

Manning & Napier, Inc.
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-35355

MANNING & NAPIER, INC.

(Exact name of registrant as specified in its charter)

Delaware	45-2609100
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

290 Woodcliff Drive	14450
Fairport, New York	
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	x
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Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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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 August 3, 2016
Class A common stock, \$0.01 par value per share	15,032,880
Class B common stock, \$0.01 par value per share	1,000

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

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Manning & Napier, Inc.

Consolidated Statements of Financial Condition

(In thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$ 117,664	\$ 117,591
Accounts receivable	17,209	15,807
Accounts receivable—affiliated mutual funds	7,095	8,473
Due from broker	—	3,962
Due from broker - consolidated funds	—	3,510
Investment securities	18,062	21,460
Investment securities - consolidated funds	999	1,107
Prepaid expenses and other assets	4,482	4,638
Total current assets	165,511	176,548
Property and equipment, net	6,315	6,299
Net deferred tax assets, non-current	44,855	46,649
Goodwill	4,833	871
Other long-term assets	9,802	429
Total assets	\$ 231,316	\$ 230,796
Liabilities		
Accounts payable	\$ 1,990	\$ 1,141
Accrued expenses and other liabilities	34,218	42,480
Deferred revenue	10,469	10,938
Total current liabilities	46,677	54,559
Other long-term liabilities	7,183	2,796
Amounts payable under tax receivable agreement, non-current	38,679	38,661
Total liabilities	92,539	96,016
Commitments and contingencies (Note 10)		
Shareholders' equity		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized; 15,032,880 and 14,755,130 issued and outstanding at June 30, 2016 and December 31, 2015, respectively	150	148
Class B common stock, \$0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	203,809	205,760
Retained deficit	(36,880)	(37,149)
Accumulated other comprehensive income	3	(3)
Total shareholders' equity	167,082	168,756
Noncontrolling interests	(28,305)	(33,976)
Total shareholders' equity and noncontrolling interests	138,777	134,780
Total liabilities, shareholders' equity and noncontrolling interests	\$ 231,316	\$ 230,796
The accompanying notes are an integral part of these consolidated financial statements.		

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Investment management services revenue	\$67,541	\$ 86,973	\$132,079	\$ 177,399
Expenses				
Compensation and related costs	24,379	28,309	46,346	55,127
Distribution, servicing and custody expenses	11,986	15,840	23,324	32,672
Other operating costs	8,213	9,036	16,666	17,978
Total operating expenses	44,578	53,185	86,336	105,777
Operating income	22,963	33,788	45,743	71,622
Non-operating income (loss)				
Interest expense	(106) (81) (212) (84
Interest and dividend income	180	158	316	321
Change in liability under tax receivable agreement	—	—	(18) (17
Net gains (losses) on investments	206	(1,576) 1,272	(963
Total non-operating income (loss)	280	(1,499) 1,358	(743
Income before provision for income taxes	23,243	32,289	47,101	70,879
Provision for income taxes	1,545	2,081	3,219	4,560
Net income attributable to controlling and noncontrolling interests	21,698	30,208	43,882	66,319
Less: net income attributable to noncontrolling interests	19,093	26,705	38,859	59,507
Net income attributable to Manning & Napier, Inc.	\$2,605	\$ 3,503	\$5,023	\$ 6,812
Net income per share available to Class A common stock				
Basic	\$0.17	\$ 0.24	\$0.34	\$ 0.48
Diluted	\$0.17	\$ 0.23	\$0.33	\$ 0.47
Weighted average shares of Class A common stock outstanding				
Basic	13,960,768	13,739,923	13,852,949	13,726,804
Diluted	14,243,579	14,002,133	14,209,811	13,965,655
Cash dividends declared per share of Class A common stock	\$0.16	\$ 0.16	\$0.32	\$ 0.32

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

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

	Three months		Six months ended	
	ended June 30,		June 30,	
	2016	2015	2016	2015
Net income attributable to controlling and noncontrolling interests	\$21,698	\$30,208	\$43,882	\$66,319
Net unrealized holding gain (loss) on investment securities, net of tax	3	—	6	(1)
Comprehensive income	\$21,701	\$30,208	\$43,888	\$66,318
Less: Comprehensive income attributable to noncontrolling interests	19,096	26,705	38,865	59,506
Comprehensive income attributable to Manning & Napier, Inc.	\$2,605	\$3,503	\$5,023	\$6,812

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

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

	Common Stock – class A		Common Stock – class B		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance—December 31, 2014	13,713,540	\$ 137	1,000	\$	-\$209,284	\$(41,087)	\$ —	\$(19,623)	\$148,711
Net income	—	—	—	—	—	6,812	—	59,507	66,319
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(52,908)	(52,908)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(1)	—	(1)
Common stock issued under equity compensation plan	1,071,590	11	—	—	(11)	—	—	—	—
Equity-based compensation	—	—	—	—	392	—	—	2,117	2,509
Dividends declared on Class A common stock - \$0.32 per share	—	—	—	—	—	(4,559)	—	—	(4,559)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(4,394)	—	—	(33,326)	(37,720)
Balance—June 30, 2015	14,785,130	\$ 148	1,000	\$	-\$205,271	\$(38,834)	\$ (1)	\$(44,233)	\$122,351
Balance—December 31, 2015	14,755,130	\$ 148	1,000	\$	-\$205,760	\$(37,149)	\$ (3)	\$(33,976)	\$134,780
Net income	—	—	—	—	—	5,023	—	38,859	43,882
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(20,153)	(20,153)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	6	—	6
Common stock issued under equity compensation plan, net of forfeitures	277,750	2	—	—	(2)	—	—	—	—
Shares withheld to satisfy tax withholding requirements related to restricted stock units granted	—	—	—	—	(162)	—	—	(791)	(953)

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Equity-based compensation	—	—	—	—	357	—	—	1,747	2,104
Dividends declared on Class A common stock - \$0.32 per share	—	—	—	—	—	(4,754)	—	—	(4,754)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests (Note 4)	—	—	—	—	(2,144)	—	—	(13,991)	(16,135)
Balance—June 30, 2016	15,032,880	\$ 150	1,000	\$	—\$203,809	\$(36,880)	\$ 3	\$(28,305)	\$138,777

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

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

	Six months ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$43,882	\$66,319
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	2,104	2,509
Depreciation and amortization	1,133	1,255
Change in amounts payable under tax receivable agreement	18	17
Net (gains) losses on investment securities	(1,272)	963
Deferred income taxes	1,794	1,300
Amortization of debt issuance costs	78	26
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	1,701	3,762
Accounts receivable—affiliated mutual funds	1,398	3,581
Due from broker - consolidated funds	3,795	(5,000)
Investment securities - consolidated funds	—	(1,000)
Prepaid expenses and other assets	367	2,037
Accounts payable	(523)	(1,747)
Accrued expenses and other liabilities	(10,596)	(8,186)
Deferred revenue	(469)	(451)
Other long-term liabilities	(243)	(122)
Net cash provided by operating activities	43,167	65,263
Cash flows from investing activities:		
Purchase of property and equipment	(147)	(450)
Sale of investments	7,283	6,645
Purchase of investments	(2,849)	(4,967)
Due from broker	4,015	—
Acquisitions, net of cash received	(9,328)	—
Net cash (used in) provided by investing activities	(1,026)	1,228
Cash flows from financing activities:		
Distributions to noncontrolling interests	(20,153)	(52,908)
Dividends paid on Class A common stock	(4,718)	(5,485)
Payment of shares withheld to satisfy withholding requirements	(953)	(64)
Payment of capital lease obligations	(109)	(94)
Purchase of Class A units of Manning & Napier Group, LLC	(16,135)	(37,720)
Payment of debt issuance costs	—	(612)
Net cash used in financing activities	(42,068)	(96,883)
Net increase (decrease) in cash and cash equivalents	73	(30,392)
Cash and cash equivalents:		
Beginning of period	117,591	124,992
End of period	\$117,664	\$94,600

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

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Manning & Napier, Inc.

Notes to Consolidated Financial Statements

Note 1—Organization and Nature of the Business

Manning & Napier, Inc. ("Manning & Napier", or the "Company") provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trusts, as well as a variety of consultative services that complement its investment process. Founded in 1970, the Company offers equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds. Headquartered in Fairport, New York, the Company serves a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations. The Company is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts the Company's organization structure as of June 30, 2016.

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

Note 2—Summary of Significant Accounting Policies

Critical Accounting Policies

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, these financial statements should be read in conjunction with the financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2015. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

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

Basis of Presentation

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

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

In the quarter ended June 30, 2016, the Company changed its presentation of goodwill within its consolidated statements of financial condition from a component of total "Other long-term assets" to "Goodwill".

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

Principles of Consolidation

The Company consolidates all majority-owned subsidiaries. In addition, as of June 30, 2016, Manning & Napier holds an economic interest of approximately 17.4% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC").

All material intercompany transactions have been eliminated in consolidation.

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

The Company provides seed capital to its investment teams to develop new products and services for its clients. The original seed investment may represent all or a majority of the equity investment in the new product. Pursuant to U.S. GAAP, the Company evaluates its seed investments on a regular basis and consolidates such investments for which it holds a controlling financial interest.

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the "Fund"), Exeter Trust Company Collective Investment Trusts ("CIT"), Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust. The Fund, CIT, Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust are legal entities, the business and affairs of which are managed by their respective boards of directors. As a result, each of these entities is a voting interest entity ("VOE"). The Company holds, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors) and consolidates each of these entities where it has a controlling financial interest or a majority voting interest.

Cash and Cash Equivalents

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

Investment Securities

Investment securities are classified as either trading 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 and hedge funds for which the Company provides advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At June 30, 2016,

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

trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

Goodwill and Intangible Assets

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

Operating Segments

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

Revenue

The majority of the Company's revenues are based on fees charged to manage customers' portfolios. Investment management fees are generally computed as a percentage of assets under management ("AUM") and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For the Company's separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, the Company defers the revenue and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenues based on AUM market values as of the most recent month end date, and adjusts to actual when billed. For mutual funds and collective investment trust vehicles, the Company's fees are calculated and earned daily based on AUM.

The Company has agreements with third parties who provide distribution and administrative services for its mutual funds, collective investment trusts and certain separately managed accounts. Third party agreements are evaluated against Financial Accounting Standards Board ("FASB") ASC 605-45 Revenue Recognition - Principal Agent Considerations to determine whether revenue should be reported gross or net of payments to third-party service providers. In management's judgment there are various indicators that support revenue reporting, the most notable being the Company acts as primary obligor and therefore principal service provider. Based on this evaluation, investment management service revenue is recorded gross of distribution and administrative fees paid to third parties.

Advisory Agreements

The Company derives significant revenue from its role as advisor to the Fund and the CIT.

The Company's investments in the Fund amounted to approximately \$1.3 million as of June 30, 2016 and \$1.2 million as of December 31, 2015.

Fees earned for advisory related services provided to the Fund and CIT investment vehicles were approximately \$28.0 million and \$56.1 million for the three and six months ended June 30, 2016, respectively and \$42.2 million and \$87.4 million for the three and six months ended June 30, 2015, respectively. These amounts represent greater than 10% of the Company's revenue in each respective period.

Property and Equipment

Property and equipment is presented net of accumulated depreciation of approximately \$11.4 million and \$8.7 million as of June 30, 2016 and December 31, 2015, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance will be effective on January 1, 2018 and requires either a retrospective or a modified retrospective approach to adoption. Early application

is permitted. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the balance

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

sheet upon adoption. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The new guidance will be effective for fiscal years beginning after December 15, 2018, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718), which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. Early application is permitted. The Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements.

Note 3—Acquisitions

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

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

Additional cash payments of up to \$32.5 million over a four year period are contingent upon Rainier's achievement of certain annual financial targets. The fair value of the liability for this contingent consideration recognized on the acquisition date was \$3.5 million. As of June 30, 2016 the fair value of the contingent liability was \$3.5 million and is included in other long-term liabilities within the consolidated statements of financial condition.

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

Assets acquired	
Current assets	\$6,998
Property and equipment, net	783
Intangible assets	
Client relationships	9,320
Trademarks	270
Goodwill	3,962
Total assets acquired	21,333
Liabilities assumed	
Accounts payable and accrued expenses	3,703
Other liabilities	1,204
Total liabilities assumed	4,907
Purchase price	\$16,426

The amounts allocated to the Rainier assets acquired and liabilities assumed are preliminary pending completion of the final purchase price allocation, primarily in the area of accounting for income taxes. The goodwill of \$4.0 million represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and, in management's opinion, is largely attributable to the value expected from the synergies created through the integration of Rainier's operations, the reputation and expertise of Rainier in the asset management industry, and the existing workforce of Rainier. The goodwill recognized as a result of the acquisition is expected to be deductible for

tax purposes.

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

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

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

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

Significant increases (decreases) in projected AUM or revenue could result in a significantly higher (lower) contingent consideration liability fair value.

The 25% ownership maintained by key professionals at Rainier is subject to service-based vesting over the five-year period following the acquisition. The Company has the option to repurchase any vested ownership interests upon termination of employment, at a price based on the post-acquisition financial results of Rainier for the most recent four-quarter period preceding the employee's termination date. This repurchase price is recognized as a liability within the consolidated statements of financial condition. The carrying value of this liability was \$0 on the acquisition date, and less than \$0.1 million as of June 30, 2016.

Note 4—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 17.4% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statement of financial condition with respect to the remaining approximately 82.6% aggregate economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

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

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	2015	2015	2015	2015
	(in thousands)			
Income before provision for income taxes	\$23,243	\$32,289	\$47,101	\$70,879
Less: loss before provision for income taxes of Manning & Napier, Inc. (a)	(2)	(6)	(19)	(24)
Income before provision for income taxes, as adjusted	23,245	32,295	47,120	70,903
Controlling interest percentage (b)	17.2 %	16.7 %	17.0 %	15.6 %
Net income attributable to controlling interest	4,010	5,454	7,988	11,068
Plus: loss before provision for income taxes of Manning & Napier, Inc. (a)	(2)	(6)	(19)	(24)
Income before income taxes attributable to Manning & Napier, Inc.	4,008	5,448	7,969	11,044
Less: provision for income taxes of Manning & Napier, Inc. (c)	1,403	1,945	2,946	4,232
Net income attributable to Manning & Napier, Inc.	\$2,605	\$3,503	\$5,023	\$6,812

a) Manning & Napier, Inc. incurs certain gains or expenses that are only attributable to it and are therefore excluded from the net income attributable to noncontrolling interests.

b) Income before provision for income taxes is allocated to the controlling interest based on the percentage of units of Manning & Napier Group held by Manning & Napier, Inc. The amount represents the Company's weighted

ownership of Manning & Napier Group for the respective periods.

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

The consolidated provision for income taxes is equal to the sum of (i) the provision for income taxes for entities other than Manning & Napier, Inc. and (ii) the provision for income taxes of Manning & Napier, Inc. which c) includes all U.S. federal and state income taxes. The consolidated provision for income taxes was \$1.5 million and \$3.2 million for the three and six months ended June 30, 2016, respectively and \$2.1 million and \$4.6 million for the three and six months ended June 30, 2015, respectively.

A total of 65,784,571 units of Manning & Napier Group are held by the noncontrolling interests as of June 30, 2016. Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the value of one share of the Company's Class A common stock less a market discount and expected expenses, or, at the Company's election, (ii) issue shares of the Company's Class A common stock on a one-for-one basis, subject to customary adjustments. As the Company receives units of Manning & Napier Group that are exchanged, the Company's ownership of Manning & Napier Group will increase.

On April 27, 2016, M&N Group Holdings and MNCC exchanged a total of 2,111,913 Class A units of Manning & Napier Group for approximately \$16.1 million in cash. Subsequent to the exchange, the Class A units were retired. In addition, during the quarter ended June 30, 2016, equity awards issued under the 2011 Equity Compensation Plan (the "Equity Plan") vested (Note 12) for which Manning & Napier, Inc. acquired an equivalent number of Class A units of Manning & Napier Group. These acquisitions of additional operating membership interests were treated as reorganizations of entities under common control as required by ASC 805 "Business Combination". As a result of the aforementioned transactions, the Company's economic ownership in Manning & Napier Group increased to 17.4%. At June 30, 2016 and December 31, 2015, the Company had recorded a liability of \$42.0 million and \$41.9 million, respectively, representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the holders of Manning & Group. Of these amounts, \$3.3 million were included in accrued expenses and other liabilities at June 30, 2016 and December 31, 2015. The Company made no payments pursuant to the TRA during the six months ended June 30, 2016 and 2015. Obligations pursuant to the TRA are obligations of Manning & Napier. They do not impact the noncontrolling interests. These obligations are not income tax obligations. Furthermore, the TRA has no impact on the allocation of the provision for income taxes to the Company's net income.

Note 5—Investment Securities

The following represents the Company's investment securities holdings as of June 30, 2016 and December 31, 2015:

	June 30, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.35%, 10/31/2016)	\$2,105	\$	—\$	—\$2,105
Trading securities				
Equity securities				7,068
Fixed income securities				8,610
Mutual funds				279
Mutual funds - consolidated funds				999
				16,956
Total investment securities				\$19,061

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

	December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.35%, 10/31/2016)	\$2,105	\$	—\$ (6)	\$2,099
Trading securities				
Equity securities				8,967
Fixed income securities				7,624
Mutual funds				116
Mutual funds - consolidated funds				1,107
Hedge funds				2,654
				20,468
Total investment securities				\$22,567

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

Investment securities classified as trading consist of equity securities, fixed income securities and investments in mutual funds and hedge funds for which the Company provides advisory services. At June 30, 2016 and December 31, 2015, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately \$1.7 million of net unrealized gains and \$0.4 million of net unrealized losses related to investments classified as trading during the six months ended June 30, 2016 and 2015, respectively.

Investment securities classified as available-for-sale consist of U.S. Treasury notes for compliance with certain regulatory requirements. As of June 30, 2016 and December 31, 2015, \$0.6 million of these securities was considered restricted. The Company periodically reviews each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other-than-temporary. No other-than-temporary impairment charges have been recognized by the Company during the six months ended June 30, 2016 and 2015.

Note 6—Derivative Instruments

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

As of June 30, 2016, the Company had no open futures contracts. The following table presents the notional value and fair value as of December 31, 2015 for derivative instruments not designated as hedging instruments:

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

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

As of December 31, 2015, the derivative assets and liabilities were included in due from broker in the consolidated statements of financial condition. Derivative activity concluded on February 4, 2016 with a year to date average volume of derivative activity (measured in terms of notional value) of approximately \$127.8 million. The average notional volume of derivative activity for the six months ended June 30, 2015 was approximately \$233.1 million. The following table presents the gains (losses) recognized in net gains (losses) on investments in the consolidated statements of operations for the six months ended June 30, 2016 and 2015:

	Three months ended June 30, 2016	Six months ended June 30, 2016	2015
	(in thousands)		
Interest rate futures	\$-(661)	\$494	\$(543)
Index futures	—19	(37)	90
Commodity futures	—3	(13)	23
Currency futures	—(236)	(102)	59
Gains (losses) recognized, net	\$-(875)	\$342	\$(371)

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

The following table presents the offsetting of managed futures as of June 30, 2016 and December 31, 2015:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received (Pledged)	Net Amount
	(in thousands)					
June 30, 2016	\$—	\$ —	\$ —	\$	—\$	—\$ —
December 31, 2015	\$(232)	\$ 288	\$ 56	\$	—\$	—\$ 56

Note 7—Fair Value Measurements

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

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

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

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

The following provides the hierarchy of inputs used to derive the fair value of the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

June 30, 2016				
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$7,068	\$—	\$—	\$7,068
Fixed income securities	1,122	7,488	—	8,610
Mutual funds	279	—	—	279
Mutual funds - consolidated funds	999	—	—	999
U.S. Treasury notes	—	2,105	—	2,105
Total assets at fair value	\$9,468	\$9,593	\$—	\$19,061
Contingent consideration liability	\$—	\$—	\$3,500	\$3,500
Total liabilities at fair value	\$—	\$—	\$3,500	\$3,500
December 31, 2015				
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	\$8,967	\$—	\$—	—\$8,967
Fixed income securities	1,008	6,616	—	7,624
Mutual funds	116	—	—	116
Mutual funds - consolidated funds	1,107	—	—	1,107
Hedge funds	—	2,654	—	2,654
U.S. Treasury notes	—	2,099	—	2,099
Derivatives	288	—	—	288
Total assets at fair value	\$11,486	\$11,369	\$—	—\$22,855
Derivatives	\$232	\$—	\$—	—\$232
Total liabilities at fair value	\$232	\$—	\$—	—\$232

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

The changes in financial assets and (liabilities) measured at fair value using significant unobservable inputs (Level 3) for the six months ended June 30, 2016 are presented in the table below:

	Value as of December 31, 2015	Purchases	Sales	Redemptions/ Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	Value as of June 30, 2016
	(in thousands)						
Contingent consideration liability	\$—	\$(3,500)	n/a	\$—	n/a	\$—	—\$(3,500)

There were no Level 3 securities held by the Company at December 31, 2015.

The Company's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no transfers between Levels during the six months ended June 30, 2016.

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

Note 8—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of June 30, 2016 and December 31, 2015 consisted of the following:

	June 30, December	
	2016	31, 2015
	(in thousands)	
Accrued bonus and sales commissions	\$17,383	\$ 22,584
Accrued payroll and benefits	2,654	2,844
Accrued sub-transfer agent fees	4,527	6,148
Dividends payable	2,405	2,361
Amounts payable under tax receivable agreement	3,278	3,278
Other accruals and liabilities	3,971	5,265
	\$34,218	\$ 42,480

Note 9—Borrowings

Revolving Credit Facility

On April 23, 2015, Manning & Napier, Inc., Manning & Napier Group and MNA (collectively, the "Borrowers") entered into an unsecured revolving credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, lender, swingline lender and issuing bank, Manufacturers and Traders Trust Company, as syndication agent and lender, and First Niagara Bank, The Bank of New York Mellon, and The Huntington National Bank, as lenders (collectively, the "Lenders") that has a four-year term (until April 23, 2019) and provides borrowing capacity of up to \$100.0 million, with a feature providing for an increase in the line to \$150.0 million on approval by the Lenders. The Credit Agreement also provides for a \$5.0 million sub-limit for the issuance of standby letters of credit and a \$5.0 million swingline facility. At June 30, 2016, there were no amounts outstanding under the Credit Agreement and the Company had the capacity to draw on the entire \$100.0 million under the Credit Agreement.

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

The Credit Agreement contains customary covenants, including covenants that restrict (subject in certain instances to minimum thresholds or exceptions) the ability of the Company and certain of its subsidiaries to incur additional indebtedness, create liens, merge, dispose of assets, and make distributions, dividends, investments or capital expenditures, among other things. In addition, the Credit Agreement contains certain financial covenants, including: (i) a minimum interest coverage ratio (generally, adjusted EBITDA to interest expense as defined in and for the period specified in the Credit Agreement) of at least 4.00:1.00 and (ii) a leverage ratio (generally, total debt as of any date to adjusted EBITDA as defined in and for the period specified in the Credit Agreement) of no greater than 2.75:1.00. For purposes of the Credit Agreement, adjusted EBITDA generally means, for any period, net income of the Company before interest expense, income taxes, depreciation and amortization expense, non-cash stock-based compensation expense, and certain non-cash nonrecurring gains and losses as described in and specified under the Credit Agreement. At June 30, 2016, the Company was in compliance with all financial covenants under the Credit Agreement.

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

Note 10—Commitments and Contingencies

The Company may from time to time enter into agreements that contain certain representations and warranties and which provide general indemnifications. The Company may also serve as a guarantor of such obligations of one or

more of the Manning & Napier Group entities. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company expects any risk of liability associated with such guarantees to be remote.

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

Regulation

As an investment adviser to a variety of investment products, the Company and its affiliated broker-dealer are subject to routine reviews and inspections by the SEC, Financial Industry Regulatory Authority, Inc., National Futures Association and U.S. Commodity Futures Trading Commission. From time to time, the Company may also be subject to claims, be involved in various legal proceedings arising in the ordinary course of its business and be subject to other contingencies. The Company does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on its consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is difficult to predict. The Company will establish accruals for matters that are probable, can be reasonably estimated, and may take into account any related insurance recoveries to the extent of such recoveries. As of June 30, 2016 and December 31, 2015, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

Note 11—Earnings per Common Share

Basic earnings per share (“basic EPS”) is computed using the two-class method to determine net income available to Class A common stock. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's restricted Class A common shares granted under the 2011 Equity Compensation Plan (the "Equity Plan") have non-forfeitable dividend rights during their vesting period and are therefore considered participating securities under the two-class method. Under the two-class method, the Company's net income available to Class A common stock is reduced by the amount allocated to the unvested restricted Class A common stock. Basic EPS is calculated by dividing net income available to Class A common stock by the weighted average number of common shares outstanding during the period.

Diluted earnings per share (“diluted EPS”) is computed under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, the weighted average number of common shares outstanding during the period is increased by the assumed conversion into Class A common stock of the unvested equity awards and the exchangeable units of Manning & Napier Group, to the extent that such conversion would dilute earnings per share. The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2016 and 2015 under the two-class method:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Net income attributable to controlling and noncontrolling interests	\$21,698	\$ 30,208	\$43,882	\$ 66,319
Less: net income attributable to noncontrolling interests	19,093	26,705	38,859	59,507
Net income attributable to Manning & Napier, Inc.	\$2,605	\$ 3,503	\$5,023	\$ 6,812
Less: allocation to participating securities	172	234	334	236
Net income available to Class A common stock	\$2,433	\$ 3,269	\$4,689	\$ 6,576
Weighted average shares of Class A common stock outstanding - basic	13,960,768	13,739,923	13,852,948	13,726,804
Dilutive effect from unvested equity awards	282,811	262,210	356,862	238,851
Weighted average shares of Class A common stock outstanding - diluted	14,243,579	14,002,133	14,209,810	13,965,655
Net income available to Class A common stock per share - basic	\$0.17	\$ 0.24	\$0.34	\$ 0.48
Net income available to Class A common stock per share - diluted	\$0.17	\$ 0.23	\$0.33	\$ 0.47

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

For the three and six months ended June 30, 2016, 990,000 and 1,010,000 unvested equity awards, respectively, were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive. For the three and six months ended June 30, 2015, 1,040,000 unvested equity awards were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive. For the three and

six months ended

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

June 30, 2015, 163,632 unvested equity awards were also excluded from the calculation of diluted earnings per common share because the performance conditions associated with the vesting of such awards had not yet been satisfied.

At June 30, 2016 and 2015 there were 65,784,571 and 67,896,484 Class A Units of Manning & Napier Group outstanding, respectively, which, subject to certain restrictions, may be exchangeable for up to an equivalent number of the Company's Class A common stock. These units were not included in the calculation of diluted earnings per common share for either of the aforementioned periods because the effect would have been anti-dilutive.

Note 12—Equity Based Compensation

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

During the six months ended June 30, 2016, 72,410 equity awards were granted under the Equity Plan. These awards consisted of Class A common stock that vested immediately.

The following table summarizes the equity award activity for the six months ended June 30, 2016 under the Company's Equity Plan:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Stock awards outstanding at January 1, 2016	2,031,629	\$ 12.92
Granted	72,410	\$ 8.38
Vested	(409,479)	\$ 14.32
Forfeited	(163,814)	\$ 10.52
Stock awards outstanding at June 30, 2016	1,530,746	\$ 12.59

The weighted average grant date fair value of Equity Plan awards granted during the six-months ended June 30, 2016 and 2015 was \$8.38 and \$11.89, respectively, based on the closing sale price of Manning & Napier Inc.'s Class A common stock as reported on the New York Stock Exchange on the date of grant, and, when applicable, reduced by the present value of the dividends expected to be paid on the underlying shares during the requisite service period. Restricted stock unit awards are not entitled to dividends declared on the underlying shares of Class A common stock until the awards vest.

For the three and six months ended June 30, 2016, the Company recorded approximately \$0.8 million and \$2.1 million, respectively, of compensation expense related to awards under the Equity Plan. For the three and six months ended June 30, 2015, the Company recorded approximately \$1.9 million and \$2.5 million, respectively of compensation expense related to awards under the Equity Plan. As of June 30, 2016, there was unrecognized compensation expense related to Equity Plan awards of approximately \$12.4 million, which the Company expects to recognize over a weighted average period of approximately 4.0 years.

Note 13—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 and most state income taxes on their earnings, and earnings (losses) will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal and state and local income taxes on their earnings and losses, respectively.

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

Three months ended June 30,	Six months ended June 30,
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	2016	2015	2016	2015
	(in thousands)			
Earnings from continuing operations before income taxes	\$23,243	\$32,289	\$47,101	\$70,879
Effective tax rate	6.6	% 6.4	% 6.8	% 6.4
Provision for income taxes	1,545	2,081	3,219	4,560
Provision for income taxes @ 35%	8,135	11,301	16,485	24,808
Difference between tax at effective vs. statutory rate	\$(6,590)	\$(9,220)	\$(13,266)	\$(20,248)

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

For the three and six months ended months ended June 30, 2016 and 2015, the difference between the Company's recorded provision and the provision that would result from applying the U.S. statutory rate of 35% is primarily attributable to the benefit resulting from the fact that a significant portion of the Company's operations include a series of flow-through entities which are generally not subject to federal and most state income taxes. Accordingly, a portion of the Company's earnings are not subject to corporate level taxes.

Note 14—Related Party Transactions

Transactions with noncontrolling members

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

The Company manages the personal funds of certain of the Company's executive officers, including William Manning. Pursuant to the respective investment management agreements, in some instances the Company waives or reduces its regular advisory fees for these accounts and personal funds utilized to incubate products. The aggregate value of the fees earned was approximately \$0.1 million and fees waived was less than \$0.1 million for the six months ended June 30, 2016.

Affiliated fund transactions

The Company has agreements to serve as the investment manager of Manning & Napier Fund, Inc. and Rainier Investment Management Mutual Funds, with which certain of its officers are affiliated. Under the terms of these agreements, the Company receives a fee based on an annual percentage of the average daily net assets of each series within the affiliated funds. The Company has contractually agreed to limit its fees and reimburse expenses to limit operating expenses incurred by certain of the affiliated fund series. The investment management and operating expense agreements are generally reviewed and continued annually by the affiliated funds' boards of directors.

Note 15—Subsequent Events

Distributions and dividends

On July 26, 2016, the Board of Directors approved a distribution from Manning & Napier Group to Manning & Napier and the noncontrolling interests of Manning & Napier Group. The amount of the distribution to the members of Manning & Napier Group is \$16.9 million, of which approximately \$14.0 million is expected to be payable to the noncontrolling interests. Concurrently, the Board of Directors declared a \$0.16 per share dividend to the holders of Class A common stock. The dividend is payable on or about November 1, 2016 to shareholders of record as of October 14, 2016.

Table of Contents

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

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

Overview

Business

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

Our Products

We derive substantially all of our revenues from investment management fees earned from providing advisory services to separately managed accounts and mutual funds and collective investment trusts—including those offered by the Manning & Napier Fund, Inc. and Exeter Trust Company. In addition, on April 30, 2016, we acquired a majority interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm with approximately \$2.9 billion in assets under management ("AUM") at the closing of the transaction. With the acquisition of Rainier we expand our product offering to include capitalization-based U.S. and non-U.S. equity strategies. We also broaden our investment vehicles to include mutual funds and collective investment trusts offered by Rainier Investment Management Mutual Funds and Rainier Multiple Investment Trust. Based in Seattle, Washington, Rainier also broadens our geographic presence in the Northwestern United States.

Our separate accounts are primarily distributed through our Direct Channel, where our representatives form relationships with high net worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our Intermediary Channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our Platform/Sub-Advisory Channel, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account products are a primary driver of our blended asset portfolios for high net worth and middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

Our mutual funds and collective investment trusts are distributed through financial intermediaries, including brokers, financial advisors, retirement plan advisors and platform relationships. We also distribute our mutual fund and collective investment trusts through our direct sales representatives, in particular within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust products are an important driver of our blended asset class portfolios, in particular with 401(k) plan sponsors, advisors and recordkeepers that select our funds as default options for participants. In addition, financial intermediaries, mutual fund advisory programs and retail

platforms are a driver of equity strategies within our mutual fund offerings.

Our assets under management was \$35.7 billion as of June 30, 2016. The composition of our AUM by vehicle and portfolio is illustrated in the table below.

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AUM - by investment vehicle and portfolio	June 30, 2016			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Separately managed accounts	\$11,554.7	\$7,750.4	\$ 1,279.9	\$20,585.0
Mutual funds and collective investment trusts	10,122.1	4,858.5	150.6	15,131.2
Total	\$21,676.8	\$12,608.9	\$ 1,430.5	\$35,716.2

The composition of our separately managed accounts as of June 30, 2016, by channel and portfolio, is set forth in the table below.

	June 30, 2016				
	Blended Asset	Equity	Fixed Income	Total	
	(dollars in millions)				
Separate account AUM					
Direct Channel	\$8,400.9	\$6,040.0	\$ 1,147.8	\$15,588.7	
Intermediary Channel	3,149.5	671.8	130.8	3,952.1	
Platform/Sub-advisor Channel	4.3	1,038.6	1.3	1,044.2	
Total	\$11,554.7	\$7,750.4	\$ 1,279.9	\$20,585.0	
Percentage of separate account AUM					
Direct Channel	41	% 29	% 6	% 76	%
Intermediary Channel	15	% 3	% 1	% 19	%
Platform/Sub-advisor Channel	0	% 5	% 0	% 5	%
Total	56	% 37	% 7	% 100	%
Percentage of portfolio by channel					
Direct Channel	73	% 78	% 90	% 76	%
Intermediary Channel	27	% 9	% 10	% 19	%
Platform/Sub-advisor Channel	0	% 13	% 0	% 5	%
Total	100	% 100	% 100	% 100	%
Percentage of channel by portfolio					
Direct Channel	54	% 39	% 7	% 100	%
Intermediary Channel	80	% 17	% 3	% 100	%
Platform/Sub-advisor Channel	0	% 100	% 0	% 100	%

Our separate accounts contributed 34% of our total gross client inflows for the six months ended June 30, 2016 and represented 58% of our total AUM as of June 30, 2016.

Our separate account business has historically been driven primarily by our Direct Channel, where sales representatives form a relationship with high net worth investors, middle market institutions, and large institutional clients working in conjunction with a consultant. The Direct Channel contributed 62% of the total gross client inflows for our separate account business for the six months ended June 30, 2016 and represented 76% of our total separate account AUM as of June 30, 2016. We anticipate the Direct Channel to continue to be the largest driver of new separate account business going forward, given the Direct Channel's high net worth and middle market institutional client-type focus.

During the six months ended June 30, 2016, blended asset portfolios represented 66% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios represented 16% and 18% respectively. As of June 30, 2016, blended asset and equity portfolios represented 54% and 39%, respectively, of total Direct Channel separate account AUM, while our fixed income portfolios were 7%. We expect our focus on individuals and middle market institutions to continue to drive interest in our blended asset class portfolios, where we provide a comprehensive portfolio of stocks and bonds managed to a client's specific investment objectives. Our relationships with larger institutions may also be a driver of growth in separately managed account equity strategies, though many of these larger institutions may seek exposure to non-U.S. equity strategies through commingled

vehicles rather than separately managed accounts to limit related custody expenses.

To a lesser extent, we also obtain separate account business from third parties, including financial advisors or unaffiliated registered investment advisor programs or platforms. During the six months ended June 30, 2016, 14% of the total gross client

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inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 24% came from registered investment advisor platforms (Platform/Sub-advisor Channel). The Intermediary and Platform/Sub-advisor Channels represented 24% of our total separate account AUM as of June 30, 2016.

New separate account business through the Intermediary Channel flowed into both our blended asset and equity portfolios, driven by advisors' needs to identify either a one-stop solution (blended asset portfolio) or to fill a mandate within a multi-strategy portfolio. During the six months ended June 30, 2016, blended asset and equity portfolios represented 74% and 16%, respectively, of the separate account gross client inflows from the Intermediary Channel, while fixed income portfolios represented 10%. As of June 30, 2016, 80% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 17% allocated to equity and 3% allocated to fixed income. We expect that equity and fixed income portfolios may see additional interest from financial advisors over time as more advisors structure a multi-strategy portfolio for their clients.

In contrast, gross client inflows through the Platform/Sub-advisor Channel are primarily directed to our equity strategies, where we are filling a specific mandate within the investment program or platform product. During the six months ended June 30, 2016, 100% of our separate account gross client inflows from the Platform/Sub-advisory Channel were into equity portfolios.

Our annualized separate account retention rate across all channels was approximately 87% during the six months ended June 30, 2016, representing the strong relationship focus that is inherent in our direct sales model, which is the primary driver of our separate account business.

The composition of our mutual fund and collective investment trust AUM as of June 30, 2016, by portfolio, is set forth in the table below.

	June 30, 2016			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Mutual fund and collective investment trust AUM	\$10,122.1	\$4,858.5	\$ 150.6	\$15,131.2

Our mutual funds and collective investment trusts contributed 66% of our total gross client inflows for the six months ended June 30, 2016 and represented 42% of our total AUM as of June 30, 2016. As of June 30, 2016, our mutual fund and collective investment trust AUM consisted of 67% from blended asset portfolios and 32% from equity portfolios. During the six months ended June 30, 2016, 82% and 16% of the gross client inflows were attributable to blended assets and equity portfolios, respectively.

Our mutual fund and collective investment trust business is driven by financial intermediaries and to a lesser extent, our direct sales representatives. Intermediary distribution of our mutual fund and collective investment trust vehicles is achieved via financial advisors, brokers and retirement plan advisors. Through our Intermediary Channel, we are focused on our blended asset life cycle fund vehicles given our emphasis on advisors who work with retirement plans. Our blended asset portfolios are also used by advisors seeking a multi-asset class solution for their retail clients. In addition, we are focused on equity and fixed income portfolios within the Intermediary Channel for intermediaries who wish to use our mutual funds as a component of a larger portfolio.

Through our Platform/Sub-advisor Channel, we have relationships with consultants and manager research teams at platforms. We are focused on equity and fixed income portfolio assets in this channel through the selection of our funds within advisory programs, or through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have more than 290 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business.

Our Direct Sales Representatives distribute our equity portfolios to large institutional clients with which we have direct relationships and often, the client's consultant. Through the Direct Channel, we also form relationships with middle market and large market defined contribution plan sponsors seeking to use our life cycle mutual funds and collective investment trusts as default options on their investment menu. We expect this channel to be focused on distributing blended asset and equity portfolio funds in the future.

Results of Operations

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Below is a discussion of our consolidated results of operations for the three and six months ended June 30, 2016 and 2015.

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Key Components of Results of Operations

Overview

Changes to our operating results over time are largely driven by net client asset flows and changes to the market value of our AUM. The line item "market appreciation/(depreciation) and other" within our AUM tables throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes investment gains/(losses) on AUM, net flows from non-sales related activities including net reinvested dividends.

An important factor influencing inflows and outflows of our AUM is the investment performance of our various investment approaches. Our variety of stock selection strategies, absolute pricing discipline and active asset allocation management approach generally results in specific absolute and relative return characteristics in different market environments. For example, during a fundamental-driven bull market when prices are rising alongside improving fundamentals, we are likely to experience positive absolute returns and competitive relative returns. However, in a more momentum-driven bull market, when prices become disconnected from underlying fundamentals, or narrow market environment where a small handful of stocks outperform the average stock, we are likely to experience positive absolute returns but lagging relative returns. Similarly, during a valuation-driven bear market, when markets experience a period of price correction following a momentum-driven bull market, we are likely to experience negative absolute returns but strong relative returns. However, in a momentum-driven bear market, which is typically characterized by broad price declines in a highly correlated market, we are likely to experience negative absolute returns and potentially lagging relative returns. Essentially, our approach is likely to do well when markets are driven by fundamentals, but lag when markets are driven primarily by momentum.

Other components impacting our operating results include:

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

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Assets Under Management and Investment Performance

The following tables reflect the indicated components of our AUM for our investment vehicles for the three and six months ended June 30, 2016 and 2015.

	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
As of March 31, 2016	\$20,289.2	\$ 14,407.2	\$34,696.4	58 %	42 %	100 %
Gross client inflows	536.5	813.8	1,350.3			
Gross client outflows	(1,765.0)	(1,989.3)	(3,754.3)			
Acquired assets	1,234.2	1,660.1	2,894.3			
Market appreciation/(depreciation) & other	290.1	239.4	529.5			
As of June 30, 2016	\$20,585.0	\$ 15,131.2	\$35,716.2	58 %	42 %	100 %
Average AUM for period	\$20,920.1	\$ 15,331.8	\$36,251.9			
As of March 31, 2015	\$25,151.6	\$ 20,469.4	\$45,621.0	55 %	45 %	100 %
Gross client inflows	560.3	993.7	1,554.0			
Gross client outflows	(1,687.9)	(2,688.3)	(4,376.2)			
Market appreciation/(depreciation) & other	181.2	126.1	307.3			
As of June 30, 2015	\$24,205.2	\$ 18,900.9	\$43,106.1	56 %	44 %	100 %
Average AUM for period	\$24,965.0	\$ 20,300.7	\$45,265.7			
	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
As of December 31, 2015	\$20,735.4	\$ 14,706.8	\$35,442.2	59 %	41 %	100 %
Gross client inflows	921.3	1,781.9	2,703.2			
Gross client outflows	(2,952.4)	(3,531.5)	(6,483.9)			
Acquired assets	1,234.2	1,660.1	2,894.3			
Market appreciation/(depreciation) & other	646.5	513.9	1,160.4			
As of June 30, 2016	\$20,585.0	\$ 15,131.2	\$35,716.2	58 %	42 %	100 %
Average AUM for period	\$20,530.7	\$ 14,600.7	\$35,131.4			
As of December 31, 2014	\$25,408.7	\$ 22,392.9	\$47,801.6	53 %	47 %	100 %
Gross client inflows	1,251.7	2,269.6	3,521.3			
Gross client outflows	(2,828.3)	(6,123.0)	(8,951.3)			
Market appreciation/(depreciation) & other	373.1	361.4	734.5			
As of June 30, 2015	\$24,205.2	\$ 18,900.9	\$43,106.1	56 %	44 %	100 %
Average AUM for period	\$25,204.0	\$ 20,988.3	\$46,192.3			

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The following tables reflect the indicated components of our AUM for our portfolios for the three and six months ended June 30, 2016 and 2015.

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
As of March 31, 2016	\$22,036.2	\$11,472.2	\$1,188.0	\$34,696.4	64 %	33 %	3 %	100 %
Gross client inflows	889.6	296.9	163.8	1,350.3				
Gross client outflows	(1,698.4)	(1,938.8)	(117.1)	(3,754.3)				
Acquired assets	—	2,719.8	174.5	2,894.3				
Market appreciation/(depreciation) & other	449.4	58.8	21.3	529.5				
As of June 30, 2016	\$21,676.8	\$12,608.9	\$1,430.5	\$35,716.2	61 %	35 %	4 %	100 %
Average AUM for period	\$22,119.4	\$12,791.1	\$1,341.4	\$36,251.9				
As of March 31, 2015	\$25,413.4	\$18,957.4	\$1,250.2	\$45,621.0	55 %	42 %	3 %	100 %
Gross client inflows	1,014.8	485.8	53.4	1,554.0				
Gross client outflows	(1,551.4)	(2,688.1)	(136.7)	(4,376.2)				
Market appreciation/(depreciation) & other	23.5	292.6	(8.8)	307.3				
As of June 30, 2015	\$24,900.3	\$17,047.7	\$1,158.1	\$43,106.1	57 %	40 %	3 %	100 %
Average AUM for period	\$25,376.3	\$18,708.2	\$1,181.2	\$45,265.7				
	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
	(in millions)							
As of December 31, 2015	\$22,442.4	\$11,828.4	\$1,171.4	\$35,442.2	64 %	33 %	3 %	100 %
Gross client inflows	1,828.4	643.0	231.8	2,703.2				
Gross client outflows	(3,353.9)	(2,937.6)	(192.4)	(6,483.9)				
Acquired assets	—	2,719.8	174.5	2,894.3				
Market appreciation/(depreciation) & other	759.9	355.3	45.2	1,160.4				
As of June 30, 2016	\$21,676.8	\$12,608.9	\$1,430.5	\$35,716.2	61 %	35 %	4 %	100 %
Average AUM for period	\$21,913.5	\$11,952.6	\$1,265.3	\$35,131.4				
As of December 31, 2014	\$25,279.0	\$21,284.1	\$1,238.5	\$47,801.6	53 %	44 %	3 %	100 %
Gross client inflows	2,323.4	1,091.9	106.0	3,521.3				
Gross client outflows	(2,863.6)	(5,901.3)	(186.4)	(8,951.3)				
Market appreciation/(depreciation) & other	161.5	573.0	—	734.5				
As of June 30, 2015	\$24,900.3	\$17,047.7	\$1,158.1	\$43,106.1	57 %	40 %	3 %	100 %
Average AUM for period	\$25,379.5	\$19,602.2	\$1,210.6	\$46,192.3				

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The following table summarizes the annualized returns for our key investment strategies and the relative performance of the industry benchmark over the periods indicated. Since inception and over long-term periods, these strategies have earned attractive returns on both an absolute and relative basis. These strategies are used across separate account, mutual fund and collective investment trust vehicles, and represent approximately 73% of our AUM as of June 30, 2016.

Key Strategies	AUM as of		Annualized Returns as of June 30, 2016 (3)					
	June 30, 2016 (in millions)	Inception Date	One Year	Three Year	Five Year	Ten Year	Market Cycle (1)	Inception
Long-Term Growth 30%-80% Equity Exposure	\$ 9,645.1	1/1/1973	(0.7)%	5.4%	5.8%	5.4%	6.2%	9.6%
Blended Benchmark: 55% S&P 500 Total Return / 45% Barclays Government/Credit Bond			5.4%	8.4%	8.7%	6.8%	5.1%	9.2%
Growth with Reduced Volatility 20%-60% Equity Exposure	\$ 4,301.8	1/1/1973	(0.3)%	4.4%	4.7%	5.0%	5.8%	8.8%
Blended Benchmark: 40% S&P 500 Total Return / 60% Barclays Government/Credit Bond			5.9%	7.3%	7.5%	6.4%	5.3%	8.8%
Aggregate Fixed Income Benchmark: Barclays U.S. Aggregate Bond	\$ 536.6	1/1/1984	4.7%	3.3%	3.4%	5.1%	5.2%	7.6%
Equity-Oriented Blended Benchmark: 65% Russell 3000® / 20% ACWIXUS / 15% Barclays U.S. Aggregate Bond	\$ 3,062.8	1/1/1993	(1.8)%	6.5%	6.4%	5.5%	6.4%	9.7%
Core Equity (Unrestricted) 90%-100% Equity Exposure	\$ 1,121.6	1/1/1995	(2.0)%	7.8%	8.0%	6.4%	7.0%	10.8%
Blended Benchmark: 80% Russell 3000® / 20% ACWIXUS			(0.4)%	9.1%	9.3%	6.3%	4.1%	8.6%
Core Non-U.S. Equity Benchmark: ACWIXUS Index	\$ 6,088.9	10/1/1996	(6.5)% (10.2)%	0.3% 1.2%	(0.2)% 0.1%	2.8% 1.9%	5.2% 2.6%	7.2% 4.4%
Core U.S. Equity Benchmark: Russell 3000® Index	\$ 965.2	7/1/2000	(0.6)% 2.1%	9.1% 11.1%	8.6% 11.6%	6.4% 7.4%	N/A (2) 4.4%	6.7% 4.7%
Rainier International Small Cap Benchmark: MSCI ACWIXUS Small Cap Index	\$ 468.8	3/28/2012	0.2% (5.5)%	12.1% 4.9%	N/A (2) N/A (2)	N/A (2) N/A (2)	N/A (2) N/A (2)	15.4% 4.8%

The market cycle performance numbers are calculated from April 1, 2000 to June 30, 2016. We believe that a full market cycle time period should contain a wide range of market conditions and usually consists of a bear market, recovery and bull market stage. Our definition of the current market cycle includes the bear market that began with (1) an abrupt decline in the technology sector (4/1/2000 - 9/30/2002), the subsequent failed recovery (10/1/2002 - 10/31/2007), the financial crisis bear market (11/1/2007 - 2/28/2009), and the current bull market (3/1/2009 - current). The period utilized in our current market cycle may differ from periods used by other investment managers.

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

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

Revenue

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

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds, Rainier Investment Management Mutual Funds, Exeter Trust Company Collective Investment Trusts and Rainier Multiple Investment Trust. The funds are open-end mutual funds that offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company, an affiliated New Hampshire-chartered trust company and Rainier Multiple Investment Trust sponsor collective investment trusts for qualified retirement plans, including 401(k) plans. These

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mutual funds and collective investment trusts comprised \$15.1 billion, or 42%, of our AUM as of June 30, 2016, and investment management fees from these mutual funds and collective investment trusts were \$30.1 million, or 45% of our revenues for the three months ended June 30, 2016. MNA also serves as the investment advisor to all of our separately managed accounts, managing \$20.6 billion, or 58%, of our AUM as of June 30, 2016, including assets managed as a sub-advisor to pooled investment vehicles and assets in client accounts invested in the Fund.

Operating Expenses

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

Compensation and related costs. Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals and equity-based compensation issued under our equity compensation plan. These costs are affected by changes in the employee headcount, the mix of existing job descriptions, competitive factors, the addition of new skill sets, variations in the level of our AUM and revenues, changes in our stock price reflected in share-based compensation and/or the number of awards issued. In addition, incentive compensation for our research team considers the cumulative impact of both absolute and relative investment performance over the trailing one-, two- and three-year time periods, with more weight placed on the recent periods. As such, incentive compensation paid to our research team will vary based on absolute and relative investment performance.

Distribution, servicing and custody expenses. Distribution, servicing and custody expense represent amounts paid to various platforms that distribute our mutual funds and collective trust funds, as well as costs for custodial services and 12b-1 distribution. These expenses generally increase or decrease in line with changes in our mutual fund and collective investment trust AUM or services performed by these intermediaries.

Other operating expenses. Other operating expenses include accounting and legal and other professional service fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses and all other miscellaneous costs associated with managing the day-to-day operations of our business.

Non-Operating Income (Loss)

Non-operating income (loss) includes interest expense, interest and dividend income, changes in liability under the tax receivable agreement and gains (losses) related to investment securities sales and changes in values of those investment securities designated as trading. Interest expense primarily relates to unused commitment fees and amortization of debt issuance costs. 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 as well as the timing and amounts (if any) outstanding under the revolving credit agreement.

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 17.4% in Manning & Napier Group as of June 30, 2016 but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

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This management's discussion and analysis should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015 together with the consolidated financial statements and related notes and the other financial information that appear elsewhere in this report.

Revenue Recognition

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 U.S. GAAP ("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 the Company's own assumptions in determining the fair value of investments).

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

	Level 1	Level 2	Level 3	Total
	(in millions)			
June 30, 2016	\$22,372	\$13,344	\$	—\$35,716
December 31, 2015	\$21,188	\$14,254	\$	—\$35,442

As substantially all our AUM is valued by independent pricing services based upon observable market prices or inputs, we believe market risk is the most significant risk underlying valuation of our AUM, as discussed in this Form 10-Q under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and in "Part II. Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies - Recent Accounting Pronouncements" to the Consolidated Financial Statements included in Item 1 of Part I of this Form 10-Q for additional information.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Assets Under Management

The following table reflects changes in our AUM for the three months ended June 30, 2016 and 2015:

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	Three months ended		Period-to-Period	
	June 30, 2016	2015	\$	%
(in millions)				
Separately managed accounts				
Beginning assets under management	\$20,289.2	\$25,151.6	\$(4,862.4)	(19)%
Gross client inflows	536.5	560.3	(23.8)	(4)%
Gross client outflows	(1,765.0)	(1,687.9)	(77.1)	5%
Acquired assets	1,234.2	—	1,234.2	100%
Market appreciation (depreciation) & other	290.1	181.2	108.9	60%
Ending assets under management	\$20,585.0	\$24,205.2	\$(3,620.2)	(15)%
Mutual funds and collective investment trusts				
Beginning assets under management	\$14,407.2	\$20,469.4	\$(6,062.2)	(30)%
Gross client inflows	813.8	993.7	(179.9)	(18)%
Gross client outflows	(1,989.3)	(2,688.3)	699.0	(26)%
Acquired assets	1,660.1	—	1,660.1	100%
Market appreciation (depreciation) & other	239.4	126.1	113.3	90%
Ending assets under management	\$15,131.2	\$18,900.9	\$(3,769.7)	(20)%
Total assets under management				
Beginning assets under management	\$34,696.4	\$45,621.0	\$(10,924.6)	(24)%
Gross client inflows	1,350.3	1,554.0	(203.7)	(13)%
Gross client outflows	(3,754.3)	(4,376.2)	621.9	(14)%
Acquired assets	2,894.3	—	2,894.3	100%
Market appreciation (depreciation) & other	529.5	307.3	222.2	72%
Ending assets under management	\$35,716.2	\$43,106.1	\$(7,389.9)	(17)%

The total AUM increase of \$1.0 billion, or 3%, to \$35.7 billion at June 30, 2016 from \$34.7 billion at March 31, 2016 was attributable to acquired assets of \$2.9 billion and market appreciation of \$0.5 billion, offset by net client cash outflows of \$2.4 billion. Our separate accounts and mutual fund and collective investment trust vehicles each had net client outflows of approximately \$1.2 billion. The blended investment gain was 1.4% in separately managed accounts and 1.7% in mutual funds and collective investment trusts. While our relative investment performance continued to improve, net client outflows during the three months ended June 30, 2016 were primarily driven by challenging near-term investment performance in a number of our key investment strategies. By portfolio, our AUM increased by \$1.1 billion or 10% in our equity portfolio, \$0.2 billion or 20% in our fixed income portfolio and decreased by \$0.4 billion or 2% in our blended asset portfolio. Our ability to improve cash flows going forward will likely depend in part on our ability to sustain the recently improved performance in future quarters, thus improving our one, three and five year track record across our key strategies.

Our total AUM decreased by \$7.4 billion from \$43.1 billion at June 30, 2015 to \$35.7 billion at June 30, 2016. The decrease was attributable to net client outflows of \$9.3 billion and market depreciation of \$0.9 billion, offset by acquired assets of \$2.9 billion. Net client outflows consisted of approximately \$4.4 billion of net outflows for separate accounts and \$4.9 billion for mutual funds and collective investment trusts. The rates of change in AUM were most significant in our equity portfolios from June 30, 2015 to June 30, 2016, with a decrease of \$4.4 billion, or 26%, while our blended asset portfolio decreased by \$3.2 billion or 13% and our fixed income portfolio increased by 24%. As of June 30, 2016, the composition of our AUM was 58% in separate accounts and 42% in mutual funds and collective investment trusts, compared to 56% in separate accounts and 44% in mutual funds and collective investment trusts at June 30, 2015. The composition of our AUM across portfolios at June 30, 2016 was 61% in blended assets, 35% in equity, and 4% in fixed income, compared to 57% in blended assets, 40% in equity, and 3% in fixed income at June 30, 2015.

With regard to our separate accounts, gross client inflows of \$0.5 billion were offset by approximately \$1.8 billion of gross client outflows during the three months ended June 30, 2016. The \$0.5 billion gross client inflows include \$0.2

billion into both our blended asset and equity portfolios. During the three months ended June 30, 2016, 62% of our separate account gross client inflows were derived from our Direct Channel with 40% representing contributions from existing Direct Channel relationships. With regard to gross client outflows, cancellations were approximately \$0.9 billion and withdrawals from existing accounts were approximately \$0.8 billion. Outflows during the second quarter were concentrated in our equity portfolios where 63% of outflows occurred. In light of challenging relative returns during the latter half of 2014 and 2015, our separate account

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clients redeemed assets at a rate of 34% during the quarter, compared to a 26% redemption rate over the trailing twelve months ended June 30, 2016. The annualized separate account retention rate was 83% for the three months ended June 30, 2016 compared to 87% for the rolling twelve months ended June 30, 2016.

Net client outflows of \$1.2 billion from our mutual fund and collective investment trusts included gross client inflows of \$0.8 billion offset by gross client outflows of \$2.0 billion during the three months ended June 30, 2016. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$0.7 billion, or 83%, of mutual fund and collective trust fund gross client inflows during the three months ended June 30, 2016. With regard to gross client outflows, \$1.1 billion, or 58%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products. The remaining net cash flow was concentrated in our Non U.S. Equity products including our World Opportunities Series and Overseas Series.

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The following table sets forth our results of operations and related data for the three months ended June 30, 2016 and 2015:

	Three months ended		Period-to-Period	
	June 30, 2016	2015	\$	%
(in thousands, except share data)				
Revenues				
Investment management services revenue	\$67,541	\$ 86,973	\$(19,432)	(22)%
Expenses				
Compensation and related costs	24,379	28,309	(3,930)	(14)%
Distribution, servicing and custody expenses	11,986	15,840	(3,854)	(24)%
Other operating costs	8,213	9,036	(823)	(9)%
Total operating expenses	44,578	53,185	(8,607)	(16)%
Operating income	22,963	33,788	(10,825)	(32)%
Non-operating income (loss)				
Non-operating income (loss), net	280	(1,499)	1,779	119%
Income before provision for income taxes	23,243	32,289	(9,046)	(28)%
Provision for income taxes	1,545	2,081	(536)	(26)%
Net income attributable to controlling and noncontrolling interests	21,698	30,208	(8,510)	(28)%
Less: net income attributable to noncontrolling interests	19,093	26,705	(7,612)	(29)%
Net income attributable to Manning & Napier, Inc.	\$2,605	\$ 3,503	\$(898)	(26)%
Per Share Data				
Net income per share available to Class A common stock				
Basic	\$0.17	\$ 0.24		
Diluted	\$0.17	\$ 0.23		
Weighted average shares of Class A common stock outstanding				
Basic	13,960,768	13,739,923		
Diluted	14,243,579	14,002,133		
Cash dividends declared per share of Class A common stock	\$0.16	\$ 0.16		
Other financial and operating data				
Economic net income ⁽¹⁾	\$14,178	\$ 20,342	\$(6,164)	(30)%
Economic net income per adjusted share ⁽¹⁾	\$0.17	\$ 0.24		
Weighted average adjusted Class A common stock outstanding ⁽¹⁾	82,029,888	83,547,494		

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

Revenues

Our investment management services revenue decreased by \$19.4 million, or 22%, to \$67.5 million for the three months ended June 30, 2016 from \$87.0 million for the three months ended June 30, 2015. This decrease is driven primarily by a \$9.0 billion, or 20%, decrease in our average AUM to \$36.3 billion for the three months ended June 30, 2016 from \$45.3 billion for the three months ended June 30, 2015. Average AUM decreased as a result of net client outflows of \$9.3 billion and market depreciation and other changes of \$0.9 billion during the rolling twelve months ended June 30, 2016, offset by acquired assets of \$2.9 billion. By portfolio, our AUM decreases were concentrated in our equity portfolios, which decreased by 26% compared to June 30, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

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Our average separately managed account fee for the three months ended June 30, 2016 decreased slightly to 62 basis points compared to 63 basis points for the three months ended June 30, 2015. For the three months ended June 30, 2016 and 2015, separately managed account standard fees ranged from 15 basis points to 125 basis points depending on investment objective and account size. As of June 30, 2016, the concentration of assets in our separately managed accounts was 56% blended assets, 37% equity and 7% fixed income, compared to 55% blended assets, 40% equity and 5% fixed income as of June 30, 2015.

Our average fee on mutual fund and collective investment trust products decreased to 81 basis points for the three months ended June 30, 2016 compared to 83 basis points for the three months ended June 30, 2015. This decrease was primarily due to a shift in the mix of our AUM from higher fee mutual funds and collective investment trusts to those with lower fees. The management fees earned on our mutual fund and collective investment trust management fees ranged from 24 basis points to 100 basis points, depending on investment strategy, for the three months ended June 30, 2016 and 2015. As of June 30, 2016 the concentration of assets in our mutual fund and collective investment trusts was 67% blended assets, 32% equity and 1% fixed income, compared to 62% blended assets and 38% equity of June 30, 2015.

Operating Expenses

Our operating expenses decreased by \$8.6 million, or 16%, to \$44.6 million for the three months ended June 30, 2016 from \$53.2 million for the three months ended June 30, 2015.

Compensation and related costs decreased by \$3.9 million, or 14%, to \$24.4 million for the three months ended June 30, 2016 from \$28.3 million for the three months ended June 30, 2015. The decrease was due to a lower overall workforce coupled with lower variable incentive costs. When considered as a percentage of revenue, compensation and related costs for the three months ended June 30, 2016 was 36% compared to 33% for the three months ended June 30, 2015.

Distribution, servicing and custody expenses decreased by \$3.9 million, or 24%, to \$12.0 million for the three months ended June 30, 2016 from \$15.8 million for the three months ended June 30, 2015. The decrease was generally driven by a 24% decrease in mutual funds and collective investment trusts average AUM for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expense was 40% for the three months ended June 30, 2016, compared to 38% for the three months ended June 30, 2015.

Other operating costs for the three months ended June 30, 2016 was \$8.2 million, down from \$9.0 million for the three months ended June 30, 2015. As a percentage of revenue, other operating costs for the three months ended June 30, 2016 was 12% compared to 10% for 2015.

Non-Operating Income (Loss)

Non-operating income for the three months ended June 30, 2016 was \$0.3 million, compared to a net loss of \$1.5 million for the three months ended June 30, 2015. Included within non-operating income for the three months ended June 30, 2016 and 2015 was \$0.2 million of net gains and \$1.6 million of net losses, respectively, on investments held by the Company to provide initial cash seeding for product development purposes. Included in non-operating income (loss) for the three months ended June 30, 2016 and 2015 was approximately \$0.1 million in interest expense driven primarily by the unused commitment fee on our credit facility.

Provision for Income Taxes

The Company's tax provision decreased by \$0.5 million, or 26%, to \$1.5 million for the three months ended June 30, 2016 from \$2.1 million for the three months ended June 30, 2015. The change was primarily driven by a decrease in taxable earnings as compared to the prior year.

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Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Assets Under Management

The following table reflects changes in our AUM for the six months ended June 30, 2016 and 2015:

	Six months ended June 30,		Period-to-Period	
	2016	2015	\$	%
(in millions)				
Separately managed accounts				
Beginning assets under management	\$20,735.4	\$25,408.7	\$(4,673.3)	(18)%
Gross client inflows	921.3	1,251.7	(330.4)	(26)%
Gross client outflows	(2,952.4)	(2,828.3)	(124.1)	4%
Acquired assets	1,234.2	—	1,234.2	100%
Market appreciation (depreciation) & other	646.5	373.1	273.4	73%
Ending assets under management	\$20,585.0	\$24,205.2	\$(3,620.2)	(15)%
Mutual funds and collective investment trusts				
Beginning assets under management	\$14,706.8	\$22,392.9	\$(7,686.1)	(34)%
Gross client inflows	1,781.9	2,269.6	(487.7)	(21)%
Gross client outflows	(3,531.5)	(6,123.0)	2,591.5	(42)%
Acquired assets	1,660.1	—	1,660.1	100%
Market appreciation (depreciation) & other	513.9	361.4	152.5	42%
Ending assets under management	\$15,131.2	\$18,900.9	\$(3,769.7)	(20)%
Total assets under management				
Beginning assets under management	\$35,442.2	\$47,801.6	\$(12,359.4)	(26)%
Gross client inflows	2,703.2	3,521.3	(818.1)	(23)%
Gross client outflows	(6,483.9)	(8,951.3)	2,467.4	(28)%
Acquired assets	2,894.3	—	2,894.3	100%
Market appreciation (depreciation) & other	1,160.4	734.5	425.9	58%
Ending assets under management	\$35,716.2	\$43,106.1	\$(7,389.9)	(17)%

The total AUM increase of \$0.3 billion, or 1%, to \$35.7 billion at June 30, 2016 from \$35.4 billion at December 31, 2015 was attributable to acquired assets of \$2.9 billion and market appreciation of \$1.2 billion, offset by net client cash outflows of \$3.8 billion. Included in net client flows during the six months ended June 30, 2016 were net client outflows in separately managed accounts of approximately \$2.0 billion and mutual funds and collective investment trusts of approximately \$1.7 billion. The blended investment gain was 3.1% in separately managed accounts and 3.5% in mutual funds and collective investment trusts. While our investment performance improved over the first half of 2016, net client outflows during the six months ended June 30, 2016 were primarily driven by challenging near term investment performance in a number of our key investment strategies. By portfolio, our net \$0.3 billion AUM increase was derived from an increase of \$0.8 billion or 7% in our equity portfolio, \$0.3 billion or 22% in our fixed income portfolio offset by a decrease of \$0.8 billion or 3% in our blended asset portfolio. Our ability to improve cash flows going forward will likely depend in part on our ability to sustain the recently improved performance in future quarters, thus improving our one, three and five year track record across our key strategies.

Our total AUM decreased by \$7.4 billion from \$43.1 billion at June 30, 2015 to \$35.7 billion at June 30, 2016. The decrease was attributable to net client outflows of \$9.3 billion and market depreciation of \$0.9 billion, partially offset by acquired assets of \$2.9 billion. Net client outflows consisted of approximately \$4.4 billion of net outflows for separate accounts and \$4.9 billion for mutual funds and collective investment trusts. The rates of change in AUM were most significant in our equity portfolios from June 30, 2015 to June 30, 2016, with a decrease of \$4.4 billion, or 26%, while our blended asset portfolio decreased by \$3.2 billion, or 13%, and our fixed income portfolio increased by 24%.

As of June 30, 2016, the composition of our AUM was 58% in separate accounts and 42% in mutual funds and collective investment trusts, compared to 56% in separate accounts and 44% in mutual funds and collective

investment trusts at June 30, 2015. The composition of our AUM across portfolios at June 30, 2016 was 61% in blended assets, 35% in equity, and 4% in fixed income, compared to 57% in blended assets, 40% in equity, and 3% in fixed income at June 30, 2015.

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With regard to our separate accounts, gross client inflows of \$0.9 billion were offset by approximately \$3.0 billion of gross client outflows during the six months ended June 30, 2016. The \$0.9 billion of gross client inflows included \$0.4 billion into both our blended asset and equity portfolios. During the six months ended June 30, 2016, 62% of our separate account gross client inflows were derived from our Direct Channel with 44% representing contributions from existing Direct Channel relationships. Gross client outflows were evenly split with 51% withdrawals from existing accounts and 49% representing client cancellations. Our blended asset and equity portfolios experienced net client outflows of approximately \$0.8 billion and \$1.2 billion, respectively. In light of challenging relative returns during the latter half of 2014 and 2015, our separate account clients redeemed assets at a rate of 29% during the first half of 2016, compared to a 26% redemption rate over the trailing twelve months ended June 30, 2016. The annualized separate account retention rate was 87% for the six months ended June 30, 2016 consistent with 87% for the rolling twelve months ended June 30, 2016.

Net client outflows of \$1.7 billion from our mutual fund and collective investment trusts included gross client inflows of \$1.8 billion offset by gross client outflows of \$3.5 billion during the six months ended June 30, 2016. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented \$1.5 billion, or 82%, of mutual fund and collective trust fund gross client inflows during the six months ended June 30, 2016. With regard to gross client outflows, \$2.1 billion, or 61%, of mutual fund and collective investment trust gross client outflows were from blended asset mutual fund and collective trust products. The remaining net cash flow was concentrated in our Non U.S. Equity products including our World Opportunities Series and Overseas Series.

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The following table sets forth our results of operations and other data for the six months ended June 30, 2016 and 2015:

	Six months ended		Period-to-Period	
	June 30, 2016	2015	\$	%
(in thousands, except share data)				
Revenues				
Investment management services revenue	\$ 132,079	\$ 177,399	\$(45,320)	(26)%
Expenses				
Compensation and related costs	46,346	55,127	(8,781)	(16)%
Distribution, servicing and custody expenses	23,324	32,672	(9,348)	(29)%
Other operating costs	16,666	17,978	(1,312)	(7)%
Total operating expenses	86,336	105,777	(19,441)	(18)%
Operating income	45,743	71,622	(25,879)	(36)%
Non-operating income (loss)				
Non-operating income (loss), net	1,358	(743)) 2,101	*
Income before provision for income taxes	47,101	70,879	(23,778)	(34)%
Provision for income taxes	3,219	4,560	(1,341)	(29)%
Net income attributable to controlling and noncontrolling interests	43,882	66,319	(22,437)	(34)%
Less: net income attributable to noncontrolling interests	38,859	59,507	(20,648)	(35)%
Net income attributable to Manning & Napier, Inc.	\$5,023	\$6,812	\$(1,789)	(26)%
Per Share Data				
Net income per share available to Class A common stock				
Basic	\$0.34	\$0.48		
Diluted	\$0.33	\$0.47		
Weighted average shares of Class A common stock outstanding				
Basic	13,852,949	13,726,804		
Diluted	14,209,811	13,965,655		
Cash dividends declared per share of Class A common stock	\$0.32	\$0.32		
Other financial and operating data				
Economic net income ⁽¹⁾	\$29,209	\$44,654	\$(15,445)	(35)%
Economic net income per adjusted share ⁽¹⁾	\$0.35	\$0.52		
Weighted average adjusted Class A common stock outstanding ⁽¹⁾	82,844,447	85,800,632		

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

(*) Percentage change not meaningful

Revenues

Our investment management services revenue decreased by \$45.3 million, or 26%, to \$132.1 million for the six months ended June 30, 2016 from \$177.4 million for the six months ended June 30, 2015. This decrease was driven primarily by a \$11.1 billion, or 24%, decrease in our average AUM to \$35.1 billion for the six months ended June 30, 2016 from \$46.2 billion for the six months ended June 30, 2015. Average AUM decreased as a result of net client outflows of \$9.3 billion and market depreciation and other changes of \$0.9 billion during the rolling twelve months ended June 30, 2016, offset by acquired assets of \$2.9 billion. By portfolio, our AUM decreases were concentrated in our equity portfolios, which decreased by 26% compared to June 30, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our average separately managed account fee remained consistent at 63 basis points for the six months ended June 30, 2016 and 2015, For both the six months ended June 30, 2016 and 2015, separately managed account management fees ranged

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from 15 basis points to 125 basis points, depending on investment objective and account size. As of June 30, 2016, the concentration of assets in our separately managed accounts was 56% blended assets, 37% equity and 7% fixed income, compared to 55% blended assets, 40% equity and 5% fixed income as of June 30, 2015.

Our average fee on mutual fund and collective investment trust products was 81 basis points for the six months ended June 30, 2016, a decrease when compared to 84 basis points for the six months ended June 30, 2015. This decrease was primarily due to a shift in the mix of our AUM from higher fee mutual funds and collective investment trusts to those with lower fees. For both the six months ended June 30, 2016 and 2015, mutual fund and collective investment trust management fees ranged from 24 basis points to 100 basis points, depending on investment strategy. As of June 30, 2016 the concentration of assets in our mutual fund and collective investment trusts was 67% blended assets and 32% equity, compared to 62% blended assets and 38% equity of June 30, 2015.

Operating Expenses

Our operating expenses decreased by \$19.4 million, or 18%, to \$86.3 million for the six months ended June 30, 2016 from \$105.8 million for the six months ended June 30, 2015.

Compensation and related costs decreased by \$8.8 million, or 16%, to \$46.3 million for the six months ended June 30, 2016 from \$55.1 million for the six months ended June 30, 2015. The decrease was due to a lower overall workforce coupled with lower variable incentive costs. When considered as a percentage of revenue, compensation and related costs for the six months ended June 30, 2016 was 35% compared to 31% in 2015.

Distribution, servicing and custody expenses decreased by \$9.3 million, or 29%, to \$23.3 million for the six months ended June 30, 2016 from \$32.7 million for the six months ended June 30, 2015. The decrease was generally attributable to a 30% decrease in mutual funds and collective investment trusts average AUM for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expenses was 40% for the six months ended June 30, 2016, compared to 37% for the six months ended June 30, 2015.

Other operating costs decreased by \$1.3 million, or 7%, to \$16.7 million for the six months ended June 30, 2016 from \$18.0 million for the six months ended June 30, 2015. As a percentage of revenue, other operating costs for the six months ended June 30, 2016 was 13% compared to 10% for 2015.

Non-Operating Income (Loss)

Non-operating income for the six months ended June 30, 2016 was \$1.4 million, compared to non-operating loss of \$0.7 million for the six months ended June 30, 2015. Included in non-operating income (loss) was a net gain of \$1.3 million on investments held by the Company to provide initial cash seeding for product development purposes for the six months ended June 30, 2016, compared to a net loss of \$1.0 million in 2015. Included in non-operating income (loss) was approximately \$0.2 million and \$0.1 million in interest expense during the six months ended June 30, 2016 and 2015, respectively, driven primarily by the unused commitment fee on our credit facility entered into during 2015.

Provision for Income Taxes

The Company's tax provision decreased by \$1.3 million, or 29%, to \$3.2 million for the six months ended June 30, 2016 from \$4.6 million for the six months ended June 30, 2015. The change was primarily driven by a decrease in expected 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 its business. Economic net income and economic net income per adjusted share are not presented in accordance with GAAP.

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Economic net income is a non-GAAP measure of after-tax operating performance and equals the Company's income before provision for income taxes less adjusted income taxes. Adjusted income taxes are estimated assuming the exchange of all outstanding units of Manning & Napier Group into Class A common stock on a one-to-one basis. Therefore, all income of Manning & Napier Group allocated to the units of Manning & Napier Group is treated as if it were allocated to the Company and represents an estimate of income tax expense at an effective rate of 39% and 37% for the three months ended June 30, 2016 and 2015, respectively, and 38% and 37% for the six months ended June 30, 2016 and 2015, respectively, reflecting assumed federal, state and local income taxes. Economic net income per adjusted share is equal to economic net income divided by the weighted average adjusted Class A common shares outstanding. The number of weighted average adjusted Class A common shares outstanding for all periods presented is determined by assuming the weighted average exchangeable units of Manning & Napier Group and unvested equity awards are converted into our 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.

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

The following table sets forth our other financial and operating data for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Income before provision for income taxes	\$23,243	\$ 32,289	\$47,101	\$ 70,879
Economic net income (Non-GAAP)	\$14,178	\$ 20,342	\$29,209	\$ 44,654
Economic net income per adjusted share (Non-GAAP)	\$0.17	\$ 0.24	\$0.35	\$ 0.52
Weighted average adjusted Class A common stock outstanding (Non-GAAP)	82,029,888	83,547,494	82,844,448	85,800,632

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Net income attributable to Manning & Napier, Inc.	\$2,605	\$ 3,503	\$5,023	\$ 6,812
Add back: Net income attributable to noncontrolling interests	19,093	26,705	38,859	59,507
Add back: Provision for income taxes	1,545	2,081	3,219	4,560
Income before provision for income taxes	23,243	32,289	47,101	70,879
Adjusted income taxes	9,065	11,947	17,892	26,225
Economic net income (Non-GAAP)	\$14,178	\$ 20,342	\$29,209	\$ 44,654
Weighted average shares of Class A common stock outstanding - Basic	13,960,768	13,739,923	13,852,948	13,726,804
Assumed vesting, conversion or exchange of:				
Manning & Napier Group, LLC units outstanding (non-controlling interest)	66,387,975	67,896,484	67,142,220	70,688,357
Unvested restricted share-based awards	1,681,138	1,911,087	1,849,269	1,385,471
Weighted average adjusted shares (Non-GAAP)	82,029,881	83,547,494	82,844,437	85,800,632
Economic net income per adjusted share (Non-GAAP)	\$0.17	\$ 0.24	\$0.35	\$ 0.52

Liquidity and Capital Resources

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

The following table sets forth certain key financial data relating to our liquidity and capital resources as of June 30, 2016 and