

Manning & Napier, Inc.
Form 10-K
March 16, 2017
Table of Contents

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

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the transition period from _____ to _____
Commission File Number 001-35355

MANNING & NAPIER, INC.
(Exact name of registrant as specified in its charter)
Delaware 45-2609100
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

290 Woodcliff Drive 14450
Fairport, New York
(Address of principal executive offices) (Zip code)
(585) 325-6880
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange in which registered
Class A common stock, \$0.01 par value per share New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Edgar Filing: Manning & Napier, Inc. - Form 10-K

x

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 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

The aggregate market value of the registrant's common equity held by non-affiliates of the registrant (assuming for purposes of this computation only that the directors and executive officers may be affiliates) at June 30, 2016, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$140.1 million based on the closing price of \$9.50 for one share of common stock, as reported on the New York Stock Exchange on that date.

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

Class	Outstanding at March 13, 2017
Class A common stock, \$0.01 par value per share	14,982,880
Class B common stock, \$0.01 par value per share	1,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be held June 14, 2017 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>9</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>21</u>
Item 2. <u>Properties</u>	<u>21</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>21</u>
<u>Part II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>49</u>
Item 9A. <u>Controls and Procedures</u>	<u>49</u>
Item 9B. <u>Other Information</u>	<u>49</u>
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>50</u>
Item 11. <u>Executive Compensation</u>	<u>50</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>50</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>50</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>50</u>
<u>Part IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>51</u>
Item 16. <u>Form 10-K Summary</u>	<u>53</u>

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our views with respect to, among other things, our operations and financial performance. Words like “believes,” “expects,” “may,” “estimates,” “will,” “should,” “could,” “intend” 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” as well as other sections of this report which include, without limitation: changes in securities or financial markets or general economic conditions; a decline in the performance of the Company’s products; client sales and redemption activity; any loss of an executive officer or key personnel; changes in our business related to strategic acquisitions and other transactions; and changes of government policy or regulations. All forward-looking statements speak only as of the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

Item 1. Business.

Overview

Manning & Napier, Inc. is an independent investment management firm that provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trust funds, as well as a variety of consultative services that complement its investment process. Founded in 1970, we offer equity, fixed income and a range of blended asset portfolios which includes life cycle funds and exchange-traded fund ("ETF")-based portfolios. Headquartered in Fairport, New York, we serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans ("Taft-Hartley"), endowments and foundations.

Since our inception, we have taken the view that an active, team-based approach to portfolio management is the best way to manage risk for clients as market conditions change. Across our variety of equity, fixed income and blended asset portfolios, our goal is to provide competitive absolute returns over full market cycles. Our strategies employ disciplined processes that seek to avoid areas of speculation by focusing on investments with strong fundamentals at reasonable prices or stable fundamentals at attractive prices. To ensure a focus on absolute returns, we employ a compensation structure for our research team that rewards positive and above benchmark results and penalizes negative and below benchmark results. This active, absolute-returns based approach requires flexibility to invest where opportunities are and avoid speculation, regardless of the allocations within a comparative benchmark. Initially, this approach helped us build a client base of high net worth individuals, small business owners and middle market institutions, and we maintain these relationships in many targeted geographic regions. This foundation allowed us to expand our business to serve the needs of larger institutions, investment consultants and other intermediaries. A key aspect of our client service approach is a commitment to internal subject matter experts that can provide consultative services beyond investment management, which we believe helps us attract new clients and build close relationships through multiple service touch points and a solutions-oriented approach. We have designed solutions that are specific to our clients' needs, such as our family wealth management service, endowment and foundation services, and trust services. This service-oriented approach combined with competitive long-term investment performance across portfolios, has allowed us to achieve a high average annual separate account retention rate throughout our history.

Our commitment to team-based research, an absolute return focus and a flexible process have been central to our success, and we believe are distinctive within the industry. Over the course of our 45+ year history our mutual funds have earned several industry accolades, including a finalist ranking for Morningstar's international manager of the decade during the 2000s and multiple Lipper awards. As of December 31, 2016 we have eight mutual funds rated with four or five stars by Morningstar. Several of our investment strategies have value-added track records over multiple decades, which has led to strong growth in our total discretionary assets under management ("AUM") over the long-term. This included significant growth in our non U.S. and U.S. core equity strategies. More recently, these strategies have faced performance headwinds and a trend towards passive investing especially amongst institutional investors, both of which have resulted in AUM declines starting in 2014. Our active approach causes us to be out of favor relative to benchmarks and/or peers over shorter time periods and these short-term periods can lead to changes in AUM trends over time. The following chart reflects our AUM as of December 31 for each of the last 10 years.

Table of Contents

We offer our investment management capabilities primarily through direct sales to high net worth individuals and institutions, as well as through third-party intermediaries, platforms and institutional investment consultants. As of December 31, 2016, our investment management offerings include 40 distinct separate account composites and 65 mutual funds and collective investment trusts. We have cultivated a robust menu of products with a range of fees to address our clients' needs including traditional actively managed portfolios, ETF allocations, target date and goal based funds and collectives.

Our AUM as of December 31, 2016 by investment vehicle and portfolio were as follows:

The following table summarizes the annualized returns for our key investment strategies and the relative performance of the industry benchmark over the periods indicated. Since inception and over long-term periods, these strategies have earned attractive returns on both an absolute and relative basis. These strategies are used across separate account, mutual fund and collective investment trust vehicles, and represent approximately 82% of our AUM as of December 31, 2016.

Table of Contents

Key Strategies	AUM as of		Annualized Returns as of December 31, 2016 (3)						
	December 31, 2016 (in millions)	Inception Date	One Year	Three Year	Five Year	Ten Year	Market Cycle (1)	Inception	
Long-Term Growth 30%-80% Equity Exposure Blended Benchmark: 55% S&P 500 Total Return / 45% Bloomberg Barclays Government/Credit Bond	\$ 8,765.8	1/1/1973	3.7%	2.0%	6.9%	4.3%	6.0%	9.4%	
Core Non-U.S. Equity Benchmark: ACWIXUS Index	\$ 5,433.5	10/1/1996	2.2%	(4.1)%	4.6%	1.1%	5.0%	7.1%	
Growth with Reduced Volatility 20%-60% Equity Exposure Blended Benchmark: 40% S&P 500 Total Return / 60% Bloomberg Barclays Government/Credit Bond	\$ 4,077.1	1/1/1973	3.0%	1.6%	5.5%	4.0%	5.6%	8.7%	
Equity-Oriented Blended Benchmark: 65% Russell 3000® / 20% ACWIXUS / 15% Bloomberg Barclays U.S. Aggregate Bond	\$ 2,670.0	1/1/1993	4.3%	1.7%	8.9%	4.2%	6.2%	9.5%	
Equity-Focused Blend Blended Benchmark: 53% Russell 3000/ 17% ACWIXUS/ 30% Bloomberg Barclays U.S. Aggregate Bond	\$ 1,085.3	4/1/2000	4.0%	2.1%	7.8%	4.5%	6.5%	6.5%	
Core Equity (Unrestricted) 90%-100% Equity Exposure Blended Benchmark: 80% Russell 3000® / 20% ACWIXUS	\$ 1,043.6	1/1/1995	5.5%	2.5%	10.6%	5.1%	6.9%	10.6%	
Core U.S. Equity Benchmark: Russell 3000® Index	\$ 762.8	7/1/2000	7.6%	4.0%	11.3%	5.6%	N/A (2)	6.7%	
Conservative Growth Blended Benchmark: 15% Russell 3000/ 5% ACWIXUS/ 80% Bloomberg Barclays U.S. Intermediate Aggregate Bond	\$ 710.3	4/1/1992	2.3%	1.5%	3.4%	3.8%	5.1%	6.0%	