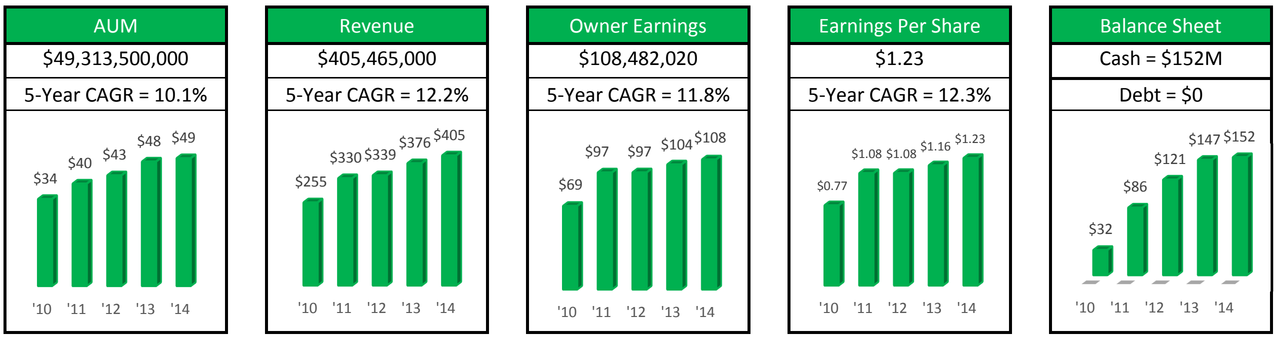
SELECTIVE
WEALTH MANAGEMENT

Manning & Napier Inc
May 8, 2015

General Overview

Manning and Napier Inc (MN) is an asset management firm that provides a broad range of investment solutions through separately managed accounts and mutual funds. Established in 1970 the firm has a long history of success implementing an active management approach with an aim to outperform investment benchmarks. As of March 31, 2015, the company managed $45 billion in assets through separately managed accounts and several fund families.

Year Ending December 31, 2014.

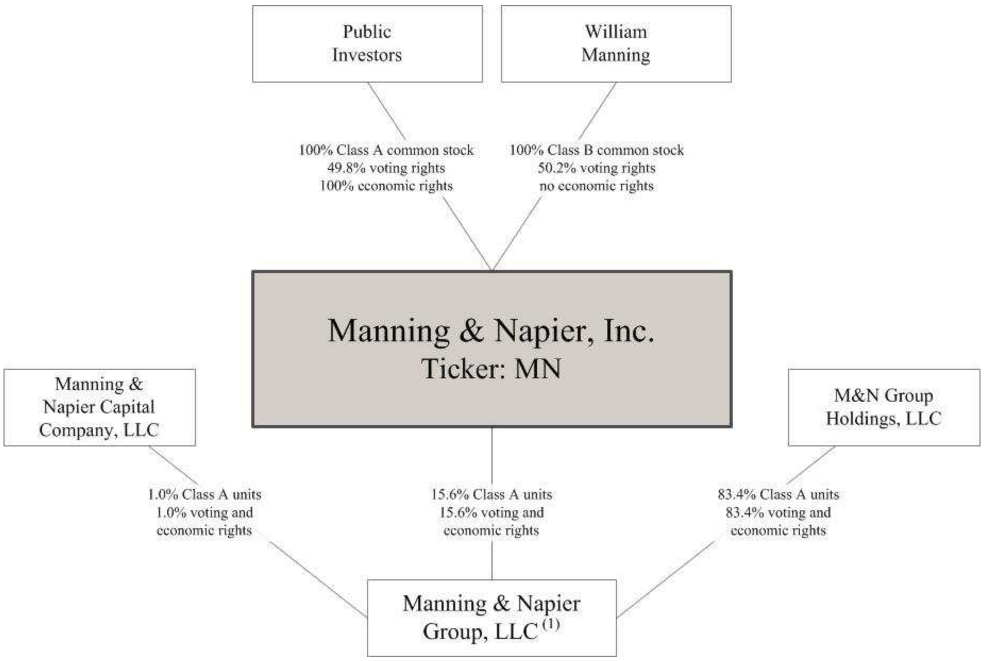


Purchase Logic

MN was founded in 1970 and has grown its assets under management (AUM) to more than $45 billion. This outstanding growth has been fueled by a well-defined investment process that has generated returns in excess of benchmarks over 5 and 10 year periods. The company focuses on active management looking to increase returns by purchasing outstanding businesses at fair valuations. One of the primary reasons we purchased MN is that we firmly believe that the investment process is value adding for clients over long periods of time. This type of investment approach should allow the firm to continue growing through new clients, additions from existing clients, and gains through strong investment performance. In the last 12 months the company earned approximately $108 million dollars and has a pristine balance sheet with $152 million in cash and investments with no debt.

We were able to purchase into the business at an attractive price for two primary reasons: A complicated ownership structure and net client outflows during the last 12 months – we'll address each in turn. The primary entity managing client assets is Manning & Napier Group, LLC. For clarity we'll call this LLC 'the Firm'. The Firm generates all revenue and income from client accounts and is owned by three groups: M&N Group Holdings LLC, Manning & Napier Capital Company LLC, and Manning & Napier Inc. ("MN"). MN is a publically traded company - we own shares of MN. M&N Group Holdings LLC is an employee owned LLC that is entitled to approximately 81% of all earnings of the Firm, Manning & Napier Capital Company LLC is also employee owned and is entitled to 1% of all earnings from the Firm, and MN is a publically held corporation with shareholders, which we are, that is entitled to 18% of all earnings from the Firm. The diagram outlined on the following pages shows the ownership structure as of March 31, 2015. The ownership percentages are slightly outdated due to a transaction that occurred in April where the company retired LLC units of M&N Group LLC increasing the ownership of MN to 18%.

Figure 1: Ownership Structure as of March 31, 2015



The most straight forward way to evaluate the business is to convert the ownership of each group into equivalent shares and multiple by the prevailing stock price. This gives a solid indication of our economics per share. In order to make this calculate the two LLCs need their economic interest in the Firm converted into shares which is performed in the table below.

Entity	Ownership %	Equivalent Shares
Manning & Napier Capital Company, LLC	1%	821,396
Manning & Napier Inc. (MN)	**18%**	**14,785,130**
M&N Group Holdings, LLC	81%	66,533,085
Total	100%	82,139,611

To calculate earnings per share we take the $108 million earned as income in the last twelve months and divide by the total equivalent shares.

$$EPS = \frac{\sim\$108{,}000{,}000}{82{,}139{,}611} = \$1.31$$

Performing a similar calculation we calculated our effective purchase price by subtracting the excess cash and investments held by the Firm. Of the $152 million in cash and investments we estimate that $122 million is excess, meaning it can be distributed to owners. We arrived at this figure by observing that prior to the IPO the Firm operated with a cash balance of less than $30 million without issue. The excess cash and investments per share is calculated as follows:

$$Excess\ Cash\ \&\ Investments\ Per\ Share = \frac{\sim\$122{,}000{,}000}{82{,}139{,}611} = \$1.49$$

Our effective purchase price was $10.75 less the $1.49 in cash and investments or $9.26. This is an effective P/E of 7x TTM earnings which compares favorably to the average purchase price of roughly 20x TTM for an S&P 500 constituent, 18x earnings for Eaton Vance or Brookfield Asset management (similar firms). We believe the attractive price was available due to short-term fear caused by client outflows and underperformance for some of MN's investment portfolios.

In 2014 several funds managed by MN underperformed their respective benchmarks which caused two large clients to withdraw nearly $3 billion dollars. These large outflows reduced the firms AUM by approximately 6% during the first quarter of 2015 and caused fear that further redemptions would occur. We disagree with this pessimistic view and believe that in the long term MN will continue to serve clients with excellence and grow assets. Short-term volatility is part of investing.

The founder of the firm, Bill Manning, continues to run the firm and owns 70%. He has grown the business from nothing in 1970 to more than $45 billion today through a commitment to excellence and sound long-term investment principles. We believe that all active management approaches will have short periods of time when they underperform and MN's approach that has led to overwhelming success for the last 45 years remains intact.

Key Metrics

The key metrics for the business are Assets Under Management (AUM), Revenue, Owner Earnings, the Balance Sheet, and the Investment Performance of the different asset classes managed by MN. The business factors that drive each of these key metrics is detailed below.

AUM

The assets under management is a key driver of revenue and earnings. When a client opens an account the amount invested with MN is considered 'assets under management' and MN charges a fee based on these assets. As MN is able to grow investment accounts and raise additional assets the AUM should increase accordingly. Assets contributed by new and existing clients are known as 'inflows', whereas withdraws and account closures are known as 'outflows'. In order to continue receiving net inflows the company needs to outperform its benchmarks over 5 and 10 years periods, have a clearly defined investment process, excellent service for clients, and strong distribution channels to raise additional assets through new clients.

Revenue

MN generates revenue by charging fees based on the AUM invested by each client. The fees range from 25 bps to 150 bps depending on the investment product – with equities commanding the highest fees. On average MN charges 78 bps across all asset classes. The primary driver for revenue is the total AUM and the product mix managed by MN. Fixed income products, such as bonds or treasuries, generate less revenue per dollar managed than equities.

Owner Earnings

As an asset management firm the earnings for the business are calculated by subtracting salaries, wages, and rent from the total revenues. All expenses at the firm are largely variable with compensation paid primarily through bonuses that are earned based on merit. The key metrics impacting compensation are retention of existing clients, new assets raised, and investment performance. This variable cost structure has allowed MN to maintain a net income margin between 25-30%. As a capital light business the net income is entirely available for distribution to the owners without impacting the competitive position business – meaning the reported net income and owner earnings are nearly identical. Historically the business has paid out almost 100% of owner earnings through dividends and we fully expect this practice to continue.

Balance Sheet

MN has a pristine balance sheet with $152 million in cash and investments with zero debt. The majority of this figure is held as cash with about $30 million currently invested in new products the firm intends to offer in the upcoming years as these funds become seasoned. After 3 years of performance MN intends to target institutions to raise additional assets through these new funds. While this $30 million is locked up in new products for at least 3 years it has just as much economic value to us as owners as an equivalent amount of cash.

Investment Performance

The investment performance refers to the performance of the portfolio's managed by MN. Obviously this is of upmost importance. The better the performance over extended periods of time the more clients will contribute, the higher the retention and referral rates, and the faster AUM grows. It is not possible to consistently grow an asset management firm without delivering investment results for clients over extended periods of time. We will monitor the performance of each portfolio offered by the firm to ensure that the results for clients are satisfactory.

Historical Performance of Key Metrics

Year	'10	'11	'12	'13	'14
AUM	$33,550,000,000	$39,500,000,000	$42,704,000,000	$48,017,000,000	$49,313,500,000
Revenue	$255,472,000	$329,992,000	$339,055,000	$376,068,000	$405,465,000
Fee Rate (bps)	76	84	79	78	82
Owner Earnings	$69,357,540	$97,168,260	$97,248,860	$103,845,040	$108,482,020
Earnings Per Share	$0.77	$1.08	$1.08	$1.16	$1.23
Cash	$31,924,000	$85,850,000	$121,406,000	$146,571,000	$151,907,000
Debt	$0	$0	$0	$0	$0

AUM

In the last 5 years MN has grown AUM from $33.5 billion to $46 billion (as of April 30, 2015) representing an annualized growth of 8%. The growth in assets was primarily fueled by MN gaining market share with institutional investors. It is our expectation that the growth in AUM over any twelve month period will fluctuate greatly ranging from -25% to +30%. The large range in AUM growth is due to the nature of investor behavior – when stocks are becoming cheaper AUM will decline and clients will simultaneously withdraw assets (yes, this is counter intuitive, but how people behave). When stocks become more expensive AUM will increase from investment gains and clients will add more assets. The primary driver of AUM growth will be MN's relative performance compared to benchmarks across the various client portfolios. This is further described under "Investment Performance". In the next 10 years we expect an average annual gain in AUM of approximately 6%.

Revenue

Revenue will fluctuate almost directly with AUM. In the last 5 years revenue has grown at an annualized rate of 12.2%, slightly outpacing asset growth. This is due to the change in the 'mix' of assets managed by MN. Equities generate more revenue than fixed income and in the last 5 years the equity assets have grown faster than fixed income assets causing a higher average fee rate across all portfolios. In 2014 the average fee paid was 82 bps compared to the 5 year average of 78 bps. We anticipate the average fee rate to be 78 bps for the next 10 years and revenue to fluctuate with AUM.

Owner Earnings

Owner earnings has historically been maintained at roughly 28% of revenue. The owner earnings are impacted by the overall level of expenses which changes based on performance. In years of underperformance AUM decreases and assets are withdraw, but compensation is reduced due to smaller (or negative) bonuses paid to staff. For this reason the expenses tend to decrease when AUM decreases and increase when AUM increases. Under both scenarios net income margin is maintained. We anticipate owner earnings to be roughly 25% of revenue for the next 10 years and fluctuate with AUM and Revenue.

Balance Sheet

As an investment firm MN requires very little capital to operate. The company needs to lease office space, purchase computers, and pay salaries to the staff. The low capital requirements allow MN to grow with minimal investment of cash and no debt. The balance sheet currently has roughly $122 million in cash and $30 million in investments. We believe the company only needs roughly $30 million in cash to operate safely and the other $122 million would be available for distribution. Historically the company has paid out almost all earnings as dividends and we expect this practice to continue. For this reason we would not be surprised to see a special dividend in the upcoming years that is substantial.

Investment Performance

Over the last 10 years the investment performance of the various products offered by MN has been strong relative to benchmarks. Below is a summary of the investment performance for each product:

Key Strategies	AUM as of December 31, 2014 (in millions)	Inception Date	Annualized Returns as of December 31, 2014 (3)					
			Inception	Market Cycle (1)	Ten Year	Five Year	Three Year	One Year
Long-Term Growth 30%-80% Equity Exposure	$ 11,282.8	1/1/1973	9.9%	6.8%	6.8%	9.2%	11.6%	5.5%
Blended Benchmark: 55% S&P 500 Total Return / 45% Barclays Government/Credit Bond			*9.5%*	*5.2%*	*6.6%*	*10.8%*	*12.3%*	*10.2%*
Growth with Reduced Volatility 20%-60% Equity Exposure	$ 5,158.2	1/1/1973	9.2%	6.4%	6.1%	7.6%	9.2%	4.5%
Blended Benchmark: 40% S&P 500 Total Return / 60% Barclays Government/Credit Bond			*9.0%*	*1.4%*	*6.2%*	*9.1%*	*9.6%*	*9.1%*
Aggregate Fixed Income	$ 458.3	1/1/1984	7.8%	5.4%	4.7%	4.4%	2.7%	3.6%
Benchmark: Barclays U.S. Aggregate Bond			*7.7%*	*5.6%*	*4.7%*	*4.5%*	*2.7%*	*6.0%*
Equity-Oriented	$ 3,303.4	1/1/1993	10.5%	7.2%	7.1%	10.4%	15.6%	6.0%
Blended Benchmark: 65% Russell 3000® / 20% ACWIxUS / 15% Barclays U.S. Aggregate Bond			*8.7%*	*4.7%*	*7.1%*	*11.8%*	*15.5%*	*8.2%*
Core Equity (Unrestricted) 90%-100% Equity Exposure	$ 2,032.0	1/1/1995	11.8%	7.9%	8.1%	12.0%	18.3%	7.8%
Blended Benchmark: 80% Russell 3000® / 20% ACWIxUS			*9.1%*	*4.4%*	*7.4%*	*13.4%*	*18.2%*	*9.1%*
Core Non-U.S. Equity	$ 13,101.9	10/1/1996	8.0%	6.0%	5.5%	3.6%	8.9%	(9.3)%
Benchmark: ACWIxUS Index			*5.2%*	*3.3%*	*5.1%*	*4.4%*	*9.0%*	*(3.9)%*
Core U.S. Equity	$ 3,550.7	7/1/2000	7.5%	N/A (2)	8.3%	12.2%	18.3%	9.2%
Benchmark: Russell 3000® Index			*4.9%*	*4.6%*	*7.9%*	*15.6%*	*20.5%*	*12.6%*

As seen in the table above the 10-year investment performance for MN has been strong. The company's focus on business value and outstanding companies has produced superior results over long periods of time for almost all investment classes. We anticipate this type of investment performance to continue. Our future expectations for MN's portfolios is to outperform over 5 and 10 year periods, with under performance from time to time when considering 1 and 3 year periods.

Summary of Key Metrics

Metric	Expectations
Assets Under Management	Growth ranging from -25% to +30% per year Average of 6% over 10 years
Revenue	Growth ranging from -25% to +30% per year Average of 6% over 10 years
Owner Earnings	Growth ranging from -25% to +30% per year Average of 6% over 10 years
Balance Sheet	Strong cash position with no debt Dividends equal to ~100% of earnings w/ a large special dividend on occasion
Investment Performance	Outperform over 5 and 10 year periods Occasional underperformance over 1 and 3 year periods

The Moat Around The Metrics

As an asset management firm the value of the company is tied to the brand name of the institution, the relationships established over 35 years in the industry, and the talent of the employees. The brand name of MN and strong track record for 35 years has allowed MN to attract institutional assets, such as sovereign wealth funds, pension funds, and more. These large asset pools only invest in large reputable firms and new competitors will have a very difficult time stealing assets in the short-term. In addition to the brand name that has allowed MN to attract institutions the company has also built relationships with clients for more than 35 years. The company retains roughly 95% of all clients year-over-year. This outstanding retention rate has created stability in the AUM for MN. We anticipate that high net worth clients (HNW) will continue their relationship with MN for many more years and new clients will be added. There is a lot of value in strong relationships.

The primary asset of all asset management firms is their employees. MN has been able to attract very talented research analysts, but also has created a culture that can endure with new employees. This culture was built by focusing on relative performance driven by fundamental research. The company aims to purchase only the highest quality companies at a fair price, or fair companies at an outstanding price. The company builds teams of 4 research analysts per industry that focus on ideas for that industry. The team based approach means that the performance of each portfolio is not dependent on the skill of a single great employee. This reduces the risk that a superstar manager would leave the firm and impact future performance. We believe that the ‘sticky’ nature of the asset management industry and sound investment approach will allow MN to continue to build a successful firm long into the future.

Risks

We face a variety of risks as owners of MN, but consider the investment to be very safe compared to the majority of investment options available. The exceptional purchase price, low capital requirements, high retention rates, and outstanding cash flows make MN one of our favorite investments. If the price of the company were to drop we would be very comfortable purchasing additional shares. Below is a list of the major risks we’ve assumed as owners of MN.

<u>Short-Term Risks</u>

- Market Values Will Fluctuate. In the short-term the volatility of the stock market will cause AUM to fluctuate. This fluctuation will directly impact AUM through investment results and have a material impact on client inflows and outflows. This short-term risk is unavoidable and an acceptable risk for the business. Over long periods of time, meaning 5 to 10 years, we fully anticipate MN to generate positive investment results for clients and increase AUM.
    - Low Risk

- Net Out Flows. Due to poor short-term performance in 2014 there is a possibility of large client outflows in 2015. The company experienced roughly 4% outflows during the first quarter of 2015, however, during the month of April AUM increased $400 million. If 2015 proves to be a difficult year for raising assets and retaining clients we are still very confident in the long-term prospects of the business. Bill Manning has consistently grown the firm for more than 35 years and owns 70% of the entire business. We are delighted to be his partner.
    - Low Risk
- Large percentage of AUM in non-U.S. stocks. The company currently has roughly 36% of all assets invested in non-U.S. stocks. The primary risk with this concentration in foreign equities is fluctuations in the USD. The strengthening of the USD in the last 18 months has caused a material decline of non-U.S. stocks when converted back into USD. This is the primary reason for the poor performance in 2014, but with the dollar at all-time highs we anticipate foreign currency fluctuations to average out over long periods of time (5-10 years).
    - Low Risk
- Loss of a major client. The largest client at the firm represents approximately 3.5% of the total AUM. The loss of this client would have a slight impact on net income in the short-term, but would be replaced in approximately 6 months at the current growth rate. In general the firm is highly diversified with no single client contributing substantial or uniquely to net income.
    - Low Risk

Long-Term Risks

- Sustained Poor Performance. MN is in the business of investing with excellence. In the event that MN consistently under performs benchmarks the firm will materially decline in size. We believe this is a low probability event because of the exceptional investment philosophy and culture of the firm. For 35 years the business has focused on in-depth research and outstanding businesses. There is strong historical evidence that a focus on fundamentals and business results generates superior investment results over time. We believe this is the appropriate way to invest and allocate capital for the long-term.
    - Moderate Risk

Conclusion

Manning & Napier Inc. is a world class asset management firm with a sound investment philosophy and strong investment performance. In the last 35 years the firm has grown from a small boutique to a powerhouse managing more than $46 billion in assets. The company’s founder, Bill Manning, still owns approximately 70% of the firm and has a vested interest in its continued success. We purchased into the firm at a price of roughly 7x earnings due to the complex ownership structure and recent short-term headwinds. We anticipate the business to grow AUM at roughly 6% per year over the next 10 years and pay the majority of all earnings as dividends. It is our expectation that the dividend yield will be in excess of 8% and due to the low purchase price and strong future prospects we have a high probability of strong capital appreciation over the next two or three years. We would be content to sell the business for a 50% gain in the near term and look forward to a strong contribution to our overall portfolio performance.

Works Cited

1) *MN Annual Report - SEC Filing 10-K.* EDGAR, 2014.
2) *MN Q1 2015 Conference Call.*

Disclaimer