agreement of MNA Advisors, Inc.(6)
10.27	Form of Redemption Agreement between M&N Group Holdings, LLC and Manning & Napier Group, LLC, dated March 31, 2015 (7)
10.28	Form of Redemption Agreement between Manning & Napier Capital Company and Manning & Napier Group, LLC, dated March 31, 2015 (8)
10.29	Form of Redemption Agreement between M&N Group Holdings, LLC and Manning & Napier Group, LLC, dated April 27, 2016 (9)
10.30	Form of Redemption Agreement between Manning & Napier Capital Company and Manning & Napier Group, LLC, dated April 27, 2016 (10)
21.1	Subsidiaries of Manning & Napier, Inc.
23.1	Consent of PricewaterhouseCoopers, LLP
31.1	Certification of the Company's Chief 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 Chief 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. Annual Report on Form 10-K for the year ended December 31, 2016, 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 Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (iv) related Notes to Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement

- (1) Incorporated by reference to Amendment No. 4 of the Registration Statement on Form S-1 (File No. 333-175309) of Manning & Napier, Inc., which was filed with the Securities and Exchange Commission on November 7, 2011.
- (2) Incorporated by reference to Amendment No. 2 of the Registration Statement on Form S-1 (File No. 333-175309) of Manning & Napier, Inc., which was filed with the Securities and Exchange Commission on September 23, 2011.
- (3) Incorporated by reference to the Annual Report on Form 10-K of Manning & Napier, Inc. for the fiscal year ended December 31, 2011.
- (4) Incorporated by reference to the Annual Report on Form 10-K of Manning & Napier, Inc. for the fiscal year ended December 31, 2012.
- (5) Incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed on May 9, 2013.
- (6)



Edgar Filing: Manning & Napier, Inc. - Form 10-K

Incorporated by reference to the Annual Report on Form 10-K of Manning & Napier, Inc. for the fiscal year ended December 31, 2014.

- (7) Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 30, 2015.

Table of Contents

- (8) Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 30, 2015.
- (9) Incorporated by reference to exhibit 10.1 to the Company's Current Report on the Form 8-K as filed with the Securities and Exchange Commission on May 2, 2016.
- (10) Incorporated by reference to exhibit 10.2 to the Company's Current Report on the Form 8-K as filed with the Securities and Exchange Commission on May 2, 2016.

Item 16. Form 10-K Summary.  
Not applicable.

53

---

## SIGNATURES

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

Dated: March 16, 2017

MANNING & NAPIER, INC.

By: /s/ William Manning

Name: William Manning

Title: Chief Executive Officer  
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated below.

Signature	Capacity	Date
/s/ William Manning William Manning	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	March 16, 2017
/s/ Beth H. Galusha Beth H. Galusha	Principal Financial Officer (principal financial and accounting officer)	March 16, 2017
/s/ Richard Barrington Richard Barrington	Director	March 16, 2017
/s/ Richard Goldberg Richard Goldberg	Director	March 16, 2017
/s/ Barbara Goodstein Barbara Goodstein	Director	March 16, 2017
/s/ Edward J. Pettinella Edward J. Pettinella	Director	March 16, 2017
/s/ Geoffrey Rosenberger Geoffrey Rosenberger	Director	March 16, 2017

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Manning & Napier, Inc.

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Statements of Financial Condition—As of December 31, 2016 and 2015</u>	<u>F-3</u>
<u>Consolidated Statements of Operations—Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-4</u>
<u>Consolidated Statements of Comprehensive Income—Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-5</u>
<u>Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-6</u>
<u>Consolidated Statements of Cash Flows—Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-9</u>

F-1

---

Report of Independent Registered Public Accounting Firm

To Board of Directors and Shareholders of  
Manning & Napier, Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income, of shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Manning & Napier, Inc. and its subsidiaries (the "Company") at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Rainier Investment Management, LLC from its assessment of internal control over financial reporting as of December 31, 2016 because it was acquired by the Company in a purchase business combination during 2016. We have also excluded Rainier Investment Management, LLC from our audit of internal control over financial reporting. Rainier Investment Management, LLC is a consolidated subsidiary of the Company whose total assets and total revenues represent 4% and 5%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2016.

/s/PricewaterhouseCoopers LLP  
Rochester, New York  
March 16, 2017

F-2

---

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

	December 31,	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$100,819	\$117,591
Accounts receivable	15,434	15,807
Accounts receivable—affiliated mutual funds	6,761	8,473
Due from broker	—	3,962
Due from broker - consolidated funds	—	3,510
Investment securities	36,475	21,460
Investment securities - consolidated funds	995	1,107
Prepaid expenses and other assets	4,883	4,638
Total current assets	165,367	176,548
Property and equipment, net	5,680	6,299
Net deferred tax assets, non-current	41,905	46,649
Goodwill	4,829	871
Other long-term assets	2,818	429
Total assets	\$220,599	\$230,796
<b>Liabilities</b>		
Accounts payable	\$2,053	\$1,141
Accrued expenses and other liabilities	35,115	42,480
Deferred revenue	10,210	10,938
Total current liabilities	47,378	54,559
Other long-term liabilities	4,034	2,796
Amounts payable under tax receivable agreement, non-current	34,709	38,661
Total liabilities	86,121	96,016
Commitments and contingencies (Note 12)		
<b>Shareholders' equity</b>		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized, 14,982,880 and 14,755,130 issued and outstanding at December 31, 2016 and December 31, 2015, respectively	\$150	\$148
Class B common stock, \$0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at December 31, 2016 and December 31, 2015	—	—
Additional paid-in capital	200,158	205,760
Retained deficit	(37,383 )	(37,149 )
Accumulated other comprehensive income	(13 )	(3 )
Total shareholders' equity	162,912	168,756
Noncontrolling interests	(28,434 )	(33,976 )
Total shareholders' equity and noncontrolling interests	134,478	134,780
Total liabilities, shareholders' equity and noncontrolling interests	\$220,599	\$230,796
The accompanying notes are an integral part of these consolidated financial statements.		

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

	Year Ended December 31,		
	2016	2015	2014
Revenues			
Investment management services revenue, net	\$248,937	\$318,043	\$396,998
Expenses			
Compensation and related costs	88,622	103,992	158,183
Distribution, servicing and custody expenses	34,468	49,238	68,698
Other operating costs	36,639	36,261	35,624
Total operating expenses	159,729	189,491	262,505
Operating income	89,208	128,552	134,493
Non-operating income (loss)			
Interest expense	(806)	(323)	(27)
Interest and dividend income	617	595	741
Change in liability under tax receivable agreement	1,536	(2,810)	2,014
Net gains (losses) on investments	227	(4,423)	(826)
Total non-operating income (loss)	1,574	(6,961)	1,902
Income before provision for income taxes	90,782	121,591	136,395
Provision for income taxes	8,374	4,639	12,660
Net income attributable to controlling and noncontrolling interests	82,408	116,952	123,735
Less: net income attributable to noncontrolling interests	73,134	103,738	114,418
Net income attributable to Manning & Napier, Inc.	\$9,274	\$13,214	\$9,317
Net income per share available to Class A common stock			
Basic	\$0.63	\$0.91	\$0.68
Diluted	\$0.62	\$0.90	\$0.67
Weighted average shares of Class A common stock outstanding			
Basic	13,948,433	13,736,042	13,678,494
Diluted	14,161,782	13,964,846	13,881,437
The accompanying notes are an integral part of these consolidated financial statements.			



Manning & Napier, Inc.  
 Consolidated Statements of Comprehensive Income  
 (In thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income attributable to controlling and noncontrolling interests	\$82,408	\$116,952	\$123,735
Net unrealized holding loss on investment securities, net of tax	(9	) (5	) —
Reclassification adjustment for realized (gains) losses on investment securities included in net income	(1	) 2	1
Comprehensive income	82,398	116,949	123,736
Less: Comprehensive income attributable to noncontrolling interest	73,124	103,735	114,419
Comprehensive income attributable to Manning & Napier, Inc.	\$9,274	\$13,214	\$9,317

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

F-5

## Manning &amp; Napier, Inc.

## Consolidated Statements of Shareholders' Equity

(In thousands, except share data)

	Common Stock- Class A		Common Stock-Class B		Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance—January 1, 2014	13,634,246	\$ 136	1,000	\$ —	\$208,988	\$(40,544)	\$ (1 )	\$(22,790 )	\$145,789
Net income	—	—	—	—	—	9,317	—	114,418	123,735
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(120,241 )	(120,241 )
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	1	—	1
Common stock issued under equity compensation plan	79,294	1	—	—	(1 )	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to restricted stock units vested	—	—	—	—	(9 )	—	—	(55 )	(64 )
Equity-based compensation	—	—	—	—	5,958	—	—	35,576	41,534
Dividends declared on Class A common stock - \$0.72 per share	—	—	—	—	—	(9,860 )	—	—	(9,860 )
Impact of changes in ownership of Manning & Napier Group, LLC	—	—	—	—	(5,652 )	—	—	(26,531 )	(32,183 )
Balance—December 31, 2014	13,713,540	\$ 137	1,000	\$ —	\$209,284	\$(41,087)	\$ —	\$(19,623 )	\$148,711
Net income	—	—	—	—	—	13,214	—	103,738	116,952
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(89,338 )	(89,338 )
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(3 )	—	(3 )
Common stock issued under equity compensation plan, net of forfeitures	1,041,590	11	—	—	(11 )	—	—	—	—
Equity-based compensation	—	—	—	—	881	—	—	4,573	5,454
Dividends declared on Class A common stock - \$0.64 per share	—	—	—	—	—	(9,276 )	—	—	(9,276 )
Impact of changes in ownership of Manning & Napier Group, LLC	—	—	—	—	(4,394 )	—	—	(33,326 )	(37,720 )
Balance—December 31, 2015	14,755,130	\$ 148	1,000	\$ —	\$205,760	\$(37,149)	\$ (3 )	\$(33,976 )	\$134,780

Edgar Filing: Manning & Napier, Inc. - Form 10-K

Net income	—	—	—	—	—	9,274	—	73,134	82,408
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(58,981 )	(58,981 )
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(10 )	—	(10 )
Common stock issued under equity compensation plan, net of forfeitures	227,750	2	—	—	(2 )	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to restricted stock units vested	—	—	—	—	(162 )	—	—	(791 )	(953 )
Equity-based compensation	—	—	—	—	494	—	—	2,383	2,877
Dividends declared on Class A common stock - \$0.64 per share	—	—	—	—	—	(9,508 )	—	—	(9,508 )
Impact of changes in ownership of Manning & Napier Group, LLC (Note 4)	—	—	—	—	(5,932 )	—	—	(10,203 )	(16,135 )
Balance—December 31, 2016	164,982,880	\$ 150	1,000	\$ —	\$200,158	\$(37,383)	\$ (13 )	\$(28,434 )	\$134,478

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

F-6

Table of Contents

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

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$82,408	\$116,952	\$123,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity-based compensation	2,877	5,454	41,534
Depreciation and amortization	2,481	2,472	2,317
Change in amounts payable under tax receivable agreement	(1,536)	) 2,810	(2,014)
Change in contingent consideration liability	(3,500)	) —	—
Impairment losses	6,575	—	—
Net (gains) losses on investment securities	(227)	) 4,423	826
Deferred income taxes	4,761	(666)	) 5,312
Amortization of debt issuance costs	519	104	—
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:			
Accounts receivable	3,816	7,897	519
Accounts receivable—affiliated mutual funds	1,732	7,106	882
Due from broker - consolidated funds	3,812	(5,000)	) —
Investment securities - consolidated funds	—	(1,150)	) —
Prepaid expenses and other assets	(475)	) 1,887	(1,563)
Accounts payable	(819)	) (1,765)	) 1,430
Accrued expenses and other liabilities	(12,058)	) (9,609)	) (1,543)
Deferred revenue	(729)	) (1,874)	) 805
Other long-term liabilities	61	(323)	) 1,797
Net cash provided by operating activities	89,698	128,718	174,037
Cash flows from investing activities:			
Purchase of property and equipment	(311)	) (854)	) (3,694)
Sale of investments	10,267	12,552	11,295
Purchase of investments	(27,434)	) (11,730)	) (17,705)
Due from broker	4,022	—	—
Acquisitions, net of cash received	(9,321)	) —	(2,068)
Proceeds from maturity of investments	2,105	2,105	605
Net cash (used in) provided by investing activities	(20,672)	) 2,073	(11,567)
Cash flows from financing activities:			
Distributions to noncontrolling interests	(58,981)	) (89,338)	) (120,241)
Dividends paid on Class A common stock	(9,529)	) (10,215)	) (9,841)
Payment of shares withheld to satisfy withholding requirements	(953)	) (64)	) —
Payment of capital lease obligations	(200)	) (233)	) (245)
Purchase of Class A units of Manning & Napier Group, LLC	(16,135)	) (37,720)	) (32,401)
Payment of debt issuance costs	—	(622)	) —
Net cash used in financing activities	(85,798)	) (138,192)	) (162,728)
Net decrease in cash and cash equivalents	(16,772)	) (7,401)	) (258)
Cash and cash equivalents:			
Beginning of period	117,591	124,992	125,250
End of period	\$100,819	\$117,591	\$124,992

F-7

---

Table of Contents

Manning & Napier, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December		
	31,		
	2016	2015	2014
Supplemental disclosures:			
Cash paid during the period for interest	\$287	\$323	\$27
Cash paid during the period for taxes, net of refunds	\$3,905	\$4,758	\$8,056
Non-cash investing and financing activities:			
Capital expenditures in accounts payable and accruals	\$19	\$121	\$619
Equipment acquired through capital lease obligation	\$142	\$227	\$89
Accrued dividends	\$2,397	\$2,361	\$3,291

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

F-8

Table of Contents

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 trust funds, as well as a variety of consultative services that complement its investment process. Founded in 1970, the Company offers equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds.

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 was incorporated in 2011 as a Delaware corporation, and 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 December 31, 2016.

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

F-9

---

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

## Note 2—Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying 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 (the "SEC").

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.

The Company changed its presentation of goodwill within its consolidated statements of financial condition from a component of total "Other long-term assets" to "Goodwill". Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. This reclassification had no impact on previously reported total assets or financial position and does not represent a restatement of any previously published financial results. Other long-term assets at December 31, 2015, previously reported as \$1.3 million, is \$0.4 million as reclassified. Goodwill at December 31, 2015 is \$0.9 million as reclassified.

### Revision of Previously Reported Consolidated Statements of Operations

In the year ended December 31, 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 2014, and concluded that the reclassification was not material to any such periods. The statements of operations for the twelve months ended December 31, 2015 and 2014 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:

	Year Ended December 31, 2015      2014 (in thousands)	
Investment management services revenue, as previously reported	\$327,818	\$405,465
Revision	(9,775 )	(8,467 )
Investment management services revenue, as revised	\$318,043	\$396,998
Distribution, servicing and custody expenses, as previously reported	\$59,013	\$77,165
Revision	(9,775 )	(8,467 )
Distribution, servicing and custody expenses, as revised	\$49,238	\$68,698

### Principles of Consolidation

As of December 31, 2016, Manning & Napier holds an economic interest of approximately 17.4% 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 M&N 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 invested in the

F-10

---

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

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 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 voting interest entity ("VOE"). The Company holds, in limited cases, direct investments in a 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 \$1.3 million and \$1.2 million at December 31, 2016 and 2015, respectively. For the periods ended December 31, 2016 and 2015, the Company maintained a controlling financial interest in one mutual fund, Manning & Napier Fund, Inc. Quality Equity Series, and consolidated the mutual fund.

Operating Segments

The Company operates in one segment, the investment management industry. The Company primarily provides investment management services to separately managed accounts, mutual funds and collective investment trust funds. Management assesses the financial performance of these vehicles on a combined basis.

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 Accounting Standard Codification ("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 years ended December 31, 2016, 2015 and 2014 were approximately \$12.1 million, \$9.8 million and \$8.5 million, 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 Financial Accounting Standards Board ("FASB") 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 provided were approximately \$112.7 million, \$156.6 million and \$217.8 million for the years ended December 31, 2016, 2015 and 2014, respectively, which represents greater than 10% of revenue in each period.

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.

F-11

---

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

Investment Securities

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. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At December 31, 2016 and 2015, trading securities consist solely of investments held by the Company for the purpose of providing initial cash seeding for product development purposes.

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.

Accounts Receivable

Accounts receivable includes investment management and custodial fees receivable from clients. The Company's accounts receivable balances do not include any significant allowance for doubtful accounts nor has any significant bad debt expense attributable to accounts receivable been recorded for the years ended December 31, 2016, 2015 or 2014.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Property and equipment are depreciated on a straight-line basis over the applicable life of the asset class. Depreciation is calculated for computer software, office equipment, and furniture and fixtures using useful lives of 3, 5, and 7 years, respectively. Internal and external costs incurred in connection with developing or obtaining software for internal use are capitalized and amortized over the estimated useful lives of the software, which range from three to five years, beginning when the software project is complete and the application is put into production. Leasehold improvements are depreciated over the shorter of the estimated useful life of the asset or the remaining expected lease term. Gains or losses upon sale or other disposition of fixed assets, are included in the consolidated statements of operations.

Goodwill

Goodwill represents the excess cost over the fair value of the identifiable net assets of acquired companies. The Company attributes all goodwill to its single reporting unit. Goodwill is tested for impairment annually during the fourth quarter or more frequently if events or circumstances indicate that the carrying value may not be recoverable. There were no facts or circumstances occurring during 2016 suggesting possible impairment.

Intangible Assets

Amortizing identifiable intangible assets generally represent the cost of client relationships and trademarks acquired. In valuing these assets, the Company makes assumptions regarding useful lives and projected growth rates, and significant judgment is required. The Company periodically reviews its identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of those assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment losses, if any.

Non-amortizing intangible assets generally represent the cost of mutual fund management contracts acquired.

Non-amortizing intangible assets are tested for impairment in the fourth quarter of each fiscal year, or more frequently if events or circumstances indicate that the carrying value may not be recoverable, by comparing the fair values of the management contracts acquired to their carrying values. The Company establishes fair value for purposes of impairment test using the income approach. If the carrying value of a management contract acquired exceeds its fair value, an impairment loss is recognized equal to that excess.

During the year ended December 31, 2016, the Company recorded an impairment loss of approximately \$6.6 million as further discussed in Note 9.

F-12

---

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

Leases

Rent under non-cancelable operating leases with scheduled rent increases is accounted for on a straight-line basis over the lease term, beginning on the date of initial possession or the effective date of the lease agreement. Allowances and other lease incentives provided by the Company's landlords are amortized on a straight-line basis as a reduction of rent expense. The difference between straight-line rent expense and rent paid and the unamortized deferred lease costs and build-out allowances are recorded as deferred rent liability in the consolidated statements of financial condition.

Equity-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award. The Company estimates an expected forfeiture rate, and only recognizes expense for those awards expected to vest. If the actual forfeiture rate is materially different from that estimated, the equity-based compensation expense could be significantly different from the amount initially recorded in the current period. See Note 15 for additional information on equity-based compensation.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Comprehensive Income (Loss)

Comprehensive income is a measure of income which includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of the change in unrealized gains and losses on available-for-sale investments. The changes in the balances of components comprising other comprehensive income (loss) are presented in the accompanying consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014.

Loss Contingencies

The Company accrues for estimated costs, including legal costs related to existing lawsuits, claims and proceedings when it is probable that a liability has been incurred and the costs can be reasonably estimated. Potential loss contingencies and related accruals are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information pertinent to a particular matter. Significant differences could exist between the actual cost required to investigate, litigate and/or settle a claim or the ultimate outcome of a suit and management's estimate. These differences could have a material impact on the Company's consolidated financial statements. No loss accruals were recorded as of December 31, 2016, 2015 and 2014.

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, Financial Instruments - Overall (Subtopic 825-10), 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

F-13

---

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

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, 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 payment award transactions. The guidance is effective for fiscal years beginning after December 15, 2016. The Company adopted these amendments on January 1, 2017.

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, 2021. 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

Rainier Investment Management, LLC

On April 30, 2016, the Company acquired a majority ownership interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm. Rainier specializes in capitalization-based U.S. and non-U.S. equity strategies and is headquartered in Seattle, Washington. Under the terms of the transaction, the Company acquired a 75% ownership interest in Rainier, with the remaining 25% ownership maintained by key professionals at Rainier. The transaction serves to further diversify the Company's product offerings, enhance its positioning as a provider to defined contribution plans, and broaden its geographic coverage of the western United States.

Consideration transferred included an upfront cash payment on the transaction closing date of \$13.0 million.

Additional cash payments of up to \$32.5 million over a four year period through calendar year ended December 31, 2019, 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.

The transaction was accounted for by the Company using the acquisition method under ASC 805, Business Combinations. The following table summarizes the preliminary allocation of the April 30, 2016 purchase price to the assets acquired and liabilities assumed (in thousands):



## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

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	3,703
Other liabilities	1,204
Total liabilities assumed	4,907
Purchase price	\$16,422

The goodwill of \$4.0 million represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and, in management's opinion, is largely attributable to the value expected from the synergies created through the integration of Rainier's operations, the reputation and expertise of Rainier in the asset management industry, and the existing workforce of Rainier. The goodwill recognized as a result of the acquisition is expected to be deductible for tax purposes.

The intangible assets for client relationships include those for separately managed accounts, mutual funds, and collective investment trusts. The client relationships for separately managed accounts, valued upon acquisition at \$1.5 million, were assigned a useful life of 6 years. Those for mutual funds and collective investment trusts, valued upon acquisition at approximately \$7.8 million, are indefinite-lived, and as such, are not being amortized.

The acquisition date contingent consideration fair value of \$3.5 million was measured using a Monte Carlo simulation with various unobservable market data inputs, which are Level 3 measurements. Significant unobservable inputs included projected revenue growth, projected EBITDA margins and discount rates over the four year earn-out period. For purposes of the simulation, EBITDA generally means net income before interest expense, income taxes, depreciation and amortization expense. A summary of various assumption values follows:

Projected revenue growth	up to 7.0%
Projected EBITDA margins	12.4% to 29.3%
Market price of risk	7.8%
Earn-out payment discount rate	3.0% to 3.6%

As of December 31, 2016, the Company owned an 82% ownership in Rainier, an increase from the 75% ownership at acquisition due to the retirement of individuals at Rainier. The 18% ownership maintained by key professionals at Rainier is subject to service-based vesting over the five-year period following the acquisition. The Company has the option to repurchase any vested ownership interests upon termination of employment, at a price based on the post-acquisition financial results of Rainier for the most recent four-quarter period preceding the employee's termination date. This repurchase price is recognized as a liability within the consolidated statements of financial condition. The carrying value of this liability was \$0 on the acquisition date, and approximately \$0.1 million as of December 31, 2016.

## Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 17.4% 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 conditions with respect to the remaining approximately 82.6% economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. 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.



## Manning &amp; 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.":

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Income before provision for income taxes	\$90,782	\$121,591	\$136,395
Less: gain (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup>	1,516	(2,826 )	1,999
Income before provision for income taxes, as adjusted	89,266	124,417	134,396
Controlling interest percentage <sup>(2)</sup>	17.2 %	16.1 %	14.3 %
Net income attributable to controlling interest	15,319	20,083	19,280
Plus: gain (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup>	1,516	(2,826 )	1,999
Income before income taxes attributable to Manning & Napier, Inc.	16,835	17,257	21,279
Less: provision for income taxes of Manning & Napier, Inc. <sup>(3)</sup>	7,561	4,043	11,962
Net income attributable to Manning & Napier, Inc.	\$9,274	\$13,214	\$9,317

(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 includes all U.S. federal and state income taxes. The consolidated provision for income taxes totaled approximately \$8.4 million, \$4.6 million and \$12.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

A total of 65,784,571 units of Manning & Napier Group are held by the noncontrolling interests as of December 31, 2016. 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 April 27, 2016, M&N Group Holdings and MNCC exchanged a total of 2,111,913 Class A units of Manning & Napier Group for approximately \$16.1 million in cash. Subsequent to the exchange, the Class A units were retired. In addition, during the twelve months ended December 31, 2016, Class A common stock was issued under the 2011 Equity Compensation Plan (the "Equity Plan") for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group.

The following provides a summary of the transactions that have impacted the Company's equity ownership interest in Manning & Napier Group during the years ended December 31, 2016, 2015 and 2014:

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

Manning & Napier Group Class A Units  
Held

	Manning & Napier	Noncontrolling Interests	Total	Manning & Napier Ownership %
As of January 1, 2014	12,296,093	75,861,023	88,157,116	13.9%
Class A Units issued <sup>(1) (2)</sup>	23,294	—	23,294	—
Class A Units exchanged <sup>(2)</sup>	187,848	(2,286,685)	(2,098,837)	0.6%
As of December 31, 2014	12,507,235	73,574,338	86,081,573	14.5%
Class A Units issued	1,071,590	—	1,071,590	1.1%
Class A Units exchanged <sup>(2)</sup>	—	(5,677,854)	(5,677,854)	1.1%
As of December 31, 2015	13,578,825	67,896,484	81,475,309	16.7%
Class A Units issued	247,750	—	247,750	0.2%
Class A Units exchanged	—	(2,111,913)	(2,111,913)	0.5%
As of December 31, 2016	13,826,575	65,784,571	79,611,146	17.4%

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

(2) Total ownership activity shown includes multiple unit issuances or exchanges that occurred during the respective year which are combined above for presentation purposes.

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. During the year ended December 31, 2016, the Company recorded a correction of an error relating to the fiscal years ended December 31, 2015, 2014 and 2013. The Company did not allocate a portion of historical equity related to certain changes in a parent's ownership interest in a subsidiary while control is retained in accordance with ASC 810 Consolidation, which resulted in an overstatement of additional paid-in capital, with a corresponding understatement of noncontrolling interests of approximately \$3.0 million, \$0.8 million and \$0.2 million as of December 31, 2015, 2014 and 2013, respectively. This adjustment has no impact on net income or total shareholders' equity and noncontrolling interests. After evaluating the quantitative and qualitative aspects of the adjustment, the Company concluded that its prior period financial statements were not materially misstated.

During the years ended December 31, 2016, 2015 and 2014, the Company made approximately \$59.0 million, \$89.3 million and \$120.2 million, respectively, in distributions to noncontrolling interests. None of these distributions were payments pursuant to the tax receivable agreement (Note 16).

## Note 5—Investment Securities

The following table represents the Company's investment securities holdings at December 31, 2016 and December 31, 2015:

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair 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

  

	December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes	\$2,105	\$ —	\$ (6 )	\$2,099
Trading securities				
Equity securities				8,967
Fixed income securities				7,624
Mutual funds				116
Mutual funds - consolidated funds				1,107
				2,654
Hedge funds				20,468
Total investment securities				\$22,567

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 December 31, 2016 and 2015, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately \$0.8 million of net unrealized gains and \$1.8 million and \$1.3 million of net unrealized losses related to investments classified as trading securities for the years ended December 31, 2016, 2015 and 2014, 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 December 31, 2016 and 2015, approximately \$0.6 million of the U.S. Treasury notes is 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 years ended December 31, 2016, 2015, or 2014.

The table below presents realized gains and losses on the sale of all securities for the years ended December 31, 2016, 2015, and 2014:

F-18

---

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Gross realized investment gains	\$1,502	\$473	\$1,425
Gross realized investment losses	(2,443 )	(1,194)	(415 )
Net realized (losses) gains	\$(941 )	\$(721)	\$1,010

## Note 6—Derivative Instruments

The Company may enter into futures contracts for product development purposes. Futures are commitments either to purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Upon entering into a futures contract, the Company is required to pledge to the broker an amount of cash, which is reported in due from broker within the consolidated statements of financial condition. Futures contracts have little credit risk because the counterparties are futures exchanges. The Company does not hold any derivatives in a formal hedge relationship under ASC 815-10, Derivatives and Hedging.

As of December 31, 2016, the Company had no open futures contracts. The following table presents the notional value and fair value as of 2015 for derivative instruments not designated as hedging instruments:

	December 31, 2015		
	Fair Value		
	Notional Value	Asset Derivative	Liability Derivative
	(in thousands)		
Interest rate futures	\$124,470	\$169	\$(112 )
Index futures	3,715	57	(47 )
Commodity futures	2,440	27	(30 )
Currency futures	6,921	35	(43 )
Total derivatives	\$137,546	\$288	\$(232 )

As of December 31, 2015, the derivative assets and liabilities were included in due from broker in the consolidated statements of financial condition. Derivative activity concluded on February 4, 2016 with a year to date average volume of derivative activity (measured in terms of notional value) of approximately \$127.8 million. The average notional volume of derivative activity for the twelve months ended December 31, 2015 was approximately \$234.6 million. The following table presents the gains (losses) recognized in net gains (losses) on investments in the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Interest rate futures	\$494	\$(1,728)	\$(555)
Index futures	(37 )	(75 )	(63 )
Commodity futures	(13 )	(37 )	(119 )
Currency futures	(102 )	(126 )	143
Net gains (losses) recognized	\$342	\$(1,966)	\$(594)

The Company discloses information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position in accordance with ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. The derivatives instruments are subject to a master netting agreement allowing for the netting of assets and liabilities on the consolidated statements of financial position.

The following table presents the offsetting of managed futures as of December 31, 2016 and 2015:

F-19

---



## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
	(in thousands)					
December 31, 2016	\$—	\$ —	\$ —	\$ —	\$ —	\$ —
December 31, 2015	\$(232)	\$ 288	\$ 56	\$ —	\$ —	\$ 56

## Note 7—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).

The following provides the hierarchy of inputs used to derive the fair value of the Company's assets as of December 31, 2016 and 2015:

	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	\$—	\$—	\$ —	—\$—

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

	December 31, 2015			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$8,967	\$—	\$	—\$8,967
Fixed income securities	1,008	6,616	—	7,624
Mutual funds	116	—	—	116
Mutual funds - consolidated funds	1,107	—	—	1,107
Hedge funds	—	2,654	—	2,654
U.S. Treasury notes	—	2,099	—	2,099
Derivatives	288	—	—	288
Total assets at fair value	\$11,486	\$11,369	\$	—\$22,855

Derivatives	\$232	\$—	\$	—\$232
Total liabilities at fair value	\$232	\$—	\$	—\$232

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. 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. As of December 31, 2016, the fair value of the contingent liability was \$0.

The changes in financial assets and (liabilities) measured at fair value using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2016 are presented in the table below:

	December 31 Purchases 2015	Sales	Redemptions/ Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	December 31, 2016
	(in thousands)					
Contingent consideration liability	—\$(3,500 )	n/a	\$ 3,500	n/a	\$	—\$ —

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 significant transfers between Levels during the year ended December 31, 2016 or 2015.

## Note 8—Property and Equipment

Property and equipment as of December 31, 2016 and 2015 consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Furniture and fixtures	\$2,864	\$1,863
Office equipment	5,436	4,770
Computer software	3,403	3,337
Leasehold improvements	5,607	5,000
	17,310	14,970
Less: Accumulated depreciation	(11,630)	(8,671 )
Property and equipment, net	\$5,680	\$6,299

Depreciation expense is included in other operating costs and totaled approximately \$1.9 million, \$2.2 million and \$2.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

F-21

---

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

The Company has evaluated its property and equipment for impairment under the current accounting standards and has concluded that no impairment loss has occurred as of December 31, 2016 and 2015.

## Note 9—Goodwill and Intangible Assets

## Goodwill

The changes in the carrying value of goodwill for the years ended December 31, 2016 and 2015 are as follows:

	December 31,	
	2016	2015
	(in thousands)	
Balance, beginning of period	\$ 871	\$ 871
Goodwill acquired	3,958	—
Balance, end of period	\$ 4,829	\$ 871

The Company completed its goodwill impairment testing in the fourth quarter of 2016 and determined that there was no impairment in the carrying value as of December 31, 2016. No impairment of the value of goodwill was recognized during the years ended December 31, 2016, 2015 or 2014.

## Intangible assets

Intangible assets as of December 31, 2016 and 2015 consisted of the following:

	December 31, 2016				December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)						
Intangible assets subject to amortization:							
Separately managed account client relationships acquired	\$ 2,230	\$ (897 )	\$ (1,333 )	\$ —	\$ 730	\$ (349 )	\$ 381
Trademark	340	(100 )	—	240	70	(22 )	48
Indefinite-lived intangible assets:							
Mutual fund and collective trust contracts acquired	7,820	—	(5,242 )	2,578	—	—	—
Total intangible assets	\$ 10,390	\$ (997 )	\$ (6,575 )	\$ 2,818	\$ 800	\$ (371 )	\$ 429

As of December 31, 2016, the Company identified certain indicators that the carrying value of its intangible assets for client relationships, including those for separately managed accounts, mutual funds, and collective investment trusts, may not be recoverable and exceed their fair value. The impairment indicators identified include management turnover, a decrease in AUM and increased client cancellations, all resulting in declining revenues and net income. The fair value of the intangible assets was determined using expected cash flow estimates. These assumptions are significant unobservable inputs, Level 3 fair value measurements. The fair value of separately managed account relationships is based on projected net cash flow the Company will generate from the remaining clients as of December 31, 2016. Net cash flow projections assume a client retention factor ranging from 45% to 60% and EBITDA margins ranging from -17% to 29%. The fair value of mutual fund and collective trust contracts is based on AUM as of December 31, 2016 and the projected net cash flow the Company will generate from the contracts. Net cash flow projections assume revenue growth rates ranging from -60% to 76% and EBITDA margins ranging from -17% to 18%.

Based on the results of the impairment review, the Company recognized an impairment loss of approximately \$6.6 million related to its separately managed client relationships and mutual fund and collective trust contracts to write-down the carrying value of the intangible assets to their respective fair values. The impairment is included in other operating costs in the consolidated statements of operations.



## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

Amortization expense was \$0.6 million, \$0.2 million and \$0.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. Estimated amortization expense to be recognized over the next five years is as follows:

Year Ending December 31,	Estimated Amortization Expense (in thousands)
2017	\$ 45
2018	45
2019	45
2020	45
2021	45
Thereafter	15
Total	\$ 240

## Note 10—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of December 31, 2016 and 2015 consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Accrued bonuses and sales commissions	\$ 18,342	\$ 22,584
Accrued payroll and benefits	3,430	2,844
Accrued sub-transfer agent fees	4,785	6,148
Dividends payable on Class A common stock	2,397	2,361
Amounts payable under tax receivable agreement	2,364	3,278
Other accruals and liabilities	3,797	5,265
	\$ 35,115	\$ 42,480

## Note 11—Borrowings

## Revolving Credit Facility

On April 23, 2015, Manning & Napier, Inc., Manning & Napier Group and Manning & Napier Advisors, LLC (collectively, the "Borrowers") entered into an unsecured revolving credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, lender, swingline lender and issuing bank, Manufacturers and Traders Trust Company, as syndication agent and lender, and First Niagara Bank, The Bank of New York Mellon, and The Huntington National Bank, as lenders (collectively, the "Lenders") that has a four-year term (until April 23, 2019) and provides borrowing capacity of up to \$100.0 million, with a feature providing for an increase in the line to \$150.0 million on approval by the Lenders. The Credit Agreement also provides for a \$5.0 million sub-limit for the issuance of standby letters of credit and a \$5.0 million swingline facility. At December 31, 2016, there were no amounts outstanding under the Credit Agreement and the Company had the capacity to draw on the entire \$100.0 million under the Credit Agreement. The Company capitalized approximately \$0.6 million of issuance costs to enter this facility and amortized the costs to interest expense over the term of the Credit Agreement. At December 31, 2016, there were no amounts included in the Consolidated Statements of Financial Condition. The Company has subsequently terminated the Credit Agreement (Note 20).

Amounts outstanding under the Credit Agreement bear interest at an annual rate equal to, at the Company's option, either LIBOR (adjusted for reserves and not below 0.0%) for interest periods of one, two, three or six months or a base rate (as defined in the Credit Agreement), plus, in each case, an applicable margin. The applicable margins range from 1.50% to 2.50% in the case of LIBOR-based loans, and 0.50% to 1.50% in the case of base rate loans. Under the terms of the Credit Agreement, the Company is also required to pay certain fees, including among other things a one-time initial commitment fee, and a quarterly fee based on the average unused amount of the facility ranging from 0.25% to 0.45%.

The Credit Agreement contains customary covenants, including covenants that restrict (subject in certain instances to minimum thresholds or exceptions) the ability of the Company and certain of its subsidiaries to incur additional indebtedness, create liens, merge, dispose of assets, and make distributions, dividends, investments or capital expenditures, among other things. In addition, the Credit Agreement contains certain financial covenants, including: (i) a minimum interest coverage ratio (generally, adjusted EBITDA to interest expense as defined in and for the period specified in the Credit Agreement) of at least

F-23

---

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

4.00:1.00 and (ii) a leverage ratio (generally, total debt as of any date to adjusted EBITDA as defined in and for the period specified in the Credit Agreement) of no greater than 2.75:1.00. For purposes of the Credit Agreement, adjusted EBITDA generally means, for any period, net income of the Company before interest expense, income taxes, depreciation and amortization expense, non-cash stock-based compensation expense, and certain non-cash nonrecurring gains and losses as described in and specified under the Credit Agreement. At December 31, 2016, the Company was in compliance with all financial covenants under the Credit Agreement.

The Credit Agreement also contains customary provisions regarding events of default which could result in an acceleration of amounts due under the facility. Such events of default include the Company's failure to pay principal or interest when due, the Company's failure to satisfy or comply with covenants and a change of control.

## Note 12—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. 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 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 December 31, 2016 and 2015, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

## Lease Commitments

The Company has several operating leases for office space, and leases its primary office facilities in Fairport, New York under an operating lease expiring December 31, 2022. The Company also rents additional office space in various other locations throughout the United States. Total rental expense for all leases amounted to approximately \$3.9 million for the year ended December 31, 2016 and \$3.5 million and \$3.6 million for the years ended December 31, 2015 and 2014, respectively. Minimum rent payments relating to the office leases for years subsequent to 2016, are as follows:

Year Ending December 31,	Minimum Payments (in thousands)
2017	\$ 4,240
2018	4,248
2019	3,877
2020	3,784
2021	3,807
Thereafter	6,041
	\$ 25,997

Certain of the Company's operating leases have been subleased for which the Company will receive amounts totaling approximately \$1.1 million.

Under the agreement for its primary office facilities, the Company is required to pay a minimum of approximately \$2.9 million annually for the use of the facility.



As of December 31, 2016 and 2015, the Company had approximately \$0.3 million and \$0.4 million, respectively, of total capital lease obligations.

Note 13—Shareholders' Equity and Capital Structure

The authorized capital stock of Manning & Napier consists of 300,000,000 shares of Class A common stock, par value \$0.01 per share, and 2,000 shares of Class B common stock, par value \$0.01 per share, and are further described below. In

F-24

---

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

addition to the Class A and Class B common stock, the Company has the authority to issue 100,000 shares of preferred stock, par value \$0.01 per share.

**Class A Common Stock**

The holders of the Company's Class A common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders.

The holders of the Company's Class A common stock are entitled to receive dividends, if declared by the Company's board of directors, out of funds legally available therefore, subject to any statutory or contractual restrictions on the payment of dividends.

The holders of the Company's Class A common stock do not have preemptive, subscription, redemption or conversion rights.

**Class B Common Stock**

The holder of the Company's Class B common stock controls a majority of the vote on all matters submitted to a vote of stockholders. The number of votes for each share of Class B common stock is equal to the quotient derived by dividing the total number of issued and outstanding shares of Class B common stock into a number equal to 101% of the aggregate number of votes entitled to be cast by the holders of the Class A common stock and any other of the Company's equity securities entitled to vote other than the holders of Class B common stock, as calculated on the record date of such vote.

The holder of the Company's Class B common stock does not have any right to receive dividends or to receive a distribution upon the dissolution, liquidation or sale of all or substantially all of the Company's assets.

In the event the holder of the Company's Class B common stock transfers any shares of Class B common stock to any person or entity, such shares will be deemed automatically to convert into the same number of shares of Class A common stock.

Upon the earlier to occur of: (i) the death of William Manning, the Company's Chairman of the Board and Chief Executive Officer, the holder of the Company's Class B common stock, (ii) the date that the aggregate direct and indirect ownership of William Manning's units of Manning & Napier Group constitutes less than 25% of the total number of units of Manning & Napier Group and (iii) November 17, 2017, all outstanding shares of the Company's Class B common stock will be automatically, without any further action on the Company's part or the holder of the shares of the Company's Class B common stock, canceled and will revert to the status of authorized but unissued shares of Class B common stock.

The holder of the Company's Class B common stock does not have any preemptive, subscription or conversion rights.

**Voting**

Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of Class A common stock and Class B common stock, voting together as a single class.

**Shares Eligible for Future Sale**

Upon the completion of the initial public offering, the Company entered into an exchange agreement with M&N Group Holding and MNCC, the other direct holders of all of the units of Manning & Napier Group that are not held by the Company. On April 27, 2016, M&N Group Holdings and MNCC exchanged a total of 2,111,913 Class A units of Manning & Napier Group (Note 4).

As of December 31, 2016, a total of 65,784,571 Class A units of Manning & Napier Group are 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, subject to certain restrictions, these units may be exchangeable on an annual basis for shares of the Company's Class A common stock. As of December 31, 2016, approximately 42.6 million Class A units of Manning & Napier Group are eligible for exchange, of which approximately 39.9 million are held by William Manning. In the event that William Manning maximizes his participation, certain restrictions are removed such that the total amount eligible would increase to approximately 44.0 million to allow for other owners to participate in a similar proportion.

For any units of Manning & Napier Group 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, in each case, 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. The decision whether to pay cash or issue shares will be made by the independent members of the Company's board of directors.

F-25

---

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 14—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.

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the years ended December 31, 2016, 2015 and 2014 under the two-class method:

	Year Ended December 31, 2016		
	2016	2015	2014
	(in thousands, except share data)		
Net income attributable to controlling and noncontrolling interests	\$82,408	\$ 116,952	\$ 123,735
Less: net income attributable to noncontrolling interests	73,134	103,738	114,418
Net income attributable to Manning & Napier, Inc.	\$9,274	\$ 13,214	\$ 9,317
Less: allocation to participating securities	544	685	—
Net income available to Class A common stock	\$8,730	\$ 12,529	\$ 9,317
Weighted average shares of Class A common stock outstanding - basic	13,948,433	13,736,042	13,678,494
Dilutive effect from unvested equity awards	213,349	228,804	202,943
Weighted average shares of Class A common stock outstanding - diluted	14,161,782	13,964,846	13,881,437
Net income available to Class A common stock per share - basic	\$0.63	\$ 0.91	\$ 0.68
Net income available to Class A common stock per share - diluted	\$0.62	\$ 0.90	\$ 0.67

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

For the years ended December 31, 2016 and 2015, there were 940,000 and 1,285,357, respectively, unvested equity awards excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive.

For the years ended December 31, 2015 and 2014, 120,919 and 181,378 unvested equity awards were excluded from the calculation of diluted earnings per common share because the performance conditions associated with the vesting of such awards had not yet been satisfied.

At December 31, 2016, 2015 and 2014 there were 65,784,571, 67,896,484, and 73,574,338, respectively, Class A units of Manning & Napier Group which for each period, subject to certain restrictions, may be exchangeable for up to an equivalent number of the Company's Class A common shares. These units were not included in the calculation of diluted earnings per common share for the respective periods because the effect would have been anti-dilutive.

Manning &amp; Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

## Note 15—Equity Based Compensation

## 2011 Equity Compensation Plan

The Equity Plan was adopted by the Company's board of directors and approved by the Company's stockholders prior to the consummation of the IPO. A total of 13,142,813 equity interests are authorized for issuance. The equity interests may be issued in the form of the Company's 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.

During the twelve months ended December 31, 2016, 72,410 equity awards were granted under the Equity Plan. These awards consisted of Class A common stock that vested immediately.

The following table summarizes equity award activity for the year ended December 31, 2016 under the Company's Equity Plan:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Stock awards outstanding at January 1, 2016	2,031,629	\$ 12.92
Granted	72,410	\$ 8.38
Vested	(409,479 )	\$ 14.32
Forfeited	(486,772 )	\$ 11.20
Stock awards outstanding at December 31, 2016	1,207,788	\$ 12.56

The weighted average fair value of Equity Plan awards granted during the years ended December 31, 2016, 2015 and 2014 was \$8.38, \$11.89, and \$15.29, respectively, based on the closing sale price of Manning & Napier Inc.'s Class A common stock as reported on the New York Stock Exchange on the date of grant, and, when applicable, reduced by the present value of the dividends expected to be paid on the underlying shares during the requisite service period.

Restricted stock unit awards are not entitled to dividends declared on the underlying shares of Class A common stock until the awards vest.

For the years ended December 31, 2016, 2015, and 2014, the Company recorded approximately \$2.9 million, \$5.5 million, and \$3.1 million of compensation expense, respectively, related to awards under the Equity Plan. The aggregate intrinsic value of awards that vested during the years ended December 31, 2016, 2015 and 2014 was approximately \$3.5 million, \$0.4 million, and \$1.4 million, respectively. As of December 31, 2016, there was unrecognized compensation expense related to 2011 Plan awards of approximately \$9.0 million, which the Company expects to recognize over a weighted average period of approximately 4.0 years.

## 2011 Reorganization-Related Transactions

The weighted average fair value of reorganization-related performance-based awards granted during the year ended December 31, 2014 was \$13.89. For the year ended December 31, 2014, the Company recorded approximately \$38.4 million of compensation expense related to the vesting terms of ownership interests in connection with the 2011 reorganization transactions. The aggregate intrinsic value of service-based and performance-based stock units that vested during the year ended December 31, 2014 was approximately \$21.7 million and \$22.8 million, respectively. As of December 31, 2014, there was no unrecognized compensation expense related to the vesting terms of ownership interests in connection with the 2011 reorganization transactions.

## Note 16—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 LLCs 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, state and local income taxes on their earnings and losses, respectively.



## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

Components of the provision for income taxes consist of the following:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Current			
Federal	\$2,797	\$4,525	\$6,012
State and local	816	780	1,336
Current tax expense	3,613	5,305	7,348
Deferred			
Federal	4,543	(618 )	2,582
State and local	218	(48 )	2,730
Deferred tax expense (benefit)	4,761	(666 )	5,312
Provision for income tax expense	\$8,374	\$4,639	\$12,660

The differences between income taxes computed using the U.S. federal income tax rate of 34% for the year ended December 31, 2016 and 35% for the years ended December 31, 2015 and 2014 and the provision for income taxes for continuing operations are as follows:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Amount computed using the statutory rate	\$30,866	\$42,557	\$47,738
Increase (reduction) in taxes resulting from:			
State and local taxes, including settlements and adjustments, net of federal benefit	835	689	1,093
Impact of enacted tax law changes	—	—	1,869
Net adjustment to deferred tax asset	1,901	(3,247 )	—
Equity-based compensation	—	—	1,931
Benefit from the flow-through entities	(24,723 )	(36,265 )	(39,945 )
Other, net	(505 )	905	(26 )
Provision for income taxes	\$8,374	\$4,639	\$12,660

The provision for income taxes includes a benefit attributable to the fact that 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. This favorable impact is partially offset by the \$1.9 million provision recognized for the reduction in its effective tax rate during the year ended December 31, 2016. For the year ended December 31, 2015, the Company received a benefit of approximately \$3.2 million resulting from the release of uncertain tax positions that increased the future tax benefits under the tax receivable agreement.

#### Deferred Tax Assets and Liabilities

As a result of Manning & Napier's purchase of Class A units of Manning & Napier Group or exchange for Class A common stock of Manning & Napier for Class A units of Manning & Napier Group and Manning & Napier Group's election under Section 754 of the Internal Revenue Code, the Company expects to benefit from depreciation and amortization deductions from an increase in tax basis of tangible and intangible assets of Manning & Napier Group. Those deductions allocated to the Company will be taken into account in reporting the Company's taxable income. In connection with the IPO, a tax receivable agreement ("TRA") was entered into between Manning & Napier and the holders of Manning & Napier Group, pursuant to which Manning & Napier is required to pay to such holders 85% of the applicable cash savings, if any, in U.S. federal, state, local and foreign income tax that Manning & Napier actually realizes, or is deemed to realize in certain circumstances, as a result of (i) certain tax attributes of their units sold to Manning & Napier or exchanged (for shares of Class A common stock) and that are created as a result of the sales or exchanges and payments under the TRA and (ii) tax benefits related to imputed interest.





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

Under the TRA, Manning & Napier generally will retain the benefit of the remaining 15% of the applicable tax savings. There is a possibility that not all of the 85% of the applicable cash savings will be paid to the selling or exchanging holder of Class A units at the time described above. If it is determined that all or a portion of such applicable tax savings is in doubt, payment to such holders of Class A units will be the amount attributable to the portion of the applicable tax savings that are determined not to be in doubt and the payment of the remainder at such time as it is reasonably determined that the actual tax savings or that the amount is no longer in doubt.

At December 31, 2016 and 2015, the Company had recorded a total liability of approximately \$37.1 million and \$41.9 million, respectively, representing the payments due to the selling unit holders under the TRA. Of these amounts, approximately \$2.4 million and \$3.3 million were included in accrued expenses and other liabilities at December 31, 2016 and 2015, respectively. Payments are anticipated to be made annually commencing from the date of each event that gives rise to the TRA benefits. The timing of the payments is subject to certain contingencies including the Company having sufficient taxable income to utilize all of the tax benefits defined in the TRA. The Company reduced its effective tax rate during the year ended December 31, 2016. As a result, the Company decreased its deferred tax asset related to the TRA by approximately \$1.9 million, which resulted in a decrease in the amounts payable under the TRA agreement of approximately \$1.5 million, representing 85% of the applicable cash savings. The Company made payments pursuant to the TRA of approximately \$3.4 million, \$2.1 million and \$2.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Components of net deferred tax assets consist of the following:

	December 31,	
	2016	2015
	(in thousands)	
Deferred tax assets		
Tax receivable agreement	\$40,834	\$45,483
Bonus and commissions	910	1,186
Consulting and professional	15	25
Other	330	172
Total deferred tax assets	42,089	46,866
Deferred tax liabilities		
Depreciation and amortization	51	114
Prepaid items	133	103
Total deferred tax liabilities	184	217
Net deferred tax assets	\$41,905	\$46,649

The decrease in net deferred tax assets during the year ended December 31, 2016 was driven by the current year utilization of tax benefits under the TRA, coupled with the reduction in the Company's effective tax rate which led to a decrease in its expected future tax benefits.

As of December 31, 2016, the Company had no available net operating loss carryforwards for income tax purposes. The Company has assessed the recoverability of the deferred tax assets and believes it is more likely than not that the assets will be realized. The Company has not recorded a valuation allowance as of December 31, 2016 and 2015.

#### Accounting for Uncertainty in Income Taxes

A reconciliation of the beginning and ending amount of the Company's liability for income taxes associated with unrecognized tax benefits is as follows:

	December 31,	
	2016	2015
	(in thousands)	
Balance as of January 1,	\$6	\$3,248
Increase related to current year tax positions	129	—
Decrease related to prior year tax positions	—	(3,242 )
Balance as of December 31,	\$135	\$6

F-29

---

Manning & Napier, Inc.

Notes to Consolidated Financial Statements (Continued)

The Company's policy regarding interest and penalties related to uncertain tax positions is to recognize such items as a component of the provision for income taxes. The Company recorded less than \$0.1 million in interest and penalties in the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014.

The Company does not expect that changes in the liability for unrecognized tax benefits during the next twelve months will have a significant impact on the Company's financial position or results of operations.

The Company files income tax returns with Federal, state and local jurisdictions. The Company's U.S. Federal and state tax matters for the years 2013 through 2015 remain subject to examination by the respective tax authorities.

Note 17—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.

Transactions with officers and directors

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 was approximately \$0.2 million for the year ended December 31, 2016, and \$0.3 million in 2015 and 2014. The aggregate value of fees waived was approximately \$0.1 million in 2016, 2015 and 2014.

Affiliated mutual fund and collective investment trust 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 \$112.7 million, \$156.6 million, and \$217.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, amounts due from the affiliated mutual funds was approximately \$6.8 million and \$8.5 million, respectively. As of December 31, 2016 and 2015, amounts due from affiliated collective investment trusts was approximately \$4.5 million and \$4.6 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 or incurred for affiliated mutual funds and collective investment trusts was \$4.3 million, \$3.8 million and \$3.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 18—Employee Benefit Plan

The Company offers the Manning & Napier Advisors, LLC 401(k) and Profit Sharing Plan (the "MNA Plan") to all employees who meet the plan criteria.

With respect to the 401(k) portion of the MNA Plan, participants may voluntarily contribute up to 75% of their regular salary subject to annual limitations determined by the IRS. The Company matches an amount equivalent to 50% of a participant's contribution, not to exceed 2% of their total compensation. Matching contributions vest to the participants after three years of service. These contributions by the Company amounted to approximately \$1.0 million, \$0.9 million and \$1.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

With respect to the profit sharing portion of the MNA Plan, the Company may make annual profit sharing contributions, subject to certain limitations, which vest immediately to individuals who are eligible. These contributions by the Company amounted to approximately \$1.0 million, \$1.3 million and \$1.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## Manning &amp; Napier, Inc.

## Notes to Consolidated Financial Statements (Continued)

## Note 19—Selected Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations of the Company for the years ended December 31, 2016 and 2015.

	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except share data)			
Revenue	\$62,042	\$ 64,505	\$ 63,305	\$ 59,085
Operating income	\$22,780	\$ 22,963	\$ 21,692	\$ 21,773
Net income attributable to the controlling and noncontrolling interests	\$22,184	\$ 21,698	\$ 19,985	\$ 18,541
Net income attributable to Manning & Napier, Inc.	\$2,418	\$ 2,605	\$ 2,258	\$ 1,993
Net income available to Class A common stock - diluted	\$0.16	\$ 0.17	\$ 0.15	\$ 0.13
Weighted average shares of Class A common stock - diluted	14,084,903	14,243,579	14,175,321	14,212,655
Cash dividends declared per share of Class A common stock	\$0.16	\$ 0.16	\$ 0.16	\$ 0.16

  

	2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except share data)			
Revenue	\$88,129	\$ 84,481	\$ 75,435	\$ 69,998
Operating income	\$37,834	\$ 33,788	\$ 30,733	\$ 26,197
Net income attributable to the controlling and noncontrolling interests <sup>(1)</sup>	\$36,111	\$ 30,208	\$ 26,326	\$ 24,307
Net income attributable to Manning & Napier, Inc.	\$3,309	\$ 3,503	\$ 3,542	\$ 2,860
Net income available to Class A common stock - diluted	\$0.24	\$ 0.23	\$ 0.21	\$ 0.19
Weighted average shares of Class A common stock - diluted	13,914,908	14,002,133	81,889,208	14,035,959
Cash dividends declared per share of Class A common stock	\$0.16	\$ 0.16	\$ 0.16	\$ 0.16

## Note 20—Subsequent Events

## Distribution and Dividend

On March 7, 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 to the members of Manning & Napier Group is \$12.0 million, of which approximately \$9.9 million is payable to the noncontrolling interests. Concurrently, the Board of Directors declared a \$0.08 per share dividend to the holders of Class A common stock. The dividend is payable on May 1, 2017 to shareholders of record as of April 14, 2017.

## Termination of Credit Agreement

The Borrowers terminated the Credit Agreement with the Lenders on January 12, 2017. No amounts had been borrowed and thus none were outstanding under the Credit Agreement.

## Exchange of Class A units of Manning &amp; Napier Group

The Company is nearing the completion of the 2017 exchange period whereby eligible Class A units of Manning & Napier Group held by M&N Group Holdings and MNCC may be tendered for exchange. In connection with the exchange, the Company has the ability to 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 issue shares of Class A common stock on a one-for-one basis.