

**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, 2019  
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  
(State or other jurisdiction of  
incorporation or organization)

45-2609100  
(I.R.S. Employer  
Identification No.)

290 Woodcliff Drive  
Fairport, New York  
(Address of principal executive offices)

14450  
(Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, \$0.01 par value per share	MN	New York Stock Exchange

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 (§232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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 8, 2019

Class A common stock, \$0.01 par value per share

15,594,407

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

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

**Manning & Napier, Inc.**  
**Consolidated Statements of Financial Condition**  
**(U.S. dollars in thousands, except share data)**

	September 30, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
Cash and cash equivalents	\$ 88,383	\$ 59,586
Accounts receivable	10,767	11,447
Investment securities	64,658	91,190
Prepaid expenses and other assets	4,918	5,221
Total current assets	168,726	167,444
Property and equipment, net	6,206	5,649
Operating lease right-of-use assets	19,325	—
Net deferred tax assets, non-current	20,367	20,795
Goodwill	4,829	4,829
Other long-term assets	4,046	3,842
Total assets	\$ 223,499	\$ 202,559
<b>Liabilities</b>		
Accounts payable	\$ 1,612	\$ 1,845
Accrued expenses and other liabilities	20,242	25,126
Deferred revenue	11,175	9,305
Total current liabilities	33,029	36,276
Operating lease liabilities, non-current	19,321	—
Amounts payable under tax receivable agreement, non-current	17,521	17,349
Other long-term liabilities	592	2,691
Total liabilities	70,463	56,316
Commitments and contingencies (Note 9)		
<b>Shareholders' equity</b>		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized; and 15,610,595 and 15,310,958 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	156	153
Additional paid-in capital	198,429	198,604
Retained deficit	(37,842)	(38,865)
Accumulated other comprehensive loss	(35)	(77)
Total shareholders' equity	160,708	159,815
Noncontrolling interests	(7,672)	(13,572)
Total shareholders' equity and noncontrolling interests	153,036	146,243
Total liabilities, shareholders' equity and noncontrolling interests	\$ 223,499	\$ 202,559

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

**Manning & Napier, Inc.**  
**Consolidated Statements of Operations**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
<b>Management Fees</b>				
Separately managed accounts	\$ 21,981	\$ 24,228	\$ 65,194	\$ 74,066
Mutual funds and collective investment trusts	7,015	10,596	22,646	32,606
Distribution and shareholder servicing	2,570	2,974	7,760	9,185
Custodial services	1,763	2,021	5,258	5,838
Other revenue	849	729	2,411	2,197
Total revenue	<u>34,178</u>	<u>40,548</u>	<u>103,269</u>	<u>123,892</u>
<b>Expenses</b>				
Compensation and related costs	19,504	23,105	61,113	68,567
Distribution, servicing and custody expenses	2,959	4,518	9,736	13,801
Other operating costs	8,286	8,392	25,232	23,425
Total operating expenses	<u>30,749</u>	<u>36,015</u>	<u>96,081</u>	<u>105,793</u>
Operating income	<u>3,429</u>	<u>4,533</u>	<u>7,188</u>	<u>18,099</u>
<b>Non-operating income (loss)</b>				
Interest expense	(13)	(18)	(26)	(48)
Interest and dividend income	782	519	2,428	1,395
Change in liability under tax receivable agreement	(394)	113	(199)	404
Net gains (losses) on investments	40	105	1,162	(165)
Gain on sale of business	2,883	—	2,883	—
Total non-operating income	<u>3,298</u>	<u>719</u>	<u>6,248</u>	<u>1,586</u>
Income before provision for income taxes	6,727	5,252	13,436	19,685
Provision for income taxes	150	274	723	1,244
Net income attributable to controlling and noncontrolling interests	6,577	4,978	12,713	18,441
Less: net income attributable to noncontrolling interests	5,753	4,198	10,914	15,681
Net income attributable to Manning & Napier, Inc.	<u>\$ 824</u>	<u>\$ 780</u>	<u>\$ 1,799</u>	<u>\$ 2,760</u>
<b>Net income per share available to Class A common stock</b>				
Basic	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.12</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.12</u>	<u>\$ 0.18</u>
<b>Weighted average shares of Class A common stock outstanding</b>				
Basic	<u>15,290,595</u>	<u>14,740,541</u>	<u>15,163,205</u>	<u>14,583,570</u>
Diluted	<u>15,600,686</u>	<u>78,096,830</u>	<u>15,466,339</u>	<u>78,134,657</u>

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

**Manning & Napier, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**(U.S. dollars in thousands)**  
**(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income attributable to controlling and noncontrolling interests	\$ 6,577	\$ 4,978	\$ 12,713	\$ 18,441
Net unrealized holding gains (losses) on investment securities, net of tax	(9)	55	223	(92)
Reclassification adjustment for net realized gains on investment securities included in net income	(15)	—	(21)	—
Comprehensive income	\$ 6,553	\$ 5,033	\$ 12,915	\$ 18,349
Less: Comprehensive income attributable to noncontrolling interests	5,730	4,243	11,074	15,606
Comprehensive income attributable to Manning & Napier, Inc.	\$ 823	\$ 790	\$ 1,841	\$ 2,743

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

**Manning & Napier, Inc.**  
**Consolidated Statements of Shareholders' Equity**  
**(U.S. dollars in thousands, except share data)**  
**(Unaudited)**

	Common Stock – Class A		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount					
<b>Three months ended September 30, 2019</b>							
Balance—June 30, 2019	15,620,595	\$ 156	\$ 198,304	\$ (38,372)	\$ (34)	\$ (11,324)	\$ 148,730
Net income	—	—	—	824	—	5,753	6,577
Distributions to noncontrolling interests	—	—	—	—	—	(2,624)	(2,624)
Net changes in unrealized investment securities gains or losses	—	—	—	—	(1)	(8)	(9)
Common stock issued under equity compensation plan, net of forfeitures	(10,000)	—	—	—	—	—	—
Equity-based compensation	—	—	125	—	—	531	656
Dividends declared on Class A common stock - \$0.02 per share	—	—	—	(294)	—	—	(294)
Balance—September 30, 2019	15,610,595	\$ 156	\$ 198,429	\$ (37,842)	\$ (35)	\$ (7,672)	\$ 153,036
<b>Nine months ended September 30, 2019</b>							
Balance—December 31, 2018	15,310,958	\$ 153	\$ 198,604	\$ (38,865)	\$ (77)	\$ (13,572)	\$ 146,243
Net income	—	—	—	1,799	—	10,914	12,713
Distributions to noncontrolling interests	—	—	—	—	—	(5,043)	(5,043)
Net changes in unrealized investment securities gains or losses	—	—	—	—	42	181	223
Common stock issued under equity compensation plan, net of forfeitures	299,637	3	(3)	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to equity awards vested	—	—	(15)	—	—	(63)	(78)
Equity-based compensation	—	—	527	—	—	2,279	2,806
Dividends declared on Class A common stock - \$0.06 per share	—	—	—	(852)	—	—	(852)
Cumulative effect of change in accounting principle, net of taxes (Note 8)	—	—	—	76	—	—	76
Impact of changes in ownership of Manning & Napier Group, LLC (Note 4)	—	—	(684)	—	—	(2,368)	(3,052)
Balance—September 30, 2019	15,610,595	\$ 156	\$ 198,429	\$ (37,842)	\$ (35)	\$ (7,672)	\$ 153,036

	<u>Common Stock – Class A</u>		<u>Additional Paid in Capital</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Non Controlling Interests</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
<b>Three months ended September 30, 2018</b>							
Balance—June 30, 2018	15,333,041	\$ 153	\$ 198,488	\$ (38,626)	\$ (113)	\$ (17,644)	\$ 142,258
Net income	—	—	—	780	—	4,198	4,978
Distributions to noncontrolling interests	—	—	—	—	—	(2,045)	(2,045)
Net changes in unrealized investment securities gains or losses	—	—	—	—	10	45	55
Equity-based compensation	—	—	85	—	—	378	463
Dividends declared on Class A common stock - \$0.08 per share	—	—	—	(1,226)	—	—	(1,226)
Balance—September 30, 2018	<u>15,333,041</u>	<u>\$ 153</u>	<u>\$ 198,573</u>	<u>\$ (39,072)</u>	<u>\$ (103)</u>	<u>\$ (15,068)</u>	<u>\$ 144,483</u>
<b>Nine months ended September 30, 2018</b>							
Balance—December 31, 2017	15,039,347	\$ 150	\$ 198,641	\$ (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 of forfeitures	293,694	3	(3)	—	—	—	—
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	—	—	—	266	—	1,224	1,490
Impact of changes in ownership of Manning & Napier Group, LLC	—	—	(447)	—	—	(1,471)	(1,918)
Balance—September 30, 2018	<u>15,333,041</u>	<u>\$ 153</u>	<u>\$ 198,573</u>	<u>\$ (39,072)</u>	<u>\$ (103)</u>	<u>\$ (15,068)</u>	<u>\$ 144,483</u>

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



**Manning & Napier, Inc.**  
**Consolidated Statements of Cash Flows**  
**(U.S. dollars in thousands)**  
**(Unaudited)**

	Nine months ended September 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income attributable to controlling and noncontrolling interests	\$ 12,713	\$ 18,441
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	2,806	2,102
Depreciation and amortization	1,202	1,333
Change in amounts payable under tax receivable agreement	199	(404)
Gain on sale of intangible assets	(160)	(2,575)
Gain on sale of business	(2,883)	—
Net (gains) losses on investment securities	(1,162)	165
Deferred income taxes	504	954
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	668	2,061
Prepaid expenses and other assets	282	1,203
Long-term assets	1,898	(124)
Accounts payable	(232)	216
Accrued expenses and other liabilities	(6,826)	(9,400)
Deferred revenue	1,870	(308)
Long-term liabilities	(2,162)	(687)
Net cash provided by operating activities	<u>8,717</u>	<u>12,977</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,689)	(1,369)
Sale of investments	9,937	2,533
Purchase of investments	(84,544)	(46,677)
Sale of intangible assets	160	2,575
Proceeds from sale of business, net	2,902	—
Proceeds from maturity of investments	102,523	44,297
Net cash provided by investing activities	<u>29,289</u>	<u>1,359</u>
<b>Cash flows from financing activities:</b>		
Distributions to noncontrolling interests	(5,043)	(10,226)
Dividends paid on Class A common stock	(932)	(3,650)
Payment of shares withheld to satisfy withholding requirements	(78)	—
Payment of capital lease obligations	(104)	(98)
Purchase of Class A units of Manning & Napier Group, LLC	(3,052)	(1,918)
Net cash used in financing activities	<u>(9,209)</u>	<u>(15,892)</u>
Net increase (decrease) in cash and cash equivalents	28,797	(1,556)
<b>Cash and cash equivalents:</b>		
Beginning of period	59,586	78,262
End of period	<u>\$ 88,383</u>	<u>\$ 76,706</u>

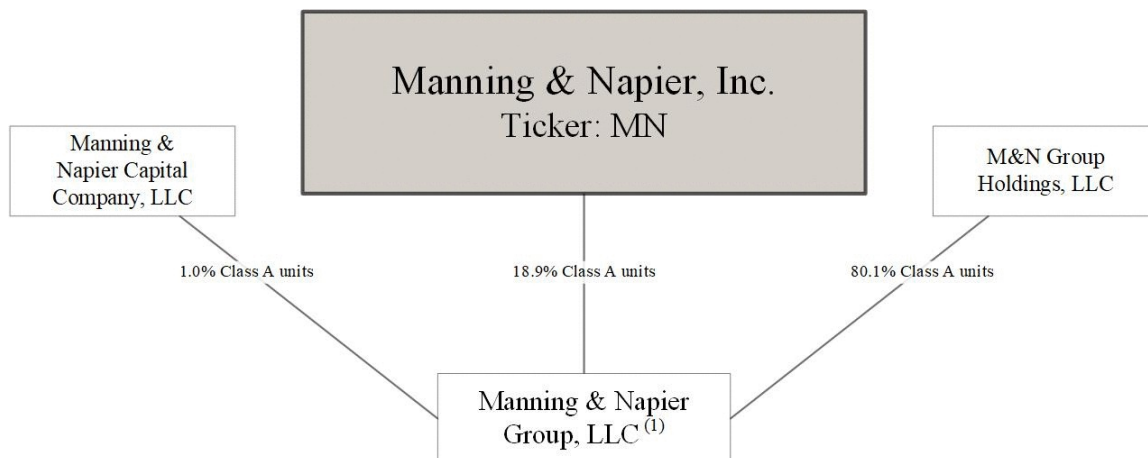
The accompanying notes are an integral part of these consolidated financial statements.

**Manning & Napier, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1—Organization and Nature of the Business**

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

The Company was incorporated in 2011 as a Delaware corporation, and is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts the Company's organizational structure as of September 30, 2019.



(1) The consolidated operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC ("MNA"), 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, 2018. 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, 2018. 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 adoption ASU 2016-02, *Leases (Topic 842)* are discussed under "Leases" below and in Note 8.

**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.

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

***Gain on Sale of Business***

On June 28, 2019, the Company, through Manning & Napier Group, entered into an agreement (the "Agreement") to sell all of the equity interests in its wholly-owned subsidiary, Perspective Partners, LLC ("PPI") to Manning Partners, LLC, which is wholly-owned by the Chairman of the Company's Board of Directors (Note 13). The purchase price is based on historical expenses of PPI from September 1, 2018 until the date of closing, and future revenue payments, as applicable.

The sale was completed on August 30, 2019. The Company received cash proceeds of \$3.1 million, transferred net assets of \$0.2 million and recorded a \$2.9 million gain on the sale, which is included as "Gain on sale of business" on its consolidated statements of operations. The Company did not recognize an asset for the contingent consideration as of the closing date. Other than the cash proceeds received, the transaction did not have a material impact to its consolidated statements of financial condition. The sale did not represent a major strategic shift in the Company's business and did not qualify for discontinued operations reporting.

***Principles of Consolidation***

The Company consolidates all majority-owned subsidiaries. In addition, as of September 30, 2019, Manning & Napier holds an economic interest of approximately 18.9% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC").

All material intercompany transactions have been eliminated in consolidation.

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

The Company provides seed capital to its investment teams to develop new strategies 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. As of September 30, 2019 and December 31, 2018, the Company did not have investments classified as an equity method investment.

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 \$4.0 million as of September 30, 2019 and \$3.6 million as of December 31, 2018. As of September 30, 2019 and December 31, 2018, the Company did not have a controlling financial interest in any mutual fund.

***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 performance 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.

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

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

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 performance obligation satisfied over time. Revenue for transactions assigned a stand-alone selling price is recognized in the period in 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 on a straight-line basis 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.

***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 has 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, 2019, trading securities consist of investments held by the Company to provide initial cash seeding for product development purposes and investments to hedge economic exposure to market movements on its deferred compensation plan.

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 shareholders' 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 \$11.2 million and \$11.3 million as of September 30, 2019 and December 31, 2018, 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.

***Leases***

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, accrued expenses and other liabilities and operating lease liabilities, non-current on its consolidated statements of financial condition. Finance leases are included in other long-term assets, accrued expenses and other liabilities, and other long-term liabilities on its consolidated statements of financial condition.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate, for each identified lease, is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term. The operating lease ROU asset is reduced for any lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are combined for all classes of underlying assets.

***Operating Segments***

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

***Recently Adopted Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board ("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. The Company adopted the new standard on its effective date of January 1, 2019. Refer to Note 8 for further discussion regarding the impact of adoption.

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 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's adoption of ASU 2018-02 on January 1, 2019 did not have a material impact on its consolidated financial statements.

***Recent Accounting Pronouncements Not Yet Adopted***

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.

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

**Note 3—Revenue**

**Disaggregated Revenue**

The following tables represent the Company's separately managed account and mutual fund and collective investment trust investment management revenue by investment portfolio during the three and nine months ended September 30, 2019 and September 30, 2018:

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in thousands)					
Blended Asset	\$ 16,663	\$ 4,200	\$ 20,863	\$ 17,864	\$ 6,485	\$ 24,349
Equity	4,742	2,805	7,547	5,736	3,988	9,724
Fixed Income	576	10	586	628	123	751
Total	<u>\$ 21,981</u>	<u>\$ 7,015</u>	<u>\$ 28,996</u>	<u>\$ 24,228</u>	<u>\$ 10,596</u>	<u>\$ 34,824</u>

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in thousands)					
Blended Asset	\$ 49,304	\$ 13,678	\$ 62,982	\$ 54,183	\$ 19,635	\$ 73,818
Equity	14,121	8,857	22,978	17,923	12,699	30,622
Fixed Income	1,769	111	1,880	1,960	272	2,232
Total	<u>\$ 65,194</u>	<u>\$ 22,646</u>	<u>\$ 87,840</u>	<u>\$ 74,066</u>	<u>\$ 32,606</u>	<u>\$ 106,672</u>

**Accounts Receivable**

Accounts receivable as of September 30, 2019 and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
	(in thousands)	
Accounts receivable - third parties	\$ 6,553	\$ 5,342
Accounts receivable - affiliated mutual funds and collective investment trusts	4,214	6,105
Total accounts receivable	<u>\$ 10,767</u>	<u>\$ 11,447</u>

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, 2019 or 2018.

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

**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 \$9.8 million and \$31.1 million for the three and nine months ended September 30, 2019, respectively, and approximately \$13.8 million and \$42.6 million for the three and nine months ended September 30, 2018, respectively, which represents greater than 25% 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 statements of financial condition as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(in thousands)	
Affiliated mutual funds	\$ 2,963	\$ 4,802
Affiliated collective investment trusts	1,251	1,303
Accounts receivable - affiliated mutual funds and collective investment trusts	\$ 4,214	\$ 6,105

**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, 2019, revenue was increased by less than \$0.1 million for changes in transaction price. Accrued accounts receivable of approximately \$0.3 million and \$0.2 million is reported within prepaid expenses and other assets in the consolidated statements of financial condition as of September 30, 2019 and December 31, 2018, respectively.

*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 during the nine months ended September 30, 2019 that was included in deferred revenue at the beginning of the period was approximately \$8.8 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 both September 30, 2019 and December 31, 2018 was approximately \$1.1 million. The related amortization expense, which is included in compensation and related costs, totaled approximately \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2019, and approximately \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively. An impairment loss is recorded for contract acquisition costs related to client contracts that cancel during the period. These impairment losses totaled less than \$0.1 million for both the three and nine months ended September 30, 2019 and also for the three months ended September 30, 2018. For the nine months ended September 30, 2018, these impairment losses totaled approximately \$0.1 million.

**Note 4—Noncontrolling Interests**

Manning & Napier holds an economic interest of approximately 18.9% 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 approximately 81.1% economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Income before provision for income taxes	\$ 6,727	\$ 5,252	\$ 13,436	\$ 19,685
Less: income (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup>	(388)	97	(207)	356
Income before provision for income taxes, as adjusted	7,115	5,155	13,643	19,329
Controlling interest percentage <sup>(2)</sup>	18.9%	18.2%	18.8%	18.2%
Net income attributable to controlling interest	1,341	941	2,562	3,514
Plus: income (loss) before provision for income taxes of Manning & Napier, Inc. <sup>(1)</sup>	(388)	97	(207)	356
Income before income taxes attributable to Manning & Napier, Inc.	953	1,038	2,355	3,870
Less: provision for income taxes of Manning & Napier, Inc. <sup>(3)</sup>	129	258	556	1,110
Net income attributable to Manning & Napier, Inc.	<u>\$ 824</u>	<u>\$ 780</u>	<u>\$ 1,799</u>	<u>\$ 2,760</u>

- (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.
- (2) 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.
- (3) 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 \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2019, respectively, and \$0.3 million and \$1.2 million for the three and nine months ended September 30, 2018, respectively.

As of September 30, 2019, a total of 62,034,200 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 ("Exchange Agreement"), such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the value of one share of the Company's Class A common stock less a market discount and expected expenses, or, at the Company's election, (ii) issue shares of the Company's Class A common stock on a one-for-one basis, subject to customary adjustments. As the Company receives units of Manning & Napier Group that are exchanged, the Company's ownership of Manning & Napier Group will increase.

During the nine months ended September 30, 2019, M&N Group Holdings and MNCC exchanged a total of 1,315,521 Class A units of Manning & Napier Group for approximately \$3.1 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, 2019, Class A common stock was issued under the Company's 2011 Equity Compensation Plan (the "Equity Plan") for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group, net of forfeitures of unvested restricted stock awards.



**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, 2019:

	Manning & Napier Group Class A Units Held			Manning & Napier Ownership %
	Manning & Napier	Noncontrolling Interests	Total	
<b>As of December 31, 2018</b>	14,126,736	63,349,721	77,476,457	18.2%
Class A Units issued	351,532	—	351,532	0.4%
Class A Units exchanged	—	(1,315,521)	(1,315,521)	0.3%
<b>As of September 30, 2019</b>	14,478,268	62,034,200	76,512,468	18.9%

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, 2019 and December 31, 2018, the Company had recorded a liability of \$18.2 million and \$18.0 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, \$0.7 million were included in accrued expenses and other liabilities at both September 30, 2019 and December 31, 2018. The Company made no payments pursuant to the TRA during the nine months ended September 30, 2019 and approximately \$2.5 million during the nine months ended September 30, 2018.

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, 2019 and December 31, 2018:

	September 30, 2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
<b>Available-for-sale securities</b>				
U.S. Treasury notes	\$ 26,958	\$ 160	\$ —	\$ 27,118
Fixed income securities	24,918	24	—	24,942
Short-term investments	3,032	—	—	3,032
				55,092
<b>Trading securities</b>				
Equity securities				5,533
Mutual funds				4,033
				9,566
<b>Total investment securities</b>				\$ 64,658

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

	December 31, 2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
<b>Available-for-sale securities</b>				
U.S. Treasury notes	\$ 21,613	\$ 36	\$ —	\$ 21,649
Fixed income securities	15,488	—	(75)	15,413
Short-term investments	45,879	—	—	45,879
				82,941
<b>Trading securities</b>				
Equity securities				4,683
Mutual funds				3,566
				8,249
<b>Total investment securities</b>				<b>\$ 91,190</b>

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, 2019 and December 31, 2018, trading securities consist of investments held by the Company to provide initial cash seeding for product development purposes and investments in mutual funds to hedge economic exposure to market movements on its deferred compensation plan. The Company recognized approximately \$1.1 million of net unrealized gains and \$0.2 million of net unrealized losses related to investments classified as trading during the nine months ended September 30, 2019 and 2018, respectively.

Investment securities classified as available-for-sale consist of U.S. Treasury notes, corporate bonds and other short-term investments to optimize cash management opportunities and for compliance with certain regulatory requirements. As of September 30, 2019 and December 31, 2018, approximately \$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, 2019 and 2018.

**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 applied 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 table summarizes the hierarchy of inputs used to derive the fair value of the Company's assets as of September 30, 2019 and December 31, 2018:

	September 30, 2019			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$ 5,533	\$ —	\$ —	\$ 5,533
Fixed income securities	—	24,942	—	24,942
Mutual funds	4,033	—	—	4,033
U.S. Treasury notes	—	27,118	—	27,118
Short-term investments	—	3,032	—	3,032
<b>Total assets at fair value</b>	<b>\$ 9,566</b>	<b>\$ 55,092</b>	<b>\$ —</b>	<b>\$ 64,658</b>
Contingent consideration liability	\$ —	\$ —	\$ —	\$ —
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
	December 31, 2018			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$ 4,683	\$ —	\$ —	\$ 4,683
Fixed income securities	—	15,413	—	15,413
Mutual funds	3,566	—	—	3,566
U.S. Treasury notes	—	21,649	—	21,649
Short-term investments	43,914	1,965	—	45,879
<b>Total assets at fair value</b>	<b>\$ 52,163</b>	<b>\$ 39,027</b>	<b>\$ —</b>	<b>\$ 91,190</b>
Contingent consideration liability	\$ —	\$ —	\$ —	\$ —
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Short-term investments consists of certificate of deposits that are stated at cost, which approximate fair value due to the short maturity of the investments and U.S. Treasury bills.

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

Contingent consideration was a component of the purchase price of Rainier 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 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, 2019.

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 valuation levels during the nine months ended September 30, 2019.

**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, 2019 and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
	(in thousands)	
Accrued bonus and sales commissions	\$ 9,304	\$ 16,121
Accrued payroll and benefits	3,663	4,087
Accrued sub-transfer agent fees	531	1,451
Dividends payable	312	306
Amounts payable under tax receivable agreement	701	674
Short-term operating lease liabilities	2,460	—
Other accruals and liabilities	3,271	2,487
<b>Total accrued expenses and other liabilities</b>	<b>\$ 20,242</b>	<b>\$ 25,126</b>

During the year ended December 31, 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 that elected to participate in the offering, subject to approval by the Company, received enhanced separation benefits. These employees are required to render service until their agreed upon termination date in order to receive benefits under the offering. As such, the liability is recognized ratably over the applicable service period, which may vary from person to person.

Total employee severance costs under the offering are approximately \$2.6 million, of which approximately \$2.2 million was recognized during the year ended December 31, 2018. During the nine months ended September 30, 2019, the Company recognized severance costs of approximately \$0.2 million under the offering and approximately \$1.4 million 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 during the nine months ended September 30, 2019, as included in accrued expenses and other liabilities in the consolidated statements of financial condition:

	Nine months ended September 30, 2019
	(in thousands)
<b>Accrued employee severance costs as of December 31, 2018</b>	<b>\$ 1,642</b>
Employee severance costs recognized	1,681
Payment of employee severance costs	(2,579)
<b>Accrued employee severance costs as of September 30, 2019</b>	<b>\$ 744</b>

**Note 8—Leases**

**Adoption of ASU 2016-02, Leases (Topic 842)**

On January 1, 2019, the Company adopted Topic 842 using the optional transition method. Consequently, financial information and disclosures for the reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under Topic 840.

Topic 842 provides a number of optional practical expedients as part of the transition from Topic 840. The Company elected the 'package of practical expedients', which permits it to not reassess, under Topic 842, its prior conclusions about lease identification, lease classification and initial direct costs.

Topic 842 also provides practical expedients for an entity's ongoing accounting under Topic 842. The Company elected the short-term lease recognition exemption for all leases that qualify, and elected the practical expedient to combine lease and non-lease components as a single combined lease component for all of its leases.

On adoption, the Company recognized lease liabilities of approximately \$23.2 million and right-of-use assets for approximately \$20.6 million, based on the present value of the remaining minimum rental payments under Topic 840 for operating leases that existed as of the date of adoption. In addition, the Company wrote-down approximately \$2.6 million of

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

unamortized deferred lease costs and tenant incentives previously recorded as deferred rent liability in the consolidated statements of financial condition as of December 31, 2018. The Company recognized an increase to opening shareholders' equity and noncontrolling interest of approximately \$0.1 million, as of January 1, 2019, related to the deferred tax impacts of adopting Topic 842.

**Leases**

The Company has operating and finance leases for office space and certain equipment. For these leases, the office space or equipment is an explicitly identified asset within the contract. The Company has determined that it has obtained substantially all of the economic benefits from the use of the underlying asset and directs how and for what purpose the asset is used during the term of the contract.

The Company's leases have remaining lease terms ranging between approximately 1 year and 9 years. The Company's lease term on certain of its multi-year office space leases, including its headquarters, include options for the Company to extend those leases for periods ranging from an additional five to ten years. In addition, the Company has the option to reduce a portion of its square footage at certain times throughout the term of the lease for its headquarters. The Company determined it is not reasonably certain at this time it will exercise the options to extend these leases or will exercise the options to reduce its square footage; therefore, the payment amounts related to these lease term extensions and contraction options have been excluded from determining its right-of-use asset and lease liability.

Certain of the Company's operating leases for office space include variable lease payments, including non-lease components (such as utilities and operating expenses) that vary based on actual expenses and are adjusted on an annual basis. The Company concluded that these variable lease payments are in substance fixed payments and included the estimated variable payments in its determination of right-of-use assets and lease liabilities.

Changes in the lease terms, including renewal options and options to reduce its square footage, incremental borrowing rates, and/or variable lease payments, and the corresponding impact to the right-of-use assets and lease liabilities, are recognized in the period incurred.

Certain of the Company's operating leases have been subleased for which the Company will receive cash totaling approximately \$3.9 million over the remaining term of such leases. The lease terms for the three subleased operating leases end in 2021, 2027 and 2028.

The components of lease expense for the three and nine months ended September 30, 2019 were as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
	(in thousands)	
Finance lease expense		
Amortization of right-of-use assets	\$ 34	\$ 93
Interest on lease liabilities	4	9
Operating lease expense	904	2,762
Short-term lease expense	3	10
Variable lease expense	139	250
Sublease income	(224)	(521)
<b>Total lease expense</b>	<b>\$ 860</b>	<b>\$ 2,603</b>

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

Supplemental cash flow information related to leases for the three and nine months ended September 30, 2019 were as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 3	\$ 8
Finance cash flows from finance leases	\$ 34	\$ 96
Operating cash flows from operating leases	\$ 1,132	\$ 3,085
Right-of-use assets obtained in exchange for new lease obligations:		
Finance leases	\$ —	\$ 175
Operating leases	\$ (104)	\$ 761

Supplemental balance sheet information related to leases as of September 30, 2019 was as follows:

(in thousands, except lease term and discount rate)	September 30, 2019
<b>Finance Leases</b>	
Finance lease right-of-use assets <sup>(1)</sup>	\$ 235
Accrued expenses and other liabilities	\$ 110
Other long-term liabilities	137
Total finance lease liabilities	\$ 247
<b>Operating Leases</b>	
Operating lease right-of-use assets	\$ 19,325
Accrued expenses and other liabilities	\$ 2,460
Operating lease liabilities, non-current	19,321
Total operating lease liabilities	\$ 21,781
<b>Weighted average remaining lease term</b>	
Finance leases	2.88 years
Operating leases	7.68 years
<b>Weighted average discount rate</b>	
Finance leases	4.53%
Operating leases	5.15%

(1) Amounts included in other long-term assets within the consolidated statements of financial condition.

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

Maturities of lease liabilities were as follows:

Twelve month period ending September 30,	Finance Leases	Operating Leases
	(in thousands)	
2020	\$ 119	\$ 3,514
2021	63	3,722
2022	48	3,481
2023	27	3,185
2024	7	3,118
Thereafter	—	9,408
Total lease payments	264	26,428
Less imputed interest	(17)	(4,647)
Total lease liabilities	<u>\$ 247</u>	<u>\$ 21,781</u>

As of December 31, 2018, minimum rent payments relating to the office leases for each of the following five years and thereafter were as follows:

Year Ending December 31,	Minimum Payments
	(in thousands)
2019	\$ 3,748
2020	3,780
2021	3,712
2022	3,668
2023	3,369
Thereafter	13,397
Total undiscounted lease payments	<u>\$ 31,674</u>

**Note 9—Commitments and Contingencies**

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

**Regulation**

As an investment adviser to a variety of investment products, the Company and its affiliated broker-dealer are subject to routine reviews and inspections by the SEC and the Financial Industry Regulatory Authority, Inc. Additionally, the Company could be subject to non-routine reviews and inspections by the National Futures Association and U.S. Commodity Futures Trading Commission in regards to the Company's de minimis exposure to commodity interest investments in the mutual funds and collective investment trust vehicles it operates. From time to time the Company may also be subject to claims, or be involved in various legal proceedings, arising in the ordinary course of its business and other contingencies. The Company does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on its consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is difficult to predict. The Company will establish accruals for matters that are probable, can be reasonably estimated, and may take into account any related insurance recoveries to the extent of such recoveries. As of September 30, 2019 and December 31, 2018, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

**Note 10—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

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

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 Class A 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 EPS computations for the three and nine months ended September 30, 2019 and 2018 under the two-class method:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands, except share data)			
Net income attributable to controlling and noncontrolling interests	\$ 6,577	\$ 4,978	\$ 12,713	\$ 18,441
Less: net income attributable to noncontrolling interests	5,753	4,198	10,914	15,681
Net income attributable to Manning & Napier, Inc.	<u>\$ 824</u>	<u>\$ 780</u>	<u>\$ 1,799</u>	<u>\$ 2,760</u>
Less: allocation to participating securities	—	47	(42)	142
Net income available to Class A common stock	<u><u>\$ 824</u></u>	<u><u>\$ 733</u></u>	<u><u>\$ 1,841</u></u>	<u><u>\$ 2,618</u></u>
Weighted average shares of Class A common stock outstanding - basic	15,290,595	14,740,541	15,163,205	14,583,570
Dilutive effect of unvested equity awards	310,091	6,568	303,134	13,973
Dilutive effect of exchangeable Class A Units	—	63,349,721	—	63,537,114
Weighted average shares of Class A common stock outstanding - diluted	<u>15,600,686</u>	<u>78,096,830</u>	<u>15,466,339</u>	<u>78,134,657</u>
Net income available to Class A common stock per share - basic	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.12</u>	<u>\$ 0.18</u>
Net income available to Class A common stock per share - diluted	<u><u>\$ 0.05</u></u>	<u><u>\$ 0.05</u></u>	<u><u>\$ 0.12</u></u>	<u><u>\$ 0.18</u></u>

For the three and nine months ended September 30, 2019, 3,000,000 unvested performance-based stock options were excluded from the calculation of diluted EPS because the associated market condition had not yet been achieved.

For the three and nine months ended September 30, 2019, 951,060 and 1,201,060, respectively, unvested equity awards were excluded from the calculation of diluted EPS because the effect would have been anti-dilutive. 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 EPS because the effect would have been anti-dilutive.

At September 30, 2019 there were 62,034,200 Class A Units of Manning & Napier Group outstanding which, subject to certain restrictions, may be exchangeable for up to an equivalent number of shares of the Company's Class A common stock. These units were not included in the calculation of diluted earnings per common share for the three and nine-months ended September 30, 2019 because the effect would have been anti-dilutive.

**Note 11—Equity Based Compensation**

The Equity Plan was adopted by the Company's board of directors and approved by shareholders 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, stock options, 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 activity related to awards of restricted stock and restricted stock units (collectively, "stock awards") under the Equity Plan for the nine months ended September 30, 2019:

	Stock Awards	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	1,602,337	\$ 5.31
Granted	770,571	\$ 2.38
Vested	(566,115)	\$ 5.58
Forfeited	(137,321)	\$ 5.50
Outstanding at September 30, 2019	<u>1,669,472</u>	<u>\$ 3.85</u>

The weighted average fair value of stock awards granted during the nine months ended September 30, 2019 was \$2.38, based on the closing sale price of the Company's Class A common stock as reported on the New York Stock Exchange on the date of grant, and, if not entitled to dividends or dividend equivalents during the vesting period, reduced by the present value of such amounts expected to be paid on the underlying shares during the requisite service period.

For the three and nine months ended September 30, 2019, the Company recorded approximately \$0.5 million and \$2.4 million, respectively, of compensation expense related to stock awards under the Equity Plan. 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 stock awards under the Equity Plan. The aggregate intrinsic value of stock awards that vested during the nine months ended September 30, 2019 and 2018 was approximately \$1.3 million and \$1.7 million, respectively. As of September 30, 2019, there was unrecognized compensation expense of approximately \$3.8 million related to stock awards, which the Company expects to recognize over a weighted average period of approximately 1.8 years.

In connection with the vesting of restricted stock units during the nine-months ended September 30, 2019, the Company withheld a total of 38,978 shares of Class A common stock to satisfy approximately \$0.1 million of employee income tax withholding requirements. These net share settlements had the effect of shares repurchased and retired by the Company, as they reduced the total number of Class A common shares outstanding.

A summary of activity under the Equity Plan related to stock option awards during the nine months ended September 30, 2019 is presented below:

	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	—	\$ —		
Granted	3,500,000	\$ 2.01		
Vested	—	\$ —		
Forfeited	—	\$ —		
Outstanding at September 30, 2019	<u>3,500,000</u>	<u>\$ 2.01</u>	4.2	\$ —
Exercisable at September 30, 2019	<u>—</u>	<u>\$ —</u>		

For the three and nine months ended September 30, 2019, the Company recorded approximately \$0.2 million and \$0.4 million, respectively, of compensation expense related to stock options under the Equity Plan. As of September 30, 2019, there was unrecognized compensation expense of approximately \$1.1 million related to stock options, which the Company expects to recognize over a weighted average period of approximately 1.2 years.

During the nine months ended September 30, 2019, the Company granted a total of 3,500,000 stock option awards under the Equity Plan, 3,000,000 of which are subject to the achievement of specified performance criteria ("performance options"). The performance options vest in installments, only if the closing price per share of the Company's Class A common stock as reported on the New York Stock Exchange exceeds a certain threshold for 20 consecutive days ("target price") prior to a specified date ("target date"). Target prices range from \$3.25 to \$7.75. Target dates by which each target price must be achieved range from three to seven years from the grant date. These performance options are considered to have a market condition, the effect of which is reflected in the grant date fair value of the award. As such, as long as the requisite service is rendered for these awards, compensation expense will be recognized regardless of whether the market condition is achieved. The fair value of these performance options was estimated using a Monte Carlo simulation model and the weighted average grant date fair value for the performance options granted was \$0.38.

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

For stock option awards with service conditions only ("service-based options"), the Company determines the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The weighted average grant date fair value of service-based options granted during the nine months ended September 30, 2019 was \$0.62, using the following assumptions:

Expected volatility	45.00%
Expected term (in years)	4.9 - 6.9
Risk-free interest rate	2.49% - 2.58%
Expected dividend yield	3.98%

**Note 12—Income Taxes**

The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC") or a "C-Corporation". As such, the entities functioning as LLCs are not liable for or able to benefit from U.S. federal and most state income taxes on their earnings, and earnings (losses) will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal 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,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Income before provision for income taxes	\$ 6,727	\$ 5,252	\$ 13,436	\$ 19,685
Effective tax rate	2.2%	5.2%	5.4%	6.3%
Provision for income taxes	150	274	723	1,244
Provision for income taxes at statutory rate	1,413	1,103	2,822	4,134
Difference between tax at effective vs. statutory rate	\$ (1,263)	\$ (829)	\$ (2,099)	\$ (2,890)

For both the three and nine months ended September 30, 2019 and 2018, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 21% 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 13—Related Party Transactions**

***Sale of Subsidiary***

On August 30, 2019, the Company sold the equity interests in PPI to Manning Partners, LLC, which is wholly-owned by the Chairman of the Company's Board of Directors (Note 2). Subsequent to the close, PPI and the Company have entered into a sublease agreement under which PPI leases office space within the Company's headquarters for annual rent of approximately \$0.1 million over the term of the sublease, which expires on January 31, 2028.

***Transactions with noncontrolling members***

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

The Company manages the personal funds of certain of the Company's executive officers and directors and/or their affiliated entities. Pursuant to the respective investment management agreements, in some instances the Company may waive or reduce its regular advisory fees for these accounts. The aggregate value of the fees earned and the value of fees waived was less than \$0.1 million for each of the nine months ended September 30, 2019 and 2018.

***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 \$9.8 million and \$31.1 million for the three and nine months ended September 30, 2019, respectively, and approximately \$13.8 million and \$42.6 million for the three and nine months ended September 30, 2018, respectively. Fees earned for administrative services provided were approximately \$0.6 million and \$1.6 million for the three and nine months

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

ended September 30, 2019, respectively, and 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 were approximately \$1.9 million and \$5.1 million for the three and nine months ended September 30, 2019, respectively, and approximately \$1.1 million and \$3.5 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019 the Company had 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 14—Subsequent Events**

***Distributions and dividends***

On October 22, 2019, the Company's Board of Directors declared a quarterly cash dividend of \$0.02 per share to the holders of Class A common stock. The dividend is payable on or about February 3, 2020 to shareholders of record as of January 15, 2020.

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

### **Overview**

#### ***Our Business***

We are an independent wealth management firm that provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trust funds, as well as a variety of consultative services that complement our investment process. Founded in 1970, we offer equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, including life-cycle funds. We serve a diversified client base of high-net-worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations. Our operations are based principally in the United States, with our headquarters located in Fairport, New York.

#### ***Market Developments***

Global equity performance was mixed during the third quarter as economic and geopolitical uncertainty weighed on investor willingness to take on risk. US equities led the way with positive returns whereas international equities fell modestly for the quarter. Both domestic and foreign equities remain up significantly year-to-date.

Within equities, developed market equities experienced slight declines while emerging markets more significantly underperformed. Continued dollar strength and falling commodity prices remain a challenge for emerging market economies. Internationally, growth stocks materially outperformed value stocks, extending their post-financial crisis relative performance edge. In the US, the two styles performed similarly, although growth stocks maintain a heavy advantage over a longer term view.

US fixed income markets extended their strong year-to-date performance in the third quarter as falling interest rates generated positive return for existing bondholders. Over the long-term, however, falling interest rates create a challenging environment for fixed income investors. Credit spreads remained tight as of the end of the quarter, aiding performance to both investment grade and high yield corporate bonds.

Despite the strong year-to-date performance of both equity and fixed income, our outlook for global financial markets is cautious. We believe the US economy is showing clear signs of entering the later stages of the economic cycle and remains large enough to have significant negative spillover effects on the broader global economy.

Our mixed outlook is complicated by additional endogenous risk factors including the trade war and other geopolitical uncertainties. For these reasons, we prefer to maintain a fairly defensive positioning in client portfolios and continue to believe an active, selective investment strategy is the best approach to navigating uncertain financial markets.

#### ***Other Business Updates***

On June 28, 2019, the Company entered into an agreement (the "Agreement") to sell its wholly-owned subsidiary Perspective Partners, LLC ("PPI"), an employee benefits software and service provider to plan sponsors, administrators and participants to Manning Partners, LLC, an entity owned by William Manning, the Chairman of the Company's Board of Directors. The sale closed on August 30, 2019. The Company received cash proceeds of approximately \$3.1 million and recorded a \$2.9 million gain on the sale, which is included in non-operating income (loss) on its Consolidated Statement of Operations included in Item 1 of Part I of this Quarterly Report on Form 10-Q. During the three and nine month periods ended September 30, 2019, the expenses related to PPI were approximately \$0.4 million and \$2.0 million, respectively. With the exception of the cash proceeds received, the sale did not have a material impact on our Consolidated Statement of Financial Condition. PPI and the Company have entered into a sublease agreement under which PPI leases office space within the

Company's headquarters for annual rent of approximately \$0.1 million over the term of the sublease, which expires on January 31, 2028.

### **Our Solutions**

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

Our separate accounts are primarily distributed through our wealth management sales channel, where our financial consultants form relationships with high-net-worth individuals, endowments, foundations, and retirement plans. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our intermediary sales channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our platform/sub-advisor relationships, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account strategies 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 institutional representatives, particularly within the defined contribution, Taft-Hartley, and institutional marketplace. Our mutual fund and collective investment trust strategies are an important driver of both our blended asset class and single asset class portfolios.

Our AUM was \$20.5 billion as of September 30, 2019. The composition of our AUM by vehicle and portfolio is illustrated in the table below:

AUM - by investment vehicle and portfolio	September 30, 2019			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Separately managed accounts	\$ 9,337.9	\$ 4,175.7	\$ 949.0	\$ 14,462.6
Mutual funds and collective investment trusts	4,049.6	1,856.5	104.5	6,010.6
<b>Total</b>	<b>\$ 13,387.5</b>	<b>\$ 6,032.2</b>	<b>\$ 1,053.5</b>	<b>\$ 20,473.2</b>

Subsequent to September 30, 2019, the Company received notice of a separately managed account cancellation with AUM of approximately \$1.0 billion in our equity portfolio and annualized revenue of approximately \$3.3 million. Cash outflows from this relationship will occur during the fourth quarter of 2019.

### Assets Under Management

During 2019, we changed our distribution strategy following a business review to better capitalize on our strengths. As part of this change, we have adjusted our sales efforts to more distinctly separate the clients to which we deliver holistic solutions, including high-net-worth families, endowments and foundations, and small and mid-sized business, from our Institutional and Intermediary efforts that are largely concentrated on distributing our investment strategies through intermediaries, including third party advisors, platforms and consultants, as well as to larger institutions and Taft Hartley clients. The table below reflects the estimated composition of our assets under management as of September 30, 2019, by sales channel and investment portfolio:

	September 30, 2019			
	Blended Asset	Equity	Fixed Income	Total
	(dollars in millions)			
<b>Total AUM</b>				
Wealth Management	\$ 6,619.3	\$ 1,470.3	\$ 285.3	\$ 8,374.9
Institutional and Intermediary	6,768.2	4,561.9	768.2	12,098.3
<b>Total</b>	<b>\$ 13,387.5</b>	<b>\$ 6,032.2</b>	<b>\$ 1,053.5</b>	<b>\$ 20,473.2</b>
<b>Percentage of AUM</b>				
Wealth Management	32%	8%	1%	41%
Institutional and Intermediary	33%	22%	4%	59%
<b>Total</b>	<b>65%</b>	<b>30%</b>	<b>5%</b>	<b>100%</b>
<b>Percentage of portfolio by channel</b>				
Wealth Management	49%	24%	27%	41%
Institutional and Intermediary	51%	76%	73%	59%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Percentage of channel by portfolio</b>				
Wealth Management	79%	18%	3%	100%
Institutional and Intermediary	56%	38%	6%	100%

Our wealth management channel represented 41% of our total AUM as of September 30, 2019. Blended portfolios are the most significant portion of wealth management assets, representing 79% of wealth management AUM. Equity and fixed income portfolios represent 18% and 3%, respectively, of wealth management AUM.

Our institutional and intermediary channel represented 59% of our total AUM as of September 30, 2019. Blended portfolios are also the largest portion of institutional and intermediary assets at 56% of AUM, followed by equity and fixed income portfolios at 38% and 6%, respectively.

As of September 30, 2019, blended portfolios account for 65% of our total AUM at \$13.4 billion, a 3% decrease from June 30, 2019, when blended assets were \$13.8 billion. Blended portfolio AUM is similar across both distribution channels, with 49% in wealth management and 51% in institutional and intermediary. Equity portfolios account for 29% of our total AUM, at \$6.0 billion, a 4% decrease from the second quarter when equity portfolios were at \$6.3 billion. Of equity portfolio AUM, 76% is in the institutional and intermediary channel, and 24% is in the wealth management channel. Fixed income portfolios account for 5% of total AUM at \$1.1 billion, a 4% decrease from June 30, 2019, when fixed income assets were \$1.1 billion. Consistent with equity portfolio AUM, the majority of fixed income assets come through the institutional and intermediary channel at 73%, and 27% of fixed income AUM is in the wealth management channel.

Our separate accounts contributed 49% of our total gross client inflows for the nine months ended September 30, 2019 and represented 71% of our total AUM as of September 30, 2019.

Our separate account business has historically been driven primarily by our wealth management channel, where financial consultants form a relationship with high-net-worth investors, endowments, foundations, and retirement plans. The wealth management sales channel contributed 48% of the total gross client inflows for our separate account business for the nine months ended September 30, 2019 and represented 48% of our total separate account AUM as of September 30, 2019. We anticipate this channel to continue to be the largest driver of new separate account business going forward, given their high-net-worth and advisory client-type focus.

During the nine months ended September 30, 2019, blended asset portfolios represented 80% of the separate account gross client inflows from the wealth management sales channel, while equity and fixed income portfolios represented 13% and 7%, respectively. As of September 30, 2019, blended asset and equity portfolios represented 80% and 16%, respectively, of total wealth management sales channel AUM, while our fixed income portfolios were 4%. We expect our focus on individuals, endowments, foundations, and retirement plans to continue to drive interest in our separately managed account investment strategies.

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, 2019, 52% of the total gross client inflows for separate accounts came from financial advisor representatives and registered investment advisor platforms. The institutional and intermediary sales channel collectively represented 52% of our separate account AUM as of September 30, 2019.

New separate account business through the institutional and intermediary sales channel flowed into both our blended asset and equity portfolios. During the nine months ended September 30, 2019, blended asset and equity portfolios represented 43% and 47%, respectively, of the separate account gross client inflows from the institutional and intermediary sales channel. As of September 30, 2019, 51% of our total AUM derived from institutions and intermediaries was allocated to blended asset portfolios, with 40% allocated to equity and 9% allocated to fixed income. We expect that equity and fixed income portfolios may see additional interest from intermediaries over time as more advisors structure a multi-strategy portfolio for their clients.

Our annualized separate account retention rate across all channels was 91% during the nine months ended September 30, 2019, an increase from our historical retention rate, which was 90% for the rolling twelve months ended September 30, 2019.

Our mutual funds and collective investment trusts contributed 51% of our total gross client inflows for the nine months ended September 30, 2019 and represented 29% of our total AUM as of September 30, 2019. As of September 30, 2019, our mutual fund and collective investment trust AUM consisted of 67% from blended asset portfolios, 31% from equity portfolios and 2% from fixed income portfolios, compared to 67%, 32% and 1% for blended asset, equity and fixed income portfolios as of September 30, 2018. During the nine months ended September 30, 2019, 56%, 39% and 5% of mutual fund and collective gross client inflows were attributable to blended assets, equity and fixed income portfolios, respectively.

Our mutual fund and collective investment trust business is driven by both financial intermediaries, as well as through our wealth management channel. Through our intermediary channel, we are focused on promoting our single-asset class and specialized strategies to our wealth and retirement plan advisors, who wish to use our strategies as a component of a larger portfolio. Additionally, our blended asset portfolios are used by advisors seeking a multi-asset class solution for their retail clients.

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 250 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business.

Through the institutional and intermediary channel, our representatives promote our portfolios to large institutional clients with which we have direct relationships, as well as consultants. Additionally, we have 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. In the wealth management channel, we may see additional interest in our mutual funds and collective investment trust strategies through both blended and single-asset class portfolios based on the needs of the clients.

## **Results of Operations**

Below is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2019 and 2018.

### ***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 stock selection strategies, absolute pricing discipline and active asset allocation generally result in specific absolute and relative return characteristics in different market environments. For example, during a fundamental-driven bull market when prices are rising alongside improving fundamentals, we are likely to experience positive absolute returns and competitive relative returns. However, in a more momentum-driven bull market, when prices become disconnected from underlying fundamentals, or narrow market environment where a small handful of stocks outperform the average stock, we are likely to experience positive absolute returns but lagging relative returns. Similarly, during a valuation-driven bear market, when markets experience a period of price correction following a momentum-driven bull market, we are likely to experience

negative absolute returns but strong relative returns. However, in a momentum-driven bear market, which is typically characterized by broad price declines in a highly correlated market, we are likely to experience negative absolute returns and potentially lagging relative returns. Essentially, our approach is likely to do well when markets are driven by fundamentals, but lag when markets are driven primarily by momentum.

Other components impacting our operating results include:

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



*Assets Under Management and Investment Performance*

The following table reflects the indicated components of our AUM for our investment vehicles for the three and nine months ended September 30, 2019 and 2018:

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in millions)					
<b>As of June 30, 2019</b>	<b>\$ 14,814.1</b>	<b>\$ 6,436.7</b>	<b>\$ 21,250.8</b>	70%	30%	100%
Gross client inflows <sup>(1)</sup>	295.4	308.3	603.7			
Gross client outflows <sup>(1)</sup>	(853.2)	(783.8)	(1,637.0)			
Market appreciation/(depreciation) & other <sup>(2)</sup>	206.3	49.4	255.7			
<b>As of September 30, 2019</b>	<b>\$ 14,462.6</b>	<b>\$ 6,010.6</b>	<b>\$ 20,473.2</b>	71%	29%	100%
Average AUM for period	\$ 14,658.3	\$ 6,218.4	\$ 20,876.7			
<b>As of June 30, 2018</b>	<b>\$ 15,605.9</b>	<b>\$ 7,231.8</b>	<b>\$ 22,837.7</b>	68%	32%	100%
Gross client inflows <sup>(1)</sup>	390.4	686.8	1,077.2			
Gross client outflows <sup>(1)</sup>	(633.7)	(688.2)	(1,321.9)			
Market appreciation/(depreciation) & other <sup>(2)</sup>	369.9	109.0	478.9			
<b>As of September 30, 2018</b>	<b>\$ 15,732.5</b>	<b>\$ 7,339.4</b>	<b>\$ 23,071.9</b>	68%	32%	100%
Average AUM for period	\$ 15,728.0	\$ 7,222.8	\$ 22,950.8			

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in millions)					
<b>As of December 31, 2018</b>	<b>\$ 13,792.1</b>	<b>\$ 6,371.5</b>	<b>\$ 20,163.6</b>	68%	32%	100%
Gross client inflows <sup>(1)</sup>	912.7	962.1	1,874.8			
Gross client outflows <sup>(1)</sup>	(2,131.3)	(2,201.4)	(4,332.7)			
Market appreciation/(depreciation) & other <sup>(2)</sup>	1,889.1	878.4	2,767.5			
<b>As of September 30, 2019</b>	<b>\$ 14,462.6</b>	<b>\$ 6,010.6</b>	<b>\$ 20,473.2</b>	71%	29%	100%
Average AUM for period	\$ 14,503.6	\$ 6,313.3	\$ 20,816.9			
<b>As of December 31, 2017</b>	<b>\$ 16,856.6</b>	<b>\$ 8,256.6</b>	<b>\$ 25,113.2</b>	67%	33%	100%
Gross client inflows <sup>(1)</sup>	1,140.1	1,517.8	2,657.9			
Gross client outflows <sup>(1)</sup>	(2,859.2)	(2,373.7)	(5,232.9)			
Acquired/(disposed) assets	—	(251.6)	(251.6)			
Market appreciation/(depreciation) & other <sup>(2)</sup>	595.0	190.3	785.3			
<b>As of September 30, 2018</b>	<b>\$ 15,732.5</b>	<b>\$ 7,339.4</b>	<b>\$ 23,071.9</b>	68%	32%	100%
Average AUM for period	\$ 15,992.1	\$ 7,502.4	\$ 23,494.5			

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

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

The following table reflects the indicated components of our AUM for our portfolios for the three and nine months ended September 30, 2019 and 2018:

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
<b>As of June 30, 2019</b>	<b>\$ 13,844.3</b>	<b>\$ 6,309.5</b>	<b>\$ 1,097.0</b>	<b>\$ 21,250.8</b>	65%	30%	5%	100%
Gross client inflows <sup>(1)</sup>	433.8	107.1	62.8	603.7				
Gross client outflows <sup>(1)</sup>	(1,116.7)	(396.4)	(123.9)	(1,637.0)				
Market appreciation/(depreciation) & other <sup>(2)</sup>	226.1	12.0	17.6	255.7				
<b>As of September 30, 2019</b>	<b>\$ 13,387.5</b>	<b>\$ 6,032.2</b>	<b>\$ 1,053.5</b>	<b>\$ 20,473.2</b>	65%	30%	5%	100%
Average AUM for period	\$ 13,619.9	\$ 6,177.2	\$ 1,079.6	\$ 20,876.7				
<b>As of June 30, 2018</b>	<b>\$ 14,977.9</b>	<b>\$ 6,671.4</b>	<b>\$ 1,188.4</b>	<b>\$ 22,837.7</b>	66%	29%	5%	100%
Gross client inflows <sup>(1)</sup>	459.3	573.5	44.4	1,077.2				
Gross client outflows <sup>(1)</sup>	(765.7)	(506.8)	(49.4)	(1,321.9)				
Market appreciation/(depreciation) & other <sup>(2)</sup>	272.3	205.5	1.1	478.9				
<b>As of September 30, 2018</b>	<b>\$ 14,943.8</b>	<b>\$ 6,943.6</b>	<b>\$ 1,184.5</b>	<b>\$ 23,071.9</b>	65%	30%	5%	100%
Average AUM for period	\$ 14,982.1	\$ 6,788.5	\$ 1,180.2	\$ 22,950.8				
	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
<b>As of December 31, 2018</b>	<b>\$ 13,532.2</b>	<b>\$ 5,501.9</b>	<b>\$ 1,129.5</b>	<b>\$ 20,163.6</b>	67%	27%	6%	100%
Gross client inflows (1)	1,062.9	648.1	163.8	1,874.8				
Gross client outflows (1)	(2,928.3)	(1,087.3)	(317.1)	(4,332.7)				
Market appreciation/(depreciation) & other <sup>(2)</sup>	1,720.7	969.5	77.3	2,767.5				
<b>As of September 30, 2019</b>	<b>\$ 13,387.5</b>	<b>\$ 6,032.2</b>	<b>\$ 1,053.5</b>	<b>\$ 20,473.2</b>	65%	30%	5%	100%
Average AUM for period	\$ 13,640.1	\$ 6,077.6	\$ 1,099.2	\$ 20,816.9				
<b>As of December 31, 2017</b>	<b>\$ 15,666.6</b>	<b>\$ 8,120.6</b>	<b>\$ 1,326.0</b>	<b>\$ 25,113.2</b>	63%	32%	5%	100%
Gross client inflows <sup>(1)</sup>	1,351.1	1,160.2	146.6	2,657.9				
Gross client outflows <sup>(1)</sup>	(2,586.7)	(2,350.0)	(296.2)	(5,232.9)				
Acquired/(disposed) assets	—	(251.6)	—	(251.6)				
Market appreciation/(depreciation) & other <sup>(2)</sup>	512.8	264.4	8.1	785.3				
<b>As of September 30, 2018</b>	<b>\$ 14,943.8</b>	<b>\$ 6,943.6</b>	<b>\$ 1,184.5</b>	<b>\$ 23,071.9</b>	65%	30%	5%	100%
Average AUM for period	\$ 15,144.4	\$ 7,122.6	\$ 1,227.5	\$ 23,494.5				

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

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

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The following table summarizes the annualized returns for several of our key investment strategies and relative benchmarks. Since inception and over long-term periods, we believe these strategies have earned attractive returns on both an absolute and relative basis. We recognize, however that some key strategies have mixed track records over the past several years. These strategies are used across separate account, mutual fund and collective investment trust vehicles, and represent approximately 75% of our AUM as of September 30, 2019.

Key Strategies	AUM as of September 30, 2019 (in millions)	Inception Date	Annualized Returns as of September 30, 2019 (2)				
			One Year	Three Year	Five Year	Ten Year	Inception
Long-Term Growth (30%-80% Equity Exposure)	\$ 5,561.0	1/1/1973	6.1%	6.8%	5.0%	7.4%	9.4%
<i>Blended Index (3)</i>			6.0%	7.6%	6.3%	7.8%	8.8%
Core Non-U.S. Equity	\$ 1,973.7	10/1/1996	(1.3)%	4.5%	2.1%	3.4%	7.0%
<i>Benchmark: ACWxUS Index</i>			(1.2)%	6.3%	2.9%	4.5%	4.9%
Growth with Reduced Volatility (20%-60% Equity Exposure)	\$ 2,507.1	1/1/1973	6.3%	5.6%	4.1%	6.1%	8.7%
<i>Blended Index (4)</i>			7.3%	6.4%	5.6%	6.8%	8.4%
Equity-Oriented (70%-100% Equity Exposure)	\$ 1,395.7	1/1/1993	4.8%	10.2%	6.9%	9.2%	9.9%
<i>Blended Benchmark: 65% Russell 3000 / 20% ACWxUS / 15% Bloomberg Barclays U.S. Aggregate Bond</i>			3.4%	10.1%	8.0%	10.1%	8.5%
Equity-Focused Blend (50%-90% Equity Exposure)	\$ 983.1	4/1/2000	6.1%	7.9%	5.7%	8.1%	7.0%
<i>Blended Benchmark: 53% Russell 3000 / 20% ACWxUS / 30% Bloomberg Barclays U.S. Aggregate Bond</i>			4.8%	8.9%	7.2%	9.0%	5.5%
Core Equity-Unrestricted (90%-100% Equity Exposure)	\$ 550.1	1/1/1995	4.1%	12.1%	7.9%	10.6%	11.1%
<i>Blended Benchmark: 80% Russell 3000 / 20% ACWxUS</i>			2.1%	11.6%	8.9%	11.4%	9.0%
Core U.S. Equity	\$ 443.9	7/1/2000	5.8%	13.9%	9.7%	11.5%	8.1%
<i>Benchmark: Russell 3000</i>			2.9%	12.8%	10.4%	13.1%	6.1%
Conservative Growth (5%-35% Equity Exposure)	\$ 462.1	4/1/1992	6.3%	3.9%	3.0%	4.4%	5.9%
<i>Blended Benchmark: 15% Russell 3000 / 5% ACWxUS / 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond</i>			7.1%	4.2%	4.0%	4.8%	6.1%
Aggregate Fixed Income	\$ 165.6	1/1/1984	9.8%	2.9%	3.1%	3.6%	7.1%
<i>Benchmark: Bloomberg Barclays U.S. Aggregate Bond</i>			10.3%	2.9%	3.4%	3.8%	7.1%
Rainier International Small Cap	\$ 772.1	3/28/2012	(7.7)%	6.2%	10.3%	N/A (1)	10.6%
<i>Benchmark: MSCI ACWxUS Small Cap Index</i>			(5.6)%	4.6%	6.2%	N/A (1)	5.6%
Disciplined Value	\$ 477.8	11/1/2003	2.7%	11.2%	9.0%	11.4%	10.6%
<i>Benchmark: Russell 1000 Value</i>			4.0%	9.4%	7.8%	11.5%	8.2%

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

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

(3) Benchmark shown uses the 55/45 Blended Index from 01/01/1973-12/31/1987 and the 40/15/45 Blended Index from 01/01/1988-12/31/2018. The 55/45 Blended Index is represented by 55% S&P 500 Total Return Index ("S&P 500") and 45% Bloomberg Barclays U.S. Government/Credit Bond Index ("BGCB"). The 40/15/45 Blended Index is 40% Russell 3000 Index ("Russell 3000"), 15% MSCI ACWI ex USA Index ("ACWxUS"), and 45% Bloomberg Barclays U.S. Aggregate Bond Index ("BAB").

(4) Benchmark shown uses the 40/60 Blended Index from 01/01/1973-12/31/1987 and the 30/10/60 Blended Index from 01/01/1988-12/31/2018. The 40/60 Blended Index is represented by 40% S&P 500 and 60% BGCB. The 30/10/60 Blended Index is represented by 30% Russell 3000, 10% ACWxUS, and 60% BAB.

**Revenue**

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

We serve as the investment adviser for Manning & Napier Fund, Inc., Exeter Trust Company Collective Investment Trusts and Rainier Multiple Investment Trust. The mutual funds are open-end mutual funds that primarily offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company, an affiliated New Hampshire-chartered trust company and Rainier Multiple Investment Trust sponsor collective investment trusts for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised \$6.0 billion, or 29%, of our AUM as of September 30, 2019. MNA and Rainier also serve as the investment advisor to all of our separately managed accounts, managing \$14.5 billion, or 71%, of our AUM as of September 30, 2019, including assets managed as a sub-advisor to pooled investment vehicles. For the period ended September 30, 2019 approximately 99% of our revenue was earned from clients located in the United States.

We earn distribution and servicing fees for providing services to our affiliated mutual funds. Revenue is computed and earned daily based on a percentage of AUM.

We earn custodial service fees for administrative and safeguarding services performed by Exeter Trust Company. Fees are calculated as a percentage of the client's market value with additional fees for certain transactions.

During the first quarter of 2019, we completed the effort to restructure fees for many of our mutual fund and collective trust vehicles. The impacts on our overall revenue margins and operating expenses are described below in the discussion of results for the three and nine months ended September 30, 2019.

#### *Operating Expenses*

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

- *Compensation and related costs.* Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals, compensation issued under our long-term incentive plan as well as equity compensation. These costs are affected by changes in the employee headcount, the mix of existing job descriptions, competitive factors, the addition of new skill sets and variations in the level of our AUM and revenues. In addition, these costs are impacted by the amount of compensation granted under our equity plan and the amount of deferred cash awards granted under our long-term incentive plan. Incentive compensation for our research team considers the cumulative impact of both absolute and relative investment performance over historical time periods, with more weight placed on the recent periods. As such, incentive compensation paid to our research team will vary, in part, based on absolute and relative investment performance.
- *Distribution, servicing and custody expenses.* Distribution, servicing and custody expenses represent amounts paid to various intermediaries for distribution, shareholder servicing, administrative servicing and custodial services. These expenses generally increase or decrease in line with changes in our mutual fund and collective investment trust AUM or services performed by these intermediaries. During the first quarter of 2019, we completed the effort, begun in 2017, of restructuring fees across our mutual funds. The financial impacts were a reduction in the management fees on existing business, as well as an offsetting reduction in related distribution, servicing and custody expenses. Given the overall pressure on fees that all active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future.
- *Other operating costs.* Other operating costs include accounting, legal and other professional service fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses and all other miscellaneous costs associated with managing the day-to-day operations of our business.

#### *Non-Operating Income (Loss)*

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

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

*Provision for Income Taxes*

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

*Noncontrolling Interests*

Manning & Napier, Inc. holds an economic interest of approximately 18.9% in Manning & Napier Group as of September 30, 2019 but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

***Critical Accounting Policies and Estimates***

Our critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. Changes to our accounting policies as a result of adopting Topic 842 are discussed under "Leases" of Note 2, "Summary of Significant Accounting Policies" and under "Adoption of ASU 2016-02, Leases (Topic 842)" of Note 8, "Leases" to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

This management's discussion and analysis should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 together with the consolidated financial statements and related notes and the other financial information that appear elsewhere in this report.

***Recent Accounting Pronouncements***

See Note 2, "Summary of Significant Accounting Policies - Recently Adopted Accounting Pronouncements" and "Recent Accounting Pronouncements Not Yet Adopted" to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information.

**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

*Assets Under Management*

The following table reflects changes in our AUM for the three months ended September 30, 2019 and 2018:

	Three months ended September 30,		Period-to-Period	
	2019	2018	\$	%
	(in millions)			
<b>Separately managed accounts</b>				
Beginning assets under management	\$ 14,814.1	\$ 15,605.9	\$ (791.8)	(5)%
Gross client inflows <sup>(1)</sup>	295.4	390.4	(95.0)	(24)%
Gross client outflows <sup>(1)</sup>	(853.2)	(633.7)	(219.5)	35 %
Market appreciation (depreciation) & other <sup>(2)</sup>	206.3	369.9	(163.6)	(44)%
Ending assets under management	<u>\$ 14,462.6</u>	<u>\$ 15,732.5</u>	<u>\$ (1,269.9)</u>	<u>(8)%</u>
Average AUM for period	\$ 14,658.3	\$ 15,728.0		
<b>Mutual funds and collective investment trusts</b>				
Beginning assets under management	\$ 6,436.7	\$ 7,231.8	\$ (795.1)	(11)%
Gross client inflows <sup>(1)</sup>	308.3	686.8	(378.5)	(55)%
Gross client outflows <sup>(1)</sup>	(783.8)	(688.2)	(95.6)	14 %
Market appreciation (depreciation) & other <sup>(2)</sup>	49.4	109.0	(59.6)	(55)%
Ending assets under management	<u>\$ 6,010.6</u>	<u>\$ 7,339.4</u>	<u>\$ (1,328.8)</u>	<u>(18)%</u>
Average AUM for period	\$ 6,218.4	\$ 7,222.8		
<b>Total assets under management</b>				
Beginning assets under management	\$ 21,250.8	\$ 22,837.7	\$ (1,586.9)	(7)%
Gross client inflows <sup>(1)</sup>	603.7	1,077.2	(473.5)	(44)%
Gross client outflows <sup>(1)</sup>	(1,637.0)	(1,321.9)	(315.1)	24 %
Market appreciation (depreciation) & other <sup>(2)</sup>	255.7	478.9	(223.2)	(47)%
Ending assets under management	<u>\$ 20,473.2</u>	<u>\$ 23,071.9</u>	<u>\$ (2,598.7)</u>	<u>(11)%</u>
Average AUM for period	\$ 20,876.7	\$ 22,950.8		

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

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

Our total AUM decreased by \$2.6 billion from \$23.1 billion at September 30, 2018 to \$20.5 billion at September 30, 2019. The decrease was attributable to net client outflows of \$3.5 billion, partially offset by market appreciation of \$0.9 billion. Net client outflows consisted of approximately \$1.9 billion of net outflows for separate accounts and \$1.5 billion for mutual funds and collective investment trusts. By portfolio, the rates of change in AUM from September 30, 2018 to September 30, 2019 consisted of a \$0.9 billion, or 13% decrease in our equity portfolio, a \$1.6 billion, or 10% decrease in our blended asset portfolio, and a decrease of approximately \$0.1 billion, or 11% in our fixed income portfolio.

While many of our key strategies achieved recent competitive relative returns, we attribute our net cash outflows during the three months ended September 30, 2019 in part to challenging three and five year annualized returns in many of the strategies included in our blended asset and equity portfolios. We have experienced an increase in the overall rate of outflows with gross outflows of approximately \$1.6 billion during the quarter ended September 30, 2019, a 24% increase from the quarter ended September 30, 2018. Gross outflows annualized as a percentage of our AUM, or turnover rate, for the three months ended September 30, 2019 was 31%.

The rate of gross client inflows has slowed to approximately \$0.6 billion during the three months ended September 30, 2019, a 44% decrease from the quarter ended September 30, 2018. We believe that difficult long-term performance track records in some of our key strategies, coupled with the changes in our organization and macro trends towards passive investing have all played a role in this trend. We believe that by demonstrating stability in client AUM and in our

organization, along with improving long-term track records and modernizing our platform, we will provide a foundation from which we can grow.

The total AUM decrease of approximately \$0.8 billion, to \$20.5 billion at September 30, 2019 from \$21.3 billion at June 30, 2019 was attributable to net client cash outflows of \$1.0 billion, partially offset by market appreciation of \$0.3 billion. Net client outflows consisted of approximately \$0.6 billion for separate accounts while net client outflows in mutual fund and collective investment trust were \$0.5 billion. The blended investment gain was 1.4% in separately managed accounts and 0.8% in mutual funds and collective investment trusts. By portfolio in that period, our AUM decreased by \$456.8 million in our blended asset portfolio, \$277.3 million in our equity portfolio, and \$43.5 million in our fixed income portfolio.

As of September 30, 2019, the composition of our AUM was 71% in separate accounts and 29% in mutual funds and collective investment trusts, compared to 68% in separate accounts and 32% in mutual funds and collective investment trusts at September 30, 2018. The composition of our AUM across portfolios at both September 30, 2019 and 2018 was 65% in blended assets, 30% in equity, and 5% in fixed income.

For our separate accounts, gross client inflows of approximately \$0.3 billion were offset by \$0.9 billion of gross client outflows during the three months ended September 30, 2019. The \$0.3 billion gross client inflows include approximately \$0.2 billion into our blended asset portfolio and less than \$0.1 billion into our equity and fixed income portfolios. During the three months ended September 30, 2019, 46% of our separate account gross client inflows were derived from our wealth management sales channel. With regard to gross client outflows, cancellations were approximately \$0.5 billion and withdrawals from existing accounts were approximately \$0.4 billion. Outflows during the third quarter were 71%, 28% and 1% from blended, equity and fixed income portfolios, respectively. Our separate account clients redeemed assets at a rate of 23% during the quarter, compared to a 21% redemption rate over the trailing twelve months ended September 30, 2019. Our annualized separate account retention rate was 88% for the three months ended September 30, 2019 compared to 90% for the rolling twelve months ended September 30, 2019.

Gross client inflows of \$0.3 billion were offset by gross client outflows of \$0.8 billion for our mutual fund and collective investment trusts during the three months ended September 30, 2019. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$0.2 billion, or 74%, of mutual fund and collective trust fund gross client inflows during the three months ended September 30, 2019. With regard to gross client outflows, \$0.6 billion, or 81%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products.

The following table sets forth our results of operations and related data for the three months ended September 30, 2019 and 2018:

	Three months ended September 30,		Period-to-Period	
	2019	2018	\$	%
(in thousands, except share data)				
<b>Revenues</b>				
<b>Management Fees</b>				
Separately managed accounts	\$ 21,981	\$ 24,228	\$ (2,247)	(9)%
Mutual funds and collective investment trusts	7,015	10,596	(3,581)	(34)%
Distribution and shareholder servicing	2,570	2,974	(404)	(14)%
Custodial services	1,763	2,021	(258)	(13)%
Other revenue	849	729	120	16 %
Total revenue	34,178	40,548	(6,370)	(16)%
<b>Expenses</b>				
Compensation and related costs	19,504	23,105	(3,601)	(16)%
Distribution, servicing and custody expenses	2,959	4,518	(1,559)	(35)%
Other operating costs	8,286	8,392	(106)	(1)%
Total operating expenses	30,749	36,015	(5,266)	(15)%
Operating income	3,429	4,533	(1,104)	(24)%
<b>Non-operating income (loss)</b>				
Non-operating income (loss), net	3,298	719	2,579	359 %
Income before provision for income taxes	6,727	5,252	1,475	28 %
Provision for income taxes	150	274	(124)	(45)%
Net income attributable to controlling and noncontrolling interests	6,577	4,978	1,599	32 %
Less: net income attributable to noncontrolling interests	5,753	4,198	1,555	37 %
Net income attributable to Manning & Napier, Inc.	\$ 824	\$ 780	\$ 44	6 %
<b>Per Share Data</b>				
Net income per share available to Class A common stock				
Basic	\$ 0.05	\$ 0.05		
Diluted	\$ 0.05	\$ 0.05		
Weighted average shares of Class A common stock outstanding				
Basic	15,290,595	14,740,541		
Diluted	15,600,686	78,096,830		
<b>Other financial and operating data</b>				
Economic income <sup>(1)</sup>	\$ 5,177	\$ 5,252	\$ (75)	(1)%
Economic net income <sup>(1)</sup>	\$ 3,676	\$ 3,728	\$ (52)	(1)%
Economic net income per adjusted share <sup>(1)</sup>	\$ 0.05	\$ 0.05		
Weighted average adjusted Class A common stock outstanding <sup>(1)</sup>	79,033,403	78,751,512		

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Supplemental Non-GAAP Financial Information" for Manning & Napier's reasons for including these measures not calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP") in this report in addition to a reconciliation of non-GAAP financial measures to GAAP measures for the periods indicated.



*Revenues*

Separately managed account revenue decreased by \$2.2 million, or 9%, to \$22.0 million for the three months ended September 30, 2019 from \$24.2 million for the three months ended September 30, 2018. This decrease is driven primarily by a 7%, or \$1.1 billion, decrease in our average separately managed account AUM for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. On an annualized basis, our average separately managed account fee for the three months ended September 30, 2019 decreased slightly to 0.59% when compared to 0.61% for the three months ended September 30, 2018. For both periods our separately managed account standard fees ranged from 0.15% to 1.25% depending on investment objective and account size. At September 30, 2019 the concentration of investments in our separately managed account assets were 64% blended assets, 29% equity and 7% fixed income, compared to 63% blended assets, 30% equity and 7% fixed income as of September 30, 2018.

Mutual fund and collective investment trust revenue decreased by \$3.6 million, or 34%, to \$7.0 million for the three months ended September 30, 2019 from \$10.6 million for the three months ended September 30, 2018. This decrease is driven primarily by a 14%, or \$1.0 billion, decrease in our average mutual fund and collective investment trust AUM for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. In addition, our average fee on mutual fund and collective investment trust products decreased to 0.61% for the three months ended September 30, 2019 from 0.75% for the three months ended September 30, 2018. This decrease was primarily due to the restructuring of our funds that was completed during the first quarter of 2019. Our mutual fund and collective investment trust management fees ranged from 0.14% to 1.00%, depending on investment strategy, for the three months ended September 30, 2019 and 2018. As of September 30, 2019, the concentration of assets in our mutual fund and collective investment trusts was 67% blended assets, 31% equity and 2% fixed income, compared to 67% blended assets, 32% equity and 1% fixed income as of September 30, 2018.

Distribution and shareholder servicing revenue decreased by \$0.4 million, or 14%, to \$2.6 million for the three months ended September 30, 2019 from \$3.0 million for the three months ended September 30, 2018. This decrease was driven by a reduction in mutual fund and collective trust average AUM of 14% for the same period.

Custodial services revenue decreased by \$0.3 million, or 13%, to \$1.8 million for the three months ended September 30, 2019 from \$2.0 million for the three months ended September 30, 2018. The decrease primarily relates to decreases in our collective investment trust AUM.

*Operating Expenses*

Our operating expenses decreased by \$5.3 million, or 15%, to \$30.7 million for the three months ended September 30, 2019 from \$36.0 million for the three months ended September 30, 2018.

Compensation and related costs decreased by \$3.6 million, or 16%, to \$19.5 million for the three months ended September 30, 2019 from \$23.1 million for the three months ended September 30, 2018. This decrease in the current quarter compared to the third quarter of 2018 was driven by a 16% reduction in average workforce, coupled with lower variable incentive costs as a result of the reduction in our AUM and revenue. When considered as a percentage of revenue, compensation and related costs for both the three months ended September 30, 2019 and 2018 was 57%. Given the declines in our revenue, we anticipate that our compensation ratio as a percentage of revenue will remain elevated in the near term compared to prior periods.

Distribution, servicing and custody expenses decreased by \$1.6 million, or 35%, to \$3.0 million for the three months ended September 30, 2019 from \$4.5 million for the three months ended September 30, 2018. The decrease was generally driven by a 14% reduction in mutual fund and collective investment trust average AUM for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, coupled with the completion of MNA's mutual fund fee restructure initiative during the first quarter of 2019, where a portion of these expenses are now borne by the mutual funds directly. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.19% for the three months ended September 30, 2019, compared to 0.25% for the three months ended September 30, 2018.

Other operating costs for the three months ended September 30, 2019 were \$8.3 million, down slightly from \$8.4 million recorded during the three months ended September 30, 2018. As a percentage of revenue, other operating costs were 24% for the three months ended September 30, 2019 compared to 21% for the three months ended September 30, 2018.

*Non-Operating Income (Loss)*

Non-operating income for the three months ended September 30, 2019 was \$3.3 million, an increase of \$2.6 million, from non-operating income of \$0.7 million for the three months ended September 30, 2018. The following table reflects the components of non-operating income (loss) for the three months ended September 30, 2019 and 2018:

	Three months ended September 30,		Period-to-Period	
	2019	2018	\$	%
(in thousands)				
<b>Non-operating income (loss)</b>				
Interest expense	\$ (13)	\$ (18)	\$ 5	(28)%
Interest and dividend income <sup>(1)</sup>	782	519	263	51 %
Change in liability under tax receivable agreement <sup>(2)</sup>	(394)	113	(507)	(449)%
Net gains (losses) on investments <sup>(3)</sup>	40	105	(65)	(62)%
Gain on sale of business <sup>(4)</sup>	2,883	—	2,883	*
Total non-operating income	\$ 3,298	\$ 719	\$ 2,579	359 %

(\*) Variance not calculable.

- (1) The increase in interest and dividend income for the three months ended September 30, 2019 compared to 2018 is attributable to an increase in investments, including U.S. Treasury notes and bills, corporate bonds and other short-term investments to optimize cash management opportunities, coupled with an increase in interest rates.
- (2) The change in the liability under the tax receivable agreement for the three months ended September 30, 2019 is driven by a change in our effective tax rate and a corresponding increase in the payment of expected tax benefit under the tax receivable agreement.
- (3) The amount of net gain (loss) on investments held by us, to provide initial cash seeding for product development purposes and to hedge economic exposure to market movements on our deferred compensation plan, will vary depending on the performance and overall amount of our investments.
- (4) The gain on sale of business during the three months ended September 30, 2019 is due to the completion of the sale of PPI on August 30, 2019.

*Provision for Income Taxes*

The Company's provision for income taxes was \$0.2 million for the three months ended September 30, 2019, a decrease of approximately \$0.1 million from \$0.3 million for the three months ended September 30, 2018. The change was primarily driven by a decrease in taxable earnings compared to the prior year period.

**Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**
**Assets Under Management**

The following table reflects changes in our AUM for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,		Period-to-Period	
	2019	2018	\$	%
(in millions)				
<b>Separately managed accounts</b>				
Beginning assets under management	\$ 13,792.1	\$ 16,856.6	\$ (3,064.5)	(18)%
Gross client inflows <sup>(1)</sup>	912.7	1,140.1	(227.4)	(20)%
Gross client outflows <sup>(1)</sup>	(2,131.3)	(2,859.2)	727.9	(25)%
Market appreciation (depreciation) & other <sup>(2)</sup>	1,889.1	595.0	1,294.1	217 %
Ending assets under management	\$ 14,462.6	\$ 15,732.5	\$ (1,269.9)	(8)%
Average AUM for period	\$ 14,503.6	\$ 15,992.1		
<b>Mutual funds and collective investment trusts</b>				
Beginning assets under management	\$ 6,371.5	\$ 8,256.6	\$ (1,885.1)	(23)%
Gross client inflows <sup>(1)</sup>	962.1	1,517.8	(555.7)	(37)%
Gross client outflows <sup>(1)</sup>	(2,201.4)	(2,373.7)	172.3	(7)%
Acquired/(disposed) assets	—	(251.6)	251.6	(100)%
Market appreciation (depreciation) & other <sup>(2)</sup>	878.4	190.3	688.1	362 %
Ending assets under management	\$ 6,010.6	\$ 7,339.4	\$ (1,328.8)	(18)%
Average AUM for period	\$ 6,313.3	\$ 7,502.4		
<b>Total assets under management</b>				
Beginning assets under management	\$ 20,163.6	\$ 25,113.2	\$ (4,949.6)	(20)%
Gross client inflows <sup>(1)</sup>	1,874.8	2,657.9	(783.1)	(29)%
Gross client outflows <sup>(1)</sup>	(4,332.7)	(5,232.9)	900.2	(17)%
Acquired/(disposed) assets	—	(251.6)	251.6	(100)%
Market appreciation (depreciation) & other <sup>(2)</sup>	2,767.5	785.3	1,982.2	252 %
Ending assets under management	\$ 20,473.2	\$ 23,071.9	\$ (2,598.7)	(11)%
Average AUM for period	\$ 20,816.9	\$ 23,494.5		

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

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

Our total AUM decreased by \$2.6 billion from \$23.1 billion at September 30, 2018 to \$20.5 billion at September 30, 2019. The decrease was attributable to net client outflows of \$3.5 billion, partially offset by market appreciation of \$0.9 billion. Net client outflows consisted of approximately \$1.9 billion of net outflows for separate accounts and \$1.5 billion for mutual funds and collective investment trusts. By portfolio, the rates of change in AUM from September 30, 2018 to September 30, 2019 consisted of a \$0.9 billion, or 13% decrease in our equity portfolio, a \$1.5 billion, or 10% decrease in our blended asset portfolio, and a decrease of \$0.1 billion, or 11% in our fixed income portfolio.

While many of our key strategies achieved recent competitive relative returns, we attribute our net cash outflows during the nine months ended September 30, 2019 in part to challenging three and five year annualized returns in many of the strategies included in our blended asset and equity portfolios. We have experienced a decrease in the overall rate of outflows with gross outflows of approximately \$4.3 billion during the nine months ended September 30, 2019, a 17% improvement from the same period through September 30, 2018.

While we have experienced an improvement in the rate of outflows, the rate of gross client inflows has slowed to approximately \$1.9 billion during the nine months ended September 30, 2019, a 29% decrease compared to the same period in

2018. We believe that difficult long-term performance track records in some of our key strategies, coupled with the changes in our organization and macro trends towards passive investing have all played a role in this trend. We believe that by demonstrating stability in client AUM and in our organization, along with improving long-term track records and modernizing our platform, we will provide a foundation from which we can grow.

The total AUM increase of \$0.3 billion, or 2%, to \$20.5 billion at September 30, 2019 from \$20.2 billion at December 31, 2018 was attributable to market appreciation of \$2.8 billion, partially offset by net client cash outflows of \$2.5 billion. Included in net client flows during the nine months ended September 30, 2019 were net client outflows in separately managed accounts of approximately \$1.2 billion and mutual funds and collective investment trusts of approximately \$1.2 billion. The blended investment gain was 13.7% in separately managed accounts and 13.8% in mutual funds and collective investment trusts. By portfolio, our net \$0.3 billion AUM increase was derived from an increase of \$0.5 billion, or 10%, in our equity portfolio, offset by a decrease of \$0.1 billion, or 1%, in our blended asset portfolio and \$76.0 million, or 7%, in our fixed income portfolio.

As of September 30, 2019, the composition of our AUM was 71% in separate accounts and 29% in mutual funds and collective investment trusts, compared to 68% in separate accounts and 32% in mutual funds and collective investment trusts at September 30, 2018. The composition of our AUM across portfolios at September 30, 2019 was 65% in blended assets, 30% in equity, and 5% in fixed income, consistent with composition at September 30, 2018.

With regard to our separate accounts, gross client inflows of \$0.9 billion were offset by approximately \$2.1 billion of gross client outflows during the nine months ended September 30, 2019. The \$0.9 billion of gross client inflows included \$0.5 billion into our blended asset portfolios, \$0.3 billion into our equity portfolios and \$0.1 billion into fixed income portfolios. During the nine months ended September 30, 2019, 48% of our separate account gross client inflows were derived from our wealth management sales channel. Gross client outflows were split with 55% withdrawals from existing accounts and 45% representing client cancellations. Our blended asset portfolio experienced net client outflows of approximately \$0.8 billion, while our equity portfolio experienced net client inflows of \$0.2 billion. In light of challenging relative returns, our separate account clients redeemed assets at a rate of 21% during the nine months ended September 30, 2019, consistent with the redemption rate over the trailing twelve months ended September 30, 2019. The annualized separate account retention rate was 91% for the nine months ended September 30, 2019, up slightly from 90% for the rolling twelve months ended September 30, 2019. We believe the improvement is further support that our overall servicing efforts, importantly including our value-added advisory services, are effective in supporting long-term relationships.

Net client outflows of \$1.2 billion from our mutual fund and collective investment trusts included gross client inflows of \$1.0 billion offset by gross client outflows of \$2.2 billion during the nine months ended September 30, 2019. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$0.5 billion, or 56%, of mutual fund and collective trust fund gross client inflows during the nine months ended September 30, 2019. With regard to gross client outflows, \$1.5 billion, or 69%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products.

The following table sets forth our results of operations and other data for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,		Period-to-Period	
	2019	2018	\$	%
(in thousands, except share data)				
<b>Revenues</b>				
<b>Management Fees</b>				
Separately managed accounts	\$ 65,194	\$ 74,066	\$ (8,872)	(12)%
Mutual funds and collective investment trusts	22,646	32,606	(9,960)	(31)%
Distribution and shareholder servicing	7,760	9,185	(1,425)	(16)%
Custodial services	5,258	5,838	(580)	(10)%
Other revenue	2,411	2,197	214	10%
Total revenue	103,269	123,892	(20,623)	(17)%
<b>Expenses</b>				
Compensation and related costs	61,113	68,567	(7,454)	(11)%
Distribution, servicing and custody expenses	9,736	13,801	(4,065)	(29)%
Other operating costs	25,232	23,425	1,807	8%
Total operating expenses	96,081	105,793	(9,712)	(9)%
Operating income	7,188	18,099	(10,911)	(60)%
<b>Non-operating income (loss)</b>				
Non-operating income (loss), net	6,248	1,586	4,662	294%
Income before provision for income taxes	13,436	19,685	(6,249)	(32)%
Provision for income taxes	723	1,244	(521)	(42)%
Net income attributable to controlling and noncontrolling interests	12,713	18,441	(5,728)	(31)%
Less: net income attributable to noncontrolling interests	10,914	15,681	(4,767)	(30)%
Net income attributable to Manning & Napier, Inc.	\$ 1,799	\$ 2,760	\$ (961)	(35)%
<b>Per Share Data</b>				
Net income per share available to Class A common stock				
Basic	\$ 0.12	\$ 0.18		
Diluted	\$ 0.12	\$ 0.18		
Weighted average shares of Class A common stock outstanding				
Basic	15,163,205	14,583,570		
Diluted	15,466,339	78,134,657		
<b>Other financial and operating data</b>				
Economic income <sup>(1)</sup>	\$ 13,220	\$ 19,685	\$ (6,465)	(33)%
Economic net income <sup>(1)</sup>	\$ 9,386	\$ 13,976	\$ (4,590)	(33)%
Economic net income per adjusted share <sup>(1)</sup>	\$ 0.12	\$ 0.18		
Weighted average adjusted Class A common stock outstanding <sup>(1)</sup>	79,553,585	78,868,123		

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

#### Revenues

Separately managed account revenue decreased by \$8.9 million, or 12%, to \$65.2 million for the nine months ended September 30, 2019 from \$74.1 million for the nine months ended September 30, 2018. This decrease is driven primarily by a 9% decrease in our average separately managed account AUM for the nine months ended September 30, 2019 compared to the

nine months ended September 30, 2018. Our average separately managed account fee for the nine months ended September 30, 2019 decreased to 0.60% when compared to the 0.62% for the full year 2018. For the nine months ended September 30, 2019 and 2018, our separately managed account standard fees ranged from 0.15% to 1.25% depending on investment objective and account size. As of September 30, 2019, the concentration of assets in our separately managed accounts was 64% blended assets, 29% equity and 7% fixed income, compared to 63% blended assets, 30% equity and 7% fixed income as of September 30, 2018.

Mutual fund and collective investment trust revenue decreased by \$10.0 million, or 31%, to \$22.6 million for the nine months ended September 30, 2019 from \$32.6 million for the nine months ended September 30, 2018. This decrease is driven primarily by a 16%, or \$1.2 billion, decrease in average mutual fund and collective investment trust AUM for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Our average fee on mutual fund and collective investment trust products decreased to 0.64% when compared to 0.73% for the full year 2018. The decrease was primarily due to the restructuring of our funds that was completed during the first quarter of 2019. Our mutual fund and collective investment trust management fees ranged from 0.14% to 1.00% depending on investment strategy, for the nine months ended September 30, 2019 and 2018. As of September 30, 2019 the concentration of assets in our mutual fund and collective investment trusts was 67% blended assets, 31% equity and 2% fixed income, compared to 67% blended assets, 32% equity and 1% fixed income as of September 30, 2018.

Distribution and shareholder servicing revenue decreased by \$1.4 million, or 16%, to \$7.8 million for the nine months ended September 30, 2019 from \$9.2 million for the nine months ended September 30, 2018. This decrease is driven by a reduction in mutual fund and collective investment trust average AUM of 16% for the same period.

Custodial services revenue decreased by \$0.6 million, or 10%, to \$5.3 million for the nine months ended September 30, 2019 from \$5.8 million for the nine months ended September 30, 2018. The decrease primarily relates to decreases in our collective trust AUM.

#### *Operating Expenses*

Our operating expenses decreased by \$9.7 million, or 9%, to \$96.1 million for the nine months ended September 30, 2019 from \$105.8 million for the nine months ended September 30, 2018.

Compensation and related costs decreased by \$7.5 million, or 11%, to \$61.1 million for the nine months ended September 30, 2019 from \$68.6 million for the nine months ended September 30, 2018. The decrease was driven by a 15% reduction in average workforce as well as lower variable incentive costs for our sales team as a result of the reduction in AUM and revenue. This decrease was partially offset by an increase to share based compensation attributable to the timing and amount of equity awards granted. When considered as a percentage of revenue, compensation and related costs for the nine months ended September 30, 2019 was 59% compared to 55% for the nine months ended September 30, 2018. Given the declines in our revenue, we anticipate that our compensation ratio as a percentage of revenue will remain elevated in the near term compared to prior periods.

Distribution, servicing and custody expenses decreased by \$4.1 million, or 29%, to \$9.7 million for the nine months ended September 30, 2019 from \$13.8 million for the nine months ended September 30, 2018. The decrease was generally attributable to a 16% decrease in mutual fund and collective investment trust average AUM for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, coupled with the completion of MNA's mutual fund fee restructure initiative during the first quarter of 2019, where a portion of these expenses are now borne by the mutual funds directly. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.21% for the nine months ended September 30, 2019, compared to 0.25% for the nine months ended September 30, 2018.

Other operating costs increased by \$1.8 million, or 8%, to \$25.2 million for the nine months ended September 30, 2019 from \$23.4 million for the nine months ended September 30, 2018. This increase is driven primarily by the \$2.1 million gain reflected in the first quarter of 2018 related to the Company's sale of Rainier U.S. mutual funds, which offset other costs in the first quarter of 2018. As a percentage of revenue, other operating costs for the nine months ended September 30, 2019 was 24% compared to 19% for nine months ended September 30, 2018.

*Non-Operating Income (Loss)*

Non-operating income for the nine months ended September 30, 2019 was \$6.2 million, an increase of \$4.7 million, from non-operating income of \$1.6 million for the nine months ended September 30, 2018. The following table reflects the components of non-operating income (loss) for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,		Period-to-Period	
	2019	2018	\$	%
	(in thousands)			
<b>Non-operating income (loss)</b>				
Interest expense	\$ (26)	\$ (48)	\$ 22	(46)%
Interest and dividend income <sup>(1)</sup>	2,428	1,395	1,033	74 %
Change in liability under tax receivable agreement <sup>(2)</sup>	(199)	404	(603)	(149)%
Net gains (losses) on investments <sup>(3)</sup>	1,162	(165)	1,327	(804)%
Gain on sale of business <sup>(4)</sup>	2,883	\$ —	\$ 2,883	*
Total non-operating income	\$ 6,248	\$ 1,586	\$ 4,662	294 %

(\*) Variance not calculable.

- (1) The increase in interest and dividend income for the nine months ended September 30, 2019 compared to 2018 is attributable to an increase in investments, including U.S. Treasury notes and bills, corporate bonds and other short-term investments to optimize cash management opportunities, coupled with an increase in interest rates.
- (2) The change in the liability under the tax receivable agreement for the respective periods is driven by a change in our effective tax rate and a corresponding increase or decrease in the payment of the expected tax benefit under the tax receivable agreement.
- (3) The amount of net gain (loss) on investments held by us, to provide initial cash seeding for product development purposes and to hedge economic exposure to market movements on our deferred compensation plan, will vary depending on the performance and overall amount of our investments.
- (4) The gain on sale of business during the nine months ended September 30, 2019 is due to the completion of the sale of PPI on August 30, 2019.

*Provision for Income Taxes*

Our tax provision decreased by \$0.5 million, or 42%, to \$0.7 million for the nine months ended September 30, 2019 from \$1.2 million for the nine months ended September 30, 2018. The change was primarily driven by a decrease in taxable earnings as compared to the prior year.

**Supplemental Non-GAAP Financial Information**

Beginning with the release of our operating results for the quarter ended September 30, 2019, as supplemental information we are providing a new non-GAAP measure, economic income. Management uses economic income, economic net income and economic net income per adjusted share as financial measures to evaluate the profitability and efficiency of our business in the ordinary, ongoing and customary course of its operations. Economic income, economic net income and economic net income per adjusted share are not presented in accordance with GAAP.

Economic income is a non-GAAP measure of pre-tax operating performance and excludes from income before provision for income taxes strategic restructuring and transactions costs, which we define as costs related to our ongoing strategic review focused on the evolution of our distribution strategy and technology initiatives. These expenses include severance-related costs, consulting and other professional service fees, lease and other contract termination costs, and any gains or losses on sale of a business.

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Economic net income is a non-GAAP measure of after-tax operating performance and equals the Company's income before provision for income taxes less adjusted income taxes. Adjusted income taxes are estimated assuming the exchange of all outstanding units of Manning & Napier Group into Class A common stock on a one-to-one basis. Therefore, all income of Manning & Napier Group allocated to the units of Manning & Napier Group is treated as if it were allocated to us and represents an estimate of income tax expense at an effective rate of 29.0% and 29.0% for the three months ended September 30, 2019 and 2018, respectively, and 29.0% for both for the nine months ended September 30, 2019 and 2018, reflecting assumed federal, state and local income taxes.

Economic net income per adjusted share is equal to economic net income divided by the weighted average adjusted Class A common shares outstanding. The number of weighted average adjusted Class A common shares outstanding for all periods presented is determined by assuming the weighted average exchangeable units of Manning & Napier Group, weighted average unvested stock units, weighted average unvested restricted stock awards, and weighted average vested stock options are converted into our outstanding Class A common stock as of the respective reporting date, on a one-to-one basis. Our management uses economic net income, among other financial data, to determine the earnings available to distribute as dividends to holders of its Class A common stock and to the holders of the units of Manning & Napier Group.

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

The following table sets forth, for the periods indicated, our other financial and operating data:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands, except share data)			
Economic income (Non-GAAP)	\$ 5,177	\$ 5,252	\$ 13,220	\$ 19,685
Economic net income (Non-GAAP)	\$ 3,676	\$ 3,728	\$ 9,386	\$ 13,976
Economic net income per adjusted share (Non-GAAP)	\$ 0.05	\$ 0.05	\$ 0.12	\$ 0.18
Weighted average adjusted Class A common stock outstanding (Non-GAAP)	79,033,403	78,751,512	79,553,585	78,868,123



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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands, except share data)			
<b>Net income attributable to Manning &amp; Napier, Inc.</b>	<b>\$ 824</b>	<b>\$ 780</b>	<b>\$ 1,799</b>	<b>\$ 2,760</b>
Add back: Net income attributable to noncontrolling interests	5,753	4,198	10,914	15,681
Add back: Provision for income taxes	150	274	723	1,244
<b>Income before provision for income taxes</b>	<b>\$ 6,727</b>	<b>\$ 5,252</b>	<b>\$ 13,436</b>	<b>\$ 19,685</b>
Add back: Strategic restructuring and transaction costs, net <sup>(1)</sup>	(1,550)	—	(216)	—
<b>Economic income (Non-GAAP)</b>	<b>\$ 5,177</b>	<b>\$ 5,252</b>	<b>\$ 13,220</b>	<b>\$ 19,685</b>
Adjusted income taxes (Non-GAAP)	1,501	1,524	3,834	5,709
<b>Economic net income (Non-GAAP)</b>	<b>\$ 3,676</b>	<b>\$ 3,728</b>	<b>\$ 9,386</b>	<b>\$ 13,976</b>
<b>Weighted average shares of Class A common stock outstanding - Basic</b>	<b>15,290,595</b>	<b>14,740,541</b>	<b>15,163,205</b>	<b>14,583,570</b>
Assumed vesting, conversion or exchange of:				
Weighted average Manning & Napier Group, LLC units outstanding (noncontrolling interest)	62,034,200	63,349,721	62,617,270	63,537,114
Weighted average unvested restricted stock units and share awards	1,708,608	661,250	1,773,110	747,439
Weighted average vested stock options	—	—	—	—
<b>Weighted average adjusted shares (Non-GAAP)</b>	<b>79,033,403</b>	<b>78,751,512</b>	<b>79,553,585</b>	<b>78,868,123</b>
<b>Economic net income per adjusted share (Non-GAAP)</b>	<b>\$ 0.05</b>	<b>\$ 0.05</b>	<b>\$ 0.12</b>	<b>\$ 0.18</b>

<sup>(1)</sup> Strategic restructuring and transaction costs, net, are included in the following financial statement line items of our Consolidated Statements of Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Compensation and related costs	\$ 677	\$ —	\$ 1,787	\$ —
Other operating costs	656	—	880	—
Gain on sale of business	(2,883)	—	(2,883)	—
Total strategic restructuring and transaction costs	<u>\$ (1,550)</u>	<u>\$ —</u>	<u>\$ (216)</u>	<u>\$ —</u>

**Liquidity and Capital Resources**

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

The following table sets forth certain key financial data relating to our liquidity and capital resources as of September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	(in thousands)			
Cash and cash equivalents	\$	88,383	\$	59,586
Accounts receivable	\$	10,767	\$	11,447
Investment securities	\$	64,658	\$	91,190
Amounts payable under tax receivable agreement <sup>(1)</sup>	\$	18,222	\$	18,023
Contingent consideration liability <sup>(2)</sup>	\$	—	\$	—

(1) In light of numerous factors affecting our obligation to make such payments, the timing and amounts of any such actual payments are based on our best estimate as of September 30, 2019 and December 31, 2018, including our ability to realize the expected tax benefits. Actual payments may significantly differ from estimated payments.

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

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

In determining the sufficiency of liquidity and capital resources to fund our business, we regularly monitor our liquidity position, including among other things, cash, working capital, long-term liabilities, lease commitments and operating company distributions.

Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, M&N Group Holdings and MNCC exchanged a total of 1,315,521 Class A units of Manning & Napier Group on May 2, 2019, for approximately \$3.1 million in cash. Subsequent to the exchange, the Class A units were retired. As a result of the exchange and retirement, the Company's ownership of Manning & Napier Group increased to approximately 18.9%.

On August 30, 2019, the Company sold its wholly-owned subsidiary, PPI, to Manning Partners, LLC, which is wholly-owned by the Chairman of the Company's Board of Directors. The Company received cash proceeds of \$3.1 million, and recorded a \$2.9 million gain on the sale. Other than the cash proceeds received, the transaction did not have a material impact to the consolidated statements of financial condition.

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

**Cash Flows**

The following table sets forth our cash flows for the nine months ended September 30, 2019 and 2018. Operating activities consist primarily of net income subject to adjustments for changes in operating assets and liabilities, equity-based compensation expense, changes in the liability under the TRA, deferred income tax expense, gain on sale of intangible assets and gains on sale of business and depreciation and amortization. Investing activities consist primarily of the purchase and sale of investments for the purpose of providing initial cash seeding for product development and cash management purposes, gain on sale of intangible assets, gain on sale business and purchases of property and equipment. Financing activities consist primarily of distributions to noncontrolling interests, dividends paid on our Class A common stock, and purchases of Class A units held by noncontrolling interests of Manning & Napier Group.

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	\$ 8,717	\$ 12,977
Net cash provided by investing activities	29,289	1,359
Net cash used in financing activities	(9,209)	(15,892)
Net change in cash and cash equivalents	\$ 28,797	\$ (1,556)

#### *Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018*

##### *Operating Activities*

Operating activities provided \$8.7 million and \$13.0 million of net cash for the nine months ended September 30, 2019 and 2018, respectively. This overall \$4.3 million decrease in net cash provided by operating activities for the nine months ended September 30, 2019 compared to 2018 was primarily due to a decrease in net income after adjustment for non-cash items of approximately \$6.8 million driven by lower revenues resulting primarily from the decrease in our average AUM. The reduction was also due to an increase of approximately \$2.5 million in operating assets and operating liabilities.

##### *Investing Activities*

Investing activities provided \$29.3 million and \$1.4 million of net cash for the nine months ended September 30, 2019 and 2018, respectively. This change was driven by an increase in cash from investing activities of \$27.8 million due to our funding of and timing of activity within our investment securities, offset by a decrease of \$2.4 million in cash received from the sale of intangible assets during the nine months ended September 30, 2019 compared to the same period in 2018. During the nine months ended September 30, 2019, we received approximately \$28.2 million, net, from the purchase and sale of certain securities for cash management purposes. During the nine months ended September 30, 2019, we received less than \$0.1 million of proceeds from the redemption of certain seeded portfolios. In addition, we received proceeds from the sale of intangible assets and businesses of approximately \$3.1 million during the nine months ended September 30, 2019, compared to \$2.6 million in the same period of 2018. Our purchases of property and equipment was approximately \$1.7 million during the nine months ended September 30, 2019 compared to \$1.4 million in the same period of 2018.

##### *Financing Activities*

Financing activities used \$9.2 million and \$15.9 million of net cash for the nine months ended September 30, 2019 and 2018, respectively. This overall \$6.7 million decrease in net cash used in financing activities was primarily the result of a reduction in distributions to noncontrolling interests of \$5.2 million and dividends paid on Class A common stock of \$2.7 million driven by lower income after adjustment for non-cash items in 2019 compared to 2018. The decrease in cash used in financing activities was partially offset by an increase of \$1.1 million of cash used for the purchase of Class A units of Manning & Napier Group pursuant to the exchange agreement entered into at the time of our initial public offering of \$3.1 million during the nine months ended September 30, 2019 compared to \$1.9 million in 2018. This increase was due to a higher number of units exchanged in 2019.

##### **Dividends**

On October 23, 2018, the Board of Directors declared a \$0.02 per share dividend to the holders of Class A common stock. The dividend was paid on February 1, 2019 to shareholders of record as of January 15, 2019.

On March 5, 2019, the Board of Directors declared a \$0.02 per share dividend to the holders of Class A common stock. The dividend was paid on May 1, 2019 to shareholders of record as of April 15, 2019.

On April 23, 2019, the Board of Directors declared a \$0.02 per share dividend to the holders of Class A common stock. The dividend was paid on August 1, 2019 to shareholders of record as of July 15, 2019.

On July 23, 2019, the Board of Directors declared a \$0.02 per share dividend to the holders of Class A common stock. The dividend was paid on November 1, 2019 to shareholders of record as of October 15, 2019.

On October 22, 2019, 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 3, 2020 to shareholders of record as of January 15, 2020.

We have historically paid quarterly cash dividends on our Class A common stock. We have funded such dividends and we believe any future dividends would be funded from our portion of distributions made by Manning & Napier Group, from its available cash generated from operations.

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

- the financial results of Manning & Napier Group;
- our available cash, as well as anticipated cash requirements, including any debt servicing and payments required under the tax receivable agreement;
- our capital requirements and the capital requirements of our subsidiaries, including Manning & Napier Group;
- contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our shareholders or distributions by Manning & Napier Group to us, including the obligation of Manning & Napier Group to make tax distributions to its unitholders, including us;
- general economic and business conditions; and
- any other factors that our Board of Directors may deem relevant.

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

#### **Off Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of September 30, 2019.

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

As a "smaller reporting company," we are not required to provide this information.

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019 pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2019, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1A. Risk Factors

We have set forth in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2018 risk factors relating to our business, our industry, our structure and our Class A common stock. Readers of this Quarterly Report on Form 10-Q are referred to such Item 1A for a more complete understanding of risks concerning our company. There have been no material changes in our risk factors since those published in such Form 10-K for the year ended December 31, 2018.

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	<a href="#">Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	Materials from the Manning & Napier, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Unaudited Consolidated Financial Statements.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MANNING & NAPIER, INC.

Dated: November 14, 2019

By: /s/ Marc Mayer  
Marc Mayer  
Chief Executive Officer  
(principal executive officer)

/s/ Paul J. Battaglia  
Paul J. Battaglia  
Chief Financial Officer  
(principal financial and accounting officer)

**Certification  
Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Marc Mayer, certify that:

1. I have reviewed this report on Form 10-Q of Manning & Napier, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Marc Mayer

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Marc Mayer  
Chief Executive Officer  
(principal executive officer)

Date: November 14, 2019

**Certification  
Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Paul J. Battaglia, certify that:

1. I have reviewed this report on Form 10-Q of Manning & Napier, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul J. Battaglia

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Paul J. Battaglia

Chief Financial Officer

(principal financial and accounting officer)

Date: November 14, 2019



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marc Mayer, the Chief Executive Officer of Manning & Napier, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc Mayer

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Marc Mayer

Chief Executive Officer

(principal executive officer)

Date: November 14, 2019

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul J. Battaglia, the Chief Financial Officer of Manning & Napier, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul J. Battaglia

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Paul J. Battaglia

Chief Financial Officer

(principal financial and accounting officer)

Date: November 14, 2019