

Manning & Napier, Inc.
Form 10-Q
November 08, 2018
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-35355

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)

Registrant's telephone number, including area code:
(585) 325-6880

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

Emerging growth company

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

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

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

Class	Outstanding at November 5, 2018
Class A common stock, \$0.01 par value per share	15,333,041

TABLE OF CONTENTS

	Page
Part I <u>Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 4. <u>Controls and Procedures</u>	<u>43</u>
Part II <u>Other Information</u>	
Item 1A. <u>Risk Factors</u>	<u>44</u>
Item 6. <u>Exhibits</u>	<u>44</u>

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

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Manning & Napier, Inc.

Consolidated Statements of Financial Condition

(In thousands, except share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 76,706	\$ 78,262
Accounts receivable	13,276	15,337
Investment securities	69,993	70,404
Prepaid expenses and other assets	4,099	4,870
Total current assets	164,074	168,873
Property and equipment, net	5,478	5,407
Net deferred tax assets, non-current	22,275	23,298
Goodwill	4,829	4,829
Other long-term assets	3,992	2,773
Total assets	\$ 200,648	\$ 205,180
Liabilities		
Accounts payable	\$ 1,828	\$ 1,612
Accrued expenses and other liabilities	23,436	32,347
Deferred revenue	9,905	10,213
Total current liabilities	35,169	44,172
Other long-term liabilities	2,824	3,370
Amounts payable under tax receivable agreement, non-current	18,172	19,278
Total liabilities	56,165	66,820
Commitments and contingencies (Note 8)		
Shareholders' equity		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized; 15,333,041 and 15,039,347 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	153	150
Additional paid-in capital	198,573	198,641
Retained deficit	(39,072)	(38,424)
Accumulated other comprehensive income (loss)	(103)	(86)
Total shareholders' equity	159,551	160,281
Noncontrolling interests	(15,068)	(21,921)
Total shareholders' equity and noncontrolling interests	144,483	138,360
Total liabilities, shareholders' equity and noncontrolling interests	\$ 200,648	\$ 205,180

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

Table of Contents

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues				
Management Fees				
Separately managed accounts	\$24,228	\$ 27,182	\$74,066	\$ 84,651
Mutual funds and collective investment trusts	10,596	15,672	32,606	52,763
Distribution and shareholder servicing	2,974	3,473	9,185	9,867
Custodial services	2,021	1,925	5,838	6,282
Other revenue	729	586	2,197	2,296
Total revenue	40,548	48,838	123,892	155,859
Expenses				
Compensation and related costs	23,105	22,287	68,567	67,901
Distribution, servicing and custody expenses	4,518	6,920	13,801	21,415
Other operating costs	8,392	7,887	23,425	23,099
Total operating expenses	36,015	37,094	105,793	112,415
Operating income	4,533	11,744	18,099	43,444
Non-operating income (loss)				
Interest expense	(18) (22) (48) (34
Interest and dividend income	519	191	1,395	609
Change in liability under tax receivable agreement	113	(33) 404	(33
Net gains (losses) on investments	105	711	(165) 2,293
Total non-operating income (loss)	719	847	1,586	2,835
Income before provision for income taxes	5,252	12,591	19,685	46,279
Provision for income taxes	274	739	1,244	3,324
Net income attributable to controlling and noncontrolling interests	4,978	11,852	18,441	42,955
Less: net income attributable to noncontrolling interests	4,198	10,331	15,681	37,852
Net income attributable to Manning & Napier, Inc.	\$780	\$ 1,521	\$2,760	\$ 5,103
Net income per share available to Class A common stock				
Basic	\$0.05	\$ 0.10	\$0.18	\$ 0.35
Diluted	\$0.05	\$ 0.10	\$0.18	\$ 0.35
Weighted average shares of Class A common stock outstanding				
Basic	14,740,541	14,249,347	14,583,570	14,135,288
Diluted	78,096,837	78,210,019	78,134,657	74,241,642
Cash dividends declared per share of Class A common stock	\$0.08	\$ 0.08	\$0.24	\$ 0.24

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

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income attributable to controlling and noncontrolling interests	\$4,978	\$11,852	\$18,441	\$42,955
Net unrealized holding gain (loss) on investment securities, net of tax	55	(2)	(92)	(17)
Comprehensive income attributable to controlling and noncontrolling interests	\$5,033	\$11,850	\$18,349	\$42,938
Less: Comprehensive income attributable to noncontrolling interests	4,243	10,329	15,606	37,835
Comprehensive income attributable to Manning & Napier, Inc.	\$790	\$1,521	\$2,743	\$5,103

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

Table of Contents

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

	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—December 31, 2016	14,982,880	\$ 150	1,000	\$ —	—	\$(37,383)	\$ (13)	\$(28,434)	\$134,478
Net income	—	—	—	—	—	5,103	—	37,852	42,955
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(24,490)	(24,490)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(17)	—	(17)
Common stock issued under equity compensation plan, net of forfeitures	56,467	—	—	—	—	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to restricted stock units granted	—	—	—	—	(48)	—	—	(224)	(272)
Equity-based compensation	—	—	—	—	304	—	—	1,412	1,716
Dividends declared on Class A common stock - \$0.24 per share	—	—	—	—	—	(3,426)	—	—	(3,426)
Impact of changes in ownership of Manning & Napier Group, LLC	—	—	—	—	(1,878)	—	—	(7,925)	(9,803)
Balance—September 30, 2017	15,039,347	\$ 150	1,000	\$ —	—	\$(35,706)	\$ (30)	\$(21,809)	\$141,141
Balance—December 31, 2017	15,039,347	\$ 150	—	\$ —	—	\$(38,424)	\$ (86)	\$(21,921)	\$138,360
Net income	—	—	—	—	—	2,760	—	15,681	18,441
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(10,226)	(10,226)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(17)	(75)	(92)
Common stock issued under equity compensation plan, net	293,694	3	—	—	(3)	—	—	—	—

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of forfeitures									
Equity-based compensation	—	—	—	—	382	—	—	1,720	2,102
Dividends declared on Class A common stock - \$0.24 per share	—	—	—	—	—	(3,674)	—	—	(3,674)
Cumulative effect of change in accounting principle, net of taxes (Note 3)	—	—	—	—	—	266	—	1,224	1,490
Impact of changes in ownership of Manning & Napier Group, LLC (Note 4)	—	—	—	—	(447)	—	—	(1,471)	(1,918)
Balance—September 30, 2018	15,333,041	\$ 153	—	\$	-\$198,573	\$(39,072)	\$(103)	\$(15,068)	\$144,483

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

Table of Contents

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

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income attributable to controlling and noncontrolling interests	\$18,441	\$42,955
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	2,102	1,716
Depreciation and amortization	1,333	1,328
Change in amounts payable under tax receivable agreement	(404)	33
Gain on sale of intangible assets	(2,575)	—
Net (gains) losses on investment securities	165	(2,293)
Deferred income taxes	954	2,342
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	2,061	4,620
Prepaid expenses and other assets	1,203	1,907
Other long-term assets	(124)	—
Accounts payable	216	(138)
Accrued expenses and other liabilities	(9,400)	(10,599)
Deferred revenue	(308)	117
Other long-term liabilities	(687)	(671)
Net cash provided by operating activities	12,977	41,317
Cash flows from investing activities:		
Purchase of property and equipment	(1,369)	(1,057)
Sale of investments	2,533	12,871
Purchase of investments	(46,677)	(38,510)
Sale of intangible assets	2,575	—
Proceeds from maturity of investments	44,297	27,063
Acquisitions, net of cash received	—	320
Net cash provided by investing activities	1,359	687
Cash flows from financing activities:		
Distributions to noncontrolling interests	(10,226)	(24,490)
Dividends paid on Class A common stock	(3,650)	(4,802)
Payment of shares withheld to satisfy withholding requirements	—	(272)
Payment of capital lease obligations	(98)	(134)
Purchase of Class A units of Manning & Napier Group, LLC	(1,918)	(9,803)
Net cash used in financing activities	(15,892)	(39,501)
Net increase (decrease) in cash and cash equivalents	(1,556)	2,503
Cash and cash equivalents:		
Beginning of period	78,262	100,819
End of period	\$76,706	\$103,322

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

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

The Company is the sole managing member of Manning & Napier Group, LLC ("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 September 30, 2018.

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

Note 2—Summary of Significant Accounting Policies

Critical Accounting Policies

The Company's critical accounting policies and estimates are disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017. The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, these financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

Changes to the Company's accounting policies as a result of adopting ASU 2014-09, Revenue from Contracts with Customers (Topic 606) are discussed under "Revenue", "Costs to Obtain a Contract" and "Reclassifications" below.

Revenue
Investment Management: Investment management fees are computed as a percentage of assets under management ("AUM"). The Company's performance obligation is a series of services that form part of a single obligation satisfied over time.

Separately managed accounts are paid 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 as a contract liability and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenue and records a contract asset (accrued accounts receivable) based on AUM as of the most recent month end date.

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

Mutual funds and collective investment trust investment management revenue is calculated and earned daily based on AUM. Revenue is presented net of cash rebates and fees waived pursuant to contractual expense limitations of the funds. The Company also has agreements with third parties who provide recordkeeping and administrative services for employee benefit plans participating in the collective investment trusts. The Company is acting as an agent on behalf of the employee benefit plan sponsors, therefore, investment management revenue is recorded net of fees paid to third party service providers.

Distribution and shareholder servicing: The Company receives distribution and servicing fees for providing services to its affiliated mutual funds. Revenue is computed and earned daily based on a percentage of AUM. The performance obligation is a series of services that form part of a single performance obligation satisfied over time. The Company has agreements with third parties who provide distribution and administrative services for its mutual funds. The agreements are evaluated to determine whether revenue should be reported gross or net of payments to third-party service providers. The Company controls the services provided and acts as a principal in the relationship. Therefore, distribution and shareholder servicing revenue is recorded gross of fees paid to third parties.

Custodial services: Custodial service fees are calculated as a percentage of the client's market value with additional fees charged for certain transactions. For the safeguarding and administrative services that are subject to a percentage of market value fee, the Company's performance obligation is a series of services that form part of a single obligation satisfied over time. Revenue for transactions assigned a stand-alone selling price is recognized in the period which the transaction is executed. Custodial service fees are billed monthly in arrears. The Company has agreements with third parties who provide safeguarding, recordkeeping and administrative services for their clients. The Company controls the services provided and acts as a principal in the relationship. Therefore, custodial service revenue is recorded gross of fees paid to third parties.

Costs to Obtain a Contract

Incremental first year commissions directly associated with new separate account and collective investment trust contracts are capitalized and amortized straight-line over the estimated customer contract period of 7 years for separate accounts and 3 years for collective investment trust contracts. Refer to Note 3 for further discussion.

Basis of Presentation

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

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

Reclassifications

The Company changed the presentation of revenue within its consolidated statements of operations for the three and nine months ended September 30, 2018. Revenue, previously reported as a single line item, has been disaggregated to present revenue by the various services the Company provides. Amounts for the comparative prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported net income or financial position and do not represent a restatement of any previously published financial results.

For periods prior to and including December 31, 2017, the Company presented "Accounts receivable - affiliated mutual funds" on its consolidated statements of financial condition. Further disclosure regarding accounts receivable from affiliated mutual funds and the components of accounts receivable as of September 30, 2018 is included in "Accounts Receivable" in Note 3 of the notes to the consolidated financial statements. Amounts for the comparative prior fiscal year periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported net income and do not represent a restatement of any previously published financial results.

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries. In addition, as of September 30, 2018, Manning & Napier holds an economic interest of approximately 18.2% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC (“M&N Group Holdings”) and Manning & Napier Capital Company, LLC (“MNCC”). All material intercompany transactions have been eliminated in consolidation.

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

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

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

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the "Fund"), Exeter Trust Company Collective Investment Trusts ("CIT") and Rainier Multiple Investment Trust. The Fund, CIT 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. The Company holds, in limited cases, direct investments in a mutual fund (which are made on the same terms as are available to other investors) and consolidates each of these entities where it has a controlling financial interest or a majority voting interest. The Company's investments in the Fund amounted to approximately \$1.4 million as of September 30, 2018 and \$2.6 million as of December 31, 2017. As of December 31, 2017, the Company maintained significant influence in one mutual fund, Manning & Napier Fund, Inc. Quality Equity Series, but did not maintain a controlling financial interest in the mutual fund, which was accounted for as an equity method investment. During the first quarter of 2018, the Manning & Napier Fund, Inc. Quality Equity Series liquidated and closed.

Cash and Cash Equivalents

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

Investment Securities

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

Investment securities classified as trading consist of equity securities, fixed income securities, and investments in mutual funds for which the Company provides advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At September 30, 2018, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

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

Investment securities classified as available-for-sale consist of U.S. Treasury notes, corporate bonds 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.

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

Property and Equipment

Property and equipment is presented net of accumulated depreciation of approximately \$11.1 million and \$11.4 million as of September 30, 2018 and December 31, 2017, respectively.

Goodwill and Intangible Assets

Goodwill represents the excess cost over the fair value of the identifiable net assets of acquired companies.

Identifiable intangible assets generally represent the cost of client relationships and investment management agreements acquired as well as trademarks. Goodwill and indefinite-lived assets are tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable. Intangible assets subject to amortization are tested for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill and intangible assets require significant management estimate and judgment, including the valuation and expected life determination in connection with the initial purchase price allocation and the ongoing evaluation for impairment.

On January 16, 2018, the Company sold a Rainier U.S. mutual fund to a third party for approximately \$2.1 million, based on total assets under management on the closing date of approximately \$0.3 billion. The carrying value of the intangible assets for client relationships associated with these products was zero as a result of the impairment loss recognized in 2016. During the first quarter of 2018, the Company recognized a gain of approximately \$2.1 million for the sale of this fund, as included in other operating costs in the consolidated statements of operations.

Operating Segments

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

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The revenue standard contains principals to determine the measurement of revenue and timing of recognition and also impacts the accounting for incremental costs to obtain a contract. The Company adopted the new standard on its effective date of January 1, 2018. Refer to Note 3 for further discussion regarding the impact of adoption of this standard.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. The guidance is effective on January 1, 2018. The Company's adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, to clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice regarding eight types of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company's adoption of ASU 2016-15 on January 1, 2018 did not have a material impact on its consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

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). In July 2018, the FASB issued ASU 2018-11, Leases - Targeted Improvements, which provides an optional transition method related to implementing the new lease standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt the new standard on January 1, 2019, using the optional transition method. The Company is currently evaluating the impact of adoption on its consolidated financial statements and its efforts are primarily focused on completing the identification of all leases, and quantifying the lease liability and right-of-use asset that will be recorded upon adoption.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. The ASU requires goodwill impairments to be measured on the basis of the fair value of the

reporting unit relative to the reporting unit's carrying amount rather than on the basis of the implied amount of goodwill relative to the goodwill balance of the reporting unit. The ASU is effective for annual and interim impairment tests for periods beginning after December 15, 2019. Early adoption is allowed for annual and interim impairment tests occurring after January 1, 2017. The Company is evaluating the effect of adopting this new accounting standard.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU requires a reclassification

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

from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate as a result of the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. The ASU will be effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting standard.

Note 3—Revenue, Contract Assets and Contract Liabilities

Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective approach with the cumulative effect of initial application recognized January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under Topic 605. The Company elected the practical expedient to adjust for active contracts that existed at the date of adoption. A reduction to opening shareholders' equity and noncontrolling interests of \$1.5 million, net of taxes, as of January 1, 2018 has been recorded due to the cumulative impact of adopting Topic 606 related to the capitalization of incremental contract costs.

While there were no changes in the timing of revenue recognition, upon the adoption of Topic 606, the Company changed the presentation of certain revenue related costs on a gross versus net basis. The changes did not have a significant impact to total revenue, distribution, servicing and custody expenses and other operating costs, and had no impact on net income. Changes in the presentation of revenue related costs on a gross versus net basis are summarized below:

Fees in the amount of \$0.7 million and \$2.0 million for the three and nine months ended September 30, 2018, respectively, due to third parties who provide record-keeping and administrative services for employee benefit plans participating in the Company's collective investment trusts are presented net as a reduction of mutual fund and collective investment trust revenue. Prior to the adoption of Topic 606 third party record-keeper fees associated with the Company's collective investment trusts were reported as distribution, servicing and custody expense.

Fees in the amount of \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2018, respectively, due to a third party who provides accounting and administrative services on behalf of the Company to its affiliated mutual fund are presented as other operating costs. Prior to the adoption of Topic 606, these fees were presented as a reduction of other revenue.

Fees in the amount of \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively, due to a third party who provides safeguarding and administrative services on behalf of the Company are presented as distribution, servicing and custody expense. Prior to the adoption of Topic 606, these fees were presented as a reduction of custodial service revenue.

Disaggregated Revenue

The following table represents the Company's separately managed account and mutual fund and collective investment trust investment management revenue by investment portfolio for the three and nine months ended September 30, 2018:

	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	Mutual Separately managed funds and collective accounts investment trusts (in thousands)	Total		Mutual Separately managed funds and collective accounts investment trusts	Total	
Blended Asset	\$17,864	\$ 6,485	\$24,349	\$54,183	\$ 19,635	\$73,818
Equity	5,736	3,988	9,724	17,923	12,699	30,622
Fixed Income	628	123	751	1,960	272	2,232
Total	\$24,228	\$ 10,596	\$34,824	\$74,066	\$ 32,606	\$106,672

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

Accounts Receivable

Accounts receivable as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
	(in thousands)	
Accounts receivable - third parties	\$6,747	\$ 7,278
Accounts receivable - affiliated mutual funds and collective investment trusts	6,529	8,059
Total accounts receivable	\$13,276	\$ 15,337

Accounts receivable: Accounts receivable represents the Company's unconditional rights to consideration arising from its performance under separately managed account, mutual fund and collective investment trust, distribution and shareholder servicing, and custodial service contracts. Accounts receivable balances do not include an allowance for doubtful accounts nor has any significant bad debt expense attributable to accounts receivable been recorded during the three and nine months ended September 30, 2018 or 2017. Accounts receivable are stated at cost, which approximates net realizable value due to the short-term collection period.

Advisory and Distribution Agreements

The Company earns investment advisory fees, distribution fees and administrative service fees under agreements with affiliated mutual funds and collective investment trusts. Fees earned for advisory and distribution services provided were approximately \$13.8 million and \$42.6 million for the three and nine months ended September 30, 2018, respectively, and approximately \$19.4 million and \$64.6 million for the three and nine months ended September 30, 2017, respectively, which represents greater than 10% of revenue in each period. The following provides amounts due from affiliated mutual funds and collective investment trusts reported within accounts receivable in the consolidated statement of financial condition as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(in thousands)	
Affiliated mutual funds ⁽¹⁾	\$5,021	\$ 6,219
Affiliated collective investment trusts	1,508	1,840
Accounts receivable - affiliated mutual funds and collective investment trusts	\$6,529	\$ 8,059

December 31, 2017 balance includes \$0.7 million of distribution and servicing fees receivable, which in the prior (1) fiscal period were reflected in "Accounts Receivable". This amount was reclassified to conform to the current period presentation (Note 2).

Contract assets and liabilities

Accrued accounts receivable: Accrued accounts receivable represents the Company's contract asset for revenue that has been recognized in advance of billing separately managed account contracts. Consideration for the period billed in arrears is dependent on the client's AUM on a future billing date and therefore conditional as of the reporting period end. During the nine months ended September 30, 2018, revenue was decreased by less than \$0.1 million for changes in transaction price. Accrued accounts receivable of \$0.3 million is reported within prepaid expenses and other assets in the consolidated statement of financial condition as of September 30, 2018.

Deferred revenue: Deferred revenue is recorded when consideration is received or unconditionally due in advance of providing services to the Company's customer. Revenue recognized for the nine months ended September 30, 2018 that was included in deferred revenue at the beginning of the period was approximately \$9.9 million.

Costs to obtain a contract: Incremental first year commissions directly associated with new separate account and collective investment trust contracts are capitalized and amortized straight-line over an estimated customer contract period of 7 years for separate accounts and 3 years for collective investment trust contracts. The total net asset as of

September 30, 2018 was approximately \$1.4 million. Amortization expense included in compensation and related costs totaled approximately \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively. An impairment loss of approximately \$0.1 million was recognized for the nine months ended September 30, 2018 related to contract acquisition costs for client contracts that canceled during the period.

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

Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 18.2% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statement of financial condition with respect to the remaining approximately 81.8% aggregate economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Income before provision for income taxes	\$5,252	\$12,591	\$19,685	\$46,279
Less: income (loss) before provision for income taxes of Manning & Napier, Inc. ⁽¹⁾	97	(51)	356	(45)
Income before provision for income taxes, as adjusted	5,155	12,642	19,329	46,324
Controlling interest percentage ⁽²⁾	18.2	% 17.8	% 18.2	% 17.7
Net income attributable to controlling interest	941	2,261	3,514	8,189
Plus: income (loss) before provision for income taxes of Manning & Napier, Inc. ⁽¹⁾	97	(51)	356	(45)
Income before income taxes attributable to Manning & Napier, Inc.	1,038	2,210	3,870	8,144
Less: provision for income taxes of Manning & Napier, Inc. ⁽³⁾	258	689	1,110	3,041
Net income attributable to Manning & Napier, Inc.	\$780	\$1,521	\$2,760	\$5,103

⁽¹⁾ Manning & Napier, Inc. incurs certain income 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 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 was \$0.3 million and \$1.2 million for the three and nine months ended September 30, 2018, respectively, and \$0.7 million and \$3.3 million for the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, a total of 63,349,721 units of Manning & Napier Group were held by the noncontrolling interests. Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the 15-day 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.

During the nine months ended September 30, 2018, M&N Group Holdings and MNCC exchanged a total of 581,344 Class A units of Manning & Napier Group for approximately \$1.9 million in cash. Subsequent to the exchange the

Class A units were retired, resulting in an increase in Manning & Napier's ownership in Manning & Napier Group. In addition, during the nine months ended September 30, 2018, Class A common stock was issued under the Company's 2011 Equity Compensation Plan (the "Equity Plan") for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group.

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

The following is the impact to the Company's equity ownership interest in Manning & Napier Group for the nine months ended September 30, 2018:

	Manning & Napier Group Class A Units Held			
	Manning & Napier	Noncontrolling Interests	Total	Manning & Napier Ownership %
As of December 31, 2017	13,873,042	63,931,065	77,804,107	17.8%
Class A Units issued	253,694	—	253,694	0.3%
Class A Units exchanged	—	(581,344)	(581,344)	0.1%
As of September 30, 2018	14,126,736	63,349,721	77,476,457	18.2%

Since the Company continues to have a controlling interest in Manning & Napier Group, the aforementioned changes in ownership of Manning & Napier Group were accounted for as equity transactions under ASC 810, Consolidation. Additional paid-in capital and noncontrolling interests in the Consolidated Statements of Financial Position are adjusted to reallocate the Company's historical equity to reflect the change in ownership of Manning & Napier Group. At September 30, 2018 and December 31, 2017, the Company had recorded a total liability of \$19.0 million and \$21.8 million, respectively, representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the other holders of Class A Units of Manning & Napier Group. Of these amounts, \$0.8 million and \$2.5 million was included in accrued expenses and other liabilities as of September 30, 2018 and December 31, 2017, respectively. The Company made payments pursuant to the TRA of approximately \$2.5 million and \$2.4 million during the nine months ended September 30, 2018 and 2017, respectively.

Obligations pursuant to the TRA are obligations of Manning & Napier. They do not impact the noncontrolling interests. These obligations are not income tax obligations. Furthermore, the TRA has no impact on the allocation of the provision for income taxes to the Company's net income.

Note 5—Investment Securities

The following represents the Company's investment securities holdings as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
Fixed income securities	\$19,615	\$	—\$ (152)	\$19,463
U.S. Treasury notes	21,157	—	(36)	21,121
Short-term investments	22,575	—	—	22,575
				63,159
Trading securities				
Equity securities				5,396
Mutual funds				1,438
				6,834
Total investment securities				\$69,993

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

	December 31, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
Fixed income securities	\$19,589	\$	—\$ (29)	\$19,560
U.S. Treasury notes	22,428	—	(42)	22,386
Short-term investments	22,323	—	—	22,323
				64,269
Trading securities				
Equity securities				3,548
Mutual funds				1,409
				4,957
Equity method investments				
Mutual funds				1,178
Total investment securities				\$70,404

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 September 30, 2018 and December 31, 2017, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately \$0.2 million of net unrealized losses and \$1.5 million of net unrealized gains related to investments classified as trading during the nine months ended September 30, 2018 and 2017, respectively.

Investment securities classified as available-for-sale consist of U.S. Treasury notes, corporate bonds and other short-term investments for compliance with certain regulatory requirements and to optimize cash management opportunities. As of September 30, 2018 and December 31, 2017, \$0.6 million of these securities was considered restricted. The Company periodically reviews each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other-than-temporary. No other-than-temporary impairment charges have been recognized by the Company during the nine months ended September 30, 2018 and 2017.

Note 6—Fair Value Measurements

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

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

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

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

The following provides the hierarchy of inputs used to derive the fair value of the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$5,396	\$—	\$	—\$5,396
Fixed income securities	—	19,463	—	19,463
Mutual funds	1,438	—	—	1,438
U.S. Treasury notes	—	21,121	—	21,121
Short-term investments	22,575	—	—	22,575
Total assets at fair value	\$29,409	\$40,584	\$	—\$69,993
Contingent consideration liability	\$—	\$—	\$	—\$—
Total liabilities at fair value	\$—	\$—	\$	—\$—
	December 31, 2017			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$3,548	\$—	\$	—\$3,548
Fixed income securities	—	19,560	—	19,560
Mutual funds	2,587	—	—	2,587
U.S. Treasury notes	—	22,386	—	22,386
Short-term investments	22,323	—	—	22,323
Total assets at fair value	\$28,458	\$41,946	\$	—\$70,404
Contingent consideration liability	\$—	\$—	\$	—\$—
Total liabilities at fair value	\$—	\$—	\$	—\$—

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

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

Contingent consideration was a component of the Company's purchase price of Rainier in 2016 of additional cash payments of up to \$32.5 million over the period ending December 31, 2019, contingent upon Rainier's achievement of certain financial targets. The fair value of the contingent consideration is calculated on a quarterly basis by forecasting Rainier's adjusted earnings before interest, taxes and amortization ("EBITA") over the contingency period. There were no changes in contingent consideration liability measured at fair value using significant unobservable inputs (Level 3) for the nine months ended September 30, 2018.

The Company's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Levels during the nine months ended September 30, 2018.

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

Note 7—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
	(in thousands)	
Accrued bonus and sales commissions	\$11,966	\$ 19,153
Accrued payroll and benefits	4,935	3,877
Accrued sub-transfer agent fees	1,665	2,445
Dividends payable	1,227	1,203
Amounts payable under tax receivable agreement	789	2,549
Other accruals and liabilities	2,854	3,120
Total accrued expenses and other liabilities	\$23,436	\$ 32,347

During the three months ended September 30, 2018, the Company commenced a voluntary employee retirement offering (the "offering"), available to employees meeting certain age and length-of-service requirements as well as business function criteria. Employees electing to participate in the offering were subject to approval by the Company, and received enhanced separation benefits. These employees are required to render service until their agreed upon termination date (which varies from person to person) in order to receive the benefits and as such, the liability will be recognized ratably over the applicable service period.

The Company estimates the total employee severance costs under the offering to be approximately \$2.6 million, of which approximately \$1.6 million was recognized during the nine months ended September 30, 2018. Also during the nine months ended September 30, 2018, the Company recognized approximately \$1.3 million of severance costs as a result of involuntary workforce reductions. Employee severance costs recognized are included in compensation and related costs in the consolidated statements of operations.

The following table summarizes the changes in accrued employee severance costs recognized by the Company for the period ended September 30, 2018, as included in accrued expenses and other liabilities in the consolidated statements of financial condition:

	Nine months ended September 30, 2018 (in thousands)
Accrued employee severance costs as of December 31, 2017	\$ 659
Employee severance costs recognized	2,970
Payment of employee severance costs	(1,722)
Accrued employee severance costs as of September 30, 2018	\$ 1,907

Note 8—Commitments and Contingencies

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

Regulation

As an investment adviser to a variety of investment products, the Company and its affiliated broker-dealer are subject to routine reviews and inspections by the SEC and the Financial Industry Regulatory Authority, Inc. From time to time, the Company may also be subject to claims, be involved in various legal proceedings arising in the ordinary

course of its business and be subject to other contingencies. The Company does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on its consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is difficult to predict. The Company will establish accruals for matters that are probable, can be reasonably estimated, and may take into account any related insurance recoveries to the extent of such recoveries. As of September 30, 2018 and December 31, 2017, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

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

Note 9—Earnings per Common Share

Basic earnings per share (“basic EPS”) is computed using the two-class method to determine net income available to Class A common stock. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's restricted Class A common shares granted under the 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 three and nine months ended September 30, 2018 and 2017 under the two-class method:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(in thousands, except share data)			
Net income attributable to controlling and noncontrolling interests	\$4,978	\$ 11,852	\$ 18,441	\$ 42,955
Less: net income attributable to noncontrolling interests	4,198	10,331	15,681	37,852
Net income attributable to Manning & Napier, Inc.	\$780	\$ 1,521	\$2,760	\$ 5,103
Less: allocation to participating securities	47	83	142	288
Net income available to Class A common stock	\$733	\$ 1,438	\$2,618	\$ 4,815
Weighted average shares of Class A common stock outstanding - basic	14,740,544	14,249,347	14,583,570	14,135,288
Dilutive effect of unvested equity awards	6,568	23,388	13,973	106,354
Dilutive effect of exchangeable Class A Units	63,349	721,937	284	63,537,114
Weighted average shares of Class A common stock outstanding - diluted	78,096,870	148,912,672	14,597,827	14,244,756
Net income available to Class A common stock per share - basic	\$0.05	\$ 0.10	\$0.18	\$ 0.35
Net income available to Class A common stock per share - diluted	\$0.05	\$ 0.10	\$0.18	\$ 0.35

For the three and nine months ended September 30, 2018, 592,500 and 661,250, respectively, unvested equity awards were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive. For both the three and nine months ended September 30, 2017, 790,000 unvested equity awards were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive. At September 30, 2017, there were 63,931,065 Class A Units of Manning & Napier Group outstanding which, subject to certain restrictions, may be exchangeable for up to an equivalent number of the Company's Class A common stock. These units were not included in the calculation of diluted earnings per common share for the nine months ended September 30, 2017, because the effect would have been anti-dilutive.

Note 10—Equity Based Compensation

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

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

The following table summarizes the award activity for the nine months ended September 30, 2018 under the Equity Plan:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Stock awards outstanding at January 1, 2018	852,123	\$ 12.09
Granted	300,321	\$ 3.43
Vested	(491,194)	\$ 7.91
Forfeited	—	\$ —
Stock awards outstanding at September 30, 2018	661,250	\$ 11.27

The weighted average fair value of Equity Plan awards granted during the nine months ended September 30, 2018 was \$3.43, 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 three and nine months ended September 30, 2018, the Company recorded approximately \$0.5 million and \$2.1 million, respectively, of compensation expense related to awards under the Equity Plan. For the three and nine months ended September 30, 2017, the Company recorded approximately \$0.3 million and \$1.7 million, respectively, of compensation expense related to awards under the Equity Plan. The aggregate intrinsic value of awards that vested during the nine months ended September 30, 2018 and 2017 was approximately \$1.7 million and \$1.2 million, respectively. As of September 30, 2018, there was unrecognized compensation expense related to Equity Plan awards of approximately \$4.2 million, which the Company expects to recognize over a weighted average period of approximately 2.5 years.

Note 11—Income Taxes

The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC") or a C corporation ("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 (losses), which will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal and state and local income taxes on their earnings and losses, respectively.

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

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
	(in thousands)			
Earnings from continuing operations before income taxes	\$5,252	\$12,591	\$19,685	\$46,279
Effective tax rate	5.2 %	5.9 %	6.3 %	7.2 %
Provision for income taxes	274	739	1,244	3,324
Provision for income taxes @ statutory rate	1,103	4,281	4,134	15,735
Difference between tax at effective vs. statutory rate	\$(829)	\$(3,542)	\$(2,890)	\$(12,411)

The difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 21% for the three and nine months ended September 30, 2018 and 34% for the three and nine months ended September 30, 2017 is primarily attributable to the benefit resulting from the fact that a significant portion of the Company's operations include a series of flow-through entities which are generally not subject to federal and most state income taxes. Accordingly, a portion of the Company's earnings are not subject to corporate level taxes.

Note 12—Related Party Transactions

Transactions with noncontrolling members

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

The Company manages the personal funds and funds of affiliated entities of certain of the Company's executive officers and directors. Pursuant to the respective investment management agreements, in some instances the Company waives or reduces its regular advisory fees for these accounts. The aggregate value of the fees earned and fees waived was less than \$0.1

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

million for the nine months ended September 30, 2018. The aggregate value of the fees earned was approximately \$0.2 million and the value of fees waived was approximately \$0.1 million for the nine months ended September 30, 2017.

Affiliated fund transactions

The Company earns investment advisory fees, distribution fees and administrative service fees under agreements with affiliated mutual funds and collective investment trusts. Fees earned for advisory and distribution services provided were approximately \$13.8 million and \$42.6 million for the three and nine months ended September 30, 2018 and approximately \$19.4 million and \$64.6 million for the three and nine months ended September 30, 2017, respectively. Fees earned for administrative services provided were approximately \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2018, respectively. See Note 3 for disclosure of amounts due from affiliated mutual funds and collective investment trusts.

The Company incurs certain expenses on behalf of the collective investment trusts and has contractually agreed to limit its fees and reimburse expenses to limit operating expenses incurred by certain affiliated fund series. The aggregate value of fees waived and expenses reimbursed to, or incurred for, affiliated mutual funds and collective investment trusts was approximately \$1.1 million and \$3.5 million for the three and nine months ended September 30, 2018 and \$1.4 million and \$4.1 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, the Company has recorded a receivable of approximately \$0.2 million for expenses paid on behalf of an affiliated mutual fund. These expenses are reimbursable to the Company under an agreement with the affiliated mutual fund, and are included within other long-term assets on the consolidated statements of financial condition.

Note 13—Subsequent Events

Distributions and dividends

On October 23, 2018, the Board of Directors approved a distribution from Manning & Napier Group to Manning & Napier and the noncontrolling interests of Manning & Napier Group. The amount of the distribution will be based on earnings for the quarter ended December 31, 2018, with a maximum amount of \$5.0 million. Concurrently, the Board of Directors declared a \$0.02 per share dividend to the holders of Class A common stock. The dividend is payable on or about February 1, 2019 to shareholders of record as of January 15, 2019.

Table of Contents

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

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

Overview

Our Business

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

Market Developments

The investment environment witnessed over the length of the third quarter was calmer than what was experienced during the first half of 2018. For the quarter, U.S. equities posted strong gains, with growth stocks again leading the way. International equity markets generally stabilized, while fixed income returns were mixed.

In this environment, our research teams posted competitive risk-adjusted returns while simultaneously paring back risk exposure as appropriate. Key global risks, including rising trade tensions, global growth concerns, and geopolitical uncertainty, continued escalating throughout 2018, and we believe we are entering a higher risk regime for financial assets over the next twelve months. Given our updated outlook, we have adjusted the positioning across many of our portfolios to be reflective of the risks that we believe are inherent in the later stages of a market cycle. As the U.S. economy continues to show signs of progressing further into late cycle territory, we will continue to follow our disciplines, choosing to be selective in our investment decisions while avoiding risky and overvalued areas of the market.

During 2018, we initiated a comprehensive business plan review in response to decreases in AUM and revenue, and have implemented initiatives focused on strengthening our core business and improving profitability through expense management, while prioritizing initiatives that we believe will support future AUM growth. Our sales and service teams have prioritized our most competitive product and service offerings for distribution while remaining focused on protecting our existing client relationships. With an initial focus on expense management, we have reviewed operating expenses across our firm and made adjustments where feasible, including workforce reductions. During the second quarter, we commenced a voluntary employee retirement offering (the "offering") for employees meeting certain age and length-of-service requirements, and whose business function is outside of our Research and Sales teams. The offering period closed in the third quarter, during which we also completed additional workforce reductions. Under these initiatives, we recognized approximately \$2.4 million in severance charges in the third quarter of 2018, and estimate that another \$0.6 million will be incurred in the fourth quarter. Ongoing savings achieved from these expense

management initiatives will be redirected toward increased investment in our information technology infrastructure. We anticipate that our other operating costs as a percentage of revenue will remain elevated in the near term compared to prior periods.

In response to industry trends and increasing fee pressure from passive strategies offered by our competitors, management has evaluated fees across our product set and is restructuring fees across many of our mutual fund and collective trust products. Management fee reductions and corresponding distribution and shareholder servicing expense reductions for the various series of our funds began during the fourth quarter of 2017 and will continue into 2019. Given the overall pressure on fees that all

Table of Contents

active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future.

Additionally, we continue to promote our custom solutions, which we believe further enhance the value we deliver to clients. By incorporating a number of different proprietary and non-proprietary products from multiple research engines, we are able to provide a differentiated and complete investment solution. This holistic approach also extends into our advisory services, including our Family Wealth Management, Endowment & Foundation, and Pension Plan Service offerings. We remain focused on building out an infrastructure that can support our sales structure as we seek to provide broad solutions to meet our client's ever-changing needs.

Our Products

We derive substantially all of our revenues from investment management fees earned from providing advisory services to separately managed accounts, mutual funds and collective investment trusts—including those offered by MNA, the Manning & Napier Fund, Inc. (the "Fund"), Exeter Trust Company, and Rainier Investment Management. 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, middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

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

Our AUM was \$23.1 billion as of September 30, 2018. The composition of our AUM by vehicle and portfolio is illustrated in the table below:

AUM - by investment vehicle and portfolio	September 30, 2018			Total
	Blended Asset	Equity	Fixed Income	
	(in millions)			
Separately managed accounts	\$10,052.7	\$4,610.0	\$ 1,069.8	\$15,732.5
Mutual funds and collective investment trusts	4,891.1	2,333.6	114.7	7,339.4
Total	\$14,943.8	\$6,943.6	\$ 1,184.5	\$23,071.9

Table of Contents

Separately Managed Accounts

The composition of our separately managed accounts as of September 30, 2018, by channel and portfolio, is set forth in the table below:

	September 30, 2018				
	Blended Asset	Equity	Fixed Income	Total	
	(dollars in millions)				
Separate account AUM					
Direct Channel	\$7,664.5	\$3,080.4	\$ 948.6	\$11,693.5	
Intermediary Channel	2,382.1	593.7	121.2	3,097.0	
Platform/Sub-advisor Channel	6.1	935.9	—	942.0	
Total	\$10,052.7	\$4,610.0	\$ 1,069.8	\$15,732.5	
Percentage of separate account AUM					
Direct Channel	48	% 20	% 6	% 74	%
Intermediary Channel	15	% 4	% 1	% 20	%
Platform/Sub-advisor Channel	0	% 6	% —	% 6	%
Total	63	% 30	% 7	% 100	%
Percentage of portfolio by channel					
Direct Channel	76	% 67	% 89	% 74	%
Intermediary Channel	24	% 13	% 11	% 20	%
Platform/Sub-advisor Channel	0	% 20	% —	% 6	%
Total	100	% 100	% 100	% 100	%
Percentage of channel by portfolio					
Direct Channel	66	% 26	% 8	% 100	%
Intermediary Channel	77	% 19	% 4	% 100	%
Platform/Sub-advisor Channel	1	% 99	% —	% 100	%

Our separate accounts contributed 43% of our total gross client inflows for the nine months ended September 30, 2018 and represented 68% of our total AUM as of September 30, 2018.

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 62% of the total gross client inflows for our separate account business for the nine months ended September 30, 2018 and represented 74% of our total separate account AUM as of September 30, 2018. We anticipate the Direct Channel to continue to be the largest driver of new separate account business going forward, given the Direct Channel's high-net-worth and middle market institutional client-type focus.

During the nine months ended September 30, 2018, blended asset portfolios represented 66% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios represented 19% and 15%, respectively. As of September 30, 2018, blended asset and equity portfolios represented 66% and 26%, respectively, of total Direct Channel separate account AUM, while our fixed income portfolios were 8%. We expect our focus on individuals and middle market institutions to continue to drive interest in our blended asset class portfolios, where we provide a comprehensive portfolio of stocks and bonds managed to a client's specific investment objectives. Our relationships with larger institutions may also be a driver of growth in separately managed account equity strategies, though many of these larger institutions may seek exposure to non-U.S. equity strategies through commingled vehicles rather than separately managed accounts to limit related custody expenses.

To a lesser extent, we also obtain separate account business from third parties, including financial advisors or unaffiliated registered investment advisor programs or platforms. During the nine months ended September 30, 2018, 18% 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 26% of our total separate account AUM as of

September 30, 2018.

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

22

Table of Contents

multi-strategy portfolio. During the nine months ended September 30, 2018, blended asset and equity portfolios represented 78% and 21%, respectively, of the separate account gross client inflows from the Intermediary Channel. As of September 30, 2018, 77% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 19% 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 nine months ended September 30, 2018, nearly 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 86% during the nine months ended September 30, 2018, consistent with 85% for the rolling 12 months ended September 30, 2018.

Mutual Funds and Collective Investment Trusts

The composition of our mutual fund and collective investment trust AUM as of September 30, 2018, by portfolio, is set forth in the table below:

	September 30, 2018			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Mutual fund and collective investment trust AUM	\$4,891.1	\$2,333.6	\$ 114.7	\$7,339.4

Our mutual funds and collective investment trusts contributed 57% of our total gross client inflows for the nine months ended September 30, 2018 and represented 32% of our total AUM as of September 30, 2018. As of September 30, 2018, our mutual fund and collective investment trust AUM consisted of 67% from blended asset portfolios, 32% from equity portfolios and 1% from fixed income portfolios compared to 62% and 37% for blended asset and equity portfolios as of September 30, 2017. During the nine months ended September 30, 2018, 52%, 45%, and 3% of the gross client inflows were attributable to blended asset, equity and fixed income portfolios, respectively. Our mutual fund and collective investment trust business is driven by financial intermediaries and 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 distributing both our blended asset life cycle fund vehicles and our single asset class fund vehicles to advisors who work with retail and retirement plan clients. Our blended asset portfolios are used by advisors seeking a multi-asset class solution for their clients while our equity and fixed income portfolios are used by intermediaries wishing to use our funds as a component of a larger portfolio or retirement plan menu design.

We also have relationships with consultants and manager research teams at platforms in order to distribute our funds within advisory programs, or through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have approximately 280 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business.

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. Our Direct Sales Representatives also distribute our equity portfolios to large institutional clients with which we have direct relationships and often, the client's consultant. We expect this channel to focus on distributing blended asset and equity portfolio funds in the future.

Results of Operations

Below is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2018 and 2017.

Components of Results of Operations

Overview

An important factor influencing inflows and outflows of our AUM is the investment performance of our various investment approaches. Our variety of stock selection strategies, absolute pricing discipline and active asset allocation

management approach generally results in specific absolute and relative return characteristics in different market environments. For example, during a fundamental-driven bull market when prices are rising alongside improving fundamentals, we are likely to experience positive absolute returns and competitive relative returns. However, in a more momentum-driven bull market,

Table of Contents

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.

Table of Contents

Assets Under Management and Investment Performance

The following table reflects the indicated components of our AUM for our investment vehicles for the three and nine months ended September 30, 2018 and 2017:

	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
As of June 30, 2018	\$15,605.9	\$7,231.8	\$22,837.7	68 %	32 %	100 %
Gross client inflows ⁽¹⁾	390.4	686.8	1,077.2			
Gross client outflows ⁽¹⁾	(633.7)	(688.2)	(1,321.9)			
Market appreciation/ (depreciation) & other ⁽²⁾	369.9	109.0	478.9			
As of September 30, 2018	\$15,732.5	\$7,339.4	\$23,071.9	68 %	32 %	100 %
Average AUM for period	\$15,728.0	\$7,222.8	\$22,950.8			
As of June 30, 2017	\$17,714.9	\$9,360.6	\$27,075.5	65 %	35 %	100 %
Gross client inflows ⁽¹⁾	407.2	393.4	800.6			
Gross client outflows ⁽¹⁾	(1,383.4)	(928.2)	(2,311.6)			
Market appreciation/(depreciation) & other ⁽²⁾	621.6	359.7	981.3			
As of September 30, 2017	\$17,360.3	\$9,185.5	\$26,545.8	65 %	35 %	100 %
Average AUM for period	\$17,707.0	\$9,294.0	\$27,001.0			
	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
As of December 31, 2017	\$16,856.6	\$8,256.6	\$25,113.2	67 %	33 %	100 %
Gross client inflows ⁽¹⁾	1,140.1	1,517.8	2,657.9			
Gross client outflows ⁽¹⁾	(2,859.2)	(2,373.7)	(5,232.9)			
Acquired/(disposed) assets	—	(251.6)	(251.6)			
Market appreciation/ (depreciation) & other ⁽²⁾	595.0	190.3	785.3			
As of September 30, 2018	\$15,732.5	\$7,339.4	\$23,071.9	68 %	32 %	100 %
Average AUM for period	\$15,992.1	\$7,502.4	\$23,494.5			
As of December 31, 2016	\$18,801.9	\$12,881.1	\$31,683.0	59 %	41 %	100 %
Gross client inflows ⁽¹⁾	1,384.3	1,554.4	2,938.7			
Gross client outflows ⁽¹⁾	(5,223.1)	(6,807.8)	(12,030.9)			
Market appreciation/(depreciation) & other ⁽²⁾	2,397.2	1,557.8	3,955.0			
As of September 30, 2017	\$17,360.3	\$9,185.5	\$26,545.8	65 %	35 %	100 %
Average AUM for period	\$18,397.8	\$10,784.9	\$29,182.7			

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

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

Table of Contents

The following table reflects the indicated components of our AUM for our portfolios for the three and nine months ended September 30, 2018 and 2017:

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
		(in millions)						
As of June 30, 2018	\$14,977.9	\$6,671.4	\$1,188.4	\$22,837.7	66 %	29 %	5 %	100 %
Gross client inflows ⁽¹⁾	459.3	573.5	44.4	1,077.2				
Gross client outflows ⁽¹⁾	(765.7)	(506.8)	(49.4)	(1,321.9)				
Market appreciation/(depreciation) & other ⁽²⁾	272.3	205.5	1.1	478.9				
As of September 30, 2018	\$14,943.8	\$6,943.6	\$1,184.5	\$23,071.9	65 %	30 %	5 %	100 %
Average AUM for period	\$14,982.1	\$6,788.5	\$1,180.2	\$22,950.8				
As of June 30, 2017	\$16,613.8	\$9,094.3	\$1,367.4	\$27,075.5	61 %	34 %	5 %	100 %
Gross client inflows ⁽¹⁾	468.0	278.0	54.6	800.6				
Gross client outflows ⁽¹⁾	(1,193.5)	(1,014.5)	(103.6)	(2,311.6)				
Market appreciation/(depreciation) & other ⁽²⁾	491.8	479.6	9.9	981.3				
As of September 30, 2017	\$16,380.1	\$8,837.4	\$1,328.3	\$26,545.8	62 %	33 %	5 %	100 %
Average AUM for period	\$16,538.6	\$9,125.2	\$1,337.2	\$27,001.0				
	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
		(in millions)						
As of December 31, 2017	\$15,666.6	\$8,120.6	\$1,326.0	\$25,113.2	63 %	32 %	5 %	100 %
Gross client inflows ⁽¹⁾	1,351.1	1,160.2	146.6	2,657.9				
Gross client outflows ⁽¹⁾	(2,586.7)	(2,350.0)	(296.2)	(5,232.9)				
Acquired/(disposed) assets	—	(251.6)	—	(251.6)				
Market appreciation/(depreciation) & other ⁽²⁾	512.8	264.4	8.1	785.3				
As of September 30, 2018	\$14,943.8	\$6,943.6	\$1,184.5	\$23,071.9	65 %	30 %	5 %	100 %
Average AUM for period	\$15,144.4	\$7,122.6	\$1,227.5	\$23,494.5				
As of December 31, 2016	\$19,909.4	\$10,463.9	\$1,309.7	\$31,683.0	63 %	33 %	4 %	100 %
Gross client inflows ⁽¹⁾	1,733.9	914.1	290.7	2,938.7				
Gross client outflows ⁽¹⁾	(7,321.1)	(4,382.1)	(327.7)	(12,030.9)				
Market appreciation/(depreciation) & other ⁽²⁾	2,057.9	1,841.5	55.6	3,955.0				
As of September 30, 2017	\$16,380.1	\$8,837.4	\$1,328.3	\$26,545.8	62 %	33 %	5 %	100 %
Average AUM for period	\$17,917.8	\$9,948.0	\$1,316.9	\$29,182.7				

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

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

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

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, we believe 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 81% of our AUM as of September 30, 2018.

Key Strategies	AUM as of September 30, 2018 (in millions)	Inception Date	Annualized Returns as of September 30, 2018 (1)						
			One Year	Three Year	Five Year	Ten Year	Market Cycle (2)	Inception	
Long-Term Growth (30%-80% Equity Exposure)	\$ 6,776.9	1/1/1973	5.6%	8.2%	5.8%	6.7%	6.5%	9.5%	
Blended Benchmark: 55% S&P 500 Total Return / 45% Bloomberg Barclays Government/Credit Bond			6.5%	8.9%	7.0%	7.6%	5.5%	N/A	
Core Non-U.S. Equity Benchmark: ACWIXUS Index	\$ 2,551.5	10/1/1996	1.0%	9.2%	2.2%	3.9%	5.6%	7.4%	
Growth with Reduced Volatility (20%-60% Equity Exposure)	\$ 3,024.5	1/1/1973	1.8%	10.0%	4.1%	5.2%	3.7%	5.2%	
Blended Benchmark: 40% S&P 500 Total Return / 60% Bloomberg Barclays Government/Credit Bond			4.0%	6.2%	4.4%	5.7%	5.8%	8.7%	
			4.5%	6.8%					