Manning & Napier, Inc.
Form 10-K
March 27, 2019

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

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FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-35355

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MANNING & NAPIER, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 45-2609100 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 290 Woodcliff Drive Fairport, New York | 14450 |
| (Address of principal executive offices) | (Zip code) |

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 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 x 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 x No ¨

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

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 ¨ | Accelerated filer ¨ |
| Non-accelerated filer x | Smaller reporting company x |
| | Emerging growth company ¨ |

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. Yes ¨ No ¨

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

The aggregate market value of the registrant's common equity held by non-affiliates of the registrant (assuming for purposes of this computation only that the directors and executive officers may be affiliates) at June 30, 2018, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately $46.0 million based on the closing price of $3.10 for one share of common stock, as reported on the New York Stock Exchange on that date.

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

| Class | Outstanding at March 20, 2019 |
|---|---|
| Class A common stock, $0.01 par value per share | 15,684,573 |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be held June 12, 2019 are incorporated by reference into Part III of this Form 10-K.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. Business.

Overview

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, platforms, endowments and foundations. Our investment strategies offer equity, fixed income and a range of blended asset portfolios by employing traditional and quantitative approaches.

Since our inception, our objective has been to create and develop deep client relationships, allowing us to understand our client's financial needs and objectives. Our goal is to provide comprehensive solutions, high-touch service, and attractive investment strategies in today's ever-changing financial marketplace.

Initially, this approach helped us build a client base of high-net-worth individuals, small business owners and middle market institutions using separately managed accounts, and we maintain these relationships in many targeted geographic regions. Over time, we were able to expand on this foundation with additional strategies and solutions, including the use of mutual funds and collective investment trusts to serve larger institutions, defined contribution plans, and unions as well as those clients that may utilize investment consultants or other intermediaries.

A key aspect of our client service approach is a commitment to retaining internal subject matter experts that can provide consultative services beyond investment management, which we believe helps us attract new clients and build close relationships with existing clients. We have designed solutions that can be tailored to specific client needs, such as our family wealth management service, endowment and foundation services, and custody and trust services. We believe this service-oriented approach, combined with competitive long-term investment performance, has allowed us to achieve a high average annual separate account retention rate throughout our history.

From an investment standpoint, our strategies are designed to provide competitive absolute returns over the long-term by employing time-tested, disciplined research processes. While the mechanics of these processes may differ depending on the strategy, all of our solutions work from the underlying belief that active management is the best investment approach for meeting long-term client objectives. Additionally, our investment team's compensation structure has been designed with a focus on aligning our business outcomes with positive client outcomes.

Over the course of our nearly 50 year history, we view our team-based, client-centric approach as imperative to our success and distinct within the industry. As of December 31, 2018, we have twelve mutual fund share classes rated with four or five stars by Morningstar, and a number of our investment strategies have built value-added track records over multiple decades. Recently, however, the three- and five-year performance of several of our key strategies has been mixed.

Performance challenges, along with the trend toward passive investing, especially amongst institutional investors, resulted in assets under management ("AUM") declines starting in 2014. Our active approach can cause us to be out of favor relative to benchmarks and/or peers over shorter time periods, and these short-term deviations can lead to changes in AUM trends over time. The following chart reflects our AUM as of December 31 for each of the last 10 years:

As of December 31, 2018, our investment management offerings include approximately 49 distinct separate account composites and 58 mutual funds and collective investment trusts. We believe we have cultivated a robust menu of actively managed strategies that address client needs including traditional, quantitative, and specialized portfolios. Our AUM as of December 31, 2018 by investment vehicle and portfolio were as follows:



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The following table summarizes the annualized returns for several of our key investment strategies and relevant benchmarks. Since inception and over long-term periods, we believe our 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 78% of our AUM as of December 31, 2018.

| Key Strategies | AUM as of December 31, 2018 (in millions) | Inception Date | Annualized Returns as of December 31, 2018 [1] | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | One Year | Three Year | Five Year | Ten Year | Market Cycle [2] | Inception |
| Long-Term Growth (30%-80% Equity Exposure) | $ 5,841.5 | 1/1/1973 | (3.0)% | 4.9% | 3.4% | 8.0% | 6.0% | 9.3% |
| Blended Index [4] | | | (4.0)% | 5.4% | 4.6% | 8.1% | 5.0% | 8.6% |
| Core Non-U.S. Equity | $ 1,850.1 | 10/1/1996 | (16.8)% | 1.6% | (2.0)% | 5.1% | 4.6% | 6.5% |
| Benchmark: ACWIxUS Index | | | (14.2)% | 4.5% | 0.7% | 6.6% | 3.0% | 4.6% |
| Growth with Reduced Volatility (20%-60% Equity Exposure) | $ 2,695.9 | 1/1/1973 | (2.2)% | 3.8% | 2.7% | 6.6% | 5.5% | 8.5% |
| Blended Index [5] | | | (2.8)% | 4.5% | 4.1% | 6.9% | 5.0% | 8.3% |
| Equity-Oriented (70%-100% Equity Exposure) | $ 1,284.2 | 1/1/1993 | (4.9)% | 7.1% | 4.3% | 10.1% | 6.5% | 9.5% |
| Blended Benchmark: 65% Russell 3000® / 20% ACWIxUS / 15% Bloomberg Barclays U.S. Aggregate Bond | | | (6.1)% | 7.2% | 5.8% | 10.5% | 4.8% | 8.1% |
| Equity-Focused Blend (50%-90% Equity Exposure) | $ 965.5 | 4/1/2000 | (3.8)% | 5.4% | 3.7% | 8.8% | 6.4% | 6.4% |
| Blended Benchmark: 53% Russell 3000/ 17% ACWIxUS/ 30% Bloomberg Barclays U.S. Aggregate Bond | | | (5.0)% | 6.3% | 5.2% | 9.4% | 4.9% | 4.9% |
| Core Equity-Unrestricted (90%-100% Equity Exposure) | $ 750.9 | 1/1/1995 | (4.5)% | 8.3% | 5.3% | 11.3% | 7.2% | 10.6% |
| Blended Benchmark: 80% Russell 3000® / 20% ACWIxUS | | | (7.0)% | 8.1% | 6.5% | 11.9% | 4.7% | 8.6% |
| Core U.S. Equity | $ 383.1 | 7/1/2000 | (3.5)% | 9.8% | 6.7% | 12.1% | N/A [3] | 7.2% |
| Benchmark: Russell 3000® Index | | | (5.2)% | 9.0% | 7.9% | 13.2% | N/A [3] | 5.3% |
| Conservative Growth (5%-35% Equity Exposure) | $ 478.2 | 4/1/1992 | (0.9)% | 2.6% | 2.0% | 4.5% | 4.8% | 5.7% |
| Blended Benchmark:15% Russell 3000/ 5% ACWIxUS/ 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond | | | (0.6)% | 3.0% | 3.0% | 4.9% | 4.7% | 6.0% |
| Aggregate Fixed Income | $ 347.6 | 1/1/1984 | 0.2% | 1.8% | 2.0% | 3.4% | 4.5% | 7.0% |
| Benchmark: Bloomberg Barclays U.S. Aggregate Bond | | | 0.0% | 2.1% | 2.5% | 3.5% | 4.8% | 7.0% |
| Rainier International Small Cap | $ 738.3 | 3/28/2012 | (18.0)% | 2.9% | 4.6% | N/A [3] | N/A [3] | 10.1% |
| Benchmark: MSCI ACWIxUS Small Cap Index | | | (18.2)% | 3.8% | 2.0% | N/A [3] | N/A [3] | 4.8% |
| Disciplined Value | $ 433.7 | 11/1/2003 | (3.2)% | 10.2% | 7.8% | 11.6% | N/A [3] | 10.2% |
| Benchmark: Russell 1000 Value | | | (8.3)% | 7.0% | 6.0% | 11.2% | N/A [3] | 7.5% |

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(1) Key investment strategy returns are presented net of fees. Benchmark returns do not reflect any fees or expenses.
The market cycle performance numbers are calculated from April 1, 2000 to December 31, 2018. We believe that a full market cycle time period should contain a wide range of market conditions and usually consists of a bear market, recovery and bull market stage. Our definition of the current market cycle includes the bear market that
(2) began with an abrupt decline in the technology sector (4/1/2000 - 9/30/2002), the subsequent failed recovery (10/1/2002 - 10/31/2007), the financial crisis bear market (11/1/2007 - 2/28/2009), and the current bull market (3/1/2009 - current). The period utilized in our current market cycle may differ from periods used by other investment managers.

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

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

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

Our Strategy

Our mission has always been a complete focus on doing what is best for our clients, and it is our highest priority to deliver superior results and service. In achieving those results, we strive for continuous refinement and improvement of our investment disciplines. The asset management business is a dynamic industry, and meeting client goals and objectives will require constant evolution. Our focus on delivering excellent investment results, exceptional client service, and innovative solutions will help our clients achieve their financial goals and form the foundation for our business.

We believe Manning & Napier’s investment solutions have been time-tested, and our approach is focused on the characteristics highlighted below.

Team-Based Research Engines

With a research department of over 60 investment professionals, we are committed to a team-based approach in order to best ensure that success can be repeated over time. All of our investment strategies are managed by portfolio teams, allowing the stability of process to take precedence over any individual personality. We take a home-grown approach to maintaining our research engines. We believe this enhances the consistency with our time-tested philosophies and provides a source of future analysts to address growth and turnover. As warranted, we may also add to or supplement our research teams with additional investment professionals through corporate development activities. The latest example of this is the Rainier International Small Cap Team that was added as part of our acquisition of Rainier Investment Management, LLC ("Rainier") in 2016. The Director of Investments and Managing Directors of the Firm’s investment groups are responsible for talent management and ensuring day-to-day adherence to our strategies and disciplines.

Multi-Channel Sales Teams

We have a deep multi-channel sales structure, which includes Direct, Intermediary and Platform/Sub-Advisory channels. Our Direct channel maintains relationships with high-net-worth individuals, middle market institutions, Taft-Hartley plans and large institutions working with a consultant. Our high-touch strategy allows us to build strong relationships over time. Our Intermediary teams work with national brokerage firms, independent financial advisors, and retirement plan advisors to provide solutions for their clients. Manager research teams approve our strategies for their platforms through our Platform/Sub-Advisory Channel. Our client-facing teams maintain relationships with the client or intermediary after the initial sale, ensuring that our strategies and solutions are meeting the needs of the clients.

Innovative Investment Strategies

We have a history of investing in our business to support innovation. Our ongoing development of new investment strategies has historically been a source of growth. A dynamic market and regulatory environment presents challenges for investors. Whether through innovative investment strategies or bespoke client-specific custom solutions, we will continue to evolve in order to meet the ever-changing needs of our clients. We regularly review our group of seeded portfolios to ensure that we are supporting competitive strategies that resonate with clients while redeeming portfolios that are no longer viable. As of December 31, 2018, we have approximately $6.1 million invested in seed capital with our research teams in new strategy concepts and expect to continue to deploy capital to support innovation in the future.

Enhanced Consultative Services

Offering holistic, tailored consultative services has been a source of both new business and client retention over our history. Some of our planning capabilities include estate and tax review for families, asset/liability modeling for

defined benefit pension plans, retirement and health plan design analysis for employers, and donor relations and planned giving services for endowment and foundation clients. Many of these services are offered through our Client Analytics Group, a team of internal consultants whose primary responsibilities include working with prospective and current clients to solve investment and financial planning-related problems. We continue to see interest in our consultative advisory service, which allows us to tailor investment portfolios among proprietary and non-proprietary investments (e.g., ETFs) to meet client objectives. We have both gained new relationships, as well as enhanced existing relationships, by providing this solution. Additionally, we also offer

practice management concepts and tools to both wealth advisors and retirement plan advisors to assist in their new business and service efforts.

Investment Disciplines and Fundamentals

We manage a variety of equity, fixed income, and blended asset strategies, using an array of portfolio construction approaches including bottom-up, top-down, and quantitative. These strategies are offered to clients in a variety of different vehicles, including separately managed accounts, mutual funds, collective investment trusts, and as model portfolios.

We believe that active management, in all of its many forms, is the most appropriate and relevant investment approach to achieving client goals across changing market environments. Whether investing in a country, industry, or individual company, we hold a strong belief that price matters across all of our strategies. We are focused on helping our clients avoid permanent loss of capital over long time horizons, which is different than managing day-to-day volatility.

We use a team-based approach across our investment strategies and research engines to best understand market opportunities. Our team approach allows analysts to combine top-down, bottom-up, and quantitative research. Additionally, by focusing on research teams instead of individuals, we are better able to emphasize repeatable processes instead of star personalities, while helping protect clients from staff turnover.

Sales, Service, and Marketing

We promote our strategies and solutions through direct sales to high-net-worth individuals, middle market institutions, Taft-Hartley plans, and larger institutional clients that are working with consultants. We also have dedicated efforts to sell through financial intermediaries and platforms. In identifying new potential prospects, we focus on individuals and institutions that have long-term objectives and are looking for a partner in addressing those needs. We believe our problem-solving approach fosters strong relationships and helps to manage long-term expectations.

As of December 31, 2018, we had over 50 sales professionals, with an average of approximately 19 years of industry experience. Our direct national sales representatives cover large, multi-state territories, prospecting large institutions, retirement plans and Taft-Hartley relationships. Our direct regional sales representatives cover smaller territories, and they pursue both individual and middle market institutional business opportunities. Our intermediary salesforce includes external wholesalers, internal wholesalers, and key account representatives, and the group covers both retirement plan advisors and wealth management advisors. Lastly, our Portfolio Strategies Group maintains deep knowledge of all of our products, and they are primarily responsible for maintaining consultant relations and providing field support for our client-facing teams.

Our sales representatives include generalists and teams focused on specific client types or markets. Representatives are responsible for generating new business as well as maintaining existing business. In addition to our marketing strategies, referrals are also an important source of new business, further highlighting the importance of our client service and solution efforts. To assist the sales representatives, we have over 30 service professionals who are responsible for responding to client requests and questions.

Our marketing strategy is focused on finding new ways to connect and engage with clients and prospects via targeted content on products, services, and topics that are most relevant to our various audiences. We have dedicated resources creating engaging and relevant content that positions Manning & Napier as a thought leader and a trusted resource. This content strategy focuses on educating investors, and it mirrors the consultative nature of our firm. We disseminate content in various ways, including through print publications, email, webinars, live events, our website, and social media.

Competition

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

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

Our ability to continue to compete effectively will also depend upon our ability to retain our current investment professionals and employees and to attract highly qualified new investment professionals and employees. We compete

in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions.



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Structure

The Company was incorporated in 2011 as a Delaware corporation, and is the sole managing member of Manning & Napier Group, LLC and its subsidiaries (“Manning & Napier Group”), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts our organizational structure as of December 31, 2018.

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

As of December 31, 2018, we had 366 employees, most of whom are based in Fairport, New York. Collectively, William Manning, our co-founder and Chairman of the Board, current employee-owners and former employee owners own approximately 81.8% of Manning & Napier Group and our operating subsidiaries. We believe that our culture of employee ownership aligns our interests with those of our clients and shareholders by delivering strong long-term investment performance and solutions.

Regulation

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

SEC Regulation

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

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

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

We manage accounts for a majority of our clients on a discretionary basis, which typically affords us the authority to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with designated trade executions, we receive soft dollar credits from broker-dealers, which effectively reduces certain of our expenses. We believe all of our soft dollar arrangements comply with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act"). If our ability to use soft dollars were reduced or eliminated as a result of statutory amendments or new regulations, our operating expenses would increase.

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

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

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

For the year ended December 31, 2018, 23% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 21% derived from our advisory services to the Fund. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs and investment portfolios of the Fund and the investment portfolios of the funds we sub-advise, our own operations are subject to oversight and management by each fund’s board of directors. Under the 1940 Act, a majority of the directors must not be “interested persons” with respect to us (sometimes referred to as the “independent director” requirement). The responsibilities of the board include, among other things, approving our investment management agreement with the Fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates. Our investment management agreements with the Fund may be terminated by the funds on not more than 60 days’ notice, and are subject to annual renewal by the Fund board after their initial term.

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

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

Manning & Napier Investor Services, Inc. ("MNBD"), our SEC-registered broker-dealer subsidiary is the distributor for the Fund and is subject to the SEC’s Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer’s assets be kept in relatively liquid form. MNBD was in compliance with its net capital requirements during the year ended December 31, 2018.

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FINRA Regulation

MNBD is a member of the Financial Industry Regulatory Authority ("FINRA") and as such is subject to the various industry and professional regulations, standards, and reporting requirements established by FINRA.

ERISA-Related Regulation

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

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

New Hampshire Banking Regulation

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

Non-U.S. Regulation

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

Employees

As of December 31, 2018, we had 366 employees, most of whom are based in Fairport, New York. None of our employees are subject to a collective bargaining agreement.

Available Information

All annual reports on From 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, we file or furnish with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge from the SEC’s website at http://www.sec.gov/.

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

Item 1A. Risk Factors.

Risks Related to our Business

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

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

- Declines in prices of securities in our portfolios. The prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, declining stock or commodities markets, changes in interest rates, a general economic downturn, political uncertainty or acts of terrorism. The U.S. and global financial markets continue to be subject to uncertainty and instability. Such factors could cause an unusual degree of volatility and price declines for securities in the portfolios we manage;
- Redemptions and other withdrawals. Our clients generally may withdraw their funds at any time, on very short notice and without any significant penalty. A substantial portion of our revenue is derived from investment advisory agreements that are terminable by clients upon short notice or no notice and investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice. Also, new clients and portfolios may not have the same client retention characteristics as we have experienced in the past. In addition, in a declining stock market, the pace of redemptions could accelerate;

- Investment performance. Our ability to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, our investment performance could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is

influenced by a number of factors including general market conditions. If our portfolios perform poorly, even over the short-term, as compared with our competitors or applicable third-party benchmarks, or the rankings of mutual funds we manage decline, we may lose existing AUM and have difficulty attracting new assets; and

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

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

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

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

Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' board of directors or a vote of the majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by such fund's board, including by its independent members. In addition, Exeter Trust Company's board of directors, which includes independent members, can terminate our investment management agreements with the collective investment trusts at any time. Our mutual fund and collective investment trust relationships may be terminated or not renewed for any number of reasons. As of December 31, 2018, mutual fund and collective investment trust relationships represent 32% of our AUM and 34% of our revenue for the year ended December 31, 2018.

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, 2018, other than our relationship with the Fund, there were no customers that provided over 10 percent of our total revenue.

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

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

The loss of key investment 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.

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.

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

Competition for qualified investment, sales and top level management 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. In addition, changes to our management structure, corporate culture and corporate governance arrangements could negatively impact our ability to retain key personnel.

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

Our current fee structure may be subject to downward pressure due to a variety of factors, including a trend in recent years toward lower fees in the investment management industry. We may be required to reduce fees with respect to both the separate accounts we manage and the mutual funds and collective trust funds we advise. In addition, we may charge lower fees to attract future new business as compared to our existing business, which may result in us having to reduce our fees with respect to our existing business accordingly. The investment management agreements pursuant to which we advise mutual funds are terminable on short notice and, after an initial term, are subject to an annual process of review and renewal by the funds' boards. As part of that annual review process, the fund board considers, among other things, the level of compensation that the fund has been paying us for our services, and that process may result in the renegotiation of our fee structure or increase our obligations, thus increasing the cost of our performance. During the first quarter of 2019, we completed the effort of restructuring fees across our mutual fund product set that began in 2017. Given the overall pressure on fees that all active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future. The financial impacts will include a reduction in the management fees on our existing business, as well as an offsetting reduction in related operating expenses. Any fees 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. 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.

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

As of December 31, 2018, approximately 25% of our AUM across all of our portfolios was invested in securities of non-U.S. companies. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our AUM, which, in turn, could result in lower revenue since we report our financial results in U.S. dollars.

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

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

The historical returns of our portfolios and the ratings and rankings we or the mutual funds that we advise have 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 December 31, 2018 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



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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 on 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 direct sales force, 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 assets under management 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. In addition, any strategic transaction can involve a number of risks, including:

- additional demands on our staff;
- unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees;
- adverse effects in the event acquired intangible assets or goodwill become impaired;
- the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing such a transaction; and
- 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. In addition, we have developed and may seek from time to time to develop new products and services to take advantage of opportunities involving technology, insurance, participant and plan sponsor education and other products beyond investment management. The development of these products and services could involve investment of financial and management resources and may not be successful in developing client relationships, which could have an adverse effect on our business. The cost to develop these products initially will likely exceed the revenue they generate and additional investment in these products could negatively impact short term financial results. If establishing new portfolios or offering new products or services requires hiring new personnel, to the extent we are unable to recruit and retain sufficient personnel, we may not be successful in further diversifying our portfolios, client assets and business, which could have an adverse effect on our business and future prospects.

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

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

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

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

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.

Developing and maintaining our operational systems and infrastructure may become increasingly challenging, which could constrain our ability to expand our business. Any upgrades or expansions to our operations or technology to accommodate increased volumes of transactions or otherwise will require significant expenditures and may increase the probability that we will suffer system degradations and failures. In addition, our continued success depends on our ability to effectively adopt new or adapt to existing technologies to meet client, industry, and regulatory demands. We might be required

to make significant capital expenditures to maintain competitive infrastructure. If we are unable to upgrade our infrastructure in a timely fashion, we might lose customers and fail to maintain regulatory compliance, which could affect our results of operations and severely damage our reputation.

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. Any significant disruption to our headquarters could have an adverse effect on our business.

Failure to implement effective information and cyber security policies, procedures and capabilities, or cyber security 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 cyber security 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. 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 shareholder 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



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

Risks Related to our Industry

We are subject to extensive regulation.

We are subject to extensive regulation for our investment management business and operations, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, 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



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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 shareholders. Further, adverse results of regulatory investigations of mutual fund, investment advisory and financial services firms could tarnish the reputation of the financial services industry generally and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their account balances. Redemptions would decrease our AUM, which would reduce our advisory revenues and net income.

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

The investment management industry is intensely competitive.

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

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

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

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

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

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

legal liability or significant regulatory action against us could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

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

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

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

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

William Manning and our current and former employee owners, beneficially own approximately 82% of Manning & Napier Group as of December 31, 2018, which may give rise to conflicts of interest; failure to properly address these or other conflicts of interests could harm our reputation, business and results of operations.

Our current and former employee owners, including William Manning, directly and through their ownership of M&N Group Holdings ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC"), indirectly hold approximately 82% of the ownership interests in Manning & Napier Group as of December 31, 2018 which, as discussed elsewhere, is our sole source of revenue. M&N Group Holdings and MNCC are entities controlled by William Manning, who, through his ownership indirectly owns a total of approximately 77% of the ownership interests in Manning & Napier Group. All of the other owners of interests in M&N Group Holdings and MNCC are current or former management team members of ours. Through William Manning and our current and former employee owners' economic interest, they may receive payments from Manning & Napier under the tax receivable agreement ("TRA") entered into with them at the time of the reorganization transactions and the proceeds they may receive as a result of M&N Group Holdings and MNCC exchanging the interests attributable to them in Manning & Napier Group for cash or, at our election, shares of our Class A common stock and, in the case of exchanges for shares of our Class A common stock, from selling such Class A common stock. As a result, William Manning and our current and former employee owners' economic interests may conflict with the interests of Manning & Napier and its public stockholders.

Further, such owners have the right to cause M&N Group Holdings and MNCC to exchange their indirect interests in Manning & Napier Group for cash or shares of our Class A common stock. If they exercise this right in sufficient amounts, receive shares of our Class A common stock and do not resell such shares, these owners may control us. The interests of these owners may conflict with our interests and the interests of the holders of our Class A common stock. Decisions of these owners, including William Manning, our Chairman, with respect to Manning & Napier Group, including those relating to the tax receivable agreement, the exchange agreement and the structuring of future transactions, may take into consideration these owners’ tax or other considerations even where no similar benefit would accrue to us or the holders of our Class A common stock.

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

We have historically declared cash dividends on our Class A common stock, however, our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, because of our structure, we will be dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends to our stockholders. We expect to cause Manning & Napier Group to make distributions to its members, including us, in an amount sufficient for us to pay

dividends, if any. However, its ability to make such distributions will be subject to its and its subsidiaries' operating results, cash requirements and financial condition, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it 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

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units, including us. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock.

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

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

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

We entered into a tax receivable agreement with the other holders of Class A units of Manning & Napier Group, pursuant to which we are required to pay to 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 ("U.S. tax reform") 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 $19.4 million as of December 31, 2018. Under such scenario, we would be required to pay the holders of such Class A units 85% of such amount, or approximately $18.0 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 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 December 31, 2018, we estimate that we would be required to pay up to approximately $22.4 million in the aggregate, which assumes the exchange of 63,349,721 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. In addition, we do not believe that we are an investment company under Section 3(b)(1) of the 1940 Act because we are not primarily engaged in a business that causes us to fall within the definition of “investment company.” The 1940 Act and the rules thereunder contain detailed prescriptions for the organization and operations of

investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We and Manning & Napier Group intend to conduct our operations so that we will not be deemed an investment company. However, if we nevertheless were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Our Class A Common Stock

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

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

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

William Manning and our other owners directly and indirectly own interests in M&N Group Holdings and directly own interests in MNCC, and they will have the right to exchange and cause M&N Group Holdings and MNCC to exchange, as applicable, such interests for cash or an aggregate of 63,349,721 shares of our Class A common stock as of December 31, 2018, pursuant to the terms of an exchange agreement; future sales of such shares in the public market, or the perception that such sales may occur, could lower our stock price.

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

We have 15,310,958 shares of Class A common stock outstanding as of December 31, 2018. We have entered into an exchange agreement with M&N Group Holding and MNCC, the other direct holders of all of the units of Manning & Napier Group that are not held by the Company and, subject to certain restrictions, are entitled to exchange such units for an aggregate of up to 63,349,721 shares of our Class A common stock as of December 31, 2018, subject to customary adjustments. In addition, the holders of any units of Manning & Napier Group will also become parties to the exchange agreement and, pursuant to the terms of the exchange agreement, we may also purchase or exchange such units for shares of our Class A common stock. We are party to a registration rights agreement pursuant to which the shares of Class A common stock issued upon such exchanges are eligible for resale, subject to certain limitations set forth therein.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions

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of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

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

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

If we fail to comply with 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 shareholders and corporate governance standards, including obtaining the approval of our shareholders 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 shareholders and may adversely impact our business. 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, to regain compliance, which may adversely impact the trading market for our shares and liquidity. Additionally, if the holders of units of Manning & Napier Group exercise their rights under our exchange agreement with M&N Group Holdings and MNCC, we would be required to issue up to 63,349,721 shares of our Class A common stock to those holders if we were unable to pay them in cash. We believe that prior shareholder approval for such a transaction was obtained at the time of our initial public offering. If the NYSE disagrees with our analysis, the NYSE may seek to discontinue trading of Our Class A common stock.

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

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

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of our Class A common stock;
- prohibit stockholder action by written consent and instead require all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our amended and restated bylaws; 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.



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Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our Class A common stock.
Our board of directors has the authority to issue preferred stock and to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our Class A common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our Class A common stock at a premium over the market price, and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.
If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.
The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We conduct our principal operations through leased offices located in Fairport, New York; St. Petersburg, Florida; Dublin, Ohio; Seattle, Washington; and Portsmouth, New Hampshire. We also lease office space in various other locations throughout the United States. We do not own any facilities. Most of our business operations are based in our corporate headquarters in Fairport.
We believe our properties are in good operating condition and adequately serve our current business operations. We also anticipate suitable additional or alternative space will be available at commercially reasonable terms for future expansion and to replace existing facilities at lease terminations to the extent necessary.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market for the Registrant's Common Equity

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

Holders

As of March 20, 2019 there were 35 holders of record of our Class A common stock. A substantial number of holders of our Class A common stock are held in "street name" and thereby held of record by depositories, banks, brokers, and other financial institutions.

Dividends

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

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

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

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

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

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, Manning & Napier Group is unable to make distributions to us as a result of its operating results, cash requirements and financial condition, its making certain mandatory distributions to its members relating to their income tax liability, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it may incur in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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

gain.

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Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended December 31, 2018.

Item 6. Selected Financial Data.

Not applicable.

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

Overview

Our Business

We are an independent investment management firm that provides a broad range of financial solutions and consultative services. Founded in 1970, we offer U.S. and non-U.S equity, fixed income, and multi-asset class strategies, including fundamental- and quantitatively-based portfolios. We serve a diversified client base of high-net-worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, platforms, endowments and foundations. Our operations are based principally in the United States, with our headquarters located in Fairport, New York.

Market Developments

The investment environment witnessed over the length of 2018 was marked by the return of volatility. Beginning with the sharp but short lived sell off of late-January and early-February, and ending during the fourth quarter with the most significant drawdown since the global financial crisis, markets were far more volatile in 2018 than investors had come to expect.

Although painful at the time, volatile markets often provide a potential opportunity for investment managers that take an active approach. During the second half of 2018 our top-down, bottom-up, and quantitative investment processes led us to the view that the outlook for both equities and fixed income was deteriorating across global financial markets. In the fourth quarter, this outlook manifested in a more conservative positioning across our portfolios. Nevertheless, today's financial markets are highly dynamic, and our active investment processes will continue to dictate appropriate positioning as the investment backdrop evolves.

Business Review

During 2018, we initiated a comprehensive business plan review in response to decreases in AUM and revenue. The goal of the business plan review was to strengthen our core business, improve profitability, and manage expenses, while prioritizing initiatives that we believe will support future AUM growth. Our sales and service teams have prioritized our most competitive strategies and service standards with existing client relationships. With an initial focus on expense management, we have reviewed operating expenses across our firm and made adjustments where feasible, including workforce reductions. During the second quarter of 2018, we commenced a voluntary employee retirement offering (the "offering") for employees meeting certain age and length-of-service requirements, and whose function was outside of our Research and Sales teams. Under this initiative, coupled with additional workforce reductions, we recognized approximately $3.7 million in severance charges during 2018. Ongoing savings achieved from these expense management initiatives will be redirected toward increased investment in our information technology infrastructure. We anticipate that our other operating costs as a percentage of revenue will remain elevated in the near term compared to prior periods.

During the first quarter of 2019, we completed the effort of restructuring fees across our mutual fund product set that began in 2017. Given the overall pressure on fees that all active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future. The financial impacts will include a reduction in the management fees on our existing business, as well as an offsetting reduction in related operating expenses.

Additionally, we continue to promote our holistic consultative services, which we believe further enhance the value we deliver to clients. By incorporating a number of different proprietary and non-proprietary products from multiple research engines, we are able to provide a differentiated and comprehensive investment solution. This tailored approach extends into our advisory services, including our Family Wealth Management, Endowment & Foundation, and Pension Plan Service offerings.

Our Solutions

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

Our separate accounts are primarily distributed through our direct sales channel, where our client consultants form relationships with high-net-worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our intermediary 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 channel, 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 direct sales representatives, particularly within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust strategies are an important driver of both our blended asset class and single asset class portfolios.

Our assets under management ("AUM") were $20.2 billion as of December 31, 2018. The composition of our AUM by vehicle and portfolio is set forth in the table below:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| AUM - by investment vehicle and portfolio: | Blended Asset | Equity | Fixed Income | Total |
| | (in millions) | | | |
| Separately managed accounts | $9,059.6 | $3,704.3 | $1,028.2 | $13,792.1 |
| Mutual funds and collective investment trusts | 4,472.6 | 1,797.6 | 101.3 | 6,371.5 |
| Total | $13,532.2 | $5,501.9 | $1,129.5 | $20,163.6 |

Separately Managed Accounts

The composition of our separately managed accounts as of December 31, 2018, by channel and portfolio, is set forth in the table below:

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Blended Asset | | Equity | | Fixed Income | | Total | |
| | (dollars in millions) | | | | | | | |
| Separate account AUM | | | | | | | | |
| Direct Channel | $6,901.1 | | $2,369.4 | | $912.2 | | $10,182.7 | |
| Intermediary Channel | 2,147.8 | | 501.5 | | 116.0 | | 2,765.3 | |
| Platform/Sub-advisor Channel | 10.7 | | 833.4 | | — | | 844.1 | |
| Total | $9,059.6 | | $3,704.3 | | $1,028.2 | | $13,792.1 | |
| Percentage of separate account AUM | | | | | | | | |
| Direct Channel | 50 | % | 17 | % | 7 | % | 74 | % |
| Intermediary Channel | 15 | % | 4 | % | 1 | % | 20 | % |
| Platform/Sub-advisor Channel | 0 | % | 6 | % | — | | 6 | % |
| Total | 65 | % | 27 | % | 8 | % | 100 | % |
| Percentage of portfolio by channel | | | | | | | | |
| Direct Channel | 76 | % | 64 | % | 89 | % | 74 | % |
| Intermediary Channel | 24 | % | 14 | % | 11 | % | 20 | % |
| Platform/Sub-advisor Channel | 0 | % | 22 | % | — | | 6 | % |
| Total | 100 | % | 100 | % | 100 | % | 100 | % |
| Percentage of channel by portfolio | | | | | | | | |
| Direct Channel | 68 | % | 23 | % | 9 | % | 100 | % |
| Intermediary Channel | 78 | % | 18 | % | 4 | % | 100 | % |
| Platform/Sub-advisor Channel | 1 | % | 99 | % | — | | 100 | % |

Our separate accounts contributed 45% of our total gross client inflows for the year ended December 31, 2018 and represented 68% of our total AUM as of December 31, 2018.

Our separate account business has historically been driven by our direct sales channel. The direct sales channel contributed 67% of the total gross client inflows for our separate account business for the year ended December 31, 2018, compared to 65% for the year ended December 31, 2017. The direct sales channel represented 74% of our total separate

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account AUM as of December 31, 2018. We anticipate this channel to continue to be the largest driver of new separate account business going forward, given their high-net-worth and middle market institutional client-type focus.
During 2018, the blended asset portfolios represented 70% of the separate account gross client inflows from the direct sales channel, while equity and fixed income portfolios accounted for 18% and 12%, respectively. As of December 31, 2018, blended asset and equity portfolios represented 68% and 23% of total direct sales channel separate account AUM, while our fixed income portfolios were 9%. We expect our focus on individuals and middle market institutions to continue to drive interest in our separately managed account investment strategies.
To a lesser extent, we also obtain separate account business from third parties, including financial advisors or unaffiliated registered investment advisor programs or platforms. During 2018, 15% of the total gross client inflows for separate accounts came from financial advisor representatives (intermediary sales channel), and an additional 18% came from registered investment advisor platforms (platform/sub-advisor sales channel). The intermediary and platform/sub-advisor channels represented 26% of our total separate account AUM as of December 31, 2018.
New separate account business through the intermediary sales channel flowed into both our blended asset and equity portfolios. During 2018, blended asset and equity portfolios represented 75% and 23%, respectively, of the separate account gross client inflows from this channel, while fixed income portfolios represented 2%. As of December 31, 2018, 78% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 18% allocated to equity and 4% allocated to fixed income. Our equity, fixed income, and specialized strategies may see additional interest from financial advisors over time as more advisors structure multi-asset class portfolios for their clients.
During the year ended December 31, 2018, substantially all of our separate account gross client inflows from the platform/sub-advisory channel were into equity portfolios. Gross client inflows through the platform/sub-advisory channel are primarily directed to our single asset-class strategies, where we are filling a specific mandate within the investment program or platform product.
Our annualized separate account retention rate across all channels was approximately 86% during 2018, an increase from our historical retention rate, which was 80% for 2017.
Mutual Funds and Collective Investment Trusts
The composition of our mutual fund and collective investment trust AUM as of December 31, 2018, by portfolio, is set forth in the table below:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Blended Asset | Equity | Fixed Income | Total |
| | (in millions) | | | |
| Mutual funds and collective investment trusts AUM | $4,472.6 | $1,797.6 | $101.3 | $6,371.5 |

Our mutual funds and collective investment trusts contributed 55% of our total gross client inflows for the year ended December 31, 2018 and represented 32% of our total AUM as of December 31, 2018. As of December 31, 2018, our mutual funds and collective investment trust AUM consisted of 70% from blended asset portfolios, 28% from equity portfolios and 2% from fixed income portfolios, compared to 63%, 36% and 1% for blended asset, equity and fixed income portfolios as of December 31, 2017. During the twelve months ended December 31, 2018, 53%, 44%, and 3% of the gross client inflows were attributable to blended assets, equity and fixed income portfolios, respectively.
Our mutual fund and collective investment trust business is driven by financial intermediaries, as well as through our direct sales channel. Through our intermediary channel, we are focused on promoting our single-asset class and specialized strategies to our wealth and retirement plan advisors. Additionally, our blended asset portfolios are also used by advisors seeking a multi-asset class solution for their retail clients. Through our intermediary channel, we are focused on equity and fixed income portfolios for those who wish to use our mutual funds as a component of a larger portfolio.
We also have relationships with consultants and manager research teams at platforms in order to promote our funds within advisory programs, as well as through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have approximately 270 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business.

Through the direct channel, our representatives promote our portfolios to large institutional clients with which we have direct relationships, as well as to consultants. Additionally, we also form relationships with middle market and large market defined contribution plan sponsors seeking to use our life cycle mutual funds and collective investment trusts as default options on their investment menu. In the direct channel, we may see additional interest in our mutual funds and collective investment trust strategies through both blended and single-asset class portfolios based on the needs of the client.



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## Results of Operations

Below is a discussion of our consolidated results of operations for the years ended December 31, 2018 and 2017.

### Components of Results of Operations

#### Overview

An important factor influencing inflows and outflows of our AUM is the investment performance of our various investment approaches. Our 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 tables reflect the indicated components of our AUM for our investment vehicles for the years ended December 31, 2018 and 2017:

| | Separately managed accounts | Mutual funds and collective investment trusts | Total | Separately managed accounts | Mutual funds and collective investment trusts | Total |
|---|---|---|---|---|---|---|
| | (in millions) | | | | | |
| As of December 31, 2016 | $18,801.9 | $ 12,881.1 | $31,683.0 | 59% | 41% | 100% |
| Gross client inflows [1] | 1,884.7 | 2,079.0 | 3,963.7 | | | |
| Gross client outflows [1] | (6,675.3 ) | (8,391.0 ) | (15,066.3 ) | | | |
| Acquired/(disposed) assets | — | (121.8 ) | (121.8 ) | | | |
| Market appreciation/(depreciation) & other [2] | 2,845.3 | 1,809.3 | 4,654.6 | | | |
| As of December 31, 2017 | $16,856.6 | $ 8,256.6 | $25,113.2 | 67% | 33% | 100% |
| Average AUM for the period | $18,094.6 | $ 10,272.4 | $28,367.0 | | | |
| | | | | | | |
| As of December 31, 2017 | $16,856.6 | $ 8,256.6 | $25,113.2 | 67% | 33% | 100% |
| Gross client inflows [1] | 1,637.0 | 1,965.2 | 3,602.2 | | | |
| Gross client outflows [1] | (4,078.1 ) | (3,093.4 ) | (7,171.5 ) | | | |
| Acquired/(disposed) assets | — | (251.6 ) | (251.6 ) | | | |
| Market appreciation/(depreciation) & other [2] | (623.4 ) | (505.3 ) | (1,128.7 ) | | | |
| As of December 31, 2018 | $13,792.1 | $ 6,371.5 | $20,163.6 | 68% | 32% | 100% |
| Average AUM for the period | $15,596.5 | $ 7,333.3 | $22,929.8 | | | |

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

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

The following tables reflect the indicated components of our AUM for our portfolios for the years ended December 31, 2018 and 2017:

| | Blended Asset | Equity | Fixed Income | Total | Blended Asset | Equity | Fixed Income | Total |
|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | |
| As of December 31, 2016 | $19,909.4 | $10,463.9 | $1,309.7 | $31,683.0 | 63% | 33% | 4% | 100% |
| Gross client inflows [1] | 2,353.0 | 1,190.5 | 420.2 | 3,963.7 | | | | |
| Gross client outflows [1] | (8,969.0) | (5,632.1) | (465.2) | (15,066.3) | | | | |
| Acquired assets/(disposed) assets | — | (121.8) | — | (121.8) | | | | |
| Market appreciation/(depreciation) & other [2] | 2,373.2 | 2,220.1 | 61.3 | 4,654.6 | | | | |
| As of December 31, 2017 | $15,666.6 | $8,120.6 | $1,326.0 | $25,113.2 | 63% | 32% | 5% | 100% |
| Average AUM for period | $17,449.6 | $9,601.1 | $1,316.3 | $28,367.0 | | | | |
| | | | | | | | | |
| As of December 31, 2017 | $15,666.6 | $8,120.6 | $1,326.0 | $25,113.2 | 63% | 32% | 5% | 100% |
| Gross client inflows [1] | 1,943.9 | 1,477.4 | 180.9 | 3,602.2 | | | | |
| Gross client outflows [1] | (3,638.4) | (3,134.4) | (398.7) | (7,171.5) | | | | |
| Acquired assets/(disposed) assets | — | (251.6) | — | (251.6) | | | | |
| Market appreciation/(depreciation) & other [2] | (439.9) | (710.1) | 21.3 | (1,128.7) | | | | |
| As of December 31, 2018 | $13,532.2 | $5,501.9 | $1,129.5 | $20,163.6 | 67% | 27 % | 6% | 100% |
| Average AUM for period | $14,873.2 | $6,844.4 | $1,212.2 | $22,929.8 | | | | |

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

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

Revenues

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 designed to meet the needs of a range of institutional and other investors.The collective investment trusts are for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised $6.4 billion, or 32%, of our AUM as of December 31, 2018. We also serve as the investment advisor to all of our separately managed accounts, managing $13.8 billion, or 68%, of our AUM as of December 31, 2018, including assets managed as a sub-advisor to pooled investment vehicles. For the years ended December 31, 2018 and 2017, our revenue earned from clients located in the United States was 98% and 97%, respectively.

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, our New Hampshire-chartered trust company. Fees are calculated as a percentage of the client's market value with additional fees for certain transactions.

As discussed above in the Overview-Business Review section, we are in the midst of an effort to restructure fees for many of our mutual fund and collective trust vehicles. The impact on our overall revenue margins will vary depending on the business mix at the time of the fee change.

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Operating Expenses

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

- Compensation and related costs. Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals, 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 expense 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 of restructuring fees across our mutual fund product set that began in 2017. Given the overall pressure on fees that all active managers are facing, we believe that bringing our fund fees to a more competitive level will enhance our ability to attract additional assets in the future. The financial impacts will include a reduction in the management fees on our existing business, as well as an offsetting reduction in related distribution, servicing and custody expenses.
- Other operating costs. Other operating costs include accounting, legal and other professional service fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses, gain or loss on sale of assets and all other miscellaneous costs associated with managing the day-to-day operations of our business.

Non-Operating Income (Loss)

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

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

Provision for Income Taxes

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

Noncontrolling Interests

Manning & Napier, Inc. holds an economic interest of approximately 18.2% in Manning & Napier Group as of December 31, 2018, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and the related rules and regulations of the SEC. The preparation of consolidated financial statements



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in conformity with GAAP requires management to make estimates or assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Accordingly, actual results could differ from these estimates or assumptions and may have a material effect on the consolidated financial statements.

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

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

Revenue Recognition

Investment Management: Investment management fees are computed as a percentage of AUM. Our 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, we defer the revenue as a contract liability and recognizes it over the applicable period. When investment management fees are paid in arrears, we estimate revenue and record 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. We also have agreements with third parties who provide recordkeeping and administrative services for employee benefit plans participating in the collective investment trusts. We are 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: We receive 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. We have 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. We control the services provided and act 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, our 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 which the transaction is executed. Custodial service fees are billed monthly in arrears. We have agreements with third parties who provide safeguarding, record keeping and administrative services for their clients. We control the services provided and act as a principal in the relationship. Therefore, custodial service revenue is recorded gross of fees paid to third parties.

Because the majority of our revenues are earned based on AUM that has been determined using fair value methods and since market appreciation/depreciation has a significant impact on our revenue, we have presented our AUM using the GAAP framework for measuring fair value. A fair value hierarchy is provided that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

- Level 1—observable inputs such as quoted prices in active markets for identical securities;
- Level 2—other significant observable inputs (including but not limited to quoted prices for similar securities, interest rates, prepayment rates, credit risk, etc.); and

- Level 3—significant unobservable inputs (including our own assumptions in determining the fair value of investments).

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| December 31, 2018 AUM | $9,153 | $11,011 | $ — | $20,164 |
| December 31, 2017 AUM | $14,293 | $10,820 | $ — | $25,113 |

Substantially all our AUM is valued by independent pricing services based upon observable market prices or inputs, and we believe market risk is the most significant risk underlying valuation of our AUM, as discussed in this Form 10-K under “Item 1A. Risk Factors”.

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

Costs to Obtain a Contract

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

Consolidation

We assess each legal entity in which we hold a variable interest to determine whether consolidation is appropriate at the onset of the relationship and upon certain reconsideration events. We determine whether we have a controlling financial interest in the entity by evaluating whether the entity is a voting interest entity ("VOE") or a variable interest entity ("VIE") under GAAP. Assessing whether an entity is a VOE or VIE and if it requires consolidation involves judgment and analysis. Factors considered in this assessment include 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.

We serve as the investment adviser for the Fund, Exeter Trust Company Collective Investment Trusts (“CIT”) and Rainier Multiple Investment Trust, which are legal entities, the business and affairs of which are managed by their respective boards of directors. As a result, each of these entities is a VOE. We hold, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors) and consolidate each of these entities where it has a controlling financial interest or a majority voting interest.

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

As of December 31, 2018, Manning & Napier holds an economic interest of approximately 18.2% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, we consolidate the financial results of Manning & Napier Group and record a noncontrolling interest on our consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC.

Equity-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We recognize this cost over the period during which an employee is required to provide service in exchange for the award, and account for forfeitures as they occur.

Investment Securities

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

Investment securities classified as trading consist of equity securities, fixed income securities, and investments in mutual funds for which we provide advisory services. Realized and unrealized gains and losses on trading securities are recorded in net

gains on investments in the consolidated statements of operations. Realized gains and losses on sales of trading securities are computed on a specific identification basis.

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

Investment securities classified as available-for-sale consist of U.S. Treasury notes, corporate bonds and other short-term investments. Unrealized gains and losses on available-for-sale securities are excluded from earnings and are reported, net of deferred income tax, as a separate component of accumulated other comprehensive income in stockholders' equity until realized. We periodically review 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.

Goodwill

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

The annual test of goodwill indicated that there were no facts or circumstances occurring in 2018 suggesting possible impairment. The impairment tests included certain underlying key assumptions regarding future overall market trends and our operating performance. If actual future market results and our operating performance vary unfavorably to those included in our financial forecast, we may be subject to impairment charges related to its goodwill.

Intangible Assets

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

Income Tax Provision

Management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowance that might be required against deferred tax assets. As of December 31, 2018, we have not recorded a valuation allowance on deferred tax assets. In the event that sufficient taxable income does not result in future years, among other things, a valuation allowance for certain of our deferred tax assets may be required. Because the determination of our annual income tax provision is subject to judgments and estimates, it is likely that the actual results will vary from those recorded in our financial statements. Hence, we recognize additions to and reductions in income tax expense during a reporting period that pertains to prior period provisions as our estimated liabilities are revised and our actual tax returns and tax audits are completed.

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

Payments Pursuant to the Tax Receivable Agreement

As a result of Manning & Napier's purchase of Class A units of Manning & Napier Group or exchange for Class A common stock of Manning & Napier for Class A units of Manning & Napier Group and Manning & Napier Group's election under Section 754 of the Internal Revenue Code, we expect to benefit from depreciation and amortization deductions from an

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increase in tax basis of tangible and intangible assets of Manning & Napier Group. Those deductions allocated to us will be taken into account in reporting our taxable income.

In connection with our initial public offering ("IPO"), the TRA was entered into between Manning & Napier and the holders of Manning & Napier Group, pursuant to which Manning & Napier is required to pay to such holders 85% of the applicable cash savings, if any, in U.S. federal, state, local and foreign income tax that Manning & Napier actually realizes, or is deemed to realize in certain circumstances, as a result of (i) certain tax attributes of their units sold to Manning & Napier or exchanged (for shares of Class A common stock) and that are created as a result of the sales or exchanges and payments under the TRA and (ii) tax benefits related to imputed interest.

At December 31, 2018, we have recorded a total liability of $18.0 million, representing the payments due to the selling unit holders under the TRA. Payments are anticipated to be made annually commencing from the date of each event that gives rise to the TRA benefits. The actual amount and timing of any payments may vary from this estimate due to a number of factors, including a material change in the relevant tax law or our failure to earn sufficient taxable income to realize all estimated tax benefits. The expected payment obligation assumes no additional uncertain tax positions that would impact the TRAs.

Recent Accounting Pronouncements

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



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Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Assets Under Management

The following table reflects changes in our AUM for the years ended December 31, 2018 and 2017:

| | Year Ended December 31, | | Period-to-Period | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| | (in millions) | | | |
| Separately managed accounts | | | | |
| Beginning assets under management | $16,856.6 | $18,801.9 | $(1,945.3) | (10)% |
| Gross client inflows [1] | 1,637.0 | 1,884.7 | (247.7) | (13)% |
| Gross client outflows [1] | (4,078.1) | (6,675.3) | 2,597.2 | 39% |
| Acquired/(disposed) assets | — | — | — | * |
| Market appreciation/(depreciation) & other [2] | (623.4) | 2,845.3 | (3,468.7) | (122)% |
| Ending assets under management | $13,792.1 | $16,856.6 | $(3,064.5) | (18)% |
| Average AUM for period | $15,596.5 | $18,094.6 | $(2,498.1) | (14)% |
| Mutual funds and collective investment trusts | | | | |
| Beginning assets under management | $8,256.6 | $12,881.1 | $(4,624.5) | (36)% |
| Gross client inflows [1] | 1,965.2 | 2,079.0 | (113.8) | (5)% |
| Gross client outflows [1] | (3,093.4) | (8,391.0) | 5,297.6 | 63% |
| Acquired/(disposed) assets | (251.6) | (121.8) | (129.8) | * |
| Market appreciation/(depreciation) & other [2] | (505.3) | 1,809.3 | (2,314.6) | (128)% |
| Ending assets under management | $6,371.5 | $8,256.6 | $(1,885.1) | (23)% |
| Average AUM for period | $7,333.3 | $10,272.4 | $(2,939.1) | (29)% |
| Total assets under management | | | | |
| Beginning assets under management | $25,113.2 | $31,683.0 | $(6,569.8) | (21)% |
| Gross client inflows [1] | 3,602.2 | 3,963.7 | (361.5) | (9)% |
| Gross client outflows [1] | (7,171.5) | (15,066.3) | 7,894.8 | 52% |
| Acquired/(disposed) assets | (251.6) | (121.8) | (129.8) | * |
| Market appreciation/(depreciation) & other [2] | (1,128.7) | 4,654.6 | (5,783.3) | (124)% |
| Ending assets under management | $20,163.6 | $25,113.2 | $(4,949.6) | (20)% |
| Average AUM for period | $22,929.8 | $28,367.0 | $(5,437.2) | (19)% |

(*) Percentage change not meaningful

(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 total AUM decrease of $4.9 billion, or 20%, to $20.2 billion at December 31, 2018 from $25.1 billion at December 31, 2017 was attributable to net client outflows of $3.6 billion and disposed assets of $0.3 billion, combined with $1.1 billion of market depreciation and other changes. Net client outflows consisted of approximately $2.4 billion of net outflows from separate accounts and $1.1 billion from mutual funds and collective investment trusts. By portfolio, the rates of change in AUM from December 31, 2017 to December 31, 2018 consisted of a $2.6 billion, or 32.2% decrease in our equity portfolio, and a $2.1 billion, or 13.6% decrease in our blended asset portfolio. While many of our key strategies achieved competitive relative returns in 2018, we attribute our 2018 net cash outflows to challenging three and five year annualized returns in many of the strategies included in our blended asset and equity portfolios. Our ability to improve cash flows going forward will depend on our ability to sustain the improved investment performance we achieved over the past year and execute on our strategic initiatives focused on gathering and retaining client assets.

The composition of our AUM was 68% in separate accounts and 32% in mutual funds and collective investment trusts as of December 31, 2018, a shift from 67% in separate accounts and 33% in mutual funds and collective investment trusts at December 31, 2017. The composition of our AUM across portfolios at December 31, 2018 was 67% in blended assets, 27% in equity, and 6% in fixed income, compared to 63% in blended assets, 32% in equity, and 5% in fixed income at December 31, 2017.

With regard to our separate accounts, gross client inflows of $1.6 billion were offset by approximately $4.1 billion of gross client outflows during the year ended December 31, 2018. The $1.6 billion of gross client inflows included $0.9 billion into our blended asset portfolios, $0.6 billion into our equity portfolios and $0.2 billion into fixed income. During the year ended December 31, 2018, 67% of our separate account gross client inflows were derived from our Direct Channel with 58% representing contributions from existing Direct Channel relationships. Across all channels, gross client outflows were split with 39% withdrawals from existing accounts and 61% representing client cancellations. Our blended asset and equity portfolios experienced net client outflows of approximately $1.2 billion and $1.1 billion, respectively. Our separate account clients redeemed assets at a rate of 24% during the year ended December 31, 2018, compared to a 36% for the year ended December 31, 2017. The annualized separate account retention rate was 86% for the year ended December 31, 2018 an improvement from 80% for the year ended December 31, 2017.

Net client outflows of $1.1 billion from our mutual fund and collective investment trusts included gross client inflows of $2.0 billion offset by gross client outflows of $3.1 billion during the year ended December 31, 2018. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented $1.0 billion, or 53%, of mutual fund and collective trust fund gross client inflows during the year ended December 31, 2018. Gross client outflows were predominantly direct and intermediary channel cancellations and withdrawals from defined contribution and institutional relationships. With regard to gross client outflows, $1.6 billion, or 51%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products.

The following table sets forth our results of operations and other data for the years ended December 31, 2018 and 2017:

| | Year Ended December 31, | | Period-to-Period | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| | (in thousands, except share data) | | | |
| Revenues | | | | |
| Management Fees | | | | |
| Separately managed accounts | $97,123 | $ 111,518 | $(14,395) | (13)% |
| Mutual funds and collective investment trusts | 41,462 | 65,716 | (24,254) | (37)% |
| Distribution and shareholder servicing | 12,089 | 13,301 | (1,212) | (9)% |
| Custodial services | 7,591 | 8,162 | (571) | (7)% |
| Other revenue | 3,066 | 2,830 | 236 | 8 % |
| Total revenue | 161,331 | 201,527 | (40,196) | (20)% |
| | | | | |
| Expenses | | | | |
| Compensation and related costs | 87,408 | 91,730 | (4,322) | (5)% |
| Distribution, servicing and custody expenses | 18,175 | 27,750 | (9,575) | (35)% |
| Other operating costs | 32,366 | 30,279 | 2,087 | 7 % |
| Total operating expenses | 137,949 | 149,759 | (11,810) | (8)% |
| Operating income | 23,382 | 51,768 | (28,386) | (55)% |
| Non-operating income (loss) | | | | |
| Non-operating income (loss), net | 2,250 | 16,109 | (13,859) | (86)% |
| Income before provision for income taxes | 25,632 | 67,877 | (42,245) | (62)% |
| Provision for income taxes | 2,647 | 19,352 | (16,705) | (86)% |
| Net income attributable to controlling and noncontrolling interests | 22,985 | 48,525 | (25,540) | (53)% |
| Less: net income attributable to noncontrolling interests | 19,788 | 44,938 | (25,150) | (56)% |
| Net income attributable to Manning & Napier, Inc. | $3,197 | $ 3,587 | $(390) | (11)% |
| Per Share Data | | | | |
| Net income per share available to Class A common stock | | | | |
| Basic | $0.21 | $ 0.25 | | |
| Diluted | $0.21 | $ 0.25 | | |
| Weighted average shares of Class A common stock outstanding | | | | |
| Basic | 14,623,198 | 14,164,037 | | |
| Diluted | 14,630,170 | 14,237,025 | | |
| Cash dividends declared per share of Class A common stock | $0.26 | $ 0.32 | | |
| | | | | |
| Other financial and operating data | | | | |
| Economic net income [(1)] | $17,430 | $ 31,447 | $(14,017) | (45)% |
| Economic net income per adjusted share [(1)] | $0.22 | $ 0.40 | | |
| Weighted average adjusted Class A common stock outstanding [(1)] | 78,916,638 | 79,567,507 | | |

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

Revenues

Separately managed account revenue decreased by $14.4 million, or 13% , to $97.1 million for the year ended December 31, 2018 from $111.5 million for the year ended December 31, 2017. This decrease is driven primarily by a 14%, or $2.5 billion decrease in our average separately managed account AUM for the year ended December 31, 2018 compared to the year ended December 31, 2017. On an annualized basis, our average separately managed account fee for the year ended December 31, 2018 remained consistent at 0.62% when compared to the full year 2017. For both periods our separately managed account standard fees ranged from 0.14% to 1.25% depending upon investment objective and account size. As of December 31, 2018, the concentration of investments in our separately managed account assets was 65% blended assets, 27% equity and 8% fixed income, compared to 62% blended assets, 31% equity and 7% fixed income as of December 31, 2017.

Mutual fund and collective investment trust revenue decreased by $24.3 million, or 37%, to $41.5 million for the year ended December 31, 2018 from $65.7 million for the year ended December 31, 2017. This decrease is driven primarily by a 29%, or $2.9 billion, decrease in our average mutual fund and collective investment trust AUM for the year ended December 31, 2018 compared to the year ended December 31, 2017. In addition, with the adoption of Topic 606, effective January 1, 2018, third party record-keeping and administrative services for employee benefit plans participating in our collective investment trusts of $2.6 million for the year ended December 31, 2018 are presented net as a reduction of mutual fund and collective investment trust revenue. Prior to the adoption of Topic 606, third party record-keeper fees associated with our collective investment trusts were reported as distribution, servicing and custody expense. On an annualized basis, our average fee on mutual fund and collective investment trust products decreased to 0.73% for the year ended December 31, 2018 from 0.77% for the full year 2017. For both periods, management fees earned on our mutual fund and collective investment trust management fees ranged from 0.14% to 1.00%, depending on investment strategy. As of December 31, 2018, the concentration of investments in our mutual fund and collective investment trusts was 70% blended assets, 28% equity and 2% fixed income, compared to 63% blended assets, 36% equity and 1% fixed income as of December 31, 2017.

Distribution and shareholder servicing revenue decreased by $1.2 million, or 9%, to $12.1 million for the year ended December 31, 2018 from $13.3 million for the year ended December 31, 2017. This decrease is driven by a reduction in mutual fund and collective trust average AUM of 29% for the same period; however, the reduction in mutual fund and collective trust AUM has exceeded the reduction in distribution and shareholder servicing revenue due to the fact that net outflows have been concentrated in those funds where there is not a distribution and shareholder fee. In addition, during 2017 there was a shift of AUM into funds that have a shareholder servicing fee.

Custodial services revenue decreased by $0.6 million, or 7%, to $7.6 million for the year ended December 31, 2018 from $8.2 million for the year ended December 31, 2017. The decrease primarily relates to decreases in our collective investment trust AUM.

As discussed above in the Overview-Business Review section, we are in the midst of an effort to restructure fees for many of our mutual fund and collective trust vehicles. The impact on our overall revenue margins will vary depending on the business mix at the time of the fee change.

Operating Expenses

Our operating expenses decreased by $11.8 million, or 8%, to $137.9 million for the year ended December 31, 2018 from $149.8 million for the year ended December 31, 2017.

Compensation and related costs decreased by $4.3 million, or 5%, to $87.4 million for the year ended December 31, 2018 from $91.7 million for the year ended December 31, 2017. The decrease was driven by an 11% reduction in average workforce and lower variable incentive costs for our sales team as a result of the reduction in AUM and revenue. This decrease was partially offset by approximately $3.7 million of employee severance costs for both voluntary and involuntary workforce reductions recognized in 2018, compared to $1.2 million of employee severance costs in 2017. As a percentage of revenue, compensation and related costs for 2018 were 54%, compared to 46% in 2017.

Distribution, servicing and custody expenses decreased by $9.6 million, or 35%, to $18.2 million for the year ended December 31, 2018 from $27.8 million for the year ended December 31, 2017. Approximately $2.6 million of the decrease is a result of the adoption of Topic 606, at which time we began recording fees paid to third parties who provide record-keeping and administrative services for employee benefit plans participating in our collective

investment trusts as a reduction of revenue. Prior to the adoption of Topic 606 on January 1, 2018, these fees were reported as expense. The remaining decrease in expense was generally driven by a 29% decrease in mutual funds and collective investment trusts average AUM for the year ended December 31, 2018 compared to December 31, 2017. As a percentage of mutual fund and collective investment trust average AUM, distribution, servicing and custody expense was 0.25% for the year ended December 31, 2018, compared to 0.27% for the year ended December 31, 2017.

Other operating costs increased by $2.1 million, or 7%, to $32.4 million for the year ended December 31, 2018 from $30.3 million for the year ended December 31, 2017. The 2018 period includes $2.2 million of expense for fees due to a third

party who provides accounting and administrative services. Prior to the adoption of Topic 606 on January 1, 2018, these fees were reported as a reduction of revenue. Also reflected in other operating costs are gains of $2.1 million and $1.0 million for 2018 and 2017, respectively, from the Company's sale of the Rainier U.S. mutual funds. As a percentage of revenue, other operating costs for the year ended December 31, 2018 were 20% for 2018 and 15% for 2017.

Non-Operating Income (Loss)

Non-operating income for the year ended December 31, 2018 was $2.3 million, a decrease of $13.9 million, from non-operating income of $16.1 million for the year ended December 31, 2017. The following table reflects the components of non-operating income (loss) for the years ended December 31, 2018 and 2017:

| | Year Ended December 31, | | Period-to-Period | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| | (in thousands) | | | |
| Non-operating income (loss) | | | | |
| Interest expense | $(49) | $(36) | $(13) | 36 % |
| Interest and dividend income [(1)] | 2,408 | 845 | 1,563 | * |
| Change in liability under tax receivable agreement [(2)] | 1,341 | 12,859 | (11,518) | (90)% |
| Net gains (losses) on investments [(3)] | (1,450) | 2,441 | (3,891) | * |
| Total non-operating income (loss) | $2,250 | $16,109 | $(13,859) | (86)% |

(*) Percentage change not meaningful

(1) The increase in interest and dividend income for the year ended December 31, 2018 compared to 2017 is attributable to an increase in investments, including U.S. Treasury notes, corporate bonds and other short-term investments to optimize cash management opportunities, coupled with an increase in interest rates.

(2) The change in the liability under the tax receivable agreement for the year ended December 31, 2018 is attributed to a reduction in our effective tax rate and a corresponding decrease in the payment of expected tax benefit under the TRA. Non-operating income during the year ended December 31, 2017 was primarily due to the enactment of U.S. tax reform in 2017. The U.S. tax reform reduced the corporate federal tax rate from 35% to 21%, and thus reduced our expected tax benefits under the TRA and the corresponding payment of such benefits under the TRA.

(3) Amounts represent net income on investments we held to provide initial cash seeding for product development purposes. The amount varies depending on the performance of our investments and the overall amount of our investments in seeded products.

Provision for Income Taxes

The tax provision decreased by $16.7 million, to $2.6 million for the year ended December 31, 2018 from $19.4 million for the year ended December 31, 2017. The decrease was primarily driven by the enactment of U.S. tax reform during 2017. The tax law change decreases the corporate federal tax rate from 35% to 21%. As a result, 2017 reflects an estimated tax provision of $16.5 million due to revaluing our net deferred tax assets. The remaining decrease is driven by a decrease in the taxable earnings as compared to the prior year.

Supplemental Non-GAAP Financial Information

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

Economic net income is a non-GAAP measure of after-tax operating performance and equals the Company’s economic income less adjusted income taxes. Adjusted income taxes are estimated assuming the exchange of all outstanding units of Manning & Napier Group, LLC into Class A common stock on a one-to-one basis. Therefore, all income of Manning & Napier Group, LLC allocated to the units of Manning & Napier Group, LLC is treated as if it were allocated to Manning & Napier and represents an estimate of income tax expense at an effective rate of 32.0% and

53.7% for the twelve months ended December 31, 2018 and 2017, reflecting assumed federal, state and local income taxes. The increase in the effective tax rate in 2017 reflects the income tax expense upon revaluing the Company's deferred tax assets due to the reduction of the corporate income tax rate from the enactment of U.S. tax reform in 2017.

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

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

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

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands, except share data) | |
| Net income attributable to Manning & Napier, Inc. | $ 3,197 | $ 3,587 |
| Add back: Net income attributable to noncontrolling interests | 19,788 | 44,938 |
| Add back: Provision for income taxes | 2,647 | 19,352 |
| Income before provision for income taxes | 25,632 | 67,877 |
| Adjusted income taxes (Non-GAAP) | 8,202 | 36,430 |
| Economic net income (Non-GAAP) | $ 17,430 | $ 31,447 |
| | | |
| Weighted average shares of Class A common stock outstanding - Basic | 14,623,198 | 14,164,037 |
| Assumed vesting, conversion or exchange of: | | |
| Weighted average Manning & Napier Group, LLC units outstanding (noncontrolling interest) | 63,489,881 | 64,387,304 |
| Weighted average unvested restricted share-based awards | 803,559 | 1,016,166 |
| Weighted average adjusted shares (Non-GAAP) | 78,916,638 | 79,567,507 |
| | | |
| Economic net income per adjusted share (Non-GAAP) | | |