Manning & Napier, Inc.
Form 10-Q
May 10, 2016
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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 March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-35355

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

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

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

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

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

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

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

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

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

Class	Outstanding at May 3, 2016
Class A common stock, $0.01 par value per share	15,032,880
Class B common stock, $0.01 par value per share	1,000

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

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
Manning & Napier, Inc.
Consolidated Statements of Financial Condition
(In thousands, except share data)

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ 126,970	$ 117,591
Accounts receivable	15,016	15,807
Accounts receivable—Manning & Napier Fund, Inc.	7,356	8,473
Due from broker	—	3,962
Due from broker - consolidated funds	—	3,510
Investment securities	19,983	21,460
Investment securities - consolidated funds	981	1,107
Prepaid expenses and other assets	4,260	4,638
Total current assets	174,566	176,548
Property and equipment, net	5,972	6,299
Net deferred tax assets, non-current	45,755	46,649
Other long-term assets	1,242	1,300
Total assets	$ 227,535	$ 230,796
Liabilities		
Accounts payable	$ 1,036	$ 1,141
Accrued expenses and other liabilities	28,000	42,480
Deferred revenue	11,066	10,938
Total current liabilities	40,102	54,559
Other long-term liabilities	2,651	2,796
Amounts payable under tax receivable agreement, non-current	38,679	38,661
Total liabilities	81,432	96,016
Commitments and contingencies (Note 9)		
Shareholders' equity		
Class A common stock, $0.01 par value; 300,000,000 shares authorized; 14,735,130 and 14,755,130 issued and outstanding at March 31, 2016 and December 31, 2015, respectively	147	148
Class B common stock, $0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Additional paid-in capital	205,974	205,760
Retained deficit	(37,080)	(37,149)
Accumulated other comprehensive income	—	(3)
Total shareholders' equity	169,041	168,756
Noncontrolling interests	(22,938)	(33,976)
Total shareholders' equity and noncontrolling interests	146,103	134,780
Total liabilities, shareholders' equity and noncontrolling interests	$ 227,535	$ 230,796

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

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

	Three months ended March 31,	
	2016	2015
Revenues		
Investment management services revenue	$64,538	$ 90,426
Expenses		
Compensation and related costs	21,967	26,818
Distribution, servicing and custody expenses	11,338	16,832
Other operating costs	8,453	8,942
Total operating expenses	41,758	52,592
Operating income	22,780	37,834
Non-operating income (loss)		
Interest expense	(106)	(3)
Interest and dividend income	136	163
Change in liability under tax receivable agreement	(18)	(17)
Net gains (losses) on investments	1,066	613
Total non-operating income (loss)	1,078	756
Income before provision for income taxes	23,858	38,590
Provision for income taxes	1,674	2,479
Net income attributable to controlling and noncontrolling interests	22,184	36,111
Less: net income attributable to noncontrolling interests	19,766	32,802
Net income attributable to Manning & Napier, Inc.	$2,418	$ 3,309
Net income per share available to Class A common stock		
Basic	$0.16	$ 0.24
Diluted	$0.16	$ 0.24
Weighted average shares of Class A common stock outstanding		
Basic	13,745,130	13,713,540
Diluted	14,084,903	13,914,908
Cash dividends declared per share of Class A common stock	$0.16	$ 0.16

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 March 31,	
	2016	2015
Net income attributable to controlling and noncontrolling interests	$22,184	$36,111
Net unrealized holding gain (loss) on investment securities, net of tax	3	(1)
Comprehensive income	$22,187	$36,110
Less: Comprehensive income attributable to noncontrolling interests	19,769	32,801
Comprehensive income attributable to Manning & Napier, Inc.	$2,418	$3,309

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

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

	Common Stock – class A		Common Stock – class B		Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance—December 31, 2014	13,713,540	$ 137	1,000	$ —	$ 209,284	$ (41,087)	$ —	$ (19,623)	$ 148,711
Net income	—	—	—	—	—	3,309	—	32,802	36,111
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(26,787)	(26,787)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(1)	—	(1)
Equity-based compensation	—	—	—	—	85	—	—	502	587
Dividends declared on Class A common stock - $0.16 per share	—	—	—	—	—	(2,194)	—	—	(2,194)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(4,394)	—	—	(33,326)	(37,720)
Balance—March 31, 2015	13,713,540	$ 137	1,000	$ —	$ 204,975	$ (39,972)	$ (1)	$ (46,432)	$ 118,707
Balance—December 31, 2015	14,755,130	$ 148	1,000	$ —	$ 205,760	$ (37,149)	$ (3)	$ (33,976)	$ 134,780
Net income	—	—	—	—	—	2,418	—	19,766	22,184
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(9,798)	(9,798)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	3	—	3
Common stock issued under equity compensation plan, net of forfeitures	(20,000)	(1)	—	—	—	—	—	—	(1)
Equity-based compensation	—	—	—	—	214	—	—	1,070	1,284
Dividends declared on Class A common stock - $0.16 per share	—	—	—	—	—	(2,349)	—	—	(2,349)
Balance—March 31, 2016	14,735,130	$ 147	1,000	$ —	$ 205,974	$ (37,080)	$ —	$ (22,938)	$ 146,103

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

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

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$22,184	$36,111
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	1,284	587
Depreciation and amortization	508	642
Change in amounts payable under tax receivable agreement	18	17
Net gains on investment securities	(1,066)	(613)
Deferred income taxes	893	720
Amortization of debt issuance costs	39	—
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	791	1,815
Accounts receivable—Manning & Napier Fund, Inc.	1,117	2,334
Due from broker - consolidated funds	3,795	(5,000)
Prepaid expenses and other assets	350	1,387
Accounts payable	(105)	(1,245)
Accrued expenses and other liabilities	(14,448)	(16,856)
Deferred revenue	128	683
Other long-term liabilities	(108)	(71)
Net cash provided by operating activities	15,380	20,511
Cash flows from investing activities:		
Purchase of property and equipment	(120)	(374)
Sale of investments	3,541	3,765
Purchase of investments	(1,222)	(1,998)
Due from broker	4,019	—
Net cash provided by investing activities	6,218	1,393
Cash flows from financing activities:		
Distributions to noncontrolling interests	(9,798)	(26,787)
Dividends paid on Class A common stock	(2,361)	(3,291)
Payment of shares withheld to satisfy withholding requirements	—	(64)
Payment of capital lease obligations	(60)	(51)
Purchase of Class A units of Manning & Napier Group, LLC	—	(36,326)
Net cash used in financing activities	(12,219)	(66,519)
Net increase (decrease) in cash and cash equivalents	9,379	(44,615)
Cash and cash equivalents:		
Beginning of period	117,591	124,992
End of period	$126,970	$80,377

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 March 31, 2016.

(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, 2015.

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

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

Basis of Presentation

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

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

Principles of Consolidation

As of March 31, 2016, Manning & Napier holds an economic interest of approximately 16.7% in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC").

All material intercompany transactions have been eliminated in consolidation.

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

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

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the "Fund") 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.

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 March 31, 2016, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

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

Operating Segments
The Company operates in one segment, the investment management industry. The Company primarily provides investment management services to separately managed accounts, mutual funds and collective investment trust funds. Management assesses the financial performance of these vehicles on a combined basis.
Revenue
The majority of the Company’s revenues are based on fees charged to manage customers’ portfolios. Investment management fees are generally computed as a percentage of assets under management ("AUM") and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For the Company’s separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, the Company defers the revenue and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenues based on AUM market values as of the most recent month end date, and adjusts to actual when billed. For mutual funds and collective investment trust vehicles, the Company’s fees are calculated and earned daily based on AUM.
The Company has agreements with third parties who provide distribution and administrative services for its mutual funds, collective investment trusts and certain separately managed accounts. Third party agreements are evaluated against Financial Accounting Standards Board ("FASB") ASC 605-45 Revenue Recognition - Principal Agent Considerations to determine whether revenue should be reported gross or net of payments to third-party service providers. In management's judgment there are various indicators that support gross revenue reporting, the most notable being the Company acts as primary obligor and therefore principal service provider. Based on this evaluation, investment management service revenue is recorded gross of distribution and administrative fees paid to third parties.
Advisory Agreements
The Company derives significant revenue from its role as advisor to the Fund and the CIT.
The Company's investments in the Fund amounted to approximately $1.3 million as of March 31, 2016 and $1.2 million as of December 31, 2015.
Fees earned for advisory related services provided to the Fund and CIT investment vehicles were approximately $28.1 million and $45.2 million for the three months ended March 31, 2016 and 2015, respectively. These amounts represent greater than 10% of the Company's revenue in each respective period.
Recent Accounting Pronouncements
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance will be effective on January 1, 2018 and requires either a retrospective or a modified retrospective approach to adoption. Early application is permitted. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.
In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income. ASU 2016-01 will be effective on January 1, 2018 and will result in a cumulative-effect adjustment to the balance sheet upon adoption. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The new guidance will be effective for fiscal years beginning after December 15, 2018, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

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

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

Note 3—Noncontrolling Interests

Manning & Napier holds an economic interest of approximately 16.7% 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 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 March 31,	
	2016	2015
	(in thousands)	
Income before provision for income taxes	$23,858	$38,590
Less: loss before provision for income taxes of Manning & Napier, Inc. (a)	(17)	(18)
Income before provision for income taxes, as adjusted	23,875	38,608
Controlling interest percentage (b)	16.7 %	14.5 %
Net income attributable to controlling interest	3,979	5,614
Plus: loss before provision for income taxes of Manning & Napier, Inc. (a)	(17)	(18)
Income before income taxes attributable to Manning & Napier, Inc.	3,962	5,596
Less: provision for income taxes of Manning & Napier, Inc. (c)	1,544	2,287
Net income attributable to Manning & Napier, Inc.	$2,418	$3,309

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

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

c) The consolidated provision for income taxes is equal to the sum of (i) the provision for income taxes for entities other than Manning & Napier, Inc. and (ii) the provision for income taxes of Manning & Napier, Inc. which includes all U.S. federal and state income taxes. The consolidated provision for income taxes was $1.7 million and $2.5 million for the three months ended March 31, 2016 and 2015, respectively.

A total of 67,896,484 units of Manning & Napier Group are held by the noncontrolling interests as of March 31, 2016. Pursuant to the terms of the exchange agreement entered into at the time of the Company's initial public offering, such units may be exchangeable for shares of the Company's Class A common stock. For any units exchanged, the Company will (i) pay an amount of cash equal to the number of units exchanged multiplied by the value of one share of the Company's Class A common stock less a market discount and expected expenses, or, at the Company's election, (ii) issue shares of the Company's Class A common stock on a one-for-one basis, subject to customary adjustments. As the Company receives units of Manning & Napier Group that are exchanged, the Company's ownership of Manning & Napier Group will increase.

Approximately 34.6 million Class A units of Manning & Napier Group are eligible for exchange in fiscal 2016, of which approximately 31.1 million are held by William Manning. In the event that William Manning maximizes his participation, the amount eligible would increase to approximately 35.5 million to allow for other owners to participate in a similar proportion.

At March 31, 2016 and December 31, 2015, the Company had recorded a liability of $42.0 million and $41.9 million, respectively, representing the estimated payments due to the selling unit holders under the tax receivable agreement ("TRA") entered into between Manning & Napier and the holders of Manning & Group. Of these amounts, $3.3 million were included in accrued expenses and other liabilities at March 31, 2016 and December 31, 2015. The Company made no payments pursuant to the TRA during the three months ended March 31, 2016 and 2015.

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

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

Note 4—Investment Securities

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

	March 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities				
U.S. Treasury notes (0.35%, 10/31/2016)	$2,105	$ —	$ (3)	$2,102
Trading securities				
Equity securities				7,044
Fixed income securities				7,864
Mutual funds				273
Mutual funds - consolidated funds				981
Hedge funds				2,700
				18,862
Total investment securities				$20,964

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

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

Investment securities classified as trading consist of equity securities, fixed income securities and investments in mutual funds and hedge funds for which the Company provides advisory services. At March 31, 2016 and December 31, 2015, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes. The Company recognized approximately $1.0 million and $0.2 million of net unrealized gains related to investments classified as trading during the three months ended March 31, 2016 and 2015, respectively.

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

Note 5—Derivative Instruments

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

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

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

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

As of December 31, 2015, the derivative assets and liabilities were included in due from broker in the consolidated statements of financial condition. Derivative activity concluded on February 4, 2016 with a year to date average volume of derivative activity (measured in terms of notional value) of approximately $127.8 million. The average notional volume of derivative activity for the three months ended March 31, 2015 was approximately $199.9 million.

The following table presents the gains (losses) recognized in net gains (losses) on investments in the consolidated statements of operations for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Interest rate futures	$494	$118
Index futures	(37)	71
Commodity futures	(13)	20
Currency futures	(102)	294
Gains (losses) recognized, net	$342	$503

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 March 31, 2016 and December 31, 2015:

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

	Liabilities	Statement of Financial Position	Presented in the Statement of Financial Position			
	(in thousands)					
March 31, 2016	$—	$ —	$ —	$ —	$ —	$ —
December 31, 2015	$(232)	$ 288	$ 56	$ —	$ —	$ 56

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

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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
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