Manning & Napier, Inc.
Form 10-Q
November 06, 2015
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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, 2015

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 3, 2015
Class A common stock, $0.01 par value per share	14,775,130
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, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$94,183	$124,992
Accounts receivable	17,618	23,704
Accounts receivable—Manning & Napier Fund, Inc.	9,008	15,579
Due from broker	4,122	5,391
Due from broker - consolidated funds	3,781	—
Investment securities	22,668	26,915
Investment securities - consolidated funds	1,058	—
Prepaid expenses and other assets	6,767	9,321
Total current assets	159,205	205,902
Property and equipment, net	6,445	7,456
Net deferred tax assets, non-current	43,619	42,581
Other long-term assets	1,359	1,534
Total assets	$210,628	$257,473
Liabilities		
Accounts payable	$870	$2,906
Accrued expenses and other liabilities	33,933	50,779
Deferred revenue	12,777	12,812
Total current liabilities	47,580	66,497
Other long-term liabilities	2,943	3,116
Amounts payable under tax receivable agreement, non-current	38,661	39,149
Total liabilities	89,184	108,762
Commitments and contingencies (Note 9)		
Shareholders’ equity		
Class A common stock, $0.01 par value; 300,000,000 shares authorized; 14,775,130 and 13,713,540 issued and outstanding at September 30, 2015 and December 31, 2014, respectively	148	137
Class B common stock, $0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at September 30, 2015 and December 31, 2014	—	—
Additional paid-in capital	205,479	209,284
Retained deficit	(37,649)	(41,087)
Accumulated other comprehensive income	(2)	—
Total shareholders’ equity	167,976	168,334
Noncontrolling interests	(46,532)	(19,623)
Total shareholders’ equity and noncontrolling interests	121,444	148,711
Total liabilities, shareholders’ equity and noncontrolling interests	$210,628	$257,473

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, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenues				
Investment management services revenue	$77,928	$104,795	$255,327	$307,129
Expenses				
Compensation and related costs	24,500	51,499	79,627	159,457
Distribution, servicing and custody expenses	13,620	19,921	46,292	58,325
Other operating costs	9,075	9,365	27,053	25,867
Total operating expenses	47,195	80,785	152,972	243,649
Operating income	30,733	24,010	102,355	63,480
Non-operating income (loss)				
Interest expense	(131)	(14)	(215)	(21)
Interest and dividend income	138	144	459	553
Change in liability under tax receivable agreement	(2,793)	(65)	(2,810)	2,045
Net gains (losses) on investments	(3,221)	(1,279)	(4,184)	(446)
Total non-operating income (loss)	(6,007)	(1,214)	(6,750)	2,131
Income before provision for income taxes	24,726	22,796	95,605	65,611
(Benefit) provision for income taxes	(1,600)	2,976	2,960	10,412
Net income attributable to controlling and noncontrolling interests	26,326	19,820	92,645	55,199
Less: net income attributable to noncontrolling interests	22,784	19,392	82,291	53,991
Net income attributable to Manning & Napier, Inc.	$3,542	$428	$10,354	$1,208
Net income per share available to Class A common stock				
Basic	$0.24	$0.03	$0.72	$0.09
Diluted	$0.21	$0.03	$0.71	$0.09
Weighted average shares of Class A common stock outstanding				
Basic	13,745,130	13,705,134	13,732,980	13,669,391
Diluted	81,889,208	13,930,020	13,951,651	13,822,402
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,	
	2015	2014	2015	2014
Net income attributable to controlling and noncontrolling interests	$26,326	$19,820	$92,645	$55,199
Net unrealized holding loss on investment securities, net of tax	—	—	(2)	—
Reclassification adjustment for realized losses on investment securities included in net income	—	—	—	1
Comprehensive income	$26,326	$19,820	$92,643	$55,200
Less: Comprehensive income attributable to noncontrolling interests	22,784	19,392	82,289	53,992
Comprehensive income attributable to Manning & Napier, Inc.	$3,542	$428	$10,354	$1,208

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

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

	Common Stock – class A		Common Stock – class B		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance—December 31, 2013	13,634,246	$136	1,000	$ —	$208,988	$(40,544)	$(1)	$(22,790)	$145,789
Net income	—	—	—	—	—	1,208	—	53,991	55,199
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(80,602)	(80,602)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	1	—	1
Common stock issued under equity compensation plan	71,173	1	—	—	(1)	—	—	—	—
Equity-based compensation	—	—	—	—	9,735	—	—	58,406	68,141
Dividends declared on Class A common stock - $0.48 per share	—	—	—	—	—	(6,569)	—	—	(6,569)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(5,652)	—	—	(26,531)	(32,183)
Balance—September 30, 2014	13,705,419	$137	1,000	$ —	$213,070	$(45,905)	$ —	$(17,526)	$149,776
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)
	1,061,590	11	—	—	(11)	—	—	—	—

Common stock issued under equity compensation plan									
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 (Note 3)	—	—	—	—	(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

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

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

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$92,645	$55,199
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	3,755	68,141
Depreciation and amortization	1,968	1,643
Change in amounts payable under tax receivable agreement	2,810	(2,045)
Net losses (gains) on investment securities	4,184	446
Deferred income taxes	(1,087)	3,743
Amortization of debt issuance costs	65	—
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	6,086	(100)
Accounts receivable—Manning & Napier Fund, Inc.	6,571	(627)
Due from broker - consolidated funds	(5,000)	—
Investment securities - consolidated funds	(1,150)	—
Prepaid expenses and other assets	3,230	507
Accounts payable	(2,036)	746
Accrued expenses and other liabilities	(18,188)	(7,532)
Deferred revenue	(35)	1,948
Other long-term liabilities	(217)	1,111
Net cash provided by operating activities	93,601	123,180
Cash flows from investing activities:		
Purchase of property and equipment	(555)	(2,297)
Sale of investments	8,207	7,883
Purchase of investments	(6,610)	(12,855)
Acquisitions, net of cash received	—	(2,068)
Proceeds from maturity of investments	—	605
Net cash provided by (used in) investing activities	1,042	(8,732)
Cash flows from financing activities:		
Distributions to noncontrolling interests	(79,029)	(80,602)
Dividends paid on Class A common stock	(7,851)	(7,648)
Payment of shares withheld to satisfy withholding requirements	(64)	—
Payment of capital lease obligations	(166)	(190)
Purchase of Class A units of Manning & Napier Group, LLC	(37,720)	(32,401)
Payment of debt issuance costs	(622)	—
Net cash used in financing activities	(125,452)	(120,841)
Net decrease in cash and cash equivalents	(30,809)	(6,393)
Cash and cash equivalents:		
Beginning of period	124,992	125,250
End of period	$94,183	$118,857

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, 2015.

(1) The 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. and Exeter Trust Company.

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, 2014.

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, 2014. 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.

Principles of Consolidation

As of September 30, 2015, Manning & Napier holds an approximately 16.7% economic interest in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC (“M&N Group Holdings”) and Manning & Napier Capital Company, LLC (“MNCC”).

All material intercompany transactions have been eliminated in consolidation.

In accordance with Accounting Standards Codification ("ASU") 2009-17, Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, 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”). In January 2010, the FASB deferred portions of ASU 2009-17 that relate to certain investment companies. The Company determined that certain entities for which it is the investment manager and/or general partner, qualify for the scope deferral and will continue to be assessed for consolidation under prior accounting guidance for consolidation of VIEs.

The Company provides seed capital to its investment teams to develop new products and services for its clients. The original seed investment typically represents 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”) and the Exeter Trust Company Collective Investment Trusts (“CIT”). The Fund and CIT 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.

The Company is the General Partner of the MN Xenon Managed Futures Fund LP ("LP Fund"). The Company has determined that the LP Fund is not a VIE as (a) the entity has enough equity to finance its activities without additional financial support and (b) the limited partners, as a group, have the ability to remove the general partner ("kick-out rights") with a majority vote of partnership percentage. Under the voting interest model, the Company does not consolidate VOEs in which the presumption of control by the general partner is overcome by kick-out rights.

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.

Due from broker

The Company and its consolidated funds conducts business with brokers for certain of its investment activities. The due from broker balances on the consolidated statements of financial condition represents cash held by brokers as collateral for managed futures.

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, 2015, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

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.

Certain investment advisory contracts provide for a performance-based fee, in addition to a base investment management fee, which is calculated as a percentage of cumulative profits over and above the aggregate of previous period cumulative profits. Performance-based fees are recorded as a component of revenue at the end of each contract’s measurement period, when all contingencies are resolved, typically on a quarterly basis. For the nine months ended September 30, 2015, the Company recognized less than $0.1 million in performance fee income.

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.

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 $1.2 million as of September 30, 2015 and $0.2 million as of December 31, 2014.

Fees earned for advisory related services provided to the Fund and CIT investment vehicles were approximately $35.8 million and $123.2 million for the three and nine months ended September 30, 2015, respectively, and $56.5 million and $164.6 million for the three and nine months ended September 30, 2014, respectively. These amounts represent greater than 10% of the Company's revenue in each respective period.

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

Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU modifies existing consolidation guidance for determining whether certain legal entities should be consolidated. The new guidance will be effective on January 1, 2016, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), 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 April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Topic 835). The ASU requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from that debt liability. The new guidance will be effective on January 1, 2016. Early adoption is permitted. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

Note 3—Noncontrolling Interests

Manning & Napier holds an approximately 16.7% economic interest 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 83.3% 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 or loss attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Income before provision for income taxes	$24,726	$22,796	$95,605	$65,611
Less: (loss) gain before provision for income taxes of Manning & Napier, Inc. (a)	(2,799)	(87)	(2,822)	2,015
Income before provision for income taxes, as adjusted	27,525	22,883	98,427	63,596
Controlling interest percentage (b)	16.7%	14.5%	16.0%	14.3%
Net income attributable to controlling interest	4,647	3,318	15,714	9,086
Plus: (loss) gain before provision for income taxes of Manning & Napier, Inc. (a)	(2,799)	(87)	(2,822)	2,015
Income before income taxes attributable to Manning & Napier, Inc.	1,848	3,231	12,892	11,101
Less: (benefit) provision for income taxes of Manning & Napier, Inc. (c)	(1,694)	2,803	2,538	9,893
Net income attributable to Manning & Napier, Inc.	$3,542	$428	$10,354	$1,208

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 a benefit of $1.6 million and a

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

provision of $3.0 million for the three and nine months ended months ended September 30, 2015, respectively, and approximately $3.0 million and $10.4 million for the three and nine months ended September 30, 2014, respectively.

On March 31, 2015, M&N Group Holdings and MNCC exchanged a total of 3,161,502 Class A units of Manning & Napier Group for approximately $36.3 million in cash. Subsequent to the exchange, the Class A units were retired. On March 31, 2015, the Company also purchased and retired 2,516,352 unvested Class A units of Manning & Napier Group held by M&N Group Holdings and MNCC at a predetermined cost basis for approximately $1.4 million in cash. These units were subject to performance-based vesting criteria in connection with the 2011 reorganization transactions and did not vest. In addition, on April 16, 2015, the Company granted approximately 1.1 million of Class A common stock awards under the 2011 Equity Compensation Plan (the "Equity Plan") (Note 11) 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 Combinations".

As a result of the aforementioned transactions, the Company's economic ownership interest in Manning & Napier Group increased to 16.7%. As of September 30, 2015, M&N Group Holdings and MNCC may exchange an aggregate of 67,896,484 units of Manning & Napier Group for shares of the Company's Class A common stock pursuant to the terms of the exchange agreement entered into at the time of the Company's 2011 IPO.

At September 30, 2015 and December 31, 2014, the Company had recorded a liability of $42.0 million and $41.2 million, respectively, representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the holders of Manning & Group. Of these amounts, $3.3 million and $2.1 million were included in accrued expenses and other liabilities at September 30, 2015 and December 31, 2014, respectively. During the quarter ended September 30, 2015, the Company reduced its liability for income taxes associated with unrecognized tax benefits. As a result, the Company increased its deferred tax asset related to the TRA by $3.2 million resulting in an increase to the amounts payable under the TRA of approximately $2.8 million, representing 85% of the applicable cash savings.

The Company made payments of approximately $2.1 million and $2.0 million pursuant to the TRA during the nine months ended September 30, 2015 and 2014, respectively.

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 4—Investment Securities

The following represents the Company’s investment securities holdings as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.25%, 10/31/2015)	$2,107	$—	$(1)	$2,106
Trading securities				
Equity securities				9,461
Fixed income securities				8,046
Mutual funds				114
Mutual funds - consolidated funds				1,058
Hedge funds				2,941
				21,620
Total investment securities				$23,726

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

	December 31, 2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.25%, 10/31/2015)	$2,107	$—	$—	$2,107
Trading securities				
Equity securities				12,048
Fixed income securities				9,366
Mutual funds				168
Hedge funds				3,226
				24,808
Total investment securities				$26,915

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

Investment securities classified as trading consist of equity securities, fixed income securities and investments in mutual funds and hedge funds for which the Company provides advisory services. At September 30, 2015 and December 31, 2014, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately $2.4 million and $0.9 million of net unrealized losses related to investments classified as trading during the nine months ended September 30, 2015 and 2014, respectively.

Investment securities classified as available-for-sale consist of U.S. Treasury notes for compliance with certain regulatory requirements. As of September 30, 2015 and December 31, 2014, $0.6 million of these securities is 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, 2015 and 2014.

Note 5—Derivative Instruments

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

The following tables present the notional value and fair value as of September 30, 2015 and December 31, 2014 for derivative instruments not designated as hedging instruments:

	September 30, 2015			
		Fair Value		
	Notional Value	Asset Derivative	Liability Derivative	
	(in thousands)			
Interest rate futures	$222,167	$272	$(365	)
Index futures	1,513	25	(18	)
Commodity futures	2,015	94	(33	)
Currency futures	6,083	15	(25	)
Total derivatives	$231,778	$406	$(441	)

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

	December 31, 2014		
	Notional Value	Fair Value Asset Derivative	Liability Derivative
	(in thousands)		
Interest rate futures	$106,932	$162	$(60)
Index futures	2,032	51	(16)
Commodity futures	3,506	41	(76)
Currency futures	10,017	162	(17)
Total derivatives	$122,487	$416	$(169)

As of September 30, 2015 and December 31, 2014, the derivative assets and liabilities are measured at fair value and are included in due from broker in the consolidated statements of financial condition, with changes in the fair value reported in net gains (losses) on investments in the consolidated statements of operations. For the nine months ended September 30, 2015, the average volume of derivative activity (measured in terms of notional value) 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 three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Interest rate futures	$(877)	$12	$(1,420)	$(544)
Index futures	(137)	(54)	(47)	15
Commodity futures	(33)	50	(10)	(10)
Currency futures	(117)	(58)	(58)	(23)
Balance as of end of period	$(1,164)	$(50)	$(1,535)	$(562)

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, 2015 and December 31, 2014:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received (Pledged)	Net Amount
	(in thousands)					
September 30, 2015	$(441)	$406	$(35)	$—	$(35)	$—
December 31, 2014	$(169)	$416	$247	$—	$—	$247

Note 6—Fair Value Measurements

Fair value is defined as the price that the Company would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A fair value hierarchy is 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).

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

The following provides the hierarchy of inputs used to derive the fair value of the Company's financial instruments as of September 30, 2015 and December 31, 2014:

	September 30, 2015			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	$9,461	$—	$—	$9,461
Fixed income securities	992	7,054	—	8,046
Mutual funds	114	—	—	114
Mutual funds - consolidated funds	1,058	—	—	1,058
Hedge funds	—	2,941	—	2,941
U.S. Treasury notes	—	2,106	—	2,106
Derivatives	406	—	—	406
Total assets at fair value	$12,031	$12,101	$—	$24,132
Derivatives	$441	$—	$—	$441
Total liabilities at fair value	$441	$—	$—	$441

	December 31, 2014			
	Level 1	Level 2	Level 3	Totals
	(in thousands)			
Equity securities	$12,048	$—	$—	$12,048
Fixed income securities	1,154	8,212	—	9,366
Mutual funds	168	—	—	168
Hedge funds	—	3,226	—	3,226
U.S. Treasury notes	—	2,107	—	2,107
Derivatives	416	—	—	416
Total assets at fair value	$13,786	$13,545	$—	$27,331
Securities sold, not yet purchased	$964	$—	$—	$964
Derivatives	169	—	—	169
Total liabilities at fair value	$1,133	$—	$—	$1,133

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

The Company relies on the net asset value of certain hedge fund investments as their fair value. The net asset values have been derived from the fair values of underlying futures contracts as of the respective reporting dates. Redemptions may occur monthly at the net asset value and are therefore categorized as Level 2 in the hierarchy.

There were no Level 3 securities held by the Company at September 30, 2015 or December 31, 2014.

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 Level 1 and Level 2 securities during the nine months ended September 30, 2015.

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

Note 7—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of September 30, 2015 and December 31, 2014 consisted of the following:

	September 30, 2015	December 31, 2014
	(in thousands)	
Accrued bonus and sales commissions	$14,718	$28,801
Accrued payroll and benefits	3,528	3,424
Accrued sub-transfer agent fees	6,179	8,108
Dividends payable	2,361	3,291
Amounts payable under tax receivable agreement	3,313	2,100
Securities sold, not yet purchased	—	964
Other accruals and liabilities	3,834	4,091
	$33,933	$50,779

Note 8—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, 2015, 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. The Company incurred approximately $0.6 million of issuance costs to enter this facility. These costs are being amortized to interest expense over the contractual term of 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, 2015, 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 9—Commitments and Contingencies

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

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

Regulation

As an investment adviser to a variety of investment products, the Company and its affiliated broker-dealer are subject to routine reviews and inspections by the SEC, Financial Industry Regulatory Authority, Inc., National Futures Association and U.S. Commodity Futures Trading Commission. From time to time, the Company may also be subject to claims, be involved in various legal proceedings arising in the ordinary course of its business and be subject to other contingencies. The Company does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on its consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is difficult to predict. The Company will establish accruals for matters that are probable, can be reasonably estimated, and may take into account any related insurance recoveries to the extent of such recoveries. As of September 30, 2015 and December 31, 2014, the Company has not accrued for any such claims, legal proceedings, or other contingencies.

Note 10—Earnings per Common Share

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

Diluted earnings per share (“diluted EPS”) is computed under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, the weighted average number of common shares outstanding during the period is increased by the assumed conversion into Class A common stock of the unvested equity awards and the exchangeable units of Manning & Napier Group, to the extent that such conversion would dilute earnings per share.

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2015 and 2014 under the two-class method:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands, except share data)			
Net income attributable to controlling and noncontrolling interests	$26,326	$19,820	$92,645	$55,199
Less: net income attributable to noncontrolling interests	22,784	19,392	82,291	53,991
Net income attributable to Manning & Napier, Inc.	$3,542	$428	$10,354	$1,208
Less: allocation to participating securities	247	—	482	—
Net income available to Class A common stock	$3,295	$428	$9,872	$1,208
Weighted average shares of Class A common stock outstanding - basic	13,745,130	13,705,134	13,732,980	13,669,391
Dilutive effect from unvested equity awards and Class A Units	68,144,078	224,886	218,671	153,011
Weighted average shares of Class A common stock outstanding - diluted	81,889,208	13,930,020	13,951,651	13,822,402
Net income available to Class A common stock per share - basic	$0.24	$0.03	$0.72	$0.09
Net income available to Class A common stock per share - diluted	$0.21	$0.03	$0.71	$0.09

For both the three and nine months ended September 30, 2015 and 2014, 181,378 restricted stock units were excluded from the calculation of diluted earnings per common share because the performance conditions had not yet been satisfied.

For the three and nine months ended September 30, 2015, 1,030,000 unvested restricted Class A common shares were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive.

For the nine months ended September 30, 2015 and September 30, 2014, 255,357 and 282,247, respectively, restricted stock units were excluded from the calculation of diluted earnings per common share because the effect would have been anti-dilutive.

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

At September 30, 2015 and September 30, 2014 there were 67,896,484 and 73,574,338, respectively, Class A Units of Manning & Napier Group outstanding which, subject to certain restrictions, may be exchangeable for up to 67,896,484 and 73,574,338, respectively, shares of the Company's Class A common stock. The restrictions set forth in the exchange agreement were in place at the end of each respective reporting period. These units were included in the calculation of diluted earnings per common share for the three months ended September 30, 2015. These units were not included in the calculation of diluted earnings per common share for the nine months ended September 30, 2015 and for the three and nine months ended September 30, 2014, respectively, because the effect would have been anti-dilutive.

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.

Note 11—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, 2015, 1,436,947 equity awards were granted under the Equity Plan. The awards consist of 31,590 shares of Class A common stock, 1,150,000 restricted stock awards and 255,357 restricted stock units. The Class A common stock awards vested immediately, and the restricted share-based awards are subject to service-based vesting over a period ranging from 2 to 6 years.

The following table summarizes the equity award activity for the nine months ended September 30, 2015 under the Company's Equity Plan:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Stock awards outstanding at January 1, 2015	855,009	$15.32
Granted	1,436,947	$11.89
Vested	(31,590)	$12.20
Forfeited	(161,888)	$13.04
Stock awards outstanding at September 30, 2015	2,098,478	$13.19

The weighted average grant date fair value of Equity Plan awards granted during the nine months ended September 30, 2015 and 2014 was $11.89 and $15.29, 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, where 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, 2015, the Company recorded approximately $1.2 million and $3.8 million, respectively, of compensation expense related to awards under the Equity Plan. For the three and nine months ended September 30, 2014, the Company recorded approximately $0.9 million and $2.2 million, respectively, of compensation expense related to awards under the Equity Plan.

For the three and nine months ended September 30, 2014, the Company recognized approximately $20.8 million and $66.0 million, respectively, of compensation expense related to the vesting terms of ownership interests in connection with the 2011 reorganization transactions.

As of September 30, 2015, there was unrecognized compensation expense related to Equity Plan awards of approximately $16.9 million, which the Company expects to recognize over a weighted average period of approximately 4.3 years.

Note 12—Income Taxes

The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC") or a “C-Corporation". As such, the entities functioning as 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:

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Earnings from continuing operations before income taxes	$24,726	$22,796	$95,605	$65,611
Effective tax rate	(6.5)%	13.1%	3.1%	15.9%
(Benefit) provision for income taxes	(1,600)	2,976	2,960	10,412
Provision for income taxes @ 35%	8,654	7,979	33,462	22,964
Difference between tax at effective vs. statutory rate	$(10,254)	$(5,003)	$(30,502)	$(12,552)

For the three and nine months ended September 30, 2015 and 2014, 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 tax receivable agreement. For the nine months ended September 30, 2014, the benefit is partially offset by a $2.2 million impact from enacted changes in tax laws that lowered the Company's expectation of the future tax benefits under the tax receivable agreement.

Note 13—Related Party Transactions

Transactions with noncontrolling members

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

The Company manages the personal funds of certain of the Company's executive officers, including William Manning. Pursuant to the respective investment management agreements, in some instances the Company waives or reduces its regular advisory fees for these accounts and personal funds utilized to incubate products. The aggregate value of the fees earned was approximately $0.2 million and fees waived was less than $0.1 million for the nine months ended September 30, 2015.

Affiliate transactions - Manning & Napier Fund, Inc.

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

Note 14—Subsequent Events

Distributions and dividends

On November 2, 2015, 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 approximately $12.5 million, of which approximately $10.4 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, 2016 to shareholders of record as of January 15, 2016.

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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; 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. (the "Fund") and Exeter Trust Company.

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 obtain our mutual fund and collective investment trust distribution 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 mutual fund equity portfolios.

Our assets under management (“AUM”) was $37.2 billion as of September 30, 2015. The composition of our AUM by vehicle and portfolio is illustrated in the table below.

AUM - by investment vehicle and portfolio	September 30, 2015 Blended Asset	Equity	Fixed Income	Total
	(in millions)			

Separately managed accounts	$12,122.1	$8,174.4	$1,144.6	$21,441.1
Mutual funds and collective investment trusts	10,653.0	5,013.3	69.0	15,735.3
Total	$22,775.1	$13,187.7	$1,213.6	$37,176.4

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The composition of our separately managed accounts as of September 30, 2015, by channel and portfolio, is set forth in the table below.

	September 30, 2015			
	Blended Asset	Equity	Fixed Income	Total
	(dollars in millions)			
Separate account AUM				
Direct Channel	$8,685.4	$5,880.8	$993.3	$15,559.5
Intermediary Channel	3,432.6	712.8	151.3	4,296.7
Platform/Sub-advisor Channel	4.1	1,580.8	—	1,584.9
Total	$12,122.1	$8,174.4	$1,144.6	$21,441.1
Percentage of separate account AUM				
Direct Channel	41 %	27 %	5 %	73 %
Intermediary Channel	16 %	3 %	1 %	20 %
Platform/Sub-advisor Channel	— %	7 %	— %	7 %
Total	57 %	37 %	6 %	100 %
Percentage of portfolio by channel				
Direct Channel	72 %	72 %	87 %	73 %
Intermediary Channel	28 %	9 %	13 %	20 %
Platform/Sub-advisor Channel	— %	19 %	— %	7 %
Total	100 %	100 %	100 %	100 %
Percentage of channel by portfolio				
Direct Channel	56 %	38 %	6 %	100 %
Intermediary Channel	80 %	17 %	3 %	100 %
Platform/Sub-advisor Channel	— %	100 %	— %	100 %

Our separate accounts contributed 38% of our total gross client inflows for the nine months ended September 30, 2015 and represented 58% of our total AUM as of September 30, 2015.

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 53% of the total gross client inflows for our separate account business for the nine months ended September 30, 2015 and represented 73% of our total separate account AUM as of September 30, 2015. 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, 2015, blended asset and equity portfolios represented 68% and 18%, respectively, of the separate account gross client inflows from the Direct Channel, while fixed income portfolios accounted for 14%. As of September 30, 2015, blended asset and equity portfolios represented 56% and 38%, respectively, of total Direct Channel separate account AUM, while our fixed income portfolios were 6%. 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. Historically, relationships with larger institutions have been a driver of growth in separately managed account equity strategies. Going forward, we expect 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, and our U.S.-based equity strategies may continue to be attractive to large institutions in a separate account format.

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, 2015, 14% of the total gross client inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 33% came from registered investment advisor platforms (Platform/Sub-advisor Channel).

The Intermediary and Platform/Sub-advisor Channels represented 27% of our total separate account AUM as of September 30, 2015.

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, 2015, blended asset and equity portfolios represented

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76% and 22%, respectively, of the separate account gross client inflows from the Intermediary Channel, while fixed income portfolios represented 2%. As of September 30, 2015, 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 and 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, 2015, 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 is approximately 90% during the nine months ended September 30, 2015, representing the strong relationship focus that is inherent in our direct sales model, which is the primary driver of our separate account business.

During the nine months ended September 30, 2015, blended market depreciation for our separate account AUM was 5.7%, including 5.1% in our blended assets portfolio, 7.0% in equity portfolios and 0.7% market appreciation in our fixed income portfolios.

The composition of our mutual fund and collective investment trust AUM as of September 30, 2015, by portfolio, is set forth in the table below.

	September 30, 2015			
	Blended Asset	Equity	Fixed Income	Total
	(in millions)			
Mutual fund and collective investment trust AUM	$10,653.0	$5,013.3	$69.0	$15,735.3

Our mutual funds and collective investment trusts contributed 62% of our total gross client inflows for the nine months ended September 30, 2015 and represented 42% of our total AUM as of September 30, 2015. As of September 30, 2015, our mutual fund and collective investment trust AUM consisted of 68% from blended asset portfolios and 32% from equity portfolios. During the nine months ended September 30, 2015, 74% and 24% of the gross client inflows were attributable to blended assets and equity portfolios, respectively. For the nine months ended September 30, 2015, blended market depreciation for our mutual fund and collective investment trust AUM was 5.1%, including 5.9% in our blended assets and 4.1% in our equity portfolios, offset by market appreciation of 3.6% in our fixed income portfolios.

Our mutual fund and collective investment trust business is driven by financial intermediaries and 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 that 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 advisors at platforms. We are focused on equity and fixed income portfolio assets in this channel through the selection of our funds within advisory programs where our mutual funds are used within a multi-strategy portfolio, or through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have more than 290 dealer relationships. These relationships are important to our retail business as well as our 401(k) life cycle and institutional business.

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

Results of Operations

Below is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2015 and 2014.

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Key Components of Results of Operations

Overview

Changes to our operating results over time are largely driven by net client asset flows and changes to the market value of our AUM. The line item "market appreciation/(depreciation) and other" within our AUM tables throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes investment gains/(losses) on assets under management and net flows from non-sales related activities including asset acquisitions and 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, 2015 and 2014.

	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
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			
As of June 30, 2014	$27,621.6	$ 26,457.0	$54,078.6	51 %	49 %	100 %
Gross client inflows	828.9	1,385.5	2,214.4			
Gross client outflows	(979.5)	(1,590.4)	(2,569.9)			
Market appreciation/(depreciation) & other	(1,037.4)	(1,562.3)	(2,599.7)			
As of September 30, 2014	$26,433.6	$ 24,689.8	$51,123.4	52 %	48 %	100 %
Average AUM for period	$27,164.9	$ 25,811.1	$52,976.0			

	Separately managed accounts	Mutual funds and collective investment trusts (in millions)	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
As of December 31, 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			
As of December 31, 2013	$26,835.0	$ 23,991.2	$50,826.2	53 %	47 %	100 %
Gross client inflows	2,480.2	4,680.9	7,161.1			
Gross client outflows	(3,817.2)	(3,973.4)	(7,790.6)			
Market appreciation/(depreciation) & other	935.6	(8.9)	926.7			
As of September 30, 2014	$26,433.6	$ 24,689.8	$51,123.4	52 %	48 %	100 %
Average AUM for period	$27,107.5	$ 25,236.1	$52,343.6			

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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, 2015 and 2014.

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
		(in millions)						
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				
As of June 30, 2014	$25,891.6	$26,968.0	$1,219.0	$54,078.6	48 %	50 %	2 %	100 %
Gross client inflows	1,208.0	858.3	148.1	2,214.4				
Gross client outflows	(1,151.5)	(1,281.5)	(136.9)	(2,569.9)				
Market appreciation/(depreciation) & other	(610.9)	(2,011.4)	22.6	(2,599.7)				
As of September 30, 2014	$25,337.2	$24,533.4	$1,252.8	$51,123.4	50 %	48 %	2 %	100 %
Average AUM for period	$25,697.4	$26,039.4	$1,239.2	$52,976.0				

	Blended Asset	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
		(in millions)						
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				
As of December 31, 2013	$23,710.2	$25,977.0	$1,139.0	$50,826.2	47 %	51 %	2 %	100 %
Gross client inflows	3,535.5	3,352.3	273.3	7,161.1				
Gross client outflows	(2,971.5)	(4,543.4)	(275.7)	(7,790.6)				
Market appreciation/(depreciation) & other	1,063.0	(252.5)	116.2	926.7				
As of September 30, 2014	$25,337.2	$24,533.4	$1,252.8	$51,123.4	50 %	48 %	2 %	100 %
Average AUM for period	$24,924.9	$26,229.3	$1,189.4	$52,343.6				

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 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 80% of our AUM as of September 30, 2015.

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Key Strategies	AUM as of September 30, 2015 (in millions)	Inception Date	Annualized Returns as of September 30, 2015 (3)					
			Inception	Market Cycle (1)	Ten Year	Five Year	Three Year	One Year
Long-Term Growth 30%-80% Equity Exposure	$10,146.1	1/1/1973	9.6%	6.1%	5.4%	6.7%	5.6%	(5.2)%
Blended Benchmark: 55% S&P 500 Total Return / 45% Barclays Government/Credit Bond			9.2%	4.8%	6.1%	8.8%	7.6%	1.1%
Growth with Reduced Volatility 20%-60% Equity Exposure	$4,680.4	1/1/1973	8.9%	5.7%	4.9%	5.5%	4.4%	(3.9)%
Blended Benchmark: 40% S&P 500 Total Return / 60% Barclays Government/Credit Bond			8.8%	5.0%	5.8%	7.3%	5.9%	1.6%
Aggregate Fixed Income	$507.4	1/1/1984	7.6%	5.2%	4.7%	2.9%	1.5%	2.1%
Benchmark: Barclays U.S. Aggregate Bond			7.5%	5.4%	4.6%	3.1%	1.7%	2.9%
Equity-Oriented	$2,890.9	1/1/1993	9.7%	6.1%	5.3%	7.5%	7.1%	(8.5)%
Blended Benchmark: 65% Russell 3000® / 20% ACWIxUS / 15% Barclays U.S. Aggregate Bond			8.1%	4.1%	6.0%	9.5%	8.9%	(2.3)%
Core Equity (Unrestricted) 90%-100% Equity Exposure	$1,427.5	1/1/1995	10.7%	6.8%	6.2%	9.2%	8.9%	(9.8)%
Blended Benchmark: 80% Russell 3000® / 20% ACWIxUS			8.5%	3.8%	6.2%	11.0%	10.5%	(2.9)%
Core Non-U.S. Equity	$7,912.3	10/1/1996	7.1%	5.0%	3.6%	1.0%	1.2%	(13.6)%
Benchmark: ACWIxUS Index			4.5%	2.5%	3.0%	1.8%	2.3%	(12.2)%
Core U.S. Equity	$2,121.4	7/1/2000	6.4%	N/A (2)	6.3%	9.6%	9.9%	(8.0)%
Benchmark: Russell 3000® Index			4.3%	4.0%	6.9%	13.3%	12.5%	(0.5)%

(1) The Market Cycle performance numbers are calculated from April 1, 2000 to September 30, 2015.
(2) Market Cycle performance not available given the product's July 1, 2000 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.

Manning & Napier Advisors, LLC ("MNA"), a subsidiary of Manning & Napier Group, serves as the investment advisor to the Fund and Exeter Trust Company. The Fund is a family of open-end mutual funds that offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company is an affiliated New Hampshire-chartered trust company that sponsors a family of collective investment trusts for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised $15.7 billion, or 42%, of our AUM as of September 30, 2015, and investment management fees from these mutual funds and collective investment trusts were $35.8 million, or 46% of our revenues for the three months ended September 30, 2015. MNA also serves as the investment advisor to all of our separately managed accounts, managing $21.4 billion, or 58%, of our AUM as of September 30, 2015, 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.

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- Compensation and related costs. Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals and equity-based compensation issued under our equity compensation plan. These costs are affected by changes in the employee headcount, the mix of existing job descriptions, competitive factors, the addition of new skill sets, variations in the level of our AUM and revenues, changes in our stock price reflected in share-based compensation and/or the number of awards issued. In addition, incentive compensation for our research team considers the cumulative impact of both absolute and relative investment performance over the trailing one-, two- and three-year time periods, with more weight placed on the recent periods. As such, incentive compensation paid to our research team will vary based on absolute and relative investment performance.
- Distribution, servicing and custody expenses. Distribution, servicing and custody expense represent amounts paid to various platforms that distribute our mutual funds and collective trust funds, as well as costs for custodial services and 12b-1 distribution. These expenses generally increase or decrease in line with changes in our mutual fund and collective investment trust AUM or services performed by these intermediaries.
- Other operating expenses. Other operating expenses include fund fee waiver and/or expense reimbursement, professional fees, including accounting and legal fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses and all other miscellaneous costs associated with managing the day-to-day operations of our business.

Non-Operating Income (Loss)

Non-operating income (loss) includes interest expense, interest and dividend income, changes in liability under the tax receivable agreement and gains (losses) related to investment securities sales and changes in values of those investment securities designated as trading. Interest expense primarily relates to unused commitment fees and amortization of debt issuance costs. We expect the interest and investment components of non-operating income (loss) to fluctuate based on market conditions, the performance of our investments and the overall amount of our investments held by the Company to provide initial cash seeding for product development purposes as well as the timing and amounts (if any) outstanding under the revolving credit agreement.

Provision for Income Taxes

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

Noncontrolling Interests

Manning & Napier, Inc. holds an approximately 16.7% economic interest in Manning & Napier Group as of September 30, 2015 but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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, 2014 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;

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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, 2015	$22,799	$14,377	$—	$37,176
December 31, 2014	$28,641	$19,161	$—	$47,802

As substantially all our AUM is valued by independent pricing services based upon observable market prices or inputs, we believe market risk is the most significant risk underlying valuation of our AUM, as discussed in this Form 10-Q under "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and in "Part II. Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

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

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Assets Under Management

The following table reflects changes in our AUM for the three months ended September 30, 2015 and 2014:

	Three months ended September 30,		Period-to-Period	
	2015	2014	$	%
	(in millions)			
Separately managed accounts				
Beginning assets under management	$24,205.2	$27,621.6	$(3,416.4)	(12)%
Gross client inflows	783.4	828.9	(45.5)	(5)%
Gross client outflows	(1,737.0)	(979.5)	(757.5)	77%
Market appreciation (depreciation) & other	(1,810.5)	(1,037.4)	(773.1)	75%
Ending assets under management	$21,441.1	$26,433.6	$(4,992.5)	(19)%
Mutual funds and collective investment trusts				
Beginning assets under management	$18,900.9	$26,457.0	$(7,556.1)	(29)%
Gross client inflows	1,030.7	1,385.5	(354.8)	(26)%
Gross client outflows	(2,696.3)	(1,590.4)	(1,105.9)	70%
Market appreciation (depreciation) & other	(1,500.0)	(1,562.3)	62.3	(4)%
Ending assets under management	$15,735.3	$24,689.8	$(8,954.5)	(36)%
Total assets under management				
Beginning assets under management	$43,106.1	$54,078.6	$(10,972.5)	(20)%
Gross client inflows	1,814.1	2,214.4	(400.3)	(18)%
Gross client outflows	(4,433.3)	(2,569.9)	(1,863.4)	73%
Market appreciation (depreciation) & other	(3,310.5)	(2,599.7)	(710.8)	27%
Ending assets under management	$37,176.4	$51,123.4	$(13,947.0)	(27)%

Our total AUM decreased by $13.9 billion, or 27%, to $37.2 billion as of September 30, 2015 from $51.1 billion as of September 30, 2014. The $13.9 billion decrease in AUM from September 30, 2014 to September 30, 2015 was attributable to

net client outflows of $10.7 billion and market depreciation of $3.2 billion. The net client outflows of $10.7 billion consisted of $3.5 billion of net outflows for separate accounts and $7.2 billion for mutual funds and collective investment trusts.

For the three months ended September 30, 2015, our AUM decreased by $5.9 billion as compared to a decrease of $3.0 billion for the three months ended September 30, 2014. For the three months ended September 30, 2015, gross client inflows decreased by $0.4 billion as compared to the three months ended September 30, 2014, while gross client outflows increased by $1.9 billion for the same period. Our net client flows are likely to remain under pressure over the near term due to recent investment performance. We experienced market depreciation and other AUM changes of $3.3 billion for the three months ended September 30, 2015 compared to $2.6 billion for the three months ended September 30, 2014.

The total AUM decrease of $5.9 billion, or 14%, to $37.2 billion at September 30, 2015 from $43.1 billion at June 30, 2015 was attributable net client cash outflows of $2.6 billion combined with market depreciation of $3.3 billion. Our net client flows were comprised of separate accounts net client outflows of approximately $1.0 billion and net client outflows from our mutual funds and collective investment trusts of approximately $1.7 billion.

With regard to our separate accounts, gross client inflows of $0.8 billion were offset by gross client outflows of $1.7 billion. Gross client outflows were primarily from our equity portfolio, which represented $1.2 billion, or 70% of total separately managed account gross client outflows during the three months ended September 30, 2015. Specifically, four equity portfolio cancellations account for $0.4 billion of gross client outflows during three months ended September 30, 2015, while withdrawals from two ongoing equity portfolio relationships account for an additional $0.3 billion of gross client outflows during the period. For the three months ended September 30, 2015, our blended asset and equity portfolios experienced net client outflows of $0.3 billion and $0.7 billion, respectively. In light of challenging relative returns during the latter half of 2014 and first half of 2015, our separate account clients redeemed assets at a rate of 16% in the quarter, compared to a 14% redemption rate over the trailing 12 months ended September 30, 2015. Our annualized separate account retention rate was 87% for the three months ended September 30, 2015, a decrease from 92% for the full year 2014.

Net client outflows of $1.7 billion from our mutual fund and collective investment trusts included gross client inflows of $1.0 billion offset by gross client outflows of $2.7 billion. Gross client inflows were primarily from our blended asset portfolios, which represented $0.8 billion or 82% of total mutual fund and collective trust fund gross client inflows during the three months ended September 30, 2015. With regard to gross client outflows, $1.6 billion or 60% of mutual fund and collective investment trust gross client outflows were from equity portfolios, including withdrawals from certain ongoing platform relationships and institutional client cancellations during the third quarter. Approximately $1.1 billion of net client outflows occurred in our World Opportunities Series and $0.2 billion in our Overseas Series during the three months ended September 30, 2015. The outflows were largely attributable to challenging relative underperformance.

Total AUM decreased by 13.8% during the three months ended September 30, 2015 as a result of net client outflows, and market depreciation. The investment loss was 7.5% in separately managed accounts and 7.9% in mutual funds and collective investment trusts.

The rate of change in AUM during the three months ended September 30, 2015 was most significant in our equity portfolio with a decrease of $3.9 billion, or 23%. Our blended asset portfolio decreased by 9% while our fixed income portfolio increased by 5%. The rates of change in AUM was most significant in our equity portfolios from September 30, 2014 to September 30, 2015, with a decrease of $11.3 billion, or 46%, over this period, while our blended asset portfolio and fixed income portfolios decreased by 10% and 3%, respectively.

As of September 30, 2015, the composition of our AUM was 42% in mutual funds and collective investment trusts and 58% in separate accounts, compared to 48% in mutual funds and collective investment trusts and 52% in separate accounts at September 30, 2014. The composition of our AUM across portfolios at September 30, 2015 was 61% in blended assets, 36% in equity, and 3% in fixed income, compared to 50% in blended assets, 48% in equity, and 2% in fixed income at September 30, 2014.

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The following table sets forth our results of operations and related data for the three months ended September 30, 2015 and 2014:

	Three months ended September 30,		Period-to-Period	
	2015	2014	$	%
	(in thousands, except share data)			
Revenues				
Investment management services revenue	$77,928	$104,795	$(26,867)	(26)%
Expenses				
Compensation and related costs	24,500	51,499	(26,999)	(52)%
Distribution, servicing and custody expenses	13,620	19,921	(6,301)	(32)%
Other operating costs	9,075	9,365	(290	