

**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 March 31, 2020
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)

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

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

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
Common Stock Purchase Rights	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.

<u>Class</u>	<u>Outstanding at May 12, 2020</u>
Class A common stock, \$0.01 par value per share	16,275,359

TABLE OF CONTENTS

	Page
Part I	<u>Financial Information</u>
Item 1.	<u>Financial Statements (unaudited)</u>
	<u>Consolidated Statements of Financial Condition as of March 31, 2020 and December 31, 2019</u>
	<u>1</u>
	<u>Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019</u>
	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020 and 2019</u>
	<u>3</u>
	<u>Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2020 and 2019</u>
	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019</u>
	<u>5</u>
	<u>Notes to Consolidated Financial Statements</u>
	<u>6</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>21</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>37</u>
Item 4.	<u>Controls and Procedures</u>
	<u>38</u>
Part II	<u>Other Information</u>
Item 1A.	<u>Risk Factors</u>
	<u>39</u>
Item 6.	<u>Exhibits</u>
	<u>54</u>

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2020	December 31, 2019
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 75,019	\$ 67,088
Accounts receivable	9,506	10,182
Investment securities	71,043	90,467
Prepaid expenses and other assets	13,614	5,607
Total current assets	169,182	173,344
Property and equipment, net	4,000	4,565
Operating lease right-of-use assets	18,157	18,795
Net deferred tax assets, non-current	19,311	20,668
Goodwill	4,829	4,829
Other long-term assets	3,821	4,010
Total assets	\$ 219,300	\$ 226,211
Liabilities		
Accounts payable	\$ 1,305	\$ 1,614
Accrued expenses and other liabilities	20,222	26,201
Deferred revenue	11,045	10,759
Total current liabilities	32,572	38,574
Operating lease liabilities, non-current	18,163	18,753
Amounts payable under tax receivable agreement, non-current	16,411	17,246
Other long-term liabilities	1,175	2,017
Total liabilities	68,321	76,590
Commitments and contingencies (Note 9)		
Shareholders' equity		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized; and 16,275,359 and 15,956,526 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	163	160
Additional paid-in capital	198,722	198,516
Retained deficit	(37,953)	(38,478)
Accumulated other comprehensive loss	(134)	(50)
Total shareholders' equity	160,798	160,148
Noncontrolling interests	(9,819)	(10,527)
Total shareholders' equity and noncontrolling interests	150,979	149,621
Total liabilities, shareholders' equity and noncontrolling interests	\$ 219,300	\$ 226,211

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 March 31,	
	2020	2019
Revenues		
Management Fees		
Wealth Management	\$ 14,300	\$ 16,469
Institutional and Intermediary	12,131	13,234
Distribution and shareholder servicing	2,390	2,624
Custodial services	1,599	1,745
Other revenue	689	725
Total revenue	<u>31,109</u>	<u>34,797</u>
Expenses		
Compensation and related costs	19,263	21,448
Distribution, servicing and custody expenses	2,813	3,758
Other operating costs	7,097	8,307
Total operating expenses	<u>29,173</u>	<u>33,513</u>
Operating income	<u>1,936</u>	<u>1,284</u>
Non-operating income (loss)		
Interest expense	(2)	(3)
Interest and dividend income	357	809
Change in liability under tax receivable agreement	(2,850)	195
Net gains (losses) on investments	(1,832)	874
Total non-operating income (loss)	<u>(4,327)</u>	<u>1,875</u>
Income (loss) before provision for (benefit from) income taxes	(2,391)	3,159
Provision for (benefit from) income taxes	(3,226)	242
Net income attributable to controlling and noncontrolling interests	835	2,917
Less: net income (loss) attributable to noncontrolling interests	(23)	2,356
Net income attributable to Manning & Napier, Inc.	<u>\$ 858</u>	<u>\$ 561</u>
Net income per share available to Class A common stock		
Basic	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Weighted average shares of Class A common stock outstanding		
Basic	<u>15,812,951</u>	<u>14,927,265</u>
Diluted	<u>77,907,557</u>	<u>78,581,169</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)

	<u>Three months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Net income attributable to controlling and noncontrolling interests	\$ 835	\$ 2,917
Net unrealized holding gains (losses) on investment securities, net of tax	(428)	115
Reclassification adjustment for net realized gains on investment securities included in net income	(33)	(14)
Comprehensive income	\$ 374	\$ 3,018
Less: Comprehensive income attributable to noncontrolling interests	(400)	2,436
Comprehensive income attributable to Manning & Napier, Inc.	\$ 774	\$ 582

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					
Three months ended March 31, 2020							
Balance—December 31, 2019	15,956,526	\$ 160	\$ 198,516	\$ (38,478)	\$ (50)	\$ (10,527)	\$ 149,621
Net income	—	—	—	858	—	(23)	835
Distributions to noncontrolling interests	—	—	—	—	—	—	—
Net changes in unrealized investment securities gains or losses	—	—	—	—	(84)	(344)	(428)
Common stock issued under equity compensation plan, net of forfeitures	318,833	3	(3)	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to equity awards vested	—	—	—	—	—	(2)	(2)
Equity-based compensation	—	—	252	—	—	1,034	1,286
Dividends declared on Class A common stock - \$0.02 per share	—	—	—	(333)	—	—	(333)
Impact of changes in ownership of Manning & Napier Group, LLC (Note 4)	—	—	(43)	—	—	43	—
Balance—March 31, 2020	16,275,359	\$ 163	\$ 198,722	\$ (37,953)	\$ (134)	\$ (9,819)	\$ 150,979

	Common Stock – Class A		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount					
Three months ended March 31, 2019							
Balance—December 31, 2018	15,310,958	\$ 153	\$ 198,604	\$ (38,865)	\$ (77)	\$ (13,572)	\$ 146,243
Net income	—	—	—	561	—	2,356	2,917
Distributions to noncontrolling interests	—	—	—	—	—	(1,620)	(1,620)
Net changes in unrealized investment securities gains or losses	—	—	—	—	21	94	115
Common stock issued under equity compensation plan, net of forfeitures	373,615	4	(4)	—	—	—	—
Equity-based compensation	—	—	272	—	—	1,193	1,465
Dividends declared on Class A common stock - \$0.02 per share	—	—	—	(288)	—	—	(288)
Cumulative effect of change in accounting principle, net of taxes	—	—	—	76	—	—	76
Impact of changes in ownership of Manning & Napier Group, LLC	—	—	(61)	—	—	61	—
Balance—March 31, 2019	15,684,573	\$ 157	\$ 198,811	\$ (38,516)	\$ (56)	\$ (11,488)	\$ 148,908

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)

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income attributable to controlling and noncontrolling interests	\$ 835	\$ 2,917
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	1,286	1,465
Depreciation and amortization	378	403
Change in amounts payable under tax receivable agreement	2,850	(195)
Gain on sale of intangible assets	(19)	(56)
Net (gains) losses on investment securities	1,832	(874)
Deferred income taxes	(3,734)	158
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	676	695
Prepaid expenses and other assets	(2,528)	(960)
Other long-term assets	767	660
Accounts payable	(309)	134
Accrued expenses and other liabilities	(9,761)	(10,458)
Deferred revenue	285	(266)
Other long-term liabilities	(1,534)	(500)
Net cash used in operating activities	(8,976)	(6,877)
Cash flows from investing activities:		
Purchase of property and equipment	76	(576)
Sale of investments	17,518	2,015
Purchase of investments	(10,520)	(15,301)
Sale of intangible assets	19	56
Proceeds from maturity of investments	10,165	17,358
Net cash provided by investing activities	17,258	3,552
Cash flows from financing activities:		
Distributions to noncontrolling interests	—	(1,620)
Dividends paid on Class A common stock	(319)	(306)
Payment of shares withheld to satisfy withholding requirements	(2)	—
Payment of capital lease obligations	(30)	(27)
Net cash used in financing activities	(351)	(1,953)
Net increase (decrease) in cash and cash equivalents	7,931	(5,278)
Cash and cash equivalents:		
Beginning of period	67,088	59,586
End of period	\$ 75,019	\$ 54,308

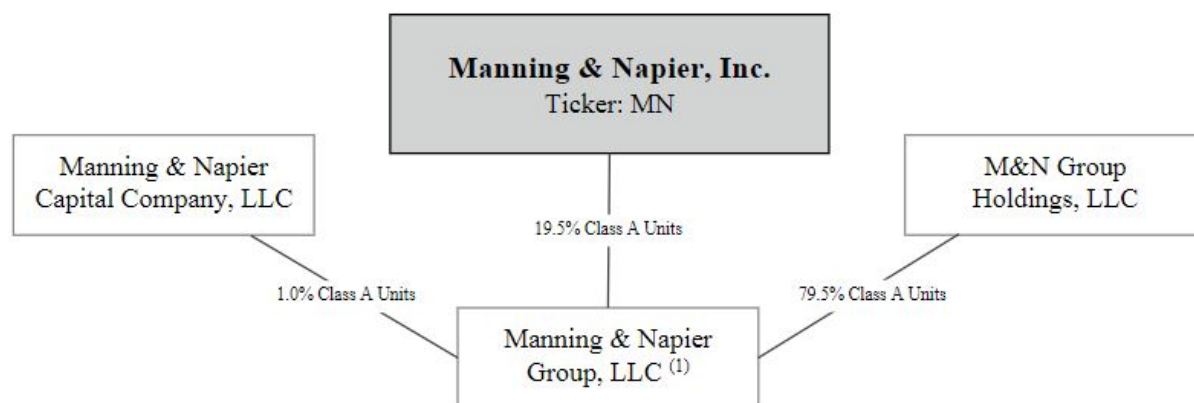
The accompanying notes are an integral part of these consolidated financial statements.

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 March 31, 2020.



- (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, 2019. 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, 2019. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

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.

Summary of Presentation Changes

As of January 1, 2020, the Company revised its presentation of investment management revenue within its consolidated statements of operations. Investment management revenue, previously presented by investment vehicle, has been disaggregated

to present investment management revenue by sales channel. Concurrently, the Company revised the presentation of assets under management ("AUM") activity previously reported by investment vehicle to present this activity by sales channel.

Amounts for the comparative prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported net income and do not represent a restatement of any previously published financial results.

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries. In addition, as of March 31, 2020, Manning & Napier holds an economic interest of approximately 19.5% 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, equity investments, at fair value, or as trading securities, as applicable. As of March 31, 2020 and December 31, 2019, 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 \$2.6 million as of March 31, 2020 and \$3.2 million as of December 31, 2019. As of March 31, 2020 and December 31, 2019, 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 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 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.

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 equity investments, at fair value consist of equity securities and investments in mutual funds for which the Company provides advisory services. Realized and unrealized gains and losses on equity investments, at fair value or trading securities, as applicable, are recorded in net gains (losses) on investments in the consolidated statements of operations. At March 31, 2020, equity investments, at fair value 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.

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.

Property and Equipment

Property and equipment is presented net of accumulated depreciation of approximately \$11.8 million and \$11.4 million as of March 31, 2020 and December 31, 2019, 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

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

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.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements that currently exist in U.S. GAAP for capitalizing implementation costs incurred to develop or obtain internal-use software. Under the new standard, implementation costs are deferred and presented in the same financial statement caption on the consolidated statements of financial condition as a prepayment of related arrangement fees. The deferred costs are recognized over the term of the arrangement in the same financial statement caption in the consolidated statements of operations as the related fees of the arrangement. The Company adopted the provisions of this guidance using the prospective adoption approach, which does not require the restatement of prior years. The adoption of this ASU did not have a material impact on the Company's statement of operations as requirements under the standard are generally consistent with its previous accounting for cloud computing arrangements, with the primary difference being the classification of certain information in its statements of financial condition and related disclosures.

As of March 31, 2020, the Company had a total of approximately \$2.3 million of capitalized implementation costs for hosting arrangements within prepaid expenses and other assets on its statements of financial condition, with no amounts in accumulated amortization and no amortization expense recognized during the three months ended March 31, 2020. At December 31, 2019, approximately \$0.4 million of these costs were capitalized within property and equipment, net. The hosting arrangements that are service contracts include internal and external costs related to various technology additions in support of the Company's business. Amortization costs are recorded on a straight-line basis over the term of the hosting arrangement agreement.

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 adoption of this ASU had did not have a material impact on the Company's consolidated financial statements.

Note 3—Revenue

Disaggregated Revenue

The following table represents the Company's wealth management and institutional and intermediary investment management revenue by investment portfolio during the three months ended March 31, 2020 and 2019:

	Three months ended March 31, 2020			Three months ended March 31, 2019		
	Wealth Management	Institutional and Intermediary	Total	Wealth Management	Institutional and Intermediary	Total
	(in thousands)					
Blended Asset	\$ 11,942	\$ 8,186	\$ 20,128	\$ 13,498	\$ 7,828	\$ 21,326
Equity	2,165	3,619	5,784	2,761	4,957	7,718
Fixed Income	193	326	519	210	449	659
Total	\$ 14,300	\$ 12,131	\$ 26,431	\$ 16,469	\$ 13,234	\$ 29,703

Accounts Receivable

Accounts receivable as of March 31, 2020 and December 31, 2019 consisted of the following:

	March 31, 2020	December 31, 2019
	(in thousands)	
Accounts receivable - third parties	\$ 5,787	\$ 5,778
Accounts receivable - affiliated mutual funds and collective investment trusts	3,719	4,404
Total accounts receivable	\$ 9,506	\$ 10,182

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 months ended March 31, 2020 or 2019.

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 \$8.9 million for the three months ended March 31, 2020, and approximately \$11.1 million for the three months ended March 31, 2019, 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 March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(in thousands)	
Affiliated mutual funds	\$ 2,682	\$ 3,164
Affiliated collective investment trusts	1,037	1,240
Accounts receivable - affiliated mutual funds and collective investment trusts	\$ 3,719	\$ 4,404

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 three months ended March 31, 2020, revenue was decreased by less than \$0.1 million for changes in transaction price. Accrued accounts receivable of approximately \$0.2 million and \$0.3 million is reported within prepaid expenses and other assets in the consolidated statements of financial condition as of March 31, 2020 and December 31, 2019, 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 three months ended March 31, 2020 that was included in deferred revenue at the beginning of the period was approximately \$8.3 million.

Costs to obtain a contract: Under compensation plans in effect for periods prior to January 1, 2020, certain incremental first year commissions directly associated with new customer contracts were capitalized and amortized on a straight-line basis over an estimated customer contract period of 3 to 7 years. The total net asset as of both March 31, 2020 and December 31, 2019 was approximately \$1.0 million. The related amortization expense, which is included in compensation and related costs, totaled approximately \$0.1 million for both of the three month periods ended March 31, 2020 and 2019. 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 months ended March 31, 2020 and 2019.

Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 19.5% 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 80.5% 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 table provides a reconciliation from “Income (loss) before provision for (benefit from) income taxes” to “Net income attributable to Manning & Napier, Inc.”:

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Income (loss) before provision for (benefit from) income taxes	\$ (2,391)	\$ 3,159
Less: income (loss) before provision for (benefit from) income taxes of Manning & Napier, Inc. ⁽¹⁾	(2,866)	191
Income before provision for (benefit from) income taxes, as adjusted	475	2,968
Controlling interest percentage ⁽²⁾	19.5%	18.6%
Net income attributable to controlling interest	93	552
Plus: income (loss) before provision for (benefit from) income taxes of Manning & Napier, Inc. ⁽¹⁾	(2,866)	191
Income (loss) before provision for (benefit from) income taxes attributable to Manning & Napier, Inc.	(2,773)	743
Less: provision for (benefit from) income taxes of Manning & Napier, Inc. ⁽³⁾	(3,631)	182
Net income attributable to Manning & Napier, Inc.	<u>\$ 858</u>	<u>\$ 561</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 (benefit from) 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 (benefit from) income taxes was a benefit of \$3.2 million and provision of \$0.2 million for the three months ended March 31, 2020 and March 31, 2019, respectively.

As of March 31, 2020, 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 tendered for exchange. 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. Refer to Note 14 for further discussion regarding an exchange of units that settled subsequent to March 31, 2020.

During the three months ended March 31, 2020, 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.

The following is the impact to the Company's equity ownership interest in Manning & Napier Group for the three months ended March 31, 2020:

	Manning & Napier Group Class A Units Held			
	Manning & Napier	Noncontrolling Interests	Total	Manning & Napier Ownership %
As of December 31, 2019	14,750,221	62,034,200	76,784,421	19.2%
Class A Units issued	318,833	—	318,833	0.3%
Class A Units exchanged	—	—	—	—%
As of March 31, 2020	<u>15,069,054</u>	<u>62,034,200</u>	<u>77,103,254</u>	<u>19.5%</u>

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

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 March 31, 2020 and December 31, 2019, the Company had recorded a liability of \$20.4 million and \$17.5 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, approximately \$4.0 million and \$0.3 million were included in accrued expenses and other liabilities at March 31, 2020 and December 31, 2019, respectively. The Company made no payments pursuant to the TRA during either of the three months ended March 31, 2020 and 2019. Refer to Note 12 for further discussion surrounding the amounts payable under the TRA.

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 March 31, 2020 and December 31, 2019:

	March 31, 2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes	\$ 33,270	\$ 409	\$ —	\$ 33,679
Fixed income securities	23,089	—	(734)	22,355
Short-term investments	7,405	—	—	7,405
				63,439
Equity investments, at fair value				
Equity securities				5,044
Mutual funds				2,560
				7,604
Total investment securities				\$ 71,043

	December 31, 2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes	\$ 33,908	\$ 193	\$ —	\$ 34,101
Fixed income securities	35,148	—	(91)	35,057
Short-term investments	12,119	—	—	12,119
				81,277
Equity investments, at fair value				
Equity securities				6,038
Mutual funds				3,152
				9,190
Total investment securities				\$ 90,467

Investment securities are classified as either equity 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 equity investments, at fair value consist of equity securities and investments in mutual funds for which the Company provides advisory services. At March 31, 2020 and December 31, 2019, equity investments, at fair value 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 \$1.8 million of net unrealized losses and \$0.9 million of net unrealized gains related to

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

investments classified as equity investments, at fair value during the three months ended March 31, 2020 and 2019, 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 March 31, 2020 and December 31, 2019, 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 three months ended March 31, 2020 and 2019.

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).

The following table summarizes the hierarchy of inputs used to derive the fair value of the Company’s assets as of March 31, 2020 and December 31, 2019:

	March 31, 2020			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$ 5,044	\$ —	\$ —	\$ 5,044
Fixed income securities	—	22,355	—	22,355
Mutual funds	2,560	—	—	2,560
U.S. Treasury notes	—	33,679	—	33,679
Short-term investments	—	7,405	—	7,405
Total assets at fair value	\$ 7,604	\$ 63,439	\$ —	\$ 71,043

	December 31, 2019			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$ 6,038	\$ —	\$ —	\$ 6,038
Fixed income securities	—	35,057	—	35,057
Mutual funds	3,152	—	—	3,152
U.S. Treasury notes	—	34,101	—	34,101
Short-term investments	—	12,119	—	12,119
Total assets at fair value	\$ 9,190	\$ 81,277	\$ —	\$ 90,467

Short-term investments consists of 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.

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

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 three months ended March 31, 2020.

Note 7—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of March 31, 2020 and December 31, 2019 consisted of the following:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
	(in thousands)	
Accrued bonus and sales commissions	\$ 6,176	\$ 14,825
Accrued payroll and benefits	2,914	4,415
Accrued sub-transfer agent fees	384	420
Dividends payable on Class A common stock	326	312
Amounts payable under tax receivable agreement	3,960	275
Short-term operating lease liabilities	2,772	2,682
Other accruals and liabilities	3,690	3,272
Total accrued expenses and other liabilities	<u>\$ 20,222</u>	<u>\$ 26,201</u>

Note 8—Leases

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 8 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 ROU 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 ROU 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 ROU 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 \$3.8 million over the remaining term of such leases. The lease terms for the three subleased operating leases end in 2021, 2027 and 2028.

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

The components of lease expense for the three months ended March 31, 2020 and 2019 were as follows:

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Finance lease expense		
Amortization of right-of-use assets	\$ 25	29
Interest on lease liabilities	2	3
Operating lease expense	792	923
Short-term lease expense	1	4
Variable lease expense	75	46
Sublease income	(166)	(123)
Total lease expense	\$ 729	882

Supplemental cash flow information related to leases for the three months ended March 31, 2020 and 2019 were as follows:

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 2	3
Finance cash flows from finance leases	\$ 27	27
Operating cash flows from operating leases	\$ 720	794
Right-of-use assets obtained in exchange for new lease obligations:		
Finance leases	\$ —	163
Operating leases	\$ 136	—

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

Supplemental balance sheet information related to leases as of March 31, 2020 was as follows:

(in thousands, except lease term and discount rate)	March 31, 2020	
Finance Leases		
Finance lease right-of-use assets ⁽¹⁾	\$	174
Accrued expenses and other liabilities	\$	80
Other long-term liabilities		104
Total finance lease liabilities	\$	184
Operating Leases		
Operating lease right-of-use assets	\$	18,157
Accrued expenses and other liabilities	\$	2,772
Operating lease liabilities, non-current		18,163
Total operating lease liabilities	\$	20,935
Weighted average remaining lease term		
Finance leases		2.73 years
Operating leases		7.18 years
Weighted average discount rate		
Finance leases		4.81%
Operating leases		5.13%

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

Maturities of lease liabilities were as follows:

Twelve month period ending March 31,	Finance Leases		Operating Leases	
	(in thousands)			
2021	\$	87	\$	3,717
2022		57		3,726
2023		33		3,504
2024		20		3,136
2025		—		3,030
Thereafter		—		7,929
Total lease payments		197		25,042
Less imputed interest		(13)		(4,107)
Total lease liabilities	\$	184	\$	20,935

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 March 31, 2020 and December 31, 2019, 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 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 months ended March 31, 2020 and 2019 under the two-class method:

	Three months ended March 31,	
	2020	2019
	(in thousands, except share data)	
Net income attributable to controlling and noncontrolling interests	\$ 835	\$ 2,917
Less: net income (loss) attributable to noncontrolling interests	(23)	2,356
Net income attributable to Manning & Napier, Inc.	\$ 858	\$ 561
Less: allocation to participating securities	13	(5)
Net income available to Class A common stock	<u>\$ 845</u>	<u>\$ 566</u>
Weighted average shares of Class A common stock outstanding - basic	15,812,951	14,927,265
Dilutive effect of unvested equity awards	60,406	304,183
Dilutive effect of exchangeable Class A Units	62,034,200	63,349,721
Weighted average shares of Class A common stock outstanding - diluted	<u>77,907,557</u>	<u>78,581,169</u>
Net income available to Class A common stock per share - basic	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Net income available to Class A common stock per share - diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>

For the three months ended March 31, 2020 and 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 months ended March 31, 2020 and 2019, 1,276,391 and 1,413,560, respectively, unvested equity awards were excluded from the calculation of diluted EPS 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, Inc.
Notes to Consolidated Financial Statements (Continued)

Manning & Napier Group, or certain classes of membership interests in the Company which may convert into units of Manning & Napier Group.

The following table summarizes activity related to awards of restricted stock and restricted stock units (collectively, "stock awards") under the Equity Plan for the three months ended March 31, 2020:

	Stock Awards	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	1,037,901	\$ 4.30
Granted	2,997,940	\$ 1.58
Vested	(321,665)	\$ 1.64
Forfeited	(2,667)	\$ 1.67
Outstanding at March 31, 2020	<u>3,711,509</u>	<u>\$ 2.34</u>

The weighted average fair value of stock awards granted during the three months ended March 31, 2020 was \$1.58, 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 months ended March 31, 2020 and 2019, the Company recorded approximately \$1.1 million and \$1.4 million, respectively, of compensation expense related to stock awards under the Equity Plan. The aggregate intrinsic value of stock awards that vested during the three months ended March 31, 2020 and 2019 was approximately \$0.5 million and \$1.0 million, respectively. As of March 31, 2020, there was unrecognized compensation expense of approximately \$6.3 million related to stock awards, which the Company expects to recognize over a weighted average period of approximately 3.5 years.

In connection with the vesting of restricted stock units during the three months ended March 31, 2020, the Company withheld a total of 2,832 shares of Class A common stock to satisfy less than \$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 three months ended March 31, 2020 is presented below:

	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2020	3,500,000	\$ 2.01		
Granted	—	\$ —		
Vested	(166,666)	\$ 2.01		
Forfeited	—	\$ —		
Outstanding at March 31, 2020	<u>3,333,334</u>	<u>\$ 2.01</u>	4.1	\$ —
Exercisable at March 31, 2020	<u>166,666</u>	<u>\$ 2.01</u>		

For both of the three month periods ended March 31, 2020 and 2019, the Company recorded approximately \$0.1 million of compensation expense related to stock options under the Equity Plan. As of March 31, 2020, there was unrecognized compensation expense of approximately \$0.8 million related to stock options, which the Company expects to recognize over a weighted average period of approximately 0.9 years.

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.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which includes, among other things, the ability to carryback net operating losses from 2018, 2019 and 2020 to prior years.

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

As of December 31, 2019, the Company had approximately \$12.1 million net operating losses available to offset future taxable income for federal income tax purposes and approximately \$6.1 million for state income tax purposes. The Company expects to carryback net operating losses generated in 2018, 2019 and 2020 to prior years and claim refunds when the federal corporate tax rate was 34% compared to the current statutory rates of 21%. The Company recognized an income tax benefit of approximately \$3.3 million, related to the favorable rate applied to its net operating losses. As a result, the Company increased its deferred tax asset related to the TRA, resulting in a \$2.9 million increase of the liability, representing 85% of the applicable cash savings.

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

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Income (loss) before provision for (benefit from) income taxes	\$ (2,391)	\$ 3,159
Effective tax rate	134.9%	7.7%
Provision for (benefit from) income taxes	(3,226)	242
Provision for (benefit from) income taxes at statutory rate	(502)	663
Difference between tax at effective vs. statutory rate	\$ (2,724)	\$ (421)

For both the three months ended March 31, 2020 and 2019, the difference between the Company's recorded provision (benefit) and the provision that would result from applying the U.S. statutory rate of 21% includes 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. For the three months ended March 31, 2020, the income tax benefit also includes the impact from the enactment of the CARES Act, which resulted in the recognition of an income tax benefit based on the ability to carry back net operating losses to prior years.

A specific state is currently auditing the Company's 2016 and 2017 corporate tax returns. The audit is expected to be completed in 2020. As of March 31, 2020, the audit is in process and the state is collecting and evaluating the data for which the Company has not recorded a liability for uncertain tax positions under ASC 740. The Company believes any potential increases to this liability, which could be up to approximately \$1.2 million, would not result in a material change to its financial position.

Note 13—Related Party Transactions

Transactions with noncontrolling members

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

The Company manages the personal funds of certain of the Company's executive officers 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 three months ended March 31, 2020 and 2019.

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 \$8.9 million for the three months ended March 31, 2020, and approximately \$11.1 million for the three months ended March 31, 2019. Fees earned for administrative services provided were approximately \$0.4 million for the three months ended March 31, 2020, and approximately \$0.5 million for the three months ended March 31, 2019. 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 \$1.2 million for the three months ended March 31, 2020, and approximately \$1.2 million for the three months ended March 31, 2019. As of March 31, 2020 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

Exchange of Class A units of Manning & Napier Group

As of March 31, 2020, 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, such units may be tendered for exchange. On March 15, 2020, notice was provided that a total of 60,012,419 Class A units, including 59,957,419 units held by William Manning, who is also the Chairman of the Company's Board of Directors, would be tendered for cash or shares of the Company's Class common stock pursuant to the terms of the Exchange Agreement.

Subsequent to March 31, 2020, the independent directors, on behalf of the Company, decided to settle the exchange utilizing approximately \$90.8 million in cash, including approximately \$90.7 million paid to Mr. Manning, pursuant to the terms of the Exchange Agreement. The Company completed the exchange on May 11, 2020 with payment made from the Company's cash, cash equivalents and proceeds from the sale of investment securities. Subsequent to the exchange, the Class A units were retired and as a result, the Company's ownership of Manning & Napier Group increased from 19.5% to 88.2%.

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 the views of Manning & Napier, Inc. ("we," "our," or "us") with respect to, among other things, our future 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; the impact of COVID-19 on the U.S. and global economy; the impact of the settlement of the exchange pursuant to the exchange agreement (the "Exchange Agreement") between the Company, M&N Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC"); 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; our ability to successfully deploy new technology platforms and upgrades; 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

Manning & Napier, Inc. is an independent investment management firm that provides our clients with a broad range of financial solutions and investment strategies. Founded in 1970 and headquartered in Fairport, New York, we serve a diversified client base of high-net-worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations. Our investment strategies offer equity, fixed income and a range of blended asset portfolios by employing traditional and quantitative approaches.

Impact of COVID-19

In March 2020, the World Health Organization categorized COVID-19 as a pandemic, and it continues to spread throughout the United States and other countries. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, causing some businesses to suspend operations, disrupting the global supply chain, creating a reduction in demand for many products, and thus having a significant impact on the global economy. We are addressing the challenges of COVID-19 by protecting the health and well-being of our employees while servicing our clients. The impact of COVID-19 on our investment performance, financial statements, capital and liquidity and our business operations is discussed below:

- *Client Performance Impact:* While absolute returns were negative for the majority of our investment strategies, we believe we delivered downside protection during the market volatility experienced during the first quarter. The vast majority of our AUM outperformed their benchmarks on a relative basis, and in many cases, by substantial margins.
- *Financial Statement Impact:* Our revenues consist primarily of investment management fees typically calculated as a percentage of the market value of our assets under management ("AUM"), and are dependent on the value and composition of our AUM. During the quarter, AUM decreased from approximately \$19.5 billion at the start of the year to \$17.1 billion as of March 31, largely due to the negative absolute performance across the portfolio. While we expect the effects of the pandemic and the related responses may negatively affect our results of operations, cash flows and financial position, at this time we cannot reasonably estimate the full impact, given the uncertainty over the duration and severity of the economic crisis.
- *Capital and Liquidity Impact:* Our financial condition is stable, allowing us to effectively manage the financial impacts of COVID-19. We believe our capital structure should provide us with sufficient resources and flexibility to meet present and future cash needs. As discussed below in *Other Business Updates*, we have suspended the quarterly cash dividend on our Class A common stock. Given the uncertainty surrounding the current economic environment, we will continue to assess our liquidity needs.
- *Business Operations Impact:* For the health and well-being of our employees, we have modified our business practices in accordance with social distancing guidelines to encourage work-from-home arrangements and we have restricted business-related travel. Our technology capabilities have allowed us to maintain sales and client servicing activity through digital collaboration platforms and digital marketing efforts. Additionally, our technology has enabled us to

support the majority of our employees' remote working arrangements. Our ability to adequately maintain our operations, internal controls and client relationships has not been adversely affected by these modifications.

The extent of the impact of COVID-19 on our business, financial condition and results of operations also depends on future developments, including the duration of the pandemic and the volatility of the global financial markets, all of which are highly uncertain. We continue to assess the risks associated with COVID-19 and to mitigate them where possible. For further discussion regarding the potential future impacts of COVID-19 and related economic conditions on the Company's financial statements, capital and liquidity, and business operations, see "Part II-Item 1A-Risk Factors."

Market Developments

The COVID-19 pandemic sparked a global selloff in the first quarter, with equity markets moving sharply lower and entering their first bear market since the financial crisis. Both domestic and international equities were hit hard, and the downturn was widespread across developed and emerging markets. Within the US, economic uncertainty for small businesses hit smaller cap equities particularly hard. As has been the case over the past several years, growth-oriented equities continued to outperform their value-oriented counterparts.

Regarding fixed income, interest rates fell sharply during the quarter, providing a boost to fixed income performance. Outside of government bonds, credit spreads widened for most sectors of the market on rising investor concern over the sustainability of debt burdens. In credit sensitive areas of the market, such as investment-grade and high yield corporates, gains from lower rates were offset by widening spreads. This includes municipal bonds, whose performance was mixed over the period.

Going forward, we believe now more than ever is the time for an active investment approach. Volatility can be difficult, but it can create tremendous opportunity for long-term investors. Markets are forward looking, and investment opportunities are often found after markets have already turned lower. As always, we encourage investors to employ a disciplined risk management framework that helps to emerge from these challenges stronger on the other side.

Other Business Updates

During the quarter ended March 31, 2020, we declared a first quarter dividend of \$0.02 per share of Class A common stock, which was paid on May 1, 2020 to shareholders of record as of April 1, 2020. Following this payment, the Board of Directors decided to suspend the quarterly cash dividend on our Class A common stock. Company management and the Board of Directors will continue to monitor our ability to declare future dividends on a quarter-by-quarter basis.

During the first quarter of 2020, pursuant to the terms of the Exchange Agreement between the Company and the holders of its non-controlling interests, approximately 60.0 million Class A Units of Manning & Napier Group, LLC ("Manning & Napier Group") were tendered for cash or shares of the Company's Class A common stock. In early April 2020, the independent directors, on behalf of the Company, determined that the exchange would be settled in approximately \$90.8 million cash. The settlement of the exchange occurred on May 11, 2020, with payment made from our cash, cash equivalents and proceeds from the sale of investment securities. The Class A Units were retired, and as a result, our ownership of Manning & Napier Group increased from 19.5% to 88.2%.

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. (the "Fund"), 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 our blended asset class and single asset class portfolios.

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 clients, including third party advisors, platforms and consultants, as well as larger institutions and Taft-Hartley clients. Our AUM was \$17.1 billion as of March 31, 2020. The composition of our AUM by sales channel and portfolio is illustrated in the table below:

	March 31, 2020			
	Blended Asset	Equity	Fixed Income	Total
	(dollars in millions)			
Total AUM				
Wealth Management	\$ 6,508.3	\$ 942.8	\$ 281.8	\$ 7,732.9
Institutional and Intermediary	5,588.5	3,001.9	737.2	9,327.6
Total	\$ 12,096.8	\$ 3,944.7	\$ 1,019.0	\$ 17,060.5
Percentage of AUM				
Wealth Management	38%	6%	1%	45%
Institutional and Intermediary	33%	18%	4%	55%
Total	71%	24%	5%	100%
Percentage of portfolio by channel				
Wealth Management	54%	24%	28%	45%
Institutional and Intermediary	46%	76%	72%	55%
Total	100%	100%	100%	100%
Percentage of channel by portfolio				
Wealth Management	84%	12%	4%	100%
Institutional and Intermediary	60%	32%	8%	100%

Our wealth management channel represented 45% of our total AUM as of March 31, 2020. Blended portfolios are the most significant portion of wealth management assets, representing 84% of wealth management AUM. Equity and fixed income portfolios represent 12% and 4%, respectively, of wealth management AUM.

Our institutional and intermediary channel represented 55% of our total AUM as of March 31, 2020. Blended portfolios are also the largest portion of institutional and intermediary assets at 60% of AUM, followed by equity and fixed income portfolios at 32% and 8%, respectively.

As of March 31, 2020, blended portfolios account for 71% of our total AUM at \$12.1 billion, a 10% decrease from December 31, 2019 when blended assets were \$13.5 billion. Blended portfolio AUM is similar across both distribution channels, with 54% in wealth management and 46% in institutional and intermediary. Equity portfolios account for 24% of our total AUM, at \$3.9 billion, a 21% decrease from the fourth quarter when equity portfolios were at \$5.0 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 \$1.0 billion, consistent with December 31, 2019. Consistent with equity portfolio AUM, the majority of fixed income assets come through the institutional and intermediary channel at 72%, and 28% fixed income AUM is in the wealth management channel.

During the three months ended March 31, 2020, our wealth management sales channel contributed 30% of our total gross client inflows, while our institutional and intermediary channel contributed 70%. Of the \$668.8 million in gross client inflows, blended asset portfolios represented 55%, while equity and fixed income portfolios represented 36% and 9%, respectively.

Results of Operations

Below is a discussion of our consolidated results of operations for the three months ended March 31, 2020 and 2019.

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 sales channels for the three months ended March 31, 2020 and 2019:

	Sales Channel ⁽³⁾					
	Wealth Management	Institutional and Intermediary	Total	Wealth Management	Institutional and Intermediary	Total
	(in millions)					
As of December 31, 2019	\$ 8,716.4	\$ 10,763.7	\$ 19,480.1	45%	55%	100%
Gross client inflows ⁽¹⁾	202.1	466.7	668.8			
Gross client outflows ⁽¹⁾	(375.3)	(753.9)	(1,129.2)			
Market appreciation/(depreciation) & other ⁽²⁾	(810.3)	(1,148.9)	(1,959.2)			
As of March 31, 2020	\$ 7,732.9	\$ 9,327.6	\$ 17,060.5	45%	55%	100%
Average AUM for period	\$ 8,527.9	\$ 10,163.2	\$ 18,691.1			
As of December 31, 2018	\$ 8,700.9	\$ 11,462.7	\$ 20,163.6	43%	57%	100%
Gross client inflows ⁽¹⁾	186.2	534.5	720.7			
Gross client outflows ⁽¹⁾	(464.7)	(1,108.2)	(1,572.9)			
Market appreciation/(depreciation) & other ⁽²⁾	940.2	886.2	1,826.4			
As of March 31, 2019	\$ 9,362.6	\$ 11,775.2	\$ 21,137.8	44%	56%	100%
Average AUM for period	\$ 9,125.7	\$ 11,542.0	\$ 20,667.7			

(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..

- (3) AUM and gross client flows between sales channels have been estimated based upon preliminary data. For a limited portion of our mutual fund AUM, reporting by sales channel is not available at the time of this report. Such estimates have no impact on total AUM, total cash flows, or AUM by investment portfolio reported in the table above.

The following table reflects the indicated components of our AUM for our portfolios for the three months ended March 31, 2020 and 2019:

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
As of December 31, 2019	\$ 13,473.3	\$ 4,988.8	\$ 1,018.0	\$ 19,480.1	69%	26%	5%	100%
Gross client inflows ⁽¹⁾	368.2	237.2	63.4	668.8				
Gross client outflows ⁽¹⁾	(816.4)	(231.7)	(81.1)	(1,129.2)				
Market appreciation/(depreciation) & other ⁽²⁾	(928.3)	(1,049.6)	18.7	(1,959.2)				
As of March 31, 2020	\$ 12,096.8	\$ 3,944.7	\$ 1,019.0	\$ 17,060.5	71%	24%	5%	100%
Average AUM for period	\$ 13,025.7	\$ 4,640.4	\$ 1,025.0	\$ 18,691.1				
As of December 31, 2018	\$ 13,532.2	\$ 5,501.9	\$ 1,129.5	\$ 20,163.6	67%	27%	6%	100%
Gross client inflows ⁽¹⁾	302.1	379.3	39.3	720.7				
Gross client outflows ⁽¹⁾	(1,065.9)	(382.7)	(124.3)	(1,572.9)				
Market appreciation/(depreciation) & other ⁽²⁾	1,066.3	728.7	31.4	1,826.4				
As of March 31, 2019	\$ 13,834.7	\$ 6,227.2	\$ 1,075.9	\$ 21,137.8	66%	29%	5%	100%
Average AUM for period	\$ 13,634.7	\$ 5,927.8	\$ 1,105.2	\$ 20,667.7				

(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 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 March 31, 2020.

Key Strategies	AUM as of March 31, 2020 (in millions)	Inception Date	Annualized Returns as of March 31, 2020 (2)				
			One Year	Three Year	Five Year	Ten Year	Inception
Long-Term Growth (30%-80% Equity Exposure)	\$ 5,038.6	1/1/1973	2.8%	5.2%	4.3%	6.5%	9.3%
<i>Blended Index (3)</i>			(1.9)%	3.8%	4.0%	6.4%	8.5%
Core Non-U.S. Equity	\$ 521.6	10/1/1996	(10.9)%	(0.9)%	(0.1)%	1.6%	6.2%
<i>Benchmark: ACWIxUS Index</i>			(15.6)%	(2.0)%	(0.6)%	2.1%	4.0%
Growth with Reduced Volatility (20%-60% Equity Exposure)	\$ 2,333.4	1/1/1973	3.8%	4.7%	3.7%	5.5%	8.5%
<i>Blended Index (4)</i>			1.2%	4.2%	4.0%	5.8%	8.2%
Equity-Oriented (70%-100% Equity Exposure)	\$ 1,124.2	1/1/1993	(3.2)%	5.8%	4.8%	7.2%	9.4%
<i>Blended Benchmark: 65% Russell 3000 / 20% ACWIxUS / 15% Bloomberg Barclays U.S. Aggregate Bond</i>			(7.7)%	3.1%	4.3%	7.7%	7.9%
Equity-Focused Blend (50%-90% Equity Exposure)	\$ 902.0	4/1/2000	1.4%	5.3%	4.5%	7.0%	6.6%
<i>Blended Benchmark: 53% Russell 3000 / 20% ACWIxUS / 30% Bloomberg Barclays U.S. Aggregate Bond</i>			(4.7)%	3.5%	4.2%	7.1%	4.9%
Core Equity-Unrestricted (90%-100% Equity Exposure)	\$ 453.1	1/1/1995	(6.0)%	5.8%	5.3%	8.2%	10.3%
<i>Blended Benchmark: 80% Russell 3000 / 20% ACWIxUS</i>			(10.4)%	2.8%	4.5%	8.5%	8.2%
Core U.S. Equity	\$ 139.5	7/1/2000	(3.9)%	7.7%	7.0%	9.1%	7.3%
<i>Benchmark: Russell 3000</i>			(9.1)%	4.0%	5.8%	10.2%	5.2%
Conservative Growth (5%-35% Equity Exposure)	\$ 507.9	4/1/1992	4.8%	3.9%	3.0%	4.1%	5.8%
<i>Blended Benchmark: 15% Russell 3000 / 5% ACWIxUS / 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond</i>			3.5%	3.8%	3.3%	4.4%	6.0%
Aggregate Fixed Income	\$ 183.3	1/1/1984	9.0%	4.6%	3.4%	3.8%	7.1%
<i>Benchmark: Bloomberg Barclays U.S. Aggregate Bond</i>			8.9%	4.8%	3.4%	3.9%	7.1%
Rainier International Small Cap	\$ 647.4	3/28/2012	(10.1)%	2.2%	2.6%	N/A ⁽¹⁾	8.2%
<i>Benchmark: MSCI ACWIxUS Small Cap Index</i>			(21.2)%	(4.9)%	(0.8)%	N/A ⁽¹⁾	2.2%
Disciplined Value US (5)	\$ 947.5	1/1/2013	(15.4)%	1.6%	4.8%	N/A ⁽¹⁾	10.5%
<i>Benchmark: Russell 1000 Value</i>			(17.2)%	(2.2)%	1.9%	N/A ⁽¹⁾	9.6%

(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- 3/31/2020. 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, the 30/10/60 Blended Index from 01/01/1988-12/31/2019, and the 30/10/30/30 Blended Index from 01/01/2020 to 03/31/2020. 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. The 30/10/30/30 Blended Index is represented by 30% Russell 3000, 10% ACWxUS, 30% BAB, and 30% Barclays Intermediate Aggregate Bond Index.

(5) In our Annual Report, on Form 10-K for the year ended December 31, 2019, we began presenting the performance of Disciplined Value US in place of Disciplined Value Unrestricted.

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 \$4.9 billion, or 29%, of our AUM as of March 31, 2020. MNA and Rainier also serve as the investment advisor to all of our separately managed accounts, managing \$12.2 billion, or 71%, of our AUM as of March 31, 2020, including assets managed as a sub-advisor to pooled investment vehicles. For the period ended March 31, 2020 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 months ended March 31, 2020.

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 felt bringing our fund fees to a more competitive level would enhance our ability to attract additional assets in the future.
- *Other operating costs.* Other operating costs include technology costs, 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, LLC ("Manning & Napier Group"), gains (losses) related to investment securities sales as well as changes in values of those investment securities designated as equity securities, at fair value.

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 19.5% in Manning & Napier Group as of March 31, 2020 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, 2019.

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, 2019 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 March 31, 2020 Compared to Three Months Ended March 31, 2019
Assets Under Management

The following table reflects changes in our AUM for the three months ended March 31, 2020 and 2019:

	Three months ended March 31,		Period-to-Period	
	2020	2019	\$	%
	(in millions)			
Wealth Management ⁽³⁾				
Beginning assets under management	\$ 8,716.4	\$ 8,700.9	\$ 15.5	— %
Gross client inflows ⁽¹⁾	202.1	186.2	15.9	9 %
Gross client outflows ⁽¹⁾	(375.3)	(464.7)	89.4	(19)%
Market appreciation (depreciation) & other ⁽²⁾	(810.3)	940.2	(1,750.5)	(186)%
Ending assets under management	\$ 7,732.9	\$ 9,362.6	\$ (1,629.7)	(17)%
Average AUM for period	\$ 8,527.9	\$ 9,125.7		
Institutional and Intermediary ⁽³⁾				
Beginning assets under management	\$ 10,763.7	\$ 11,462.7	\$ (699.0)	(6)%
Gross client inflows ⁽¹⁾	466.7	534.5	(67.8)	(13)%
Gross client outflows ⁽¹⁾	(753.9)	(1,108.2)	354.3	(32)%
Market appreciation (depreciation) & other ⁽²⁾	(1,148.9)	886.2	(2,035.1)	(230)%
Ending assets under management	\$ 9,327.6	\$ 11,775.2	\$ (2,447.6)	(21)%
Average AUM for period	\$ 10,163.2	\$ 11,542.0		
Total assets under management				
Beginning assets under management	\$ 19,480.1	\$ 20,163.6	\$ (683.5)	(3)%
Gross client inflows ⁽¹⁾	668.8	720.7	(51.9)	(7)%
Gross client outflows ⁽¹⁾	(1,129.2)	(1,572.9)	443.7	(28)%
Market appreciation (depreciation) & other ⁽²⁾	(1,959.2)	1,826.4	(3,785.6)	(207)%
Ending assets under management	\$ 17,060.5	\$ 21,137.8	\$ (4,077.3)	(19)%
Average AUM for period	\$ 18,691.1	\$ 20,667.7		

(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.

(3) AUM and gross client flows between sales channels have been estimated based upon preliminary data. For a limited portion of our mutual fund AUM, reporting by sales channel is not available at the time of this report. Such estimates have no impact on total AUM, total cash flows, or AUM by investment portfolio reported in the table above.

Our total AUM decreased by \$4.1 billion from \$21.1 billion at March 31, 2019 to \$17.1 billion at March 31, 2020. The decrease was attributable to net client outflows of \$4.1 billion, partially offset by market appreciation of less than \$0.1 billion. Net client outflows consisted of approximately \$1.3 billion of net outflows for wealth management and \$2.8 billion for institutional and intermediary. By portfolio, the rates of change in AUM from March 31, 2019 to March 31, 2020 consisted of a \$2.3 billion, or 37% decrease in our equity portfolio, a \$1.7 billion, or 13% decrease in our blended asset portfolio, and a decrease of approximately \$0.1 billion, or 5% 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 March 31, 2020 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 decrease in the overall rate of outflows with gross outflows of approximately \$1.1 billion during the quarter ended March 31, 2020, a 28% decrease from the quarter ended March 31, 2019. Gross outflows annualized as a percentage of our AUM, or turnover rate, for the three months ended March 31, 2020 was 23%.

The rate of gross client inflows has slowed to approximately \$0.7 billion during the three months ended March 31, 2020, a 7% decrease from the quarter ended March 31, 2019. 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 \$2.4 billion, to \$17.1 billion at March 31, 2020 from \$19.5 billion at December 31, 2019 was attributable to market depreciation of \$2.0 billion, and net client outflows of \$0.5 billion. Net client outflows consisted of approximately \$0.2 billion for wealth management while net client outflows in institutional and intermediary were \$0.3 billion. The blended investment gain was 9.3% in wealth management accounts and 10.7% in institutional and intermediary. By portfolio in the period, our AUM decreased by \$1.4 billion in our blended asset portfolio, \$1.0 billion in our equity portfolio, and increased by \$1.0 billion in our fixed income portfolio.

As of March 31, 2020, the composition of our AUM was 45% in wealth management and 55% in institutional and intermediary, compared to 44% in wealth management and 56% in institutional and intermediary at March 31, 2019. The composition of our AUM across portfolios at March 31, 2020 was 71% in blended assets, 24% in equity, and 5% in fixed income, compared to 66% in blended assets, 29% in equity, 5% in fixed income at March 31, 2019.

For our wealth management channel, gross client inflows of approximately \$0.2 billion were offset by \$0.4 billion of gross client outflows during the three months ended March 31, 2020. The \$0.2 billion gross client inflows include approximately \$0.1 billion into our blended asset portfolio and less than \$0.1 billion into both our equity and fixed income portfolios. Outflows during the third quarter were \$0.3 billion, or 73% from blended portfolios, and less than \$0.1 billion, or 13% and 14% from equity and fixed income portfolios, respectively.

Gross client inflows of \$0.5 billion were offset by gross client outflows of \$0.8 billion within our institutional and intermediary channel during the three months ended March 31, 2020. Gross client inflows include approximately \$0.2 billion into both our blended asset and equity portfolios, and less than \$0.1 billion into our fixed income portfolios. With regard to gross client outflows, \$0.5 billion, or 72% was from our blended asset portfolios, \$0.2 billion or 24% was from our equity portfolios, and less than \$0.1 billion, or 4% was from our fixed income portfolios.

The following table sets forth our results of operations and related data for the three months ended March 31, 2020 and 2019:

	Three months ended March 31,		Period-to-Period	
	2020	2019	\$	%
(in thousands, except share data)				
Revenues				
Management Fees				
Wealth management	\$ 14,300	\$ 16,469	\$ (2,169)	(13)%
Institutional and intermediary	12,131	13,234	(1,103)	(8)%
Distribution and shareholder servicing	2,390	2,624	(234)	(9)%
Custodial services	1,599	1,745	(146)	(8)%
Other revenue	689	725	(36)	(5)%
Total revenue	31,109	34,797	(3,688)	(11)%
Expenses				
Compensation and related costs	19,263	21,448	(2,185)	(10)%
Distribution, servicing and custody expenses	2,813	3,758	(945)	(25)%
Other operating costs	7,097	8,307	(1,210)	(15)%
Total operating expenses	29,173	33,513	(4,340)	(13)%
Operating income	1,936	1,284	652	51%
Non-operating income (loss)				
Non-operating income (loss), net	(4,327)	1,875	(6,202)	(331)%
Income (loss) before provision for (benefit from) income taxes	(2,391)	3,159	(5,550)	(176)%
Provision for (benefit from) income taxes	(3,226)	242	(3,468)	(1,433)%
Net income attributable to controlling and noncontrolling interests	835	2,917	(2,082)	(71)%
Less: net income (loss) attributable to noncontrolling interests	(23)	2,356	(2,379)	(101)%
Net income attributable to Manning & Napier, Inc.	\$ 858	\$ 561	\$ 297	53%
Per Share Data				
Net income per share available to Class A common stock				
Basic	\$ 0.05	\$ 0.04		
Diluted	\$ 0.01	\$ 0.03		
Weighted average shares of Class A common stock outstanding				
Basic	15,812,951	14,927,265		
Diluted	77,907,557	78,581,169		
Other financial and operating data				
Economic income (loss) ⁽¹⁾	\$ (1,672)	\$ 3,819	\$ (5,491)	(144)%
Economic net income ⁽¹⁾	\$ 1,566	\$ 2,711	\$ (1,145)	(42)%
Economic net income per adjusted share ⁽¹⁾	\$ 0.02	\$ 0.03		
Weighted average adjusted Class A common stock outstanding ⁽¹⁾	80,759,644	80,068,669		

(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

Wealth management revenue decreased by \$2.2 million, or 13%, to \$14.3 million for the three months ended March 31, 2020 from \$16.5 million for the three months ended March 31, 2019. This decrease is driven primarily by a 7%, or \$0.6 billion, decrease in our average wealth management AUM for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. At March 31, 2020 the concentration of investments in our wealth management assets were 84% blended assets, 12% equity and 4% fixed income, compared to 79% blended assets, 18% equity and 3% fixed income as of March 31, 2019.

Institutional and intermediary revenue decreased by \$1.1 million, or 8%, to \$12.1 million for the three months ended March 31, 2020 from \$13.2 million for the three months ended March 31, 2019. This decrease is driven primarily by a 12%, or \$1.4 billion, decrease in our average institutional and intermediary AUM for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. As of March 31, 2020, the concentration of assets in our institutional and intermediary was 60% blended assets, 32% equity and 8% fixed income, compared to 55% blended assets, 38% equity and 7% fixed income as of March 31, 2019.

Distribution and shareholder servicing revenue decreased by \$0.2 million, or 9%, to \$2.4 million for the three months ended March 31, 2020 from \$2.6 million for the three months ended March 31, 2019. This decrease was driven by a reduction in mutual fund and collective trust average AUM of 12% for the same period.

Custodial services revenue decreased by \$0.1 million, or 8%, to \$1.6 million for the three months ended March 31, 2020 from \$1.7 million for the three months ended March 31, 2019. The decrease primarily relates to decreases in our collective investment trust AUM.

Operating Expenses

Our operating expenses decreased by \$4.3 million, or 13%, to \$29.2 million for the three months ended March 31, 2020 from \$33.5 million for the three months ended March 31, 2019.

Compensation and related costs decreased by \$2.2 million, or 10%, to \$19.3 million for the three months ended March 31, 2020 from \$21.4 million for the three months ended March 31, 2019. This decrease in the current quarter compared to the first quarter of 2019 was driven by a decrease in our workforce. When considered as a percentage of revenue, compensation and related costs for both the three months ended March 31, 2020 and 2019 was 62%. 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 \$0.9 million, or 25%, to \$2.8 million for the three months ended March 31, 2020 from \$3.8 million for the three months ended March 31, 2019. The decrease was generally driven by a 12.9% reduction in mutual fund and collective investment trust average AUM for the three months ended March 31, 2020 compared to the three months ended March 31, 2019. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.20% for the three months ended March 31, 2020, compared to 0.24% for the three months ended March 31, 2019.

Other operating costs for the three months ended March 31, 2020 were \$7.1 million, as compared to \$8.3 million for the three months ended March 31, 2019. As a percentage of revenue, other operating costs were 23% for the three months ended March 31, 2020 compared to 24% for the three months ended March 31, 2019.

Non-Operating Income (Loss)

Non-operating loss for the three months ended March 31, 2020 was \$4.3 million, a decrease of \$6.2 million, from non-operating income of \$1.9 million for the three months ended March 31, 2019. The following table reflects the components of non-operating income (loss) for the three months ended March 31, 2020 and 2019:

	Three months ended March 31,		Period-to-Period	
	2020	2019	\$	%
	(in thousands)			
Non-operating income (loss)				
Interest expense	\$ (2)	\$ (3)	\$ 1	(33)%
Interest and dividend income ⁽¹⁾	357	809	(452)	(56)%
Change in liability under tax receivable agreement ⁽²⁾	(2,850)	195	(3,045)	(1,562)%
Net gains (losses) on investments ⁽³⁾	(1,832)	874	(2,706)	(310)%
Total non-operating income (loss)	\$ (4,327)	\$ 1,875	\$ (6,202)	(331)%

- (1) The decrease in interest and dividend income for the three months ended March 31, 2020 compared to 2019 is attributable to a decrease in investments, including U.S. Treasury notes and bills, corporate bonds and other short-term investments to optimize cash management opportunities, coupled with a decrease in interest rates.
- (2) The change in the liability under the tax receivable agreement for the three months ended March 31, 2020 is driven by an increase in the Company's expected tax benefits under the tax receivable agreement with the other holders of units of Manning & Napier Group and the corresponding changes in the payment of such benefits. The change during the three months ended March 31, 2020 is driven by the tax benefits realized with the enactment of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").
- (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.

Provision for Income Taxes

The Company's benefit from income taxes was \$3.2 million for the three months ended March 31, 2020, compared to a provision for income taxes of \$0.2 million for the three months ended March 31, 2019. The benefit recognized during the three months ended March 31, 2020 was attributable mainly to the enactment of the CARES Act which includes, among other things, the ability to carry back net operating losses from 2018, 2019 and 2020 to prior years. As a result, we recognized an income tax benefit related to the favorable rate applied to our net operating losses.

Supplemental Non-GAAP Financial Information

Beginning with the release of our operating results for the third quarter of 2019, as supplemental information we began 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 as a whole 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, for periods beginning in and subsequent to January 1, 2019, presents a non-GAAP financial measure of the controlling and non-controlling interests of Manning & Napier Group and excludes from income before provision for income taxes strategic restructuring and transaction costs, net. We define strategic restructuring and transaction costs, net, as items related to our ongoing strategic review focused on the evolution of our distribution strategy and technology initiatives. These costs include severance-related costs, certain consulting and other professional service fees, lease and other contract termination costs, and gain or loss on sale of a business. Non-GAAP measures for the first and second quarters of 2019 have been restated to conform to the current period presentation.

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 (193.6)% for the three months ended March 31, 2020, and of 29.0% for the three months ended March 31, 2019, 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 March 31,	
	2020	2019
	(in thousands, except share data)	
Economic income (loss) (Non-GAAP)	\$ (1,672)	\$ 3,819
Economic net income (Non-GAAP)	\$ 1,566	\$ 2,711
Economic net income per adjusted share (Non-GAAP)	\$ 0.02	\$ 0.03
Weighted average adjusted Class A common stock outstanding (Non-GAAP)	80,759,644	80,068,669

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

	Three months ended March 31,	
	2020	2019
	(in thousands, except share data)	
Net income attributable to Manning & Napier, Inc.	\$ 858	\$ 561
Add back: Net income (loss) attributable to noncontrolling interests	(23)	2,356
Add back: Provision for (benefit from) income taxes	(3,226)	242
Income (loss) before provision for (benefit from) income taxes	\$ (2,391)	\$ 3,159
Add back: Strategic restructuring and transaction costs, net ⁽¹⁾	719	660
Economic income (loss) (Non-GAAP)	\$ (1,672)	3,819
Adjusted income taxes (Non-GAAP)	(3,238)	1,108
Economic net income (Non-GAAP)	\$ 1,566	\$ 2,711
Weighted average shares of Class A common stock outstanding - Basic	15,812,951	14,927,265
Assumed vesting, conversion or exchange of:		
Weighted average Manning & Napier Group, LLC units outstanding (noncontrolling interest)	62,034,200	63,349,721
Weighted average unvested restricted stock units and share awards	2,745,827	1,791,683
Weighted average vested stock options	166,666	—
Weighted average adjusted shares (Non-GAAP)	80,759,644	80,068,669
Economic net income per adjusted share (Non-GAAP)	\$ 0.02	\$ 0.03

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

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Compensation and related costs	\$ 686	\$ 544
Other operating costs	33	116
Total strategic restructuring and transaction costs	\$ 719	\$ 660

Liquidity and Capital Resources

Historically, our cash and liquidity needs have been met primarily through cash generated by our operations and cash and cash equivalents on hand. Our financial condition at March 31, 2020 was 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 March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(in thousands)	
Cash and cash equivalents	\$ 75,019	\$ 67,088
Accounts receivable	\$ 9,506	\$ 10,182
Investment securities	\$ 71,043	\$ 90,467
Amounts payable under tax receivable agreement ⁽¹⁾	\$ 20,371	\$ 17,521

(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 March 31, 2020 and December 31, 2019, including our ability to realize the expected tax benefits. Actual payments may significantly differ from estimated payments.

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. On April 22, 2020 the Board of Directors determined to suspend our quarterly cash dividend on our Class A common stock due to the market volatility and ongoing uncertainty resulting from the COVID-19 pandemic.

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

As of March 31, 2020, a total of 62,034,200 units of Manning & Napier Group were held by the noncontrolling interests, including M&N Group Holdings and MNCC. Pursuant to the terms of the Exchange Agreement, such units may be tendered for exchange. On March 15, 2020, certain legacy shareholders and William Manning, who is the Chairman of the Company's Board of Directors, provided notice to the Company that they would tender a total of 60,012,419 Class A units, including 59,957,419 units held by William Manning, for cash or shares of the Company's Class common stock pursuant to the terms of the Exchange Agreement.

Subsequent to March 31, 2020, the independent directors, on behalf of the Company, decided to settle the exchange utilizing approximately \$90.8 million in cash, including approximately \$90.7 million paid to Mr. Manning, pursuant to the terms of the Exchange Agreement. The Company completed the exchange on May 11, 2020, with payment made from the Company's cash, cash equivalents and proceeds from the sale of investment securities. Subsequent to the exchange, the Class A units were retired and as a result, the Company's ownership of Manning & Napier Group increased from 19.5% to 88.2%.

Following the settlement of the Exchange Agreement, we have significantly less cash and cash equivalents to meet working capital requirements and liquidity needs. With approximately \$55 million in cash and marketable securities on hand, we expect that we have sufficient liquidity available to meet our needs for the foreseeable future. However, in the future we will need to either generate cash from operations or seek additional financing to fund our operations. During the three months ended March 31, 2020 we did not generate net cash from operations, which was driven by a decline in net income coupled with the timing of accrued incentive compensation payments during the first quarter. We believe cash on hand and cash generated from operations will be sufficient over the next twelve months to meet our working capital requirements.

Cash Flows

The following table sets forth our cash flows for the three months ended March 31, 2020 and 2019. 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.

	Three months ended March 31,	
	2020	2019
	(in thousands)	
Net cash used in operating activities	\$ (8,976)	\$ (6,877)
Net cash provided by investing activities	17,258	3,552
Net cash used in financing activities	(351)	(1,953)
Net change in cash and cash equivalents	<u>\$ 7,931</u>	<u>\$ (5,278)</u>

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Operating Activities

Operating activities used \$9.0 million and \$6.9 million of net cash for the three months ended March 31, 2020 and 2019, respectively. This overall \$2.1 million increase in net cash used in operating activities for the three months ended March 31, 2020 compared to 2019 was attributed to an increase in operating assets and operating liabilities of approximately \$1.7 million driven by implementation costs during the three months ended March 31, 2020 related to our technology enhancements. In addition, the change was due to a decrease in net income after adjustment for non-cash items of approximately \$0.4 million driven by lower revenues resulting primarily from the decrease in our average AUM.

Investing Activities

Investing activities provided \$17.3 million and \$3.6 million of net cash for the three months ended March 31, 2020 and 2019, respectively. This change was driven by an increase in cash from investing activities of \$13.1 million due to our funding of and timing of activity within our investment securities. During the three months ended March 31, 2020, we received approximately \$17.2 million, net, from the purchase and sale of certain securities for cash management purposes compared to \$3.7 million in 2019. Our purchases of property and equipment was approximately \$0.1 million during the three months ended March 31, 2020 compared to \$0.6 million in the same period of 2019.

Financing Activities

Financing activities used \$0.4 million and \$2.0 million of net cash for the three months ended March 31, 2020 and 2019, respectively. This overall \$1.6 million decrease in net cash used in financing activities was primarily the result of a reduction in distributions to noncontrolling interests driven by lower income after adjustment for non-cash items in 2020 compared to 2019.

Dividends

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 was paid on February 3, 2020 to shareholders of record as of January 15, 2020.

On March 3, 2020, 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, 2020 to shareholders of record as of April 1, 2020.

We have funded our historical quarterly cash dividends on our Class A common stock, 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. On April 22, 2020, the Board of Directors determined to suspend our quarterly cash dividend on our Class A common stock due to the market volatility and ongoing uncertainty resulting from the COVID-19 pandemic. Company management and the Board of Directors will continue to monitor our ability to declare and pay future dividends on a quarter-by-quarter basis.

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 or the Exchange 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, including the impact of the COVID-19 pandemic and state and regional stay-at-home orders; 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.

On March 2, 2020, the Company's Board of Directors had declared a \$2.0 million distribution from Manning & Napier Group to its unitholders. Subsequent to March 3, 2020, there was significant disruption to global commercial activity as a result of the spread of COVID-19, which contributed to significant volatility and a decline in the value of many securities in the financial markets. As a result, the Company's Board of Directors determined on March 24, 2020 to withdraw its approval of that distribution from Manning & Napier Group.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2020.

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 March 31, 2020 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 March 31, 2020, 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 March 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information contained in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”) in evaluating our business, industry, structure, future results and Class A common stock.

The information presented below updates and supplements those risk factors for events, changes and developments since the filing of the 2019 Form 10-K and should be read in conjunction with the risks and other information contained in the 2019 Form 10-K. The risks described in our 2019 Form 10-K, as updated below, are not the only risks we face. Additional risks that we do not presently know or that we currently believe are not material could also materially adversely affect our business, financial position, future results and prospects.

Risks Related to our Business

Our revenues are dependent on the market value and composition of our AUM, which are subject to significant fluctuations and have been impacted by the novel coronavirus (COVID-19) pandemic and its effect on the U.S. and global economy.

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

- *Declines in prices of securities in our portfolios.* The prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, the impacts of the novel coronavirus (COVID-19) pandemic on the companies whose securities are held in the portfolios we manage, declining stock or commodities markets, changes in interest rates, a general economic downturn, including as a result of the COVID-19 pandemic, political uncertainty, pandemics or other health crises, or acts of terrorism. The U.S. and global financial markets continue to be subject to uncertainty and instability. Such factors could cause an unusual degree of volatility and price declines for securities in the portfolios we manage;
- *Redemptions and other withdrawals.* Our clients generally may withdraw their funds at any time, on very short notice and without any significant penalty. A substantial portion of our revenue is derived from investment advisory agreements that are terminable by clients upon short notice or no notice and investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice. Also, new clients and portfolios may not have the same client retention characteristics as we have experienced in the past. In a declining stock market, the pace of redemptions could accelerate;
- *Investment performance.* Our ability to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, our investment performance could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors including general market conditions. If our portfolios perform poorly, even over the short-term, as compared with our competitors or applicable third-party benchmarks, or the rankings of mutual funds we manage decline, we may lose existing AUM and have difficulty attracting new assets; and
- *Competition from passive strategies.* There has been an increasing preference for passive investment products, such as index and exchange-traded funds (“ETFs”) over active strategies managed by asset managers. If this market preference continues, existing and prospective clients may choose to invest in passive investment products, our growth strategy may be impaired and our AUM may be negatively impacted.

Our AUM has been negatively impacted by the COVID-19 pandemic primarily resulting from significant market depreciation in the first quarter of 2020, which has reduced the investment management revenue we are able to generate. The market disruption caused by COVID-19 may continue for as long or longer than the restrictions on general business operations and in-person interactions imposed by federal, state and local governments. If this period of economic disruption continues or worsens, our AUM could be further reduced, and if we are unable to reduce expenses, our net income will be reduced in the near term. Should the COVID-19 pandemic continue for an extended period of time, our business, financial condition, results of operations and cash flows may likewise be materially adversely impacted for an extended period of time.

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

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

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

Our mutual fund and collective investment trust relationships may be terminated or not renewed for any number of reasons. Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' board of directors or a vote of the majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by such fund's board, including by its independent members. Similarly, our investment management agreements with the collective investment trusts may be terminated at any time by Exeter Trust Company's board of directors, which includes independent members. As of March 31, 2020, mutual fund and collective investment trust relationships represent 29% of our AUM and 28% of our revenue for the quarter ended March 31, 2020.

Our clients will likely be impacted by the overall decline in the U.S. economy, which may cause them to terminate their relationships with us. The longer the economic results of the COVID-19 pandemic negatively impact our clients, clients may seek to withdraw their funds from our investment solutions. If a significant proportion of our clients withdraw their funds, our AUM and results of operations will be materially adversely impacted.

The decrease in revenues that could result from the termination of a material client relationship or group of client relationships could have an adverse effect on our business. During the fiscal year ended December 31, 2019 and the quarter ended March 31, 2020, other than our relationship with the Fund, there were no customers that provided over 10 percent of our total revenue.

We may not realize the expected benefits from our restructuring plan and other operational improvement initiatives relating to our strategic review of our business.

We commenced a strategic review of our business upon the appointment of our new Chief Executive, Marc Mayer, in early 2019. Our comprehensive review resulted in changes to our overall distribution strategy, our suite of investment offerings, and our operational platform. The objective of this review was to improve financial results for stockholders and investment results for clients by more clearly prioritizing our strengths, eliminating distractions and sub-scale offerings, and increasing productivity across the firm through improved technology. As a result of this strategic review, we incurred approximately

\$11.1 million of strategic restructuring and transaction costs during 2019 (excluding a \$2.9 million gain on the sale of PPI). These charges consisted of \$3.4 million of employee severance costs and \$7.7 million of other operating costs, which included approximately \$6.3 million of impairment charges stemming from the write-off of existing contracts that we will not be utilizing as we move forward with a new third-party service provider to leverage its platform in an effort to expand our digital capabilities. During the quarter ended March 31, 2020, we recognized \$0.7 million of strategic restructuring and transaction costs and we will likely incur additional costs in the future as a result of this strategic review. There can be no assurance that the costs of undertaking our operational improvement initiatives will be offset by future earnings that may result from the improvements, and it is possible that we will not realize the expected benefits from our operational improvement initiatives to the extent we anticipate or at all.

Our portfolios may not obtain attractive returns under certain market conditions or at all.

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

Difficult market conditions, like those during the current COVID-19 pandemic, can adversely affect our strategies in many ways, including by negatively impacting their performance and reducing their ability to raise or deploy capital, which could materially reduce our revenues and adversely affect our business, financial condition or results of operations.

Significant disruptions and volatility in the global financial markets and economies, like the current conditions caused by the COVID-19 pandemic, could impair the investment performance of our strategies. Although we seek to generate consistent, positive, absolute returns across all market cycles, our strategies have been and may be materially affected by conditions in the global financial markets and economic conditions. The global market and economic climate may become increasingly uncertain due to numerous factors beyond our control, including but not limited to, the duration of the COVID-19 pandemic and resulting limitations on business operations in the U.S., concerns related to unpredictable global market and economic factors, uncertainty in U.S. federal fiscal, tax, trade or regulatory policy and the fiscal, tax, trade or regulatory policy of foreign

governments, rising interest rates, inflation or deflation, the availability of credit, performance of financial markets, terrorism, natural or biological catastrophes, public health emergencies, or political uncertainty.

A general market downturn, a specific market dislocation or deteriorating economic conditions may cause a material reduction in our revenues and adversely affect our business, financial condition or results of operations by causing:

- A decline in AUM, resulting in lower management fees and incentive income.
- An increase in the cost of financial instruments, executing transactions or otherwise doing business.
- Lower or negative investment returns, which may reduce AUM and potential incentive income.
- Reduced demand for assets held by our funds, which would negatively affect our funds' ability to realize value from such assets.
- Increased investor redemptions or greater demands for enhanced liquidity or other terms, resulting in a reduction in AUM, lower revenues and potential increased difficulty in raising new capital.

As of March 31, 2020, the COVID-19 pandemic has caused a decline in our AUM primarily due to market depreciation. If these conditions continue, our business, financial condition, results of operations and cash flows may be materially adversely impacted for an extended period of time.

Furthermore, while difficult market and economic conditions and other factors can potentially increase investment opportunities over the long term, such conditions and factors also increase the risk of increased investment losses and additional regulation, which may impair our business model and operations. Our strategies may also be adversely affected by difficult market conditions if we fail to assess the adverse effect of such conditions, which would likely result in significant reductions in the returns of those strategies. Moreover, challenging market conditions may prompt industry-wide reductions in fees. In response to competitive pressures or for any other reason, we may reduce or change our fee structures, which could reduce the amount of fees and income that we may earn relative to AUM.

An investment in our Class A common stock is not an alternative to investing in our strategies, and the returns of our strategies should not be considered as indicative of any returns expected on our Class A common stock, although if our strategies perform poorly, our revenue could be materially adversely impacted, which may in turn impact the returns on our Class A common stock.

The returns on our Class A common stock are not directly linked to the historical or future performance of our investment strategies. Even if our strategies experience positive performance and our AUM increases, holders of our Class A common stock may not experience a corresponding positive return on their Class A common stock.

However, poor performance of our strategies could cause a decline in our revenues, and may therefore have a negative effect on our performance and the returns on our Class A common stock. If we fail to meet the expectations of our clients or otherwise experience poor performance, whether due to difficult economic and financial conditions or otherwise, our ability to retain existing AUM and attract new clients could be materially adversely affected. In turn, the fees that we would earn would be reduced and our business, financial condition or results of operations would suffer, thus negatively impacting the price of our Class A common stock. Furthermore, even if the investment performance of our strategies is positive, our business, financial condition or results of operations and the price of our Class A common stock could be materially adversely affected if we are unable to attract and retain additional AUM consistent with our past experience, industry trends or investor and market expectations.

The loss of key investment and sales professionals, members of our senior management team, or difficulty integrating new executives, could have an adverse effect on our business.

We depend on the skills, expertise and institutional knowledge of our key employees, including qualified investment and sales professionals and members of our senior management team, and our success depends on our ability to retain such key employees. Our investment professionals possess substantial experience in investing and have been primarily responsible for the historically attractive investment performance we have achieved. We particularly depend on our executive officers as well as senior members of our research department. As part of our strategic review of our business, we have experienced a reduction in headcount from 366 at January 1, 2019 to 293 employees at March 31, 2020. This and any future reductions to headcount may result in the loss of expertise and institutional knowledge and could adversely affect our business.

We have had significant changes in executive leadership and more could occur. Changes to strategic or operating goals, which can occur with the appointment of new executives, can create uncertainty, and may ultimately be unsuccessful. In addition, executive leadership transition periods, including adding new personnel, could be difficult as new executives gain an understanding of our business and strategy. Difficulty integrating new executives, or the loss of key individuals could limit our ability to successfully execute our business strategy and could have an adverse effect on our overall financial condition.

Competition for qualified investment, sales and top level management professionals is intense. Attracting qualified personnel, including top level management, may take time and we may fail to attract and retain qualified personnel including

top level management in the future. Our ability to attract and retain our executive officers and other key employees will depend heavily on our business strategy, corporate culture and the amount and structure of compensation. We have historically utilized a compensation structure that uses a combination of cash and equity-based incentives as appropriate. However, our compensation may not be effective to recruit and retain the personnel we need if our overall compensation packages are not competitive in the marketplace. Any cost-reduction initiative or adjustments or reductions to compensation could negatively impact our ability to retain key personnel, as could changes to our management structure, corporate culture and corporate governance arrangements.

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

Our current fee structure may be subject to downward pressure due to a variety of factors, including a trend in recent years toward lower fees in the investment management industry. We may be required to reduce fees with respect to both the separate accounts we manage and the mutual funds and collective trust funds we advise. We may charge lower fees in order to attract future new business, which may result in us having to also reduce our fees with respect to our existing business. During the first quarter of 2019, we completed the effort of restructuring fees for many of our mutual funds and collective trust vehicles. 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 business in the future. The fee restructuring reduced the management fees on our existing business, and may fail to attract additional business sufficient to offset any reduction in related operating expenses. Any further fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

Our AUM may be concentrated in certain strategies.

Client purchase and redemption activity may result in AUM concentrations with certain of our investment strategies. As a result, a substantial portion of our operating results may depend upon the performance of these strategies. If we sustain poor investment performance or adverse market conditions, clients may withdraw their investments or terminate their investment management agreements. To the extent any of these strategies is concentrated in an industry or geographic area that is disproportionately negatively impacted by the COVID-19 pandemic, the concentration of our AUM in those strategies will likely have a disproportionately negative impact on our revenues. These conditions would result in a reduction in our revenues from these strategies, which could have an adverse effect on our earnings and financial condition.

Our business is primarily focused in certain targeted geographic regions making us vulnerable to risks associated with having geographically concentrated operations.

Although our client base is national, we are primarily focused in certain targeted geographic regions, including the northeastern and southeastern regions of the United States. Furthermore, our review of our intermediary and institutional distribution strategy resulted in changes to our territory coverage and servicing efforts in order to more effectively service our existing clients with our team, while concentrating on geographies with the greatest chances for growth. This could have the effect of increasing the risks associated with having geographically concentrated operations, including increasing the risk that our business will be negatively impacted by the COVID-19 pandemic if its impacts are concentrated in any of these geographic areas. Our business, financial condition and results of operations may be susceptible to regional economic downturns and other regional factors.

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

As of March 31, 2020, approximately 21% of our AUM across all of our portfolios was invested in securities of non-U.S. companies. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. An increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our AUM, which, in turn, could result in lower revenue since we report our financial results in U.S. dollars.

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

companies. These risks could adversely affect the performance of our strategies that are invested in securities of non-U.S. issuers and may be particularly acute in the emerging or less developed markets in which we invest.

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

The historical returns of our portfolios and the ratings and rankings we or the mutual funds that we advise have earned in the past should not be considered indicative of the future results of these portfolios or of any other portfolios that we may develop in the future. The investment performance we achieve for our clients varies over time and the variance can be wide. The ratings and rankings we or the mutual funds we advise have earned are typically revised monthly. The historical performance and ratings and rankings included in this report are as of March 31, 2020 and for periods then ended except where otherwise stated. The performance we have achieved and the ratings and rankings earned at subsequent dates and for subsequent periods may be higher or lower and the difference could be material. Our portfolios' returns have benefited during some periods from investment opportunities and positive economic and market conditions. In other periods, general economic and market conditions have negatively affected our portfolios' returns. These negative conditions may occur again, and in the future we may not be able to identify and invest in profitable investment opportunities within our current or future portfolios.

Support provided to new products may reduce fee income, increase expenses and expose us to potential loss on invested capital.

We may support the development of new investment products by waiving all or a portion of the fees we receive for managing such products, by subsidizing expenses or by making seed capital investments. Seed investments in new products utilize Company capital that would otherwise be available for general corporate purposes and expose us to capital losses to the extent that realized investment losses are not offset by hedging gains. The risk of loss may be greater for seed capital investments that are not hedged, or if an intended hedge does not perform as expected. Failure to have or devote sufficient capital to support new products could have an adverse impact on our future growth.

Assets influenced by third-party intermediaries have a higher risk of redemption and are subject to changes in fee structures, which could reduce our revenues.

Investments in our mutual funds made through third-party intermediaries, as opposed to mutual fund investments resulting from sales by our own representatives can be more easily moved to investments in funds other than ours. Third-party intermediaries are attractive to investors because of the ease of accessibility to a variety of funds, but this causes the investments to be more sensitive to fluctuations in performance, especially in the short-term. If we were unable to retain the assets of our mutual funds held through third-party intermediaries, our AUM would be reduced. As a result, our revenues could decline and our business, results of operations and financial condition could be materially adversely affected.

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

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

- additional demands on our staff;
- unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees;
- adverse effects in the event acquired intangible assets or goodwill become impaired;
- the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing such a transaction; and
- dilution to our public stockholders if we issue shares of our Class A common stock, or units of Manning & Napier Group with exchange rights, in connection with future acquisitions.

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

Given that a portion of our product offerings are distributed through intermediaries, platforms, and investment consultants, a share of our success is dependent on access to these various distribution systems. These distributors are not contractually required to distribute or consider our products for placement within advisory programs, on platforms' approved lists, or in active searches conducted by investment consultants. Additionally, these intermediaries typically offer their clients

various investment products and services, in addition to and in competition with our products and services. If we are unable to cultivate and build strong relationships within these distribution channels, the sales of our products could lead to a decline in revenues and profitability. Additionally, increasing competition for these distribution channels could cause our distribution costs to rise, which could have an adverse effect on our profitability.

Our efforts to establish new portfolios or new products or services may be unsuccessful and could negatively impact our results of operations and our reputation.

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

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

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

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

Under the 1940 Act, each of the investment advisory agreements for SEC registered mutual funds that our affiliate, MNA, advises automatically terminates in the event of its assignment, as defined under the 1940 Act. If such an assignment were to occur, MNA could continue to act as adviser to any such fund only if that fund's board of directors and stockholders approved a new investment advisory agreement, except in the case of certain of the funds that we sub-advise for which only board approval would be necessary. Under the Advisers Act each of the investment advisory agreements for the separate accounts we manage may not be assigned without the consent of the client. An assignment may occur under the 1940 Act and the Advisers Act if, among other things, MNA undergoes a change of control. In certain other cases, the investment advisory agreements for the separate accounts we manage require the consent of the client for any assignment.

Due to the settlement of the Exchange Agreement that occurred on May 11, 2020 and the resulting increase in the Company's ownership of Manning & Napier Group from 19.5% to 88.2%, there was a change of control of MNA, causing an assignment of the investment advisory agreements that MNA has with SEC registered mutual funds and separate account clients. We cannot be certain that MNA will be able to obtain the necessary approvals from the boards and stockholders of the mutual funds that it advises. If MNA is unable to obtain those approvals, our results of operations will be materially adversely impacted.

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

We are heavily dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by us or by third parties. Operational risks such as trading or operational errors or interruption of our financial, accounting, trading, compliance and other data processing systems, whether caused by fire, natural disaster or pandemic, power or telecommunications failure, act of terrorism or war or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus adversely affect our business. Some types of operational risks, including, for example, trading errors, may be increased in

periods of increased volatility, which can magnify the cost of an error. Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate, and the fact that we operate our business out of multiple physical locations may make such failures and interruptions difficult to address on a timely and adequate basis.

We depend on our headquarters in Fairport, New York, where a majority of our employees, administration and technology resources are located, for the continued operation of our business. During the COVID-19 pandemic almost all of our employees are working remotely, which may impact the level of service that is provided to our clients. Any significant disruption to our headquarters could have an adverse effect on our business.

A failure to effectively maintain, enhance and modernize our information technology systems, and effectively develop and deploy new technologies, could adversely affect our business.

Our success depends on our ability to maintain effective information technology systems, to enhance those systems to better support our business in an efficient and cost-effective manner and to develop new technologies and capabilities in pursuit of our long-term strategy. We recently selected InvestCloud to lead our digital transformation, and will utilize InvestCloud's full suite of applications in order to deliver what we believe will be the best possible experience for our clients and partners. The multi-phased conversion will focus on enhancing the digital client experience, streamlining back-office processes, and centralizing performance data and reporting. Additionally, as part of the InvestCloud implementation, we will substantially re-engineer many of our business processes.

Some technology development initiatives are long-term in nature, may negatively impact our financial results as we invest in the initiatives, may cost more than anticipated to complete, or may not be completed. Additionally, our technology initiatives may be more costly or time-consuming than anticipated, may not deliver the expected benefits upon completion, and may need to be replaced or become obsolete more quickly than expected, which could result in accelerated recognition of expenses. If we fail to maintain or enhance our existing information technology systems or if we were to experience failure in developing and implementing new technologies, our relationships, reputation, ability to do business with our clients and our competitive position may be adversely affected. We could also experience other adverse consequences, including additional costs or write-offs of capitalized costs, unfavorable underwriting and reserving decisions, internal control deficiencies, and information security breaches resulting in loss or inappropriate disclosure of data. We have been required to make significant capital expenditures to update our technology infrastructure, and we may incur the costs described above as we deploy this new technology.

Failure to implement effective information and cyber security policies, procedures and capabilities, or cybersecurity breaches of software applications and other technologies on which we rely, could disrupt operations and cause financial losses that could result in a decrease in earnings and reputational harm.

We are dependent on the effectiveness of our, and third party software vendors', information and cybersecurity policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them. As part of our normal operations, we maintain and transmit confidential information about our clients and employees as well as proprietary information relating to our business operations. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting and unauthorized access to sensitive or confidential data is either prevented or detected on a timely basis. Nevertheless, all technology systems remain vulnerable to unauthorized access and may be corrupted by cyberattacks, computer viruses or other malicious software code, the nature of which threats are constantly evolving and becoming increasingly sophisticated. In addition, we are currently facing heightened operational risk, including heightened cybersecurity risk, because more of our employees are working remotely. Remote working environments may be less secure and more susceptible to cyber-attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic.

Breach or other failure of our technology systems, including those of third parties with which we do business, or failure to timely and effectively identify and respond to any such breach or failure, could result in the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the incident, additional security costs to mitigate against future incidents, increased insurance premiums, and litigation costs resulting from the incident. Moreover, loss of confidential customer information could harm our reputation, result in the termination of contracts by our existing customers and subject us to liability under laws that protect confidential personal data, resulting in increased costs or loss of revenues. Ultimately, a cyberattack can damage our competitiveness, stock price and long-term stockholder value. Recent well-publicized security breaches at other companies have led to enhanced government and regulatory scrutiny of the measures taken by companies to protect against cyberattacks, and may in the future result in heightened cybersecurity requirements, including additional regulatory expectations for oversight of vendors and service providers.

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

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

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

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

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

We must monitor and address any conflicts between our interests and those of our clients. The SEC and other regulators scrutinize potential conflicts of interest, and we have implemented procedures and controls that we believe are reasonably designed to address these issues. However, appropriately dealing with conflicts of interest is complex, and if we fail, or appear to fail, to deal appropriately with conflicts of interest, we could face reputational damage, litigation or regulatory proceedings or penalties, any of which could adversely affect our reputation, business and results of operations.

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

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design or implementation, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have an adverse effect on our financial condition or operating results. Additionally, we could be subject to litigation, particularly from our clients, and sanctions or fines from regulators. Our techniques for managing risks in client portfolios may not fully mitigate the risk exposure in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate.

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

While we carry insurance in amounts and under terms that we believe are appropriate, we cannot guarantee that our insurance will cover all liabilities and losses to which we may be exposed or, if covered, that such liabilities and losses will not exceed the limits of available insurance coverage, or that our insurers will remain solvent and meet their obligations. We cannot guarantee that our insurance policies will continue to be available at current terms and fees.

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

Risks Related to our Industry

We are subject to extensive regulation.

We are subject to extensive regulation for our investment management business and operations, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, and by FINRA. The U.S. mutual funds we advise are registered with and regulated by the SEC as investment companies under the 1940 Act. The Advisers Act imposes numerous obligations on investment advisers including record keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The 1940 Act imposes similar obligations, as well as additional detailed operational requirements, on registered investment companies, which must be adhered to by their investment advisers. The U.S. mutual funds that we advise and our broker-dealer subsidiary are each subject to the USA PATRIOT Act of 2001, which requires them to know certain information about their clients and to monitor their transactions for

suspicious financial activities, including money laundering. The U.S. Office of Foreign Assets Control, ("OFAC"), has issued regulations requiring that we refrain from doing business, or allow our clients to do business through us, in certain countries or with certain organizations or individuals on a list maintained by the U.S. government.

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

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

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

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

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

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

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

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

The investment management industry is intensely competitive.

The investment management industry is intensely competitive, with competition based on a variety of factors, including investment performance, investment management fee rates, recent trend towards favor for passive investment products, continuity of investment professionals and client relationships, the quality of services provided to clients, corporate positioning and business reputation, continuity of selling arrangements with intermediaries and differentiated products. A number of factors, including the following, serve to increase our competitive risks:

- some competitors, including those with passive investment products and exchange traded funds, charge lower fees for their investment services than we do;
- a number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do;

- potential competitors have a relatively low cost of entering the investment management industry;
- the recent trend toward consolidation in the investment management industry, and the securities business in general, has served to increase the size and strength of a number of our competitors;
- some investors may prefer to invest with an investment manager that is not publicly traded based on the perception that a publicly traded asset manager may focus on the manager's own growth to the detriment of investment performance for clients;
- some competitors may invest according to different investment styles or in alternative asset classes that the markets may perceive as more attractive than the portfolios we offer;
- some competitors may have more attractive investment returns;
- some competitors may operate in a different regulatory environment than we do, which may give them certain competitive advantages in the investment products and portfolio structures that they offer; and
- other industry participants, hedge funds and alternative asset managers may seek to recruit our investment professionals.

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

Our industry is increasingly becoming subject to rapid changes in technology that may alter historical methods of doing business.

The financial industry continues to be impacted by innovation, technological changes, and changing customer preferences, including the emergence of "FinTech" companies and the deployment of new technologies based on artificial intelligence and machine learning that are becoming increasingly competitive with and may disrupt more traditional business models. If we do not effectively anticipate and adapt to these changes it could limit our ability to compete, decrease the value of our products to clients, and adversely affect our business and results of operations.

Our business could also be affected by technological changes in the industries that represent our target markets, including tasks/roles that are currently performed by people being replaced by automation, artificial intelligence, or other advances outside of our control, which could impact national brokerage firm representatives or independent financial advisors, upon which a portion of our revenues are based, and adversely affect our business and results of operations.

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

We depend to a large extent on our network of relationships and on our reputation to attract and retain client assets. If a client is not satisfied with our services, its dissatisfaction may be more damaging to our business than client dissatisfaction would be to other types of businesses. We make investment decisions on behalf of our clients that could result in substantial losses to them. If our clients suffer significant losses, or are otherwise dissatisfied with our services, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty, breach of contract, unjust enrichment and/or fraud. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time, even after an action has been commenced. We may incur significant legal expenses in defending against litigation whether or not we engaged in conduct as a result of which we might be subject to legal liability. Substantial legal liability or significant regulatory action against us could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

Catastrophic and unpredictable events, like the COVID-19 pandemic, could have an adverse effect on our business.

The COVID-19 pandemic and any terrorist attack, war, power failure, cyber-attack, natural disaster, public health emergency or pandemic or other catastrophic or unpredictable event could adversely affect our future revenues, expenses and earnings by:

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

We have a disaster recovery plan to address certain contingencies, but we cannot be assured that this plan will be sufficient in responding or ameliorating the effects of all disaster scenarios. If our employees or the vendors we rely upon for

support in a catastrophic event are unable to respond adequately or in a timely manner, we may lose clients resulting in a decrease in AUM which may have an adverse effect on revenues and net income.

Risks Related to Our Structure

We may not be able to resume paying dividends on our Class A common stock, and our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our structure and applicable provisions of Delaware law.

On April 22, 2020, our board of directors determined to suspend our quarterly cash dividend on our Class A common stock due to the market volatility and ongoing uncertainty resulting from the COVID-19 pandemic. Although we had historically declared cash dividends on our Class A common stock, our board of directors has sole discretion over the amount or frequency of any dividends. Because of our structure, we will be dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends, if declared by the board of directors, to our stockholders. Manning & Napier Group's ability to make distributions to its members, including us, in an amount sufficient for us to pay dividends, if any, will be subject to its and its subsidiaries' operating results, cash requirements and financial condition, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it may incur in the future. In addition, as described elsewhere, under the terms of its operating agreement, Manning & Napier Group is obligated to make tax distributions to holders of its units, including us. As a consequence of these various limitations and restrictions, we may have to reduce or eliminate the payment of dividends on our Class A common stock for an extended period of time, which could adversely affect the market price of our Class A common stock.

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

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

Furthermore, by paying cash distributions rather than investing in our business, we might not have sufficient cash to fund operations or new growth initiatives that will support the growth of our business.

We are required to pay holders of units of Manning & Napier Group for certain tax benefits we may claim as a result of the tax basis step up we realize in connection with the future purchases or exchanges of those units for shares of our Class A common stock, and the amounts we may pay could be significant.

Our current and former employee owners indirectly hold a minority ownership interest in Manning & Napier Group. Any future purchases or exchanges of their units of Manning & Napier Group for cash or, at our election, shares of our Class A common stock may produce favorable tax attributes for us. When we acquire such units, both the existing basis and the anticipated basis adjustments may increase, for tax purposes, depreciation and amortization deductions allocable to us from Manning & Napier Group and therefore reduce the amount of income tax we would otherwise be required to pay in the future. This increase in tax basis may also decrease gain, or increase loss, on future dispositions of certain capital assets to the extent the increased tax basis is allocated to those capital assets.

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

under the tax receivable agreement and (ii) payments under the tax receivable agreement, including any tax benefits related to imputed interest deemed to be paid by us as a result of such agreement.

We expect that the payments we will be required to make under the tax receivable agreement will be substantial. We have recorded the estimated impacts of the Tax Cuts and Jobs Act and the CARES Act on the liability under the tax receivable agreement. Assuming no new material changes in the relevant tax law, the purchase or exchange of Class A units would result in depreciable or amortizable basis and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreement, we expect that the reduction in tax payments for us is approximately \$24.0 million as of March 31, 2020. Under such scenario, we would be required to pay the holders of such Class A units 85% of such amount, or approximately \$20.4 million. The actual amounts may materially differ from these estimated amounts, as potential future reductions in tax payments for us and tax receivable agreement payments by us will be calculated using the market value of our Class A common stock and the prevailing tax rates at the time of purchase or exchange and will be dependent on us generating sufficient future taxable income to realize the benefit. In general, increases in the market value of our shares or in prevailing tax rates will increase the amounts we pay under the tax receivable agreement.

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

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

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

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

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

The tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, or if, at any time, we elect an early termination of the tax receivable agreement, our obligations under the tax receivable agreement with respect to all Class A units of Manning & Napier Group, whether or not such units have been purchased or exchanged before or after such transaction, would be based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As a result, (i) we could be required to make payments under the tax receivable agreement that are greater than or less than the specified percentage of the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement and (ii) if we elect to terminate the tax receivable agreement early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which payment may be made significantly in advance of the actual realization of such future benefits. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreement. If we were to elect to terminate the tax receivable agreement immediately as of May 12, 2020, we estimate that we would be required to pay up to approximately \$20.8 million in the aggregate, which assumes the exchange of 2,021,781 units of Manning & Napier Group held by those other than us under the tax receivable agreement.

If we were deemed an investment company under the 1940 Act as a result of our ownership of Manning & Napier Group, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

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

Risks Related to Our Class A Common Stock

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

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

- an extended period of U.S. economic hardship as a result of the COVID-19 pandemic;
- actual or anticipated variations in our quarterly operating results, including the suspension of our quarterly dividend;
- failure to meet the market’s earnings expectations;
- publication of negative research reports about us or the investment management industry, or the failure of securities analysts to cover our Class A common stock;
- a limited float and low average daily trading volume, which may result in illiquidity as investors try to buy and sell and thereby exacerbating positive or negative pressure on our stock;
- departures of any members of our senior management team or additions or departures of other key personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- adverse market reaction to our stockholder rights, or “poison pill,” plan;
- changes in market valuations of similar companies;
- actual or anticipated poor performance in one or more of the portfolios we offer;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- adverse publicity about the investment management industry generally, or particular scandals, specifically;
- litigation and governmental investigations;
- consummation by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- actions by stockholders, including any activist stockholders;

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

Our Class A common stockholders may experience dilution in the future as a result of future acquisitions, additional capital raising, exchanges pursuant to the Exchange Agreement and/or equity grants under our equity compensation plans.

If we issue shares of Class A common stock or units of Manning & Napier Group in future acquisitions or capital raising activity, the ownership interest of our Class A common stockholders will be diluted. If we grant exchange rights with respect to the issuance of the units of Manning & Napier Group that allow its holder to exchange such units for shares of our Class A common stock, stockholders will incur dilution in the percentage of the issued and outstanding shares of Class A common stock that are owned at such time. Our stockholders will also be diluted to the extent the current holders of Class A units of Manning & Napier Group exchange their units pursuant to the Exchange Agreement and we settle that exchange in shares of our Class A common stock. We also may issue shares of our Class A common stock or units of Manning & Napier Group in connection with grants under our equity compensation plans, which will dilute our Class A common stockholders. Any such future sales, issuances or exchanges of our Class A common stock or rights to purchase our Class A common stock could result in substantial dilution to our existing stockholders.

If we fail to comply with our public company financial reporting and other regulatory obligations, including the Continued Listing Criteria of the New York Stock Exchange, our business and stock price could be adversely affected.

We are subject to the Continued Listing Criteria of the New York Stock Exchange (“NYSE”). In order for our Class A common stock to continue trading on the NYSE, we must maintain certain share prices, numbers of stockholders and corporate governance standards, including obtaining the approval of our stockholders prior to issuing shares in excess of 20% of the voting power outstanding before that issuance. If we are unable to meet any of these standards, our Class A common stock may no longer trade on the NYSE, which would adversely impact the trading market for our shares and liquidity for our stockholders and may adversely impact our business. If our Class A common stock does not maintain an average closing price of \$1.00 or more over any consecutive 30 trading-day period, the NYSE may delist our Class A common stock for failure to maintain compliance with the NYSE price criteria listing standards. Specifically, in the event that our stock price falls below the minimum share price, we may fall out of compliance with the NYSE listing standards and to regain compliance we may be forced to take corporate actions, such as a reverse stock split, which may adversely impact the trading market for our shares and liquidity. As a public company, we are subject to the reporting requirements of the Exchange Act, have implemented specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, as well as the rules of the NYSE.

Our management is required to conduct an annual assessment of the effectiveness of our internal controls over financial reporting and include a report on our internal controls in our annual reports on Form 10-K pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. If our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

Our corporate documents, stockholder rights plan and Delaware law contain provisions that could discourage, delay or prevent a change in control of the Company that our stockholders might consider to be in their best interests.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws, as well as our stockholder rights, or “poison pill,” plan, could impede attempts by our stockholders to remove or replace our management and could discourage others from initiating a potential merger, takeover or other change of control transaction, including a potential transaction at a premium over the market price of our Class A common stock, that our stockholders might consider to be in their best interests. These provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of our Class A common stock;
- discourage any person or group that wishes to acquire 15% or more of our Class A common stock from doing so without obtaining our agreement because such an acquisition would cause the person or group to suffer substantial dilution;
- prohibit stockholder action by written consent and instead require all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our amended and restated bylaws; and

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

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

A proxy contest for the election of directors at our annual meeting or proposals arising out of stockholder initiatives could cause us to incur substantial costs and negatively affect our business.

Due to the uncertainty in U.S. financial markets as a result of the COVID-19 pandemic in combination with the recent exchange pursuant to the Exchange Agreement, we may be subject to proxy contests and other forms of stockholder activism. In the event that any significant investor makes proposals concerning our operations, governance or other matters, or seeks to change our board of directors, our review and consideration of such proposals may require the devotion of a significant amount of time by our management and employees and could require us to expend significant resources. Further, if our board of directors, in exercising its fiduciary duties, disagrees with or determines not to pursue the strategic direction suggested by an activist stockholder, our business could be adversely affected by responding to a costly and time-consuming proxy contest or other actions from an activist stockholder that will divert the attention of our management and employees, interfere with our ability to execute our strategic plan, result in the loss of business opportunities and clients, and make it more difficult for us to attract and retain qualified personnel and business partners.

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

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

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

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

Item 6. Exhibits

Exhibit No.	Description
10.1	Third Amendment to the Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC dated as of March 3, 2020 by and among the Members of M&N Group Holdings, LLC.
10.2	Second Amendment to Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC dated as of March 3, 2020 by and among the members of Manning & Napier Group, LLC.
10.3	Second Amendment to Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C. dated as of March 3, 2020 by and among the members of Manning & Napier Capital Company, LLC.
10.4	Form of Restricted Stock Award Agreement, as amended February 1, 2020, under the Manning & Napier, Inc. 2011 Equity Compensation Plan is incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities Exchange Commission on March 13, 2020
31.1	Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Materials from the Manning & Napier, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, 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: May 15, 2020

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)

**THIRD AMENDMENT TO THE
AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
M&N GROUP HOLDINGS, LLC
(A Delaware Limited Liability Company)**

This Third Amendment (this "Amendment") to the Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC, a Delaware limited liability company (the "Company"), is entered into as of March 3, 2020 (the "Effective Date"), by and among the undersigned Members of the Company.

RECITALS

WHEREAS, the Members entered into the Amended and Restated Limited Liability Company Agreement effective as of October 1, 2011 (the "Original Agreement"), the First Amendment to Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC, effective October 28, 2011, and the Second Amendment to Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC, effective December 1, 2013 (together, the "M&N Holdings Operating Agreement");

WHEREAS, the Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC shall be amended on even date herewith;

WHEREAS, the Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C., effective November 23, 2011 ("MNCC"), shall be amended on even date herewith (the "MNCC Operating Agreement");

WHEREAS, in conjunction with the amendments to the Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC, and the MNCC Operating Agreement, the Members desire to amend the M&N Holdings Operating Agreement as provided herein;

WHEREAS, pursuant to Section 13.01 of the M&N Holdings Operating Agreement, the M&N Holdings Operating Agreement may be amended with the written consent of the Managing Member and the Members holding at least 90% of the outstanding membership interests of the Company, voting together as a single class; and

NOW, THEREFORE, for good and valuable consideration and intending to be legally bound hereby, the undersigned Members agree as follows:

1. Definitions. Any capitalized term used, but not defined, in this Amendment shall have its respective meaning as set forth in the Original Agreement.

2. Amendments. From and after the Effective Date:

(a) Section 11.03(c) shall be amended and restated in its entirety to read as follows:

"(c) The highest ranking employee of the Company's accounting department will be the Company's Partnership Representative."

(b) New Sections 11.03(d), 11.03(e), and 11.03(f) are added to read as follows:

"(d) The Partnership Representative is authorized and required to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by taxing authorities, including resulting administrative and judicial proceedings, and to expend Company funds for professional services and costs associated therewith. Each Member will not independently act with respect to tax audits or tax litigation of the Company, unless previously authorized to do so in writing by the Partnership Representative, which authorization may be withheld by the Partnership Representative in its sole and absolute discretion. The Partnership Representative shall have sole discretion to determine whether the Company (either on its own behalf or on behalf of the Members) will contest or continue to contest any tax deficiencies assessed or proposed to be assessed by any tax authority. The Company and its Members shall be bound by the actions taken by the Partnership Representative.

(e) In the event of an audit of the Company that is subject to the partnership audit procedures enacted under Section 1101 of the Bipartisan Budget Act ("BBA") (the "BBA Procedures"), the Partnership Representative, in his or her sole discretion, shall have the right to make any and all elections and to take any actions that are available to be made or taken by the Partnership Representative or the Company under the BBA Procedures (including any election under Section 6226 of the Code as amended by the BBA). If an election under Section 6226(a) of the Code (as amended by the BBA) is made, the Company shall furnish to each Member for the year under audit a statement of the Member's share of any adjustment set forth in the notice of final partnership adjustment, and each Member shall take such adjustment into account as required under Section 6226(b) of the Code (as amended by the BBA).

(f) Any deficiency for taxes imposed on any Member (including penalties, additions to tax or interest imposed with respect to such taxes and any tax deficiency imposed pursuant to Section 6226 of the Code as amended by the BBA) will be paid by such Member and if required to be paid (and actually paid) by the Company, will be recoverable from such Member. To the extent that the Partnership Representative does not make an election Section 6226 of the Code (each as amended by the BBA), the Company shall use commercially reasonable efforts to (i) make any modifications available under Sections 6225(c)(3), (4), and (5) of the Code, as amended by the BBA, and (ii) if requested by a Member, provide to such Member information allowing such Member to file an amended federal income tax return, as described in Section 6225(c)(2) of the Code as amended by the BBA, to the extent such amended return and payment of any related federal income taxes would reduce any taxes payable by the Company."

3. Miscellaneous Provisions

(a) This Amendment shall constitute and evidence the consent of both the Managing Member and the undersigned Members, which hold at least 90% of the outstanding membership interests in the Company, to this Amendment within the meaning of Section 13.01 of the M&N Holdings Operating Agreement.

(b) Except as expressly amended hereby, the terms and conditions of the M&N Holdings Operating Agreement are hereby ratified and confirmed, and shall continue in full force and effect. In the event of any conflict or inconsistency between the terms set forth herein and the terms of the M&N Holdings Operating Agreement, the terms contained in this Amendment shall control.

(c) This Amendment shall be governed by, and construed in accordance with, the laws and decisions of the State of Delaware, without regard to conflict of law rules applied in such State.

(d) This Amendment constitutes the entire understanding among the parties hereto. No waiver or modification of the provisions of this Amendment shall be valid unless it is in writing and executed pursuant to Section 13.01 of the M&N Holdings Operating Agreement and then, only to the extent therein set forth.

(e) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement binding on the Members and the Board. For purposes of this Amendment, any signature hereto transmitted by facsimile or e-mail (in PDF format) shall be considered to have the same legal and binding effect as any original signature hereto.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

MANAGING MEMBER:

By: /s/ William Manning
William Manning

MEMBERS

MANNING & NAPIER ASSOCIATES, LLC

By: /s/ B. Reuben Auspitz
Name: B. Reuben Auspitz
Title: Managing Member

MNA ADVISORS, INC.

By: /s/ Michelle Thomas
Name: Michelle Thomas
Title: Corporate Secretary

**SECOND AMENDMENT TO THE
AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
MANNING & NAPIER GROUP, LLC
(A Delaware Limited Liability Company)**

This Second Amendment (this "Amendment") to the Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC, a Delaware limited liability company (the "Company"), is entered into as of March 3, 2020 (the "Effective Date"), by and among the undersigned Members of the Company.

RECITALS

WHEREAS, the Members entered into the Amended and Restated Limited Liability Company Agreement effective as of October 1, 2011 and the First Amendment to Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC effective December 1, 2013 (together, the "Original Agreement");

WHEREAS, the Limited Liability Company Agreement of M&N Group Holdings, LLC, shall be amended on even date herewith;

WHEREAS, Manning & Napier Capital Company, L.L.C. ("MNCC"), a Member of the Company, is a party to that certain Amended and Restated Operating Agreement dated November 23, 2011, which agreement shall be amended on even date herewith (the "MNCC Operating Agreement");

WHEREAS, in conjunction with the amendments to the M&N Group Holdings Operating Agreement and the MNCC Operating Agreement, the Members desire to amend the Original Agreement as provided herein;

WHEREAS, pursuant to Section 13.01 of the Original Agreement, the Original Agreement may be amended with the written consent of the Managing Member and M&N Group Holdings; and

NOW, THEREFORE, for good and valuable consideration and intending to be legally bound hereby, the undersigned Members agree as follows:

1. Definitions. Any capitalized term used, but not defined, in this Amendment shall have its respective meaning as set forth in the Original Agreement.

2. Amendments. From and after the Effective Date:

(a) Section 11.03(c) shall be amended and restated in its entirety to read as follows:

"(c) The highest ranking employee of the Company's accounting department will be the Company's Partnership Representative."

(b) New Sections 11.03(d), 11.03(e), and 11.03(f) are added to read as follows:

"(d) The Partnership Representative is authorized and required to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by taxing authorities, including resulting administrative and judicial proceedings, and to expend Company funds for professional services and costs associated therewith. Each Member will not independently act with respect to tax audits or tax litigation of the Company, unless previously authorized to do so in writing by the Partnership Representative, which authorization may be withheld by the Partnership Representative in its sole and absolute discretion. The Partnership Representative shall have sole discretion to determine whether the Company (either on its own behalf or on behalf of the Members) will contest or continue to contest any tax deficiencies assessed or proposed to be assessed by any tax authority. The Company and its Members shall be bound by the actions taken by the Partnership Representative.

(e) In the event of an audit of the Company that is subject to the partnership audit procedures enacted under Section 1101 of the Bipartisan Budget Act ("BBA") (the "BBA Procedures"), the Partnership Representative, in his or her sole discretion, shall have the right to make any and all elections and to take any actions that are available to be made or taken by the Partnership Representative or the Company under the BBA Procedures (including any election under Section 6226 of the Code as amended by the BBA). If an election under Section 6226(a) of the Code (as amended by the BBA) is made, the Company shall furnish to each Member for the year under audit a statement of the Member's share of any adjustment set forth in the notice of final partnership adjustment, and each Member shall take such adjustment into account as required under Section 6226(b) of the Code (as amended by the BBA).

(f) Any deficiency for taxes imposed on any Member (including penalties, additions to tax or interest imposed with respect to such taxes and any tax deficiency imposed pursuant to Section 6226 of the Code as amended by the BBA) will be paid by such Member and if required to be paid (and actually paid) by the Company, will be recoverable from such Member. To the extent that the Partnership Representative does not make an election under Section 6226 of the Code (as amended by the BBA), the Company shall use commercially reasonable efforts to (i) make any modifications available under Sections 6225(c)(3), (4), and (5) of the Code, as amended by the BBA, and (ii) if requested by a Member, provide to such Member information allowing such Member to file an amended federal income tax return, as described in Section 6225(c)(2) of the Code as amended by the BBA, to the extent such amended return and payment of any related federal income taxes would reduce any taxes payable by the Company."

3. Miscellaneous Provisions

(a) This Amendment shall constitute and evidence the consent of the Managing Member, M&N Group Holdings, and any other undersigned Members of this Amendment within the meaning of Section 13.01 of the Original Agreement.

(b) Except as expressly amended hereby, the terms and conditions of this Original Agreement are hereby ratified and confirmed, and shall continue in full force and effect. In the event of any conflict or inconsistency between the terms set forth herein and the terms of the Original Agreement, the terms contained in this Amendment shall control.

(c) This Amendment shall be governed by, and construed in accordance with, the laws and decisions of the State of Delaware, without regard to conflict of law rules applied in such State.

(d) This Amendment constitutes the entire understanding among the parties hereto. No waiver or modification of the provisions of this Amendment shall be valid unless it is in writing and executed pursuant to Section 13.01 of the Original Agreement and then, only to the extent therein set forth.

(e) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement binding on the Members and the Board. For purposes of this Amendment, any signature hereto transmitted by facsimile or e-mail (in PDF format) shall be considered to have the same legal and binding effect as any original signature hereto.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

MANAGING MEMBER:

MANNING & NAPIER, INC.

By: /s/ Sarah C. Turner

Name: Sarah C. Turner

Title: Corporate Secretary

MEMBERS

M&N GROUP HOLDINGS, LLC

By: /s/ William Manning

Name: William Manning

Title: Managing Member

MANNING & NAPIER CAPITAL COMPANY, L.L.C.

By: /s/ William Manning

Name: William Manning

Title: Managing Member

**SECOND AMENDMENT TO THE AMENDED AND RESTATED
OPERATING AGREEMENT OF
MANNING & NAPIER CAPITAL COMPANY, L.L.C.**
(A New York Limited Liability Company)

This Second Amendment (this "Amendment") to the Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C., is entered into as of March 3, 2020 (the "Effective Date"), by an among the undersigned Members of the Company.

RECITALS

WHEREAS, the Members entered into the Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C. effective November 23, 2011, and the First Amendment to Amended and Restated Operating Agreement of Manning & Napier Capital Company, L.L.C. effective December 1, 2013 (together, the "MNCC Operating Agreement");

WHEREAS, the Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC shall be amended on even date herewith;

WHEREAS, the Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC shall be amended on even date herewith;

WHEREAS, in conjunction with the amendments to the Amended and Restated Limited Liability Company Agreement of Manning & Napier Group, LLC, and the Amended and Restated Limited Liability Company Agreement of M&N Group Holdings, LLC, the Members desire to amend the MNCC Operating Agreement as provided herein;

WHEREAS, pursuant to Section 23.8 of the MNCC Operating Agreement, the MNCC Operating Agreement may be amended by a written consent signed by Manning and Members owning more than 50% of the outstanding LLC Interests (excluding the LLC Interests owned by Manning); and

NOW, THEREFORE, for good and valuable consideration and intending to be legally bound hereby, the undersigned Members agree as follows:

1. Definitions. Any capitalized term used, but not defined, in this Amendment shall have its respective meaning as set forth in the MNCC Operating Agreement.
2. Amendments. From and after the Effective Date:
 - (a) Section 6.6(a) is amended and rested in its entirety to read as follows:

"(a) (i) The highest ranking employee of the LLC's accounting department will be the Partnership Representative of the LLC."

(ii) The Partnership Representative is authorized and required to represent the LLC (at the LLC's expense) in connection with all examinations of the LLC's affairs by taxing authorities, including resulting administrative and judicial proceedings, and to expend LLC funds for professional services and costs associated therewith. Each Member will not independently act with respect to tax audits or tax litigation of the LLC, unless previously authorized to do so in writing by the Partnership Representative, which authorization may be withheld by the Partnership Representative in its sole and absolute discretion. The Partnership Representative shall have sole discretion to determine whether the LLC (either on its own behalf or on behalf of the Members) will contest or continue to contest any tax deficiencies assess or proposed to be assessed by any taxing authority. The LLC and its Members shall be bound by the actions taken by the Partnership Representative.

(iii) In the event of an audit of the LLC that is subject to the partnership audit procedures enacted under Section 1101 of the Bipartisan Budget Act ("BBA") (the "BBA Procedures"), the Partnership Representative, in his or her sole discretion, shall have the right to make any and all elections and to take any actions that are available to be made or taken by the Partnership Representative or the LLC under the BBA Procedures (including any election under Section 6226 of the Code as amended by the BBA). If an election under Section 6226(a) of the Code (as amended by the BBA) is made, the LLC shall furnish to each Member for the year under audit a statement of the Member's share of any adjustment set forth in the notice of final partnership adjustment, and each Member shall take such adjustment into account as required under Section 6226(b) of the Code (as amended by the BBA).

(iv) Each Member shall not treat any LLC item inconsistently on such Member's federal, state, foreign or other income tax return with the treatment of the item on the LLC's return. Any deficiency for taxes imposed on any Member (including penalties, additions to tax or interest imposed with respect to such taxes and any tax deficiency imposed pursuant to Section 6226 of the Code as amended by the BBA) will be paid by such Member and if required to be paid (and actually paid) by the LLC, will be recoverable from such Member. To the extent that the Partnership Representative does not make an election under Section 6221(b) of the Code or Section 6226 of the Code (each as amended by the BBA), the LLC shall use commercially reasonable efforts to (i) make any modifications available under Sections 6225(c)(3), (4), and (5) of the Code, as amended by the BBA, and (ii) if requested by a Member, provide if requested by a Member, provide to such Member information allowing such member to file an amended federal income tax return, as described in Section 6225(c)(2) of the Code as amended by the BBA, to the extent such amended return and payment of any related federal income taxes would reduce any taxes payable by the LLC."

3. Miscellaneous Provisions

(a) This Amendment shall constitute and evidence the consent of the Members owning more than 50% of the outstanding LLC Interests and Manning within the meaning of Section 23.8 of the MNCC Operating Agreement.

(b) Except as expressly amended hereby, the terms and conditions of this MNCC Operating Agreement are hereby ratified and confirmed, and shall continue in full force and effect. In the event of any conflict or inconsistency between the terms set forth herein and the terms of the MNCC Operating Agreement, the terms contained in this Amendment shall control.

(c) This Amendment shall be governed by, and construed in accordance with, the laws and decisions of the State of New York, without regard to conflict of law rules applied in such State.

(d) This Amendment constitutes the entire understanding among the parties hereto. No waiver or modification of the provisions of this Amendment shall be valid unless it is in writing and executed pursuant to Section 23.8 of the MNCC Operating Agreement and then, only to the extent therein set forth.

(e) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement binding on the Members and the Board. For purposes of this Amendment, any signature hereto transmitted by facsimile or e-mail (in PDF format) shall be considered to have the same legal and binding effect as any original signature hereto.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

MANAGING MEMBER:

By: /s/ William Manning
Name: William Manning
Title: Managing Member

MEMBERS:

By: /s/ Timothy Willis
Name: Timothy Willis
Title: Member

By: /s/ Beth Gallusha
Name: Beth Galusha
Title: Member

By: /s/ Katheryn Mauer
Name: Kathryn Maurer
Title: Member

By: /s/ Otto Odendahl
Name: Otto Odendahl
Title: Member

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

Marc Mayer
Chief Executive Officer
(principal executive officer)

Date: May 15, 2020

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

Paul J. Battaglia

Chief Financial Officer

(principal financial and accounting officer)

Date: May 15, 2020

**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 March 31, 2020 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

Marc Mayer
Chief Executive Officer
(principal executive officer)

Date: May 15, 2020

**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 March 31, 2020 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

Paul J. Battaglia

Chief Financial Officer

(principal financial and accounting officer)

Date: May 15, 2020