Manning & Napier, Inc.
Form 10-Q
November 07, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 (State or other jurisdiction of incorporation or organization)	45-2609100 (I.R.S. Employer Identification No.)
290 Woodcliff Drive Fairport, New York (Address of principal executive offices)	14450 (Zip Code)

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 x 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 x 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 ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Class	Outstanding at November 2, 2016
Class A common stock, $0.01 par value per share	15,002,880
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)

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ 123,708	$ 117,591
Accounts receivable	17,240	15,807
Accounts receivable—affiliated mutual funds	6,630	8,473
Due from broker	—	3,962
Due from broker - consolidated funds	—	3,510
Investment securities	17,568	21,460
Investment securities - consolidated funds	1,036	1,107
Prepaid expenses and other assets	3,572	4,638
Total current assets	169,754	176,548
Property and equipment, net	6,065	6,299
Net deferred tax assets, non-current	44,437	46,649
Goodwill	4,843	871
Other long-term assets	9,467	429
Total assets	$ 234,566	$ 230,796
Liabilities		
Accounts payable	$ 2,523	$ 1,141
Accrued expenses and other liabilities	35,540	42,480
Deferred revenue	10,871	10,938
Total current liabilities	48,934	54,559
Other long-term liabilities	6,588	2,796
Amounts payable under tax receivable agreement, non-current	36,255	38,661
Total liabilities	91,777	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 September 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 September 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	203,885	205,760
Retained deficit	(37,027)	(37,149)
Accumulated other comprehensive income	4	(3)
Total shareholders' equity	167,012	168,756
Noncontrolling interests	(24,223)	(33,976)
Total shareholders' equity and noncontrolling interests	142,789	134,780
Total liabilities, shareholders' equity and noncontrolling interests	$ 234,566	$ 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues				
Investment management services revenue	$63,305	$ 75,435	$189,852	$248,045
Expenses				
Compensation and related costs	24,627	24,500	70,973	79,627
Distribution, servicing and custody expenses	8,798	11,127	26,590	39,010
Other operating costs	8,188	9,075	24,854	27,053
Total operating expenses	41,613	44,702	122,417	145,690
Operating income	21,692	30,733	67,435	102,355
Non-operating income (loss)				
Interest expense	(127)	(131)	(339)	(215)
Interest and dividend income	141	138	457	459
Change in liability under tax receivable agreement	(76)	(2,793)	(94)	(2,810)
Net gains (losses) on investments	(80)	(3,221)	1,192	(4,184)
Total non-operating income (loss)	(142)	(6,007)	1,216	(6,750)
Income before provision for income taxes	21,550	24,726	68,651	95,605
Provision (benefit) for income taxes	1,565	(1,600)	4,784	2,960
Net income attributable to controlling and noncontrolling interests	19,985	26,326	63,867	92,645
Less: net income attributable to noncontrolling interests	17,727	22,784	56,586	82,291
Net income attributable to Manning & Napier, Inc.	$2,258	$ 3,542	$7,281	$10,354
Net income per share available to Class A common stock				
Basic	$0.15	$ 0.24	$0.49	$0.72
Diluted	$0.15	$ 0.21	$0.48	$0.71
Weighted average shares of Class A common stock outstanding				
Basic	14,042,880	13,745,130	13,916,721	13,732,980
Diluted	14,175,321	81,889,208	14,173,283	13,951,651
Cash dividends declared per share of Class A common stock	$0.16	$ 0.16	$0.48	$0.48

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 ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income attributable to controlling and noncontrolling interests	$19,985	$26,326	$63,867	$92,645
Net unrealized holding gain (loss) on investment securities, net of tax	1	—	7	(2)
Comprehensive income	$19,986	$26,326	$63,874	$92,643
Less: Comprehensive income attributable to noncontrolling interests	17,728	22,784	56,593	82,289
Comprehensive income attributable to Manning & Napier, Inc.	$2,258	$3,542	$7,281	$10,354

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						
	Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
Balance—December 31, 2014	13,713,540	$ 137	1,000	$ —	$ 209,284	$ (41,087)	$ —	$ (19,623)	$ 148,711
Net income	—	—	—	—	—	10,354	—	82,291	92,645
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(79,029)	(79,029)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(2)	—	(2)
Common stock issued under equity compensation plan	1,061,590	11	—	—	(11)	—	—	—	—
Equity-based compensation	—	—	—	—	600	—	—	3,155	3,755
Dividends declared on Class A common stock - $0.48 per share	—	—	—	—	—	(6,916)	—	—	(6,916)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(4,394)	—	—	(33,326)	(37,720)
Balance—September 30, 2015	14,775,130	$ 148	1,000	$ —	$ 205,479	$ (37,649)	$ (2)	$ (46,532)	$ 121,444
Balance—December 31, 2015	14,755,130	$ 148	1,000	$ —	$ 205,760	$ (37,149)	$ (3)	$ (33,976)	$ 134,780
Net income	—	—	—	—	—	7,281	—	56,586	63,867
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(34,153)	(34,153)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	7	—	7
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	—	—	—	—	(162)	—	—	(791)	(953)

granted									
Equity-based compensation	—	—	—	—	433	—	—	2,102	2,535
Dividends declared on Class A common stock - $0.48 per share	—	—	—	—	—	(7,159)	—	—	(7,159)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests (Note 4)	—	—	—	—	(2,144)	—	—	(13,991)	(16,135)
Balance—September 30, 2016	15,032,880	$ 150	1,000	$ —	$ 203,885	$ (37,027)	$ 4	$ (24,223)	$ 142,789

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)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$63,867	$92,645
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	2,535	3,755
Depreciation and amortization	1,952	1,968
Change in amounts payable under tax receivable agreement	94	2,810
Change in contingent consideration liability	(500)	—
Net (gains) losses on investment securities	(1,192)	4,184
Deferred income taxes	2,212	(1,087)
Amortization of debt issuance costs	117	65
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	2,011	6,086
Accounts receivable—affiliated mutual funds	1,862	6,571
Due from broker - consolidated funds	3,795	(5,000)
Investment securities - consolidated funds	—	(1,150)
Prepaid expenses and other assets	1,238	3,230
Accounts payable	(349)	(2,036)
Accrued expenses and other liabilities	(12,196)	(18,188)
Deferred revenue	(68)	(35)
Other long-term liabilities	(8)	(217)
Net cash provided by operating activities	65,370	93,601
Cash flows from investing activities:		
Purchase of property and equipment	(240)	(555)
Sale of investments	9,033	8,207
Purchase of investments	(4,229)	(6,610)
Due from broker	4,022	—
Acquisitions, net of cash received	(9,321)	—
Net cash (used in) provided by investing activities	(735)	1,042
Cash flows from financing activities:		
Distributions to noncontrolling interests	(34,153)	(79,029)
Dividends paid on Class A common stock	(7,123)	(7,851)
Payment of shares withheld to satisfy withholding requirements	(953)	(64)
Payment of capital lease obligations	(154)	(166)
Purchase of Class A units of Manning & Napier Group, LLC	(16,135)	(37,720)
Payment of debt issuance costs	—	(622)
Net cash used in financing activities	(58,518)	(125,452)
Net increase (decrease) in cash and cash equivalents	6,117	(30,809)
Cash and cash equivalents:		
Beginning of period	117,591	124,992
End of period	$123,708	$94,183

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 September 30, 2016.

(1) The consolidated operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC ("MNA"), Manning & Napier Alternative Opportunities, LLC, Perspective Partners LLC, Manning & Napier 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.

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.

Revision of Previously Reported Consolidated Statements of Operations

In the quarter ended September 30, 2016, the Company revised its treatment of payments made to certain advisory clients, in accordance with Accounting Standard Codification ("ASC") 605-50, Revenue Recognition - Customer Payments and Incentives to properly present these payments as a reduction to revenue. The Company assessed the materiality of this item on its fiscal year ended December 31, 2015, and all prior and subsequent periods, and concluded that the reclassification was not material to any such periods. The statements of operations for the three and nine months ended September 30, 2015 included herein have been revised to reflect the proper presentation of investment management services revenue and distribution, servicing and custody expenses. The reclassification has no impact on operating income or net income. The impact is illustrated below:

	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(in thousands)	
Investment management services revenue, as previously reported	$77,928	$255,327
Revision	(2,493)	(7,282)
Investment management services revenue, as revised	$75,435	$248,045
Distribution, servicing and custody expenses, as previously reported	$13,620	$46,292
Revision	(2,493)	(7,282)
Distribution, servicing and custody expenses, as revised	$11,127	$39,010

Principles of Consolidation

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

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 September 30, 2016, 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 gross 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.

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

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 September 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 $24.8 million and $78.6 million for the three and nine months ended September 30, 2016, respectively and $35.1 million and $121.5 million for the three and nine months ended September 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 $11.6 million and $8.7 million as of September 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 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 September 30, 2016 the fair value of the contingent liability was $3.0 million, of which $0.4 million is included in accrued expenses and other current liabilities with the remainder 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):

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

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.

The acquisition date 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 included 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 $0.1 million as of September 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.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Income before provision for income taxes	$21,550	$24,726	$68,651	$95,605
Less: loss before provision for income taxes of Manning & Napier, Inc. (a)	(95)	(2,799)	(114)	(2,822)
Income before provision for income taxes, as adjusted	21,645	27,525	68,765	98,427
Controlling interest percentage (b)	17.4 %	16.7 %	17.1 %	16.0 %
Net income attributable to controlling interest	3,765	4,647	11,753	15,714
Plus: loss before provision for income taxes of Manning & Napier, Inc. (a)	(95)	(2,799)	(114)	(2,822)
Income before income taxes attributable to Manning & Napier, Inc.	3,670	1,848	11,639	12,892
Less: provision (benefit) for income taxes of Manning & Napier, Inc. (c)	1,412	(1,694)	4,358	2,538
Net income attributable to Manning & Napier, Inc.	$2,258	$3,542	$7,281	$10,354

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.

c) The consolidated provision for income taxes is equal to the sum of (i) the provision for income taxes for entities other than Manning & Napier, Inc. and (ii) the provision for income taxes of Manning & Napier, Inc. which includes all U.S. federal and state income taxes. The consolidated provision for income taxes was $1.6 million and $4.8 million for the three and nine months ended September 30, 2016, respectively and a benefit of $1.6 million and provision of $3.0 million for the three and nine months ended September 30, 2015, respectively.

A total of 65,784,571 units of Manning & Napier Group are held by the noncontrolling interests as of September 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 nine months ended September 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 September 30, 2016 and December 31, 2015, the Company had recorded a liability of $38.7 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 other holders of Class A Units of Manning & Napier Group. Of these amounts, $2.4 million and $3.3 million were included in accrued expenses and other liabilities at September 30, 2016 and December 31, 2015, respectively. The Company made payments of approximately $3.4 million and $2.1 million pursuant to the TRA during the nine months ended September 30, 2016 and 2015, respectively.

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

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

Note 5—Investment Securities

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

	September 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				7,422
Fixed income securities				7,754
Mutual funds				287
Mutual funds - consolidated funds				1,036
				16,499
Total investment securities				$18,604

	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 for which the Company provides advisory services. At September 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 $1.6 million of net unrealized gains and $2.4 million of net unrealized losses related to investments classified as trading during the nine months ended September 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 September 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 nine months ended September 30, 2016 and 2015.

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

Note 6—Derivative Instruments

The Company may enter 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 September 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)

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 nine months ended September 30, 2015 was approximately $238.5 million. The following table presents the gains (losses) recognized in net gains (losses) on investments in the consolidated statements of operations for the nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Interest rate futures	$—	$(877)	$494	$(1,420)
Index futures	—	(137)	(37)	(47)
Commodity futures	—	(33)	(13)	(10)
Currency futures	—	(117)	(102)	(58)
Gains (losses) recognized, net	$—	$(1,164)	$342	$(1,535)

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 September 30, 2016 and December 31, 2015:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement	Net Amounts of Assets (Liabilities) Presented in	Financial Instruments	Cash Collateral Received (Pledged)	Net Amount

		of Financial Position	the Statement of Financial Position			
	(in thousands)					
September 30, 2016	$—	$ —	$ —	$ —	$ —	$ —
December 31, 2015	$(232)	$ 288	$ 56	$ —	$ —	$ 56

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

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).

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

	September 30, 2016			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	$7,422	$—	$—	$7,422
Fixed income securities	1,147	6,607	—	7,754
Mutual funds	287	—	—	287
Mutual funds - consolidated funds	1,036	—	—	1,036
U.S. Treasury notes	—	2,105	—	2,105
Total assets at fair value	$9,892	$8,712	$—	$18,604
Contingent consideration liability	$—	$—	$3,000	$3,000
Total liabilities at fair value	$—	$—	$3,000	$3,000

	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.

Contingent consideration was a component of the purchase price of Rainier. The contingent consideration is payable over a four year period upon Rainier's achievement of certain financial targets. The fair value of the contingent consideration is

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

calculated on a quarterly basis by forecasting Rainier's adjusted earnings before interest, taxes and amortization ("EBITA") as defined by the purchase agreement over the contingency period with changes in the fair value included in other operating costs in the consolidated statements of operations. Significant unobservable inputs used in the valuation include adjusted EBITA growth of up to 63% and an earn-out payment discount rate of 3.1% over the contingency period.

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

	December 31, 2015	Purchases	Sales	Redemptions/ Settlements/ Other	Transfers	Realized and unrealized gains/(losses), net	September 30, 2016
	(in thousands)						
Contingent consideration liability	$ —	$ (3,500)	n/a	$ 500	n/a	$ —	$ (3,000)

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

Note 8—Accrued Expenses and Other Liabilities

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Accrued bonus and sales commissions	$ 16,513	$ 22,584
Accrued payroll and benefits	3,481	2,844
Accrued sub-transfer agent fees	5,891	6,148
Dividends payable	2,405	2,361
Amounts payable under tax receivable agreement	2,447	3,278
Other accruals and liabilities	4,803	5,265
	$ 35,540	$ 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 September 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 September 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.

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 September 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.

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

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2016 and 2015 under the two-class method:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Net income attributable to controlling and noncontrolling interests	$19,985	$ 26,326	$63,867	$ 92,645
Less: net income attributable to noncontrolling interests	17,727	22,784	56,586	82,291
Net income attributable to Manning & Napier, Inc.	$2,258	$ 3,542	$7,281	$ 10,354
Less: allocation to participating securities	158	247	480	482
Net income available to Class A common stock	$2,100	$ 3,295	$6,801	$ 9,872
Weighted average shares of Class A common stock outstanding - basic	14,042,881	13,745,130	13,916,721	13,732,980
Dilutive effect from unvested equity awards	132,441	68,144,078	256,562	218,671
Weighted average shares of Class A common stock outstanding - diluted	14,175,322	81,889,208	14,173,283	13,951,651
Net income available to Class A common stock per share - basic	$0.15	$ 0.24	$0.49	$ 0.72
Net income available to Class A common stock per share - diluted	$0.15	$ 0.21	$0.48	$ 0.71

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 nine months ended September 30, 2016, 990,000 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 nine months ended September 30, 2015, 1,030,000 and 1,285,357, respectively, 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 nine months ended September 30, 2015, 181,378 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 September 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 the three and nine months ended September 30, 2016 or for the nine months ended September 30, 2015, 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 nine months ended September 30, 2016, 72,410 equity awards were granted under the Equity Plan. These awards consisted of Class A common stock that vested immediately.

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

The following table summarizes the equity award activity for the nine months ended September 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	(409,800)	$ 10.85
Stock awards outstanding at September 30, 2016	1,284,760	$ 12.88

The weighted average grant date fair value of Equity Plan awards granted during the nine months ended September 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 nine months ended September 30, 2016, the Company recorded approximately $0.4 million and $2.5 million, respectively, of compensation expense related to awards under the Equity Plan. For the three and nine months ended September 30, 2015, the Company recorded approximately $1.2 million and $3.8 million, respectively of compensation expense related to awards under the Equity Plan. As of September 30, 2016, there was unrecognized compensation expense related to Equity Plan awards of approximately $10.3 million, which the Company expects to recognize over a weighted average period of approximately 4.1 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Earnings from continuing operations before income taxes	$21,550	$24,726	$68,651	$95,605
Effective tax rate	7.3 %	(6.5)%	7.0 %	3.1 %
Provision (benefit) for income taxes	1,565	(1,600)	4,784	2,960
Provision for income taxes @ 35%	7,543	8,654	24,028	33,462
Difference between tax at effective vs. statutory rate	$(5,978)	$(10,254)	$(19,244)	$(30,502)

For the three and nine months ended months ended September 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. For the three and nine months ended September 30, 2015, the Company received an additional benefit of approximately $3.2 million resulting from the release of uncertain tax positions that increased the expected future tax benefits under the TRA.

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

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

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 nine months ended September 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 October 25, 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 $30.0 million, of which approximately $24.9 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 February 1, 2017 to shareholders of record as of January 13, 2017.

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 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 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.

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Our assets under management ("AUM") was $34.8 billion as of September 30, 2016. The composition of our AUM by vehicle and portfolio is illustrated in the table below:

AUM - by investment vehicle and portfolio	September 30, 2016 Blended Asset (in millions)	Equity	Fixed Income	Total
Separately managed accounts	$11,828.1	$7,507.3	$ 1,201.6	$20,537.0
Mutual funds and collective investment trusts	9,720.8	4,417.5	143.2	14,281.5
Total	$21,548.9	$11,924.8	$ 1,344.8	$34,818.5

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

	September 30, 2016 Blended Asset (dollars in millions)	Equity	Fixed Income	Total
Separate account AUM				
Direct Channel	$8,658.0	$5,943.8	$ 1,071.4	$15,673.2
Intermediary Channel	3,165.7	687.5	130.2	3,983.4
Platform/Sub-advisor Channel	4.4	876.0	—	880.4
Total	$11,828.1	$7,507.3	$ 1,201.6	$20,537.0
Percentage of separate account AUM				
Direct Channel	42 %	29 %	5 %	76 %
Intermediary Channel	16 %	3 %	1 %	20 %
Platform/Sub-advisor Channel	0 %	4 %	0 %	4 %
Total	58 %	36 %	6 %	100 %
Percentage of portfolio by channel				
Direct Channel	73 %	79 %	89 %	76 %
Intermediary Channel	27 %	9 %	11 %	20 %
Platform/Sub-advisor Channel	0 %	12 %	0 %	4 %
Total	100 %	100 %	100 %	100 %
Percentage of channel by portfolio				
Direct Channel	55 %	38 %	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 nine months ended September 30, 2016 and represented 59% of our total AUM as of September 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 64% of the total gross client inflows for our separate account business for the nine months ended September 30, 2016 and represented 76% of our total separate account AUM as of September 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 nine months ended September 30, 2016, blended asset portfolios represented 71% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios represented 12% and 17% respectively. As of September 30, 2016, blended asset and equity portfolios represented 55% and 38%, 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 nine months ended September 30, 2016, 15% of the total gross client inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 21% 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 September 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 nine months ended September 30, 2016, blended asset and equity portfolios represented 69% and 24%, respectively, of the separate account gross client inflows from the Intermediary Channel, while fixed income portfolios represented 7%. As of September 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 nine months ended September 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 86% during the nine months ended September 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 September 30, 2016, by portfolio, is set forth in the table below:

	September 30, 2016			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Mutual fund and collective investment trust AUM	$9,720.8	$4,417.5	$ 143.2	$14,281.5

Our mutual funds and collective investment trusts contributed 66% of our total gross client inflows for the nine months ended September 30, 2016 and represented 41% of our total AUM as of September 30, 2016. As of September 30, 2016, our mutual fund and collective investment trust AUM consisted of 68% from blended asset portfolios and 31% from equity portfolios. During the nine months ended September 30, 2016, 78% and 20% 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 approximately 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 focus on distributing blended asset and equity portfolio funds in the future.

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Results of Operations

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

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 nine months ended September 30, 2016 and 2015.

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
		(in millions)				
As of June 30, 2016	$20,585.0	$ 15,131.2	$35,716.2	58 %	42 %	100%
Gross client inflows	374.6	752.2	1,126.8			
Gross client outflows	(1,226.0)	(2,163.2)	(3,389.2)			
Market appreciation/(depreciation) & other	803.4	561.3	1,364.7			
As of September 30, 2016	$20,537.0	$ 14,281.5	$34,818.5	59 %	41 %	100%
Average AUM for period	$20,678.1	$ 14,767.5	$35,445.6			
As of June 30, 2015	$24,205.2	$ 18,900.9	$43,106.1	56 %	44 %	100%
Gross client inflows	783.4	1,030.7	1,814.1			
Gross client outflows	(1,737.0)	(2,696.3)	(4,433.3)			
Market appreciation/(depreciation) & other	(1,810.5)	(1,500.0)	(3,310.5)			
As of September 30, 2015	$21,441.1	$ 15,735.3	$37,176.4	58 %	42 %	100%
Average AUM for period	$22,951.3	$ 17,255.5	$40,206.8			

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
		(in millions)				
As of December 31, 2015	$20,735.4	$ 14,706.8	$35,442.2	59 %	41 %	100%
Gross client inflows	1,295.9	2,534.1	3,830.0			
Gross client outflows	(4,178.4)	(5,694.7)	(9,873.1)			
Acquired assets	1,234.2	1,660.1	2,894.3			
Market appreciation/(depreciation) & other	1,449.9	1,075.2	2,525.1			
As of September 30, 2016	$20,537.0	$ 14,281.5	$34,818.5	59 %	41 %	100%
Average AUM for period	$20,584.2	$ 14,724.0	$35,308.2			
As of December 31, 2014	$25,408.7	$ 22,392.9	$47,801.6	53 %	47 %	100%
Gross client inflows	2,035.1	3,300.3	5,335.4			
Gross client outflows	(4,565.3)	(8,819.3)	(13,384.6)			
Market appreciation/(depreciation) & other	(1,437.4)	(1,138.6)	(2,576.0)			
As of September 30, 2015	$21,441.1	$ 15,735.3	$37,176.4	58 %	42 %	100%
Average AUM for period	$24,402.8	$ 19,744.0	$44,146.8			

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

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
		(in millions)						
As of June 30, 2016	$21,676.8	$12,608.9	$1,430.5	$35,716.2	61 %	35 %	4 %	100%
Gross client inflows	742.8	329.1	54.9	1,126.8				
Gross client outflows	(1,628.3)	(1,612.5)	(148.4)	(3,389.2)				
Market appreciation/(depreciation) & other	757.6	599.3	7.8	1,364.7				
As of September 30, 2016	$21,548.9	$11,924.8	$1,344.8	$34,818.5	62 %	34 %	4 %	100%
Average AUM for period	$21,649.0	$12,412.7	$1,383.9	$35,445.6				
As of June 30, 2015	$24,900.3	$17,047.7	$1,158.1	$43,106.1	57 %	40 %	3 %	100%
Gross client inflows	1,023.6	688.8	101.7	1,814.1				
Gross client outflows	(1,594.5)	(2,782.3)	(56.5)	(4,433.3)				
Market appreciation/(depreciation) & other	(1,554.3)	(1,766.5)	10.3	(3,310.5)				
As of September 30, 2015	$22,775.1	$13,187.7	$1,213.6	$37,176.4	61 %	36 %	3 %	100%
Average AUM for period	$24,027.0	$15,013.4	$1,166.4	$40,206.8				

	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	2,571.2	972.1	286.7	3,830.0				
Gross client outflows	(4,982.2)	(4,550.1)	(340.8)	(9,873.1)				
Acquired assets	—	2,719.8	174.5	2,894.3				
Market appreciation/(depreciation) & other	1,517.5	954.6	53.0	2,525.1				
As of September 30, 2016	$21,548.9	$11,924.8	$1,344.8	$34,818.5	62 %	34 %	4 %	100%
Average AUM for period	$21,840.7	$12,167.4	$1,300.1	$35,308.2				
As of December 31, 2014	$25,279.0	$21,284.1	$1,238.5	$47,801.6	53 %	44 %	3 %	100%
Gross client inflows	3,347.0	1,780.7	207.7	5,335.4				
Gross client outflows	(4,458.1)	(8,683.6)	(242.9)	(13,384.6)				
Market appreciation/(depreciation) & other	(1,392.8)	(1,193.5)	10.3	(2,576.0)				
As of September 30, 2015	$22,775.1	$13,187.7	$1,213.6	$37,176.4	61 %	36 %	3 %	100%
Average AUM for period	$24,901.6	$18,046.6	$1,198.6	$44,146.8				

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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 75% of our AUM as of September 30, 2016.

Key Strategies	AUM as of September 30, 2016 (in millions)	Inception Date	Annualized Returns as of September 30, 2016 (3) One Year	Three Year	Five Year	Ten Year	Market Cycle (1)	Inception
Long-Term Growth 30%-80% Equity Exposure	$ 9,747.0	1/1/1973	10.4%	4.8%	9.1%	5.3%	6.4%	9.6%
Blended Benchmark: 55% S&P 500 Total Return / 45% Barclays Government/Credit Bond			11.2%	8.1%	10.5%	6.5%	5.2%	9.2%
Growth with Reduced Volatility 20%-60% Equity Exposure	$ 4,372.6	1/1/1973	8.1%	3.9%	7.3%	4.8%	5.9%	8.9%
Blended Benchmark: 40% S&P 500 Total Return / 60% Barclays Government/Credit Bond			9.8%	7.1%	8.5%	6.1%	5.3%	8.8%
Aggregate Fixed Income	$ 528.1	1/1/1984	4.7%	3.3%	3.0%	4.8%	5.1%	7.5%
Benchmark: Barclays U.S. Aggregate Bond			5.2%	4.0%	3.1%	4.8%	5.4%	7.5%
Equity-Oriented	$ 2,837.2	1/1/1993	14.0%	5.4%	11.5%	5.4%	6.6%	9.8%
Blended Benchmark: 65% Russell 3000® / 20% ACWIxUS / 15% Barclays U.S. Aggregate Bond			12.4%	7.5%	12.3%	6.2%	4.6%	8.3%
Core Equity (Unrestricted) 90%-100% Equity Exposure	$ 1,116.1	1/1/1995	15.4%	6.5%	13.4%	6.3%	7.3%	10.9%
Blended Benchmark: 80% Russell 3000® / 20% ACWIxUS			13.8%	8.4%	14.3%	6.4%	4.3%	8.7%
Core Non-U.S. Equity	$ 6,026.6	10/1/1996	12.6%	(1.2)%	6.3%	2.5%	5.4%	7.4%
Benchmark: ACWIxUS Index			9.3%	0.2%	6.0%	2.2%	2.9%	4.7%
Core U.S. Equity	$ 814.2	7/1/2000	16.9%	8.2%	14.1%	6.7%	N/A (2)	7.0%
Benchmark: Russell 3000® Index			15.0%	10.4%	16.4%	7.4%	4.6%	4.9%
Rainier International Small Cap	$ 543.6	3/28/2012	1.5%	9.3%	N/A (2)	N/A (2)	N/A (2)	13.4%
Benchmark: MSCI ACWIxUS Small Cap Index			7.5%	5.4%	N/A (2)	N/A (2)	N/A (2)	5.8%

(1) The market cycle performance numbers are calculated from April 1, 2000 to September 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 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 primarily offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company, an affiliated New Hampshire-chartered trust company and Rainier Multiple Investment Trust sponsor collective investment trusts for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised $14.3 billion, or 41%, of our AUM as of September 30, 2016, and investment management fees from these mutual funds and collective investment trusts were $28.0 million, or 44% of our

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revenues for the three months ended September 30, 2016. MNA and Rainier also serve as the investment advisor to all of our separately managed accounts, managing $20.5 billion, or 59%, of our AUM as of September 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, shareholder 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 costs. Other operating costs 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 ("TRA") entered into between Manning & Napier and the other holders of Class A Units of Manning & Napier Group, gains (losses) related to investment securities sales and changes in values of those investment securities designated as trading. 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 September 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.

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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.

In the quarter ended September 30, 2016, the Company revised its treatment of payments made to certain advisory clients, in accordance with ASC 605-50, Revenue Recognition - Customer Payments and Incentives to properly present these payments as a reduction to revenue. The Company assessed the materiality of this item on its fiscal year ended December 31, 2015, and all prior and subsequent periods, and concluded that the reclassification was not material to any such periods. The statements of operations for the three and nine months ended September 30, 2015 included herein have been revised to reflect the proper presentation of investment management services revenue and distribution, servicing and custody expenses. The reclassification has no impact on operating income or net income. Average fees and expenses presented as a percentage of revenue throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" have been revised to reflect the reclassification. See Note 2, "Summary of Significant Accounting Policies - Basis of Presentation" to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information.

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)			
September 30, 2016	$22,057	$12,761	$ —	$34,818
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 Quarterly Report on Form 10-Q under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and in "Part II. Item 1A. Risk Factors" of our Annual Report on 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 Quarterly Report on Form 10-Q for additional information.

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

Assets Under Management

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

	Three months ended September 30,		Period-to-Period	
	2016	2015	$	%
	(in millions)			
Separately managed accounts				
Beginning assets under management	$20,585.0	$24,205.2	$(3,620.2)	(15)%
Gross client inflows	374.6	783.4	(408.8)	(52)%
Gross client outflows	(1,226.0)	(1,737.0)	511.0	(29)%
Market appreciation (depreciation) & other	803.4	(1,810.5)	2,613.9	*
Ending assets under management	$20,537.0	$21,441.1	$(904.1)	(4)%
Mutual funds and collective investment trusts				
Beginning assets under management	$15,131.2	$18,900.9	$(3,769.7)	(20)%
Gross client inflows	752.2	1,030.7	(278.5)	(27)%
Gross client outflows	(2,163.2)	(2,696.3)	533.1	(20)%
Market appreciation (depreciation) & other	561.3	(1,500.0)	2,061.3	*
Ending assets under management	$14,281.5	$15,735.3	$(1,453.8)	(9)%
Total assets under management				
Beginning assets under management	$35,716.2	$43,106.1	$(7,389.9)	(17)%
Gross client inflows	1,126.8	1,814.1	(687.3)	(38)%
Gross client outflows	(3,389.2)	(4,433.3)	1,044.1	(24)%
Market appreciation (depreciation) & other	1,364.7	(3,310.5)	4,675.2	*
Ending assets under management	$34,818.5	$37,176.4	$(2,357.9)	(6)%

(*) Percentage change not meaningful

The total AUM decrease of $0.9 billion, or 3%, to $34.8 billion at September 30, 2016 from $35.7 billion at June 30, 2016 was attributable to net client cash outflows of $2.3 billion, partially offset by market appreciation of $1.4 billion. Our separate accounts and mutual fund and collective investment trust vehicles had net client outflows of approximately $0.9 billion and $1.4 billion, respectively. The blended investment gain was 4% in separately managed accounts and 4% in mutual funds and collective investment trusts. We experienced a decline in the volume of gross client outflows and gross client inflows during the three months ended September 30, 2016 compared to 2015. Our gross client outflows decreased by 24% from $4.4 billion for the three months ended September 30, 2015 to $3.4 billion for the three months ended September 30, 2016, while our gross client inflows decreased by 38%. We believe the decline in gross client outflows is the result of improved short term performance and servicing efforts to stabilize client relationships. By portfolio, our AUM decreased by $684.1 million, or 6%, in our equity portfolio, $127.9 million, or 1%, in our blended asset portfolio and $85.7 million, or 6%, in our fixed income 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 $2.4 billion from $37.2 billion at September 30, 2015 to $34.8 billion at September 30, 2016. The decrease was attributable to net client outflows of $9.0 billion, partially offset by market appreciation of $3.7 billion and acquired assets of $2.9 billion. Net client outflows consisted of approximately $4.3 billion of net outflows for separate accounts and $4.7 billion for mutual funds and collective investment trusts. The rates of change in AUM were most significant in our equity portfolios from September 30, 2015 to September 30, 2016, with a decrease of $1.3 billion, or 10%, while our blended asset portfolio decreased by $1.2 billion, or 5%, and our fixed income portfolio increased by $131.2 million, or 11%.

As of September 30, 2016, the composition of our AUM was 59% in separate accounts and 41% in mutual funds and collective investment trusts, compared to 58% in separate accounts and 42% in mutual funds and collective investment trusts at September 30, 2015. The composition of our AUM across portfolios at September 30, 2016 was 62% in blended assets, 34% in equity, and 4% in fixed income, compared to 61% in blended assets, 36% in equity, and 3% in fixed income at September 30, 2015.

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With regard to our separate accounts, gross client inflows of $0.4 billion were offset by approximately $1.2 billion of gross client outflows during the three months ended September 30, 2016. The $0.4 billion gross client inflows include approximately $0.2 billion into our blended asset portfolio and $0.1 billion into our equity portfolio. During the three months ended September 30, 2016, 68% of our separate account gross client inflows were derived from our Direct Channel with 44% representing contributions from existing Direct Channel relationships. With regard to gross client outflows, cancellations were approximately $0.8 billion and withdrawals from existing accounts were approximately $0.4 billion. Outflows during the third quarter were concentrated in our equity portfolios where 62% of outflows occurred. In light of challenging relative returns during the latter half of 2014 and 2015, our separate account clients redeemed assets at a rate of 36% during the quarter, compared to a 28% redemption rate over the trailing twelve months ended September 30, 2016. The annualized separate account retention rate was 85% for the three months ended September 30, 2016 compared to 84% for the rolling twelve months ended September 30, 2016.
Net client outflows of $1.4 billion from our mutual fund and collective investment trusts included gross client inflows of $0.8 billion, offset by gross client outflows of $2.2 billion during the three months ended September 30, 2016. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented $0.5 billion, or 68%, of mutual fund and collective trust fund gross client inflows during the three months ended September 30, 2016. With regard to gross client outflows, $1.3 billion, or 59%, 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 September 30, 2016 and 2015:

	Three months ended September 30,		Period-to-Period	
	2016	2015	$	%
	(in thousands, except share data)			
Revenues				
Investment management services revenue	$63,305	$ 75,435	$(12,130)	(16)%
Expenses				
Compensation and related costs	24,627	24,500	127	1 %
Distribution, servicing and custody expenses	8,798	11,127	(2,329)	(21)%
Other operating costs	8,188	9,075	(887)	(10)%
Total operating expenses	41,613	44,702	(3,089)	(7)%
Operating income	21,692	30,733	(9,041)	(29)%
Non-operating income (loss)				
Non-operating income (loss), net	(142)	(6,007)	5,865	98 %
Income before provision for income taxes	21,550	24,726	(3,176)	(13)%
Provision (benefit) for income taxes	1,565	(1,600)	3,165	*
Net income attributable to controlling and noncontrolling interests	19,985	26,326	(6,341)	(24)%
Less: net income attributable to noncontrolling interests	17,727	22,784	(5,057)	(22)%
Net income attributable to Manning & Napier, Inc.	$2,258	$ 3,542	$(1,284)	(36)%
Per Share Data				
Net income per share available to Class A common stock				
Basic	$0.15	$ 0.24		
Diluted	$0.15	$ 0.21		
Weighted average shares of Class A common stock outstanding				
Basic	14,042,880	13,745,130		
Diluted	14,175,321	81,889,208		
Cash dividends declared per share of Class A common stock	$0.16	$ 0.16		
Other financial and operating data				
Economic net income [(1)]	$13,361	$ 17,308	$(3,947)	(23)%
Economic net income per adjusted share [(1)]	$0.16	$ 0.21		
Weighted average adjusted Class A common stock outstanding [(1)]	81,171,115	83,747,171		

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Supplemental Non-GAAP Financial Information" for Manning & Napier's reasons for including these non-GAAP measures in this report in addition to a reconciliation of non-GAAP financial measures to GAAP measures for the periods indicated.
(*) Percentage change not meaningful

Revenues

Our investment management services revenue decreased by $12.1 million, or 16%, to $63.3 million for the three months ended September 30, 2016 from $75.4 million for the three months ended September 30, 2015. This decrease is driven primarily by a $4.8 billion, or 12%, decrease in our average AUM to $35.4 billion for the three months ended September 30, 2016 from $40.2 billion for the three months ended September 30, 2015. Average AUM decreased as a result of net client outflows of $9.0 billion, partially offset by market appreciation of $3.7 billion and acquired assets of $2.9 billion during the rolling twelve months ended September 30, 2016. By portfolio, our AUM decreases were concentrated in our equity portfolios,

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which decreased by 10% compared to September 30, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our average separately managed account fee for the three months ended September 30, 2016 decreased slightly to 0.62% compared to 0.64% for the three months ended September 30, 2015. For the three months ended September 30, 2016 and 2015, separately managed account standard fees ranged from 0.15% to 1.25% depending on investment objective and account size. As of September 30, 2016, the concentration of assets in our separately managed accounts was 58% blended assets, 36% equity and 6% fixed income, compared to 57% blended assets, 37% equity and 6% fixed income as of September 30, 2015.

Our average fee on mutual fund and collective investment trust products decreased to 0.77% for the three months ended September 30, 2016 from 0.81% for 2015. This decrease was primarily due to a shift in the mix of our AUM from higher fee mutual funds and collective trusts to those with lower fees. The management fees earned on our mutual fund and collective investment trust management fees ranged from 0.24% to 1.00%, depending on investment strategy, for the three months ended September 30, 2016 and 2015. As of September 30, 2016, the concentration of assets in our mutual fund and collective investment trusts was 68% blended assets, 31% equity and 1% fixed income, compared to 68% blended assets and 32% equity of September 30, 2015.

Operating Expenses

Our operating expenses decreased by $3.1 million, or 7%, to $41.6 million for the three months ended September 30, 2016 from $44.7 million for the three months ended September 30, 2015.

Compensation and related costs increased by $0.1 million, or 1%, to $24.6 million for the three months ended September 30, 2016 from $24.5 million for the three months ended September 30, 2015. The increase was due to higher variable incentive costs for our investment team resulting from investment performance, partially offset by lower overall workforce. When considered as a percentage of revenue, compensation and related costs for the three months ended September 30, 2016 was 39% compared to 32% for the three months ended September 30, 2015.

Distribution, servicing and custody expenses decreased by $2.3 million, or 21%, to $8.8 million for the three months ended September 30, 2016 from $11.1 million for the three months ended September 30, 2015. The decrease was generally driven by a 14% decrease in mutual funds and collective investment trusts average AUM for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expense was 31% for the three months ended September 30, 2016, compared to 32% for the three months ended September 30, 2015.

Other operating costs for the three months ended September 30, 2016 was $8.2 million, compared to $9.1 million for the three months ended September 30, 2015. As a percentage of revenue, other operating costs for the three months ended September 30, 2016 was 13% compared to 12% for 2015.

Non-Operating Income (Loss)

Non-operating loss for the three months ended September 30, 2016 was $0.1 million, compared to a net loss of $6.0 million for the three months ended September 30, 2015. Included within non-operating income (loss) for the three months ended September 30, 2016 and 2015 was $0.1 million and $3.2 million of net losses, respectively, on investments held by the Company to provide initial cash seeding for product development purposes. Interest expense for the three months ended September 30, 2016 and 2015 was approximately $0.1 million driven primarily by the unused commitment fee on our credit facility. In addition, we recognized $2.8 million of non-operating expense in the third quarter of 2015 resulting from the release of uncertain tax positions that increased our expectation of future tax benefits under the TRA and the corresponding payment of such benefits under the agreement.

Provision for Income Taxes

The Company’s tax provision decreased by $3.2 million to $1.6 million for the three months ended September 30, 2016 from a benefit of $1.6 million for the three months ended September 30, 2015. The change was primarily driven by a benefit of $3.2 million during the three months ended September 30, 2015 resulting from the release of uncertain tax positions that increased our expectation of future tax benefits under the TRA.

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Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Assets Under Management

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

	Nine months ended September 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	1,295.9	2,035.1	(739.2)	(36)%
Gross client outflows	(4,178.4)	(4,565.3)	386.9	(8)%
Acquired assets	1,234.2	—	1,234.2	*
Market appreciation (depreciation) & other	1,449.9	(1,437.4)	2,887.3	*
Ending assets under management	$20,537.0	$21,441.1	$(904.1)	(4)%
Mutual funds and collective investment trusts				
Beginning assets under management	$14,706.8	$22,392.9	$(7,686.1)	(34)%
Gross client inflows	2,534.1	3,300.3	(766.2)	(23)%
Gross client outflows	(5,694.7)	(8,819.3)	3,124.6	(35)%
Acquired assets	1,660.1	—	1,660.1	*
Market appreciation (depreciation) & other	1,075.2	(1,138.6)	2,213.8	*
Ending assets under management	$14,281.5	$15,735.3	$(1,453.8)	(9)%
Total assets under management				
Beginning assets under management	$35,442.2	$47,801.6	$(12,359.4)	(26)%
Gross client inflows	3,830.0	5,335.4	(1,505.4)	(28)%
Gross client outflows	(9,873.1)	(13,384.6)	3,511.5	(26)%
Acquired assets	2,894.3	—	2,894.3	*
Market appreciation (depreciation) & other	2,525.1	(2,576.0)	5,101.1	*
Ending assets under management	$34,818.5	$37,176.4	$(2,357.9)	(6)%

(*) Percentage change not meaningful

The total AUM decrease of $0.6 billion, or 2%, to $34.8 billion at September 30, 2016 from $35.4 billion at December 31, 2015 was attributable to net client cash outflows of $6.0 billion offset by acquired assets of $2.9 billion and market appreciation of $2.5 billion. Included in net client flows during the nine months ended September 30, 2016 were net client outflows in separately managed accounts of approximately $2.9 billion and mutual funds and collective investment trusts of approximately $3.2 billion. The blended investment gain was 7.0% in separately managed accounts and 7.3% in mutual funds and collective investment trusts. We experienced a decline in the volume of gross client outflows and gross client inflows during the nine months ended September 30, 2016 compared to 2015. Gross client outflows decreased 26% from $13.4 billion for nine months ended September 30, 2015 to $9.9 billion for the nine months ended September 30, 2016, while gross client inflows decreased by 28%. We believe the decline in gross client outflows is the result of improved short term performance and servicing efforts to stabilize client relationships. By portfolio, our net $0.6 billion AUM decrease was derived from an increase of $96.4 million, or 1%, in our equity portfolio, $173.4 million, or 15%, in our fixed income portfolio offset by a decrease of $893.5 million, or 4%, 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 $2.4 billion from $37.2 billion at September 30, 2015 to $34.8 billion at September 30, 2016. The decrease was attributable to net client outflows of $9.0 billion, partially offset by market appreciation of $3.7 billion and acquired assets of $2.9 billion. Net client outflows consisted of approximately $4.3 billion of net outflows for separate accounts and $4.7 billion for mutual funds and collective investment trusts. The rates of change in AUM were most significant in our equity portfolios from September 30, 2015 to September 30, 2016, with a decrease of $1.3 billion, or 10%, while our blended asset portfolio decreased by $1.2 billion, or 5%, and our fixed income portfolio increased by 11%.

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As of September 30, 2016, the composition of our AUM was 59% in separate accounts and 41% in mutual funds and collective investment trusts, compared to 58% in separate accounts and 42% in mutual funds and collective investment trusts at September 30, 2015. The composition of our AUM across portfolios at September 30, 2016 was 62% in blended assets, 34% in equity, and 4% in fixed income, compared to 61% in blended assets, 36% in equity, and 3% in fixed income at September 30, 2015.

With regard to our separate accounts, gross client inflows of $1.3 billion were offset by approximately $4.2 billion of gross client outflows during the nine months ended September 30, 2016. The $1.3 billion of gross client inflows included $0.6 billion into our blended asset portfolios and $0.5 billion into our equity portfolios. During the nine months ended September 30, 2016, 64% 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 split with 45% withdrawals from existing accounts and 55% representing client cancellations. Our blended asset and equity portfolios experienced net client outflows of approximately $1.0 billion and $1.9 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 30% during the nine months ended September 30, 2016, compared to a 28% redemption rate over the trailing twelve months ended September 30, 2016. The annualized separate account retention rate was 86% for the nine months ended September 30, 2016 up slightly from 84% for the rolling twelve months ended September 30, 2016.

Net client outflows of $3.2 billion from our mutual fund and collective investment trusts included gross client inflows of $2.5 billion offset by gross client outflows of $5.7 billion during the nine months ended September 30, 2016. Gross client inflows into our blended asset life cycle vehicles, including both risk based and target date strategies, represented $2.0 billion, or 78%, of mutual fund and collective trust fund gross client inflows during the nine months ended September 30, 2016. With regard to gross client outflows, $3.4 billion, or 60%, 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 nine months ended September 30, 2016 and 2015:

	Nine months ended September 30,		Period-to-Period	
	2016	2015	$	%
	(in thousands, except share data)			
Revenues				
Investment management services revenue	$189,852	$248,045	$(58,193)	(23)%
Expenses				
Compensation and related costs	70,973	79,627	(8,654)	(11)%
Distribution, servicing and custody expenses	26,590	39,010	(12,420)	(32)%
Other operating costs	24,854	27,053	(2,199)	(8)%
Total operating expenses	122,417	145,690	(23,273)	(16)%
Operating income	67,435	102,355	(34,920)	(34)%
Non-operating income (loss)				
Non-operating income (loss), net	1,216	(6,750)	7,966	*
Income before provision for income taxes	68,651	95,605	(26,954)	(28)%
Provision for income taxes	4,784	2,960	1,824	62%
Net income attributable to controlling and noncontrolling interests	63,867	92,645	(28,778)	(31)%
Less: net income attributable to noncontrolling interests	56,586	82,291	(25,705)	(31)%
Net income attributable to Manning & Napier, Inc.	$7,281	$10,354	$(3,073)	(30)%
Per Share Data				
Net income per share available to Class A common stock				
Basic	$0.49	$0.72		
Diluted	$0.48	$0.71		
Weighted average shares of Class A common stock outstanding				
Basic	13,916,721	13,732,980		
Diluted	14,173,283	13,951,651		
Cash dividends declared per share of Class A common stock	$0.48	$0.48		
Other financial and operating data				
Economic net income (1)	$42,570	$62,143	$(19,573)	(31)%
Economic net income per adjusted share (1)	$0.52	$0.73		
Weighted average adjusted Class A common stock outstanding (1)	82,282,598	85,108,623		

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

(*) Percentage change not meaningful

Revenues

Our investment management services revenue decreased by $58.2 million, or 23%, to $189.9 million for the nine months ended September 30, 2016 from $248.0 million for the nine months ended September 30, 2015. This decrease was driven primarily by a $8.8 billion, or 20%, decrease in our average AUM to $35.3 billion for the nine months ended September 30, 2016 from $44.1 billion for the nine months ended September 30, 2015. Average AUM decreased as a result of net client outflows of $9.0 billion offset by market appreciation and other changes of $3.7 billion and acquired assets of $2.9 billion during the rolling twelve months ended September 30, 2016. By portfolio, our equity and blended asset portfolios decreased by 9.6% and 5.4%, respectively, compared to September 30, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

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Our average separately managed account fee remained consistent at 0.62% for the nine months ended September 30, 2016 compared to 0.63% for the nine months ended September 30, 2015. For both the nine months ended September 30, 2016 and 2015, separately managed account management fees ranged from 0.15% to 1.25%, depending on investment objective and account size. As of September 30, 2016, the concentration of assets in our separately managed accounts was 58% blended assets, 36% equity and 6% fixed income, compared to 57% blended assets, 37% equity and 6% fixed income as of September 30, 2015.

Our average fee on mutual fund and collective investment trust products was 0.78% for the nine months ended September 30, 2016, a decrease from 0.82% for the nine months ended September 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 nine months ended September 30, 2016 and 2015, mutual fund and collective investment trust management fees ranged from 0.24% to 1.00%, depending on investment strategy. As of September 30, 2016 the concentration of assets in our mutual fund and collective investment trusts was 68% blended assets, 31% equity and 1% fixed income, compared to 68% blended assets and 32% equity of September 30, 2015.

Operating Expenses

Our operating expenses decreased by $23.3 million, or 16%, to $122.4 million for the nine months ended September 30, 2016 from $145.7 million for the nine months ended September 30, 2015.

Compensation and related costs decreased by $8.7 million, or 11%, to $71.0 million for the nine months ended September 30, 2016 from $79.6 million for the nine months ended September 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 nine months ended September 30, 2016 was 37% compared to 32% in 2015.

Distribution, servicing and custody expenses decreased by $12.4 million, or 32%, to $26.6 million for the nine months ended September 30, 2016 from $39.0 million for the nine months ended September 30, 2015. The decrease was generally attributable to a 25% decrease in mutual funds and collective investment trusts average AUM for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. As a percentage of mutual fund and collective investment trust revenue, distribution, servicing and custody expenses was 32% for the nine months ended September 30, 2016, compared to 32% for the nine months ended September 30, 2015.

Other operating costs decreased by $2.2 million, or 8%, to $24.9 million for the nine months ended September 30, 2016 from $27.1 million for the nine months ended September 30, 2015. As a percentage of revenue, other operating costs for the nine months ended September 30, 2016 was 13% compared to 11% for 2015.

Non-Operating Income (Loss)

Non-operating income for the nine months ended September 30, 2016 was $1.2 million, compared to non-operating loss of $6.8 million for the nine months ended September 30, 2015. Included in non-operating income (loss) was a net gain of $1.2 million on investments held by the Company to provide initial cash seeding for product development purposes for the nine months ended September 30, 2016, compared to a net loss of $4.2 million in 2015. Interest expense was approximately $0.3 million and $0.2 million during the nine months ended September 30, 2016 and 2015, respectively, driven primarily by the unused commitment fee on our credit facility entered into during 2015. In addition, we recognized $2.8 million of non-operating expense in the third quarter of 2015 resulting from the release of uncertain tax positions that increased our expectation of future tax benefits under the TRA and the corresponding payment of such benefits under the agreement.

Provision for Income Taxes

The Company’s tax provision increased by $1.8 million, or 62%, to $4.8 million for the nine months ended September 30, 2016 from $3.0 million for the nine months ended September 30, 2015. The change was primarily driven by a decrease in expected taxable earnings as compared to the prior year as well as a benefit of $3.2 million during the nine months ended September 30, 2015 resulting from the release of uncertain tax positions that increased our expectation of future tax benefits under the TRA.

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 38% and 30% for the three months ended September 30, 2016 and 2015, respectively, and 38% and 35% for the nine months ended September 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 nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Income before provision for income taxes	$21,550	$ 24,726	$68,651	$ 95,605
Economic net income (Non-GAAP)	$13,361	$ 17,308	$42,570	$ 62,143
Economic net income per adjusted share (Non-GAAP)	$0.16	$ 0.21	$0.52	$ 0.73
Weighted average adjusted Class A common stock outstanding (Non-GAAP)	81,171,118	83,747,171	82,282,598	85,108,623

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share data)			
Net income attributable to Manning & Napier, Inc.	$2,258	$ 3,542	$7,281	$ 10,354
Add back: Net income attributable to noncontrolling interests	17,727	22,784	56,586	82,291
Add back: Provision (benefit) for income taxes	1,565	(1,600)	4,784	2,960
Income before provision for income taxes	21,550	24,726	68,651	95,605
Adjusted income taxes	8,189	7,418	26,081	33,462
Economic net income (Non-GAAP)	$13,361	$ 17,308	$42,570	$ 62,143
Weighted average shares of Class A common stock outstanding - Basic	14,042,880	13,745,130	13,916,721	13,732,980
Assumed vesting, conversion or exchange of:				
Manning & Napier Group, LLC units outstanding (non-controlling interest)	65,784,574	67,896,484	66,686,373	69,747,506
Unvested restricted share-based awards	1,343,664	2,105,557	1,679,504	1,628,137
Weighted average adjusted shares (Non-GAAP)	81,171,118	83,747,171	82,282,598	85,108,623
Economic net income per adjusted share (Non-GAAP)	$0.16	$ 0.21	$0.52	$ 0.73

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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 September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
	(in thousands)	
Cash and cash equivalents	$123,708	$117,591
Accounts receivable	$23,870	$24,280
Due from broker	$—	$3,962
Due from broker - consolidated funds	$—	$3,510
Investment securities	$17,568	$21,460
Investment securities - consolidated funds	$1,036	$1,107
Amounts payable under tax receivable agreement (1)	$38,702	$41,939
Contingent consideration liability (2)	$3,000	$—

(1) In light of numerous factors affecting our obligation to make such payments, the timing and amounts of any such actual payments are based on our best estimate as of September 30, 2016 and December 31, 2015, including our ability to realize the expected tax benefits. Actual payments may significantly differ from estimated payments.

(2) Represents the September 30, 2016 fair value of additional cash payments related to our acquisition of Rainier of up to $32.5 million over a four year period, contingent upon Rainier's achievement of certain financial targets. Significant unobservable inputs used in the valuation include adjusted EBITA growth of up to 63% and an earn-out payment discount rate of 3.1% over the contingency period. The change in fair value of this liability during the three months ended September 30, 2016 was a decrease of $0.5 million, which is included in other operating costs in the consolidated statements of operations.

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

Our revolving credit agreement has a four-year term expiring in April 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 lending group. 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 September 30, 2016, there were no amounts outstanding under the revolving credit agreement and the Company had the capacity to draw on the entire $100.0 million.

Amounts outstanding under the revolving credit agreement bear interest at an annual rate equal to, at our 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 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 revolving credit agreement, we are also required to pay certain fees including a quarterly fee based on the average unused amount of the facility ranging from 0.25% to 0.45%.

The revolving credit agreement contains customary covenants, including covenants that restrict (subject in certain instances to minimum thresholds or exceptions) the ability of us to incur additional indebtedness, create liens, merge, sell or dispose of assets, and make distributions, dividends, investments or capital expenditures, among other things. In addition, we are required to maintain compliance with 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 revolving 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 revolving credit agreement) of no greater than

2.75:1.00. For purposes of the revolving credit agreement, adjusted EBITDA generally means, for any period, net income before interest expense, income taxes, depreciation and amortization expense, non-cash stock-based compensation expense, and certain non-cash nonrecurring gains and losses as

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described in and specified under the revolving credit agreement. At September 30, 2016, the Company was in compliance with all financial covenants.

The revolving 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 our failure to pay principal or interest when due, our failure to satisfy or comply with covenants and a change of control. See Note 9, "Borrowings" to the Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

We believe that cash on hand and cash generated from operations will be sufficient over the next twelve months to meet our working capital requirements. Further, we expect that cash on hand, cash generated by operations and availability under our revolving credit agreement will be sufficient to meet our liquidity needs for the foreseeable future.

Cash Flows

The following table sets forth our cash flows for the nine months ended September 30, 2016 and 2015. Operating activities consist primarily of net income subject to adjustments for changes in operating assets and liabilities, equity-based compensation expense, changes in the liability under the TRA, deferred income tax expense and depreciation and amortization. Investing activities consist primarily of the purchase and sale of investments for the purpose of providing initial cash seeding for product development purposes, purchases of property and equipment and the acquisition of Rainier Investment Management, LLC during 2016. Financing activities consist primarily of distributions to noncontrolling interests, dividends paid on our Class A common stock, and purchases of Class A units held by noncontrolling interests of Manning & Napier Group.

	Nine months ended September 30,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	$65,370	$93,601
Net cash (used in) provided by investing activities	(735)	1,042
Net cash used in financing activities	(58,518)	(125,452)
Net change in cash and cash equivalents	$6,117	$(30,809)

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Operating Activities

Operating activities provided $65.4 million and $93.6 million of net cash for the nine months ended September 30, 2016 and 2015, respectively. This overall $28.2 million decrease in net cash provided by operating activities for the nine months ended September 30, 2016 compared to 2015 was due to a decrease in net income after adjustment for non-cash items of approximately $35.3 million driven by lower revenues resulting primarily from changes in our average AUM. This decrease was partially offset by $9.9 million of cash from consolidated funds due to the timing of trading activity.

Investing Activities

Investing activities used $0.7 million and provided $1.0 million of net cash for the nine months ended September 30, 2016 and 2015, respectively. The increase in net cash used in investing activities was driven by cash used of $9.3 million, net of cash received, for the acquisition of Rainier. This increase in cash used was partially offset by changes in investing activities of $7.2 million due to the Company's funding of and timing of activity within our investment securities designated as trading for the seeding of new products, and by a decrease in property and equipment purchases of $0.3 million for the nine months ended September 30, 2016 compared to 2015.

Financing Activities

Financing activities used $58.5 million and $125.5 million of net cash for the nine months ended September 30, 2016 and 2015, respectively. This overall $66.9 million decrease in net cash used in financing activities was primarily due to a reduction in distributions to noncontrolling interests of $44.9 million for the nine months ended September 30, 2016 compared to 2015 due to lower income after adjustment for non-cash items in 2016 and the timing of distributions. This decrease in cash used in financing activities was also driven by a decrease of $21.6 million of cash used for the purchase of Class A units of Manning & Napier pursuant to the exchange agreement entered into at the time of the Company's initial public offering of $16.1 million in 2016, compared to $37.7 million in 2015. This decrease was due to a lower exchange price and a lower number of units exchanged in 2016. In addition, payment of shares withheld to satisfy tax withholding increased by $0.9 million in 2016 due to the timing and amount of restricted share units vesting during the period.

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Dividends

On November 2, 2015, the Board of Directors declared a $0.16 per share dividend to the holders of Class A common stock. The dividend was paid on February 1, 2016 to shareholders of record as of January 15, 2016.

On March 1, 2016, the Board of Directors declared a $0.16 per share dividend to the holders of Class A common stock. The dividend was paid on May 2, 2016 to shareholders of record as of April 15, 2016.

On April 26, 2016, the Board of Directors declared a $0.16 per share dividend to the holders of Class A common stock. The dividend was paid on August 1, 2016 to shareholders of record as of July 15, 2016.

On July 26, 2016, the Board of Directors declared a $0.16 per share dividend to the holders of Class A common stock. The dividend was paid on November 1, 2016 to shareholders of record as of October 14, 2016.

On October 25, 2016, 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 February 1, 2017 to shareholders of record as of January 13, 2017.

We currently intend to pay quarterly cash dividends on our Class A common stock. We intend to fund such dividends from our portion of distributions made by Manning & Napier Group, from its available cash generated from operations. William Manning, as the holder of our Class B common stock, will not be entitled to any cash dividends in his capacity as a Class B stockholder, but will, in his capacity as an indirect holder of Class A units of Manning & Napier Group, generally participate on a pro rata basis in distributions by Manning & Napier Group.

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

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

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

Contractual Obligations

There have been no material changes in our contractual obligations as set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Our exposure to market risk is directly related to the role of our operating company as an investment advisor for the mutual funds and separate accounts it manages. Substantially all of our revenues are derived from investment management agreements with these funds and accounts. Under these agreements, the investment management fees we receive are based on the value of our AUM and our fee rates. Accordingly, our revenues and net income may decline as a result of our AUM decreasing due to depreciation of our investment portfolios. In addition, such a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenues to decline further.

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The value of our AUM was $34.8 billion as of September 30, 2016. Assuming a 10% increase or decrease in the value of our AUM and the change being proportionally distributed over all our products, the value would increase or decrease by approximately $3.5 billion, which would cause an annualized increase or decrease in revenues of approximately $24.7 million at our current weighted average fee rate of 0.71%.

We have not adopted a corporate-level risk management policy regarding client assets, nor have we attempted to hedge at the corporate level the market risks that would affect the value of our overall AUM and related revenues. Some of these risks (e.g., sector risks and currency risks) are inherent in certain strategies, and clients may invest in particular strategies to gain exposure to these risks.

We also are subject to market risk from a decline in the prices of investment securities that we own. These securities consist primarily of equity securities, fixed-income securities, investments in mutual funds, including the Fund for which MNA provides advisory services. The value of these investments was $18.6 million as of September 30, 2016 of which $16.5 million is investment securities classified as trading, and $2.1 million is investment securities classified as available-for-sale. Management regularly monitors the value of these investments; however, given their nature and relative size, we have not adopted a specific risk management policy to manage the associated market risk. Assuming a 10% increase or decrease in the values of these investment securities, the fair value would increase or decrease by approximately $1.9 million at September 30, 2016. Due to the nature of our business, we believe that we do not face any material risk from inflation.

Exchange Rate Risk

A substantial portion of the accounts that we advise, or sub-advise, hold investments that are denominated in currencies other than the U.S. dollar. Movements in the rate of exchange between the U.S. dollar and the underlying foreign currency affect the values of assets held in accounts we manage, thereby affecting the amount of revenues we earn. The value of the assets we manage was $34.8 billion as of September 30, 2016. As of September 30, 2016, approximately 17% of our AUM across our investment strategies was invested in securities denominated in currencies other than the U.S. dollar. To the extent our AUM are denominated in currencies other than the U.S. dollar, the value of those AUM would decrease, with an increase in the value of the U.S. dollar, or increase, with a decrease in the value of the U.S. dollar.

We monitor our exposure to exchange rate risk and make decisions on how to manage such risk accordingly; however, we have not adopted a corporate-level risk management policy to manage exchange rate risk. Assuming that 17% of our AUM is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would increase or decrease the fair value of our AUM by approximately $0.6 billion, which would cause an annualized increase or decrease in revenues of approximately $4.1 million at our current weighted average fee rate of 0.71%.

Interest Rate Risk

The Company was exposed to interest-rate risk primarily due to our AUM that is invested in debt securities, as well as corporate assets that are invested in debt securities. Management considered a hypothetical 100 basis point fluctuation in interest rates and estimated the impact of such a fluctuation on these investments. Management determined there was no material impact as of September 30, 2016. Additionally, given the current level of income we earn from our cash and cash equivalent balances, interest rate changes would not have a material impact on us.

Borrowing under our revolving credit agreement bears interest as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources". Interest rate changes may affect the amount of our interest payments in connection with our revolving credit agreement, and thereby affect future earnings and cash flows. There were no borrowings outstanding under the revolving credit agreement during the nine months ended September 30, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016 pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of September 30, 2016, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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Changes in Internal Control Over Financial Reporting

On April 30, 2016, we completed the acquisition of Rainier Investment Management, LLC ("Rainier”). We extended our oversight and monitoring processes that support our internal control over financial reporting, as appropriate, to include Rainier's financial position, results of operations and cash flow into our consolidated financial statements from the April 30, 2016 date of acquisition through September 30, 2016. We are continuing to integrate the acquired operations of Rainier into our overall internal control over financial reporting and related processes. Except as disclosed in this paragraph, there were no other changes in our internal control over financial reporting (as the term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1A. Risk Factors

We have set forth in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2015 risk factors relating to our business, our industry, our structure and our Class A common stock. Readers of this Quarterly Report on Form 10-Q are referred to such Item 1A for a more complete understanding of risks concerning our company. There have been no material changes in our risk factors since those published in such Form 10-K for the year ended December 31, 2015.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Company's Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Materials from the Manning & Napier, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Unaudited Consolidated Financial Statements.

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SIGNATURES

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

	MANNING & NAPIER, INC.	
Dated: November 7, 2016	By:	/s/ WILLIAM MANNING William Manning Chief Executive Officer (principal executive officer)
		/s/ BETH H. GALUSHA Beth H. Galusha Principal Financial Officer (principal financial officer)