

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2017

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: 0-10200

**SEI** New ways.  
New answers.®

**SEI INVESTMENTS COMPANY**  
(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-1707341

(I.R.S. Employer Identification No.)

1 Freedom Valley Drive, Oaks, Pennsylvania

(Address of principal executive offices)

19456-1100

(Zip Code)

Registrant's telephone number, including area code **610-676-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$.01 per share

Name of each exchange on which registered

The NASDAQ Stock Market LLC  
(The NASDAQ Global Select Market®)

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of class)

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 Web site, 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.

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 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 Act). Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$6.6 billion based on the closing price reported by NASDAQ on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter). For purposes of making this calculation only, the registrant has defined affiliates as including all executive officers, directors and beneficial owners of more than ten percent of the common stock of the registrant.

The number of shares outstanding of the registrant's common stock, as of the close of business on January 31, 2018:

**Common Stock, \$.01 par value**

**157,278,314**

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference herein:

1. The definitive proxy statement relating to the registrant's 2018 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year covered by this annual report, is incorporated by reference in Part III hereof.

# SEI Investments Company

Fiscal Year Ended December 31, 2017

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## PART I

### Forward Looking Statements

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve certain known and unknown risks, uncertainties and other factors, many of which are beyond our control, and are not limited to those discussed in Item 1A, “Risk Factors.” All statements that do not relate to historical or current facts are forward-looking statements. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to present or anticipated products and markets, future revenues, capital expenditures, expansion plans, future financing and liquidity, personnel, and other statements regarding matters that are not historical facts or statements of current condition.

Any or all forward-looking statements contained within this Annual Report on Form 10-K may turn out to be wrong. They can be affected by inaccurate assumptions we might make, or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, we cannot guarantee any forward-looking statements. Actual future results may vary materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our filings with the U.S. Securities and Exchange Commission (SEC).

### **Item 1. Business.**

#### *Overview*

Now in its 50th year of business, SEI (NASDAQ: SEIC) is a leading global provider of investment processing, investment management and investment operations platforms. We help corporations, financial institutions, financial advisors, institutional investors and ultra-high-net-worth families create and manage wealth by providing comprehensive, innovative, investment and investment-business platforms. As of December 31, 2017, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages, advises or administers \$860.6 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including \$337.3 billion in assets under management and \$518.4 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$105.3 billion of assets which are included as assets under management.

Our business platforms include:

- Investment processing outsourcing platforms for providers of institutional and private-client wealth management services, including banks, trust companies, independent wealth advisers and other financial services firms;
- Investment management platforms for institutional investors, including retirement plan sponsors, not-for-profit organizations and affluent individual investors; and
- Investment operations outsourcing platforms for investment management firms, banks and investment companies that sponsor and distribute mutual funds, hedge funds and alternative investments.

#### *General Development of the Business*

For almost 50 years, SEI has been a leading provider of wealth management business solutions for the financial services industry.

We began doing business in 1968 by providing computer-based training simulations for bank loan officers. We developed an investment accounting system for bank trust departments in 1972 and became a leading provider of investment-processing outsourcing services to banks and trust institutions in the United States. Later, we broadened these outsourcing services and began offering bank clients a family of mutual funds, as well as investment-operations outsourcing services. We became a public company in 1981.

We began to adapt and evolve these platforms for selected global markets in the 1990s, including: investment advisors, retirement plan sponsors and institutional investors, asset management distribution firms, investment managers and affluent individual investors. Today, we serve approximately 8,900 clients in the United States, Canada, the United Kingdom, continental Europe, South Africa and East Asia.

In each of these markets, we have combined our core competencies - investment processing, investment management and investment operations - to deliver broader and more strategic solutions for clients and markets. Today, we offer a global wealth and investment platform for private banks and wealth services firms; a complete wealth platform for operating an investment advisory business; a comprehensive fiduciary management platform for retirement plan sponsors and institutional investors; a

total operational outsourcing platform for investment managers and a complete life and wealth platform for ultra-high-net-worth families.

### *Mission and Strategy*

SEI's mission is to deliver innovative and comprehensive investment processing, investment management and investment operations platforms to help clients achieve lasting success. We also seek to achieve growth in earnings and shareholder value by strengthening our position as a provider of these platforms. To achieve these objectives, we have implemented these strategies:

*Create broader solutions for wealth service firms, globally.* Banks, investment managers and financial advisors seek to enter new markets, expand their service offerings, provide a differentiated experience to their clients, improve efficiencies, reduce risks and better manage their businesses. We offer comprehensive platforms integrating technology, operating processes and financial products designed to help these institutions better serve their clients and provide opportunities to improve their business success.

*Help institutional investors manage retirement plans and operating capital, globally.* Retirement plan sponsors, not-for-profit organizations and other institutional investors strive to meet their fiduciary obligations and financial objectives while reducing business risk. We deliver customized investment management solutions, as part of a complete Outsourced Chief Investment Officer (OCIO) platform, that enable investors to make better decisions about their investments and to manage their assets more effectively.

*Help affluent individual investors manage their life and wealth goals, globally.* Investors demand a holistic wealth management experience that focuses on their life goals and provides them with an integrated array of financial services that includes substantially more than traditional wealth management offerings. We help investors identify their goals and offer comprehensive life and wealth advisory services including life planning, investments and other financial services.

*Continue to expand globally.* Global markets are large and present significant opportunities for growth. We have evolved U.S. business models for the global wealth management marketplace, focusing on the needs of institutional investors, private banks, independent wealth advisers, investment managers, investment advisors and affluent individual investors.

### *Fundamental Principles*

We are guided by these fundamental principles in managing the business and adopting these growth strategies:

- *Achieve growth in revenue and earnings.* We seek to grow organically by providing additional services to clients, adding new clients, introducing new products and adapting products for new markets. We may also make selective acquisitions to gain capabilities or platforms that enable future organic growth.
- *Forge long-term client relationships.* We strive to achieve high levels of customer satisfaction and to forge close and long lasting client relationships. We believe these relationships enable us to market additional services and acquire knowledge and insights that fuel the product development process.
- *Invest in product development.* We continually enhance products and services to keep pace with industry developments, regulatory requirements and the emerging needs of markets and clients. We believe ongoing investments in research and development give us a sustainable, competitive advantage in our markets.
- *Maintain financial strength.* We adopt business models that generate recurring revenues and positive cash flows. Predictable cash flows serve as a source of funds for continuing operations, investments in new products, common stock repurchases and dividend payments.
- *Leverage investments across the business.* We create scalable, enterprise-wide platforms designed to serve the needs of multiple markets, potentially offering operating efficiencies that can benefit corporate profitability.
- *Create value for shareholders.* The objective of achieving long-term sustainable growth in revenues and earnings strongly influences the management of the business. This philosophy guides corporate management practices, strategic planning activities and employee compensation practices.

### *Business Platforms*

#### Investment Processing

Investment processing platforms include outsourced software and processing services, professional services and transaction-based services. We offer these services to providers of institutional and private-client wealth management services, including banks, trust companies, independent wealth advisers and other financial services firms. We also deliver these platforms,

combined with our investment management platform, to investment advisors and other wealth management and financial services firms.

Investment processing services are delivered through two proprietary platforms: TRUST 3000® and the SEI Wealth Platform<sup>SM</sup> (the SEI Wealth Platform or the Platform). We own, develop, maintain and operate these software applications and associated information processing infrastructure and facilities. Through our wholly-owned subsidiaries, we also provide business-process outsourcing services including custodial and sub-custodial services and back-office accounting services.

The TRUST 3000 platform is a comprehensive trust and investment accounting system that provides securities processing and investment accounting for all types of domestic and global securities and support for multiple account types, including personal trust, corporate trust, institutional trust and non-trust investment accounts. This platform is delivered as Software as a Service (SaaS) or as Platform as a Service (PaaS).

The SEI Wealth Platform provides a global, unified and scalable platform for operating a wealth management business. This comprehensive platform includes investment processing and infrastructure services, and advanced capabilities to support wealth advisory, asset management, and wealth administration functions. The Platform also provides global wealth management capabilities including a 24/7 operating model, global securities processing, and multi-currency accounting and reporting. Built around a client-centric relationship model, the Platform has an open architecture and supports workflow management and straight-through processing.

The Platform is offered in SaaS and PaaS delivery modes. We began delivering the SEI Wealth Platform (PaaS) to private banks and independent wealth advisers in the United Kingdom in 2007, to banks in the United States in 2012, and to investment advisor clients in the United States in 2015. We are currently implementing our first SaaS bank client through a multi-year conversion.

Investment processing revenues are earned as monthly fees for contracted SaaS and PaaS services. Revenues are primarily earned based upon the type and number of investor accounts serviced or as a percentage of the market value of the clients' assets processed. These revenues are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations.

Professional services revenues are earned from contracted, project-oriented services, including client implementations, and are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations.

Transaction execution revenues are earned primarily from commissions earned on securities trades executed on behalf of clients through one of our investment processing platforms. These revenues are recognized as Transaction-based and trade execution fees on the accompanying Consolidated Statements of Operations.

### Investment Management

SEI's investment management platform consists of investment products including money market, fixed-income and equity mutual funds, collective investment products, alternative investment portfolios and separately managed accounts. Through our wholly owned subsidiaries, we serve as sponsor, administrator, transfer agent, investment advisor, distributor and shareholder servicer for many of these products. We distribute these investment products through investment advisory firms, including investment advisors and banks, and directly to institutional and individual investors.

Investment products are used to formulate an investment strategy tailored to meet the needs of different investors, taking into consideration their objectives and risk tolerances. SEI's clients, or the investors served by client intermediaries, are the investors in these products. Investors typically invest in a globally diversified portfolio that consists of multiple asset classes and investment styles.

We have expanded our investment management platform to include other consultative, operational and technology components, and have created comprehensive solutions tailored to the needs of a specific market. These components may include investment strategies, consulting services, administrative and processing services and technology tools.

As of December 31, 2017, SEI managed \$232.0 billion in assets including: \$172.6 billion invested in fixed-income and equity funds and separately managed account programs; \$49.4 billion invested in collective trust fund programs and \$10.0 billion invested in liquidity or money market funds. An additional \$105.3 billion in assets is managed by our unconsolidated affiliate LSV, a registered investment advisor that specializes in a value equity management style for their clients.

Investment management revenues are primarily earned as a percentage of net assets under management. These revenues are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of

Operations. Our interest in the earnings of LSV is recognized in Equity in earnings of unconsolidated affiliates on the accompanying Consolidated Statements of Operations.

### Investment Operations

Investment operations outsourcing platforms consist of accounting and administration services, distribution support services and regulatory and compliance services. We deliver these platforms to investment management firms that offer traditional and alternative products. We support traditional managers who advise a variety of investment products including mutual funds, UCITS schemes, collective investment trusts (CITs), exchange-traded funds (ETFs), institutional accounts and separately managed accounts. We also provide comprehensive platforms to investment managers worldwide that sponsor and distribute alternative investment products such as hedge funds, funds of hedge funds, private equity funds and real estate funds, across both registered and partnership structures.

Accounting and administration services include account and fund administration, investment portfolio and fund accounting; cash administration and treasury services; trade capture, settlement and reconciliation; trustee and custodial services; legal, audit and tax support; and investor services. Distribution support services may include access to distribution platforms and market and industry analyses to identify specific product distribution opportunities. Regulatory and compliance services assist clients in meeting global requirements in the areas of regulatory reporting, investor compliance, investment risk and firm compliance. These platforms are delivered by utilizing a highly integrated, robust and scalable technology platform adapted to fit the specific business needs of our investment manager clients.

As of December 31, 2017, we administered \$518.4 billion in client assets for traditional and alternative investment fund products, including mutual funds, hedge funds and private equity funds. Revenues from these products are primarily earned as a percentage of net assets under administration.

Revenues for the processing of institutional separate accounts and separately managed accounts are generally earned on the number of investor accounts serviced. Assets associated with this separate account processing are not included in reported assets under administration. Both revenue categories are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

### *Business Segments*

Business segments are generally organized around our target markets. Financial information about each business segment is contained in Note 13 to the Consolidated Financial Statements. Our business segments are:

Private Banks – provides outsourced investment processing and investment management platforms to banks and trust institutions, independent wealth advisers and financial advisers worldwide;

Investment Advisors – provides investment management and investment processing platforms to affluent investors through a network of independent registered investment advisors, financial planners and other investment professionals in the United States;

Institutional Investors – provides investment management and administrative outsourcing platforms to retirement plan sponsors, healthcare systems and not-for-profit organizations worldwide;

Investment Managers – provides investment operations outsourcing platforms to fund companies, banking institutions and both traditional and non-traditional investment managers worldwide; and

Investments in New Businesses – focuses on providing investment management programs to ultra-high-net-worth families residing in the United States; developing internet-based investment services and advice platforms; entering new markets; and conducting other research and development activities.

The percentage of consolidated revenues generated by each business segment for the last three years was:

|                               | 2017 | 2016 | 2015 |
|-------------------------------|------|------|------|
| Private Banks                 | 31%  | 33%  | 34%  |
| Investment Advisors           | 24%  | 23%  | 23%  |
| Institutional Investors       | 21%  | 22%  | 22%  |
| Investment Managers           | 23%  | 21%  | 20%  |
| Investments in New Businesses | 1%   | 1%   | 1%   |
|                               | 100% | 100% | 100% |

## Private Banks

We are a leading provider of investment-processing-outsourcing platforms for banks and trust institutions, independent wealth advisers and financial advisors worldwide.

We offer TRUST 3000 investment processing in both SaaS or PaaS delivery modes. SaaS clients outsource investment processing software services and information processing to SEI, but retain responsibility for back-office investment operations. PaaS clients also outsource investment operations, including custody and safekeeping of certain assets, income collection, securities settlement and other back-office accounting activities.

Marketing efforts in this segment are focused on the SEI Wealth Platform which is currently delivered as PaaS. The Platform offers advanced capabilities across the entire range of wealth management processes, including those of large global wealth managers. The Platform enables banks and investment service firms of all types to manage the growing complexity of their operations, replace legacy platforms, comply with complex regulations, and make more effective use of capital by outsourcing wealth management services.

In 2015, we signed an existing TRUST 3000 client to be the first large national bank to implement the SEI Wealth Platform, and the first client to operate the Platform as SaaS. This will be a multi-year conversion due to the client's size, the development work involved to expand the Platform to be offered as SaaS, and the scope of integration activities required. While executing this large-scale implementation, we will continue to install other signed clients. We will also continue to manage our current TRUST 3000 relationships toward eventual conversion to the Platform.

Contracts with TRUST 3000 clients have initial terms that are generally three to seven years in length. At December 31, 2017, we had significant relationships with 81 bank and trust institutions in the United States. Our principal competitors for this business are: Fidelity National Information Services, Inc. (FIS), Fi-Tek LLC, Innovest Portfolio Solutions, LLC, Charles Schwab & Co., Inc. and Fidelity Investments. Many large financial institutions develop, operate and maintain proprietary investment and trust accounting systems. We consider these "in-house" systems to be a form of competition.

Contracts with SEI Wealth Platform clients have initial terms that are generally five to seven years in length. At December 31, 2017, we had significant relationships with 41 banks, independent wealth advisers and other wealth managers located in the United Kingdom and the United States. Our principal competitors for this business, in addition to those named above, are: Pershing LLC, FNZ UK Ltd., Temenos Group AG, Avaloq, SS&C Technologies, Fiserv, Inc. and smaller technology firms. We also consider "in-house" systems to be a form of competition.

This segment also offers investment management and distribution programs for banks, wealth managers and other financial services intermediaries. These programs start with SEI's standard investment solutions, strategies, funds and investment services. We also deliver customized solutions including asset management strategies, as well as investment manager and portfolio research services. Increasingly, asset management distributors with established platforms are seeking to grow their businesses by offering broader investment solutions while outsourcing non-client facing investment services activities. We believe we offer our distribution partners a cost-effective way to grow their businesses and offer their investors differentiated investment choices, such as SEI's goal-based investing solution.

We have business relationships with 306 banks, wealth managers and other financial services intermediaries at December 31, 2017. Our definition of an asset management distribution client for this segment includes financial intermediaries who have exceeded a minimal level of customer assets invested in our investment products. With the growth of our business, the minimal level of customer assets which defines a "business relationship" is adjusted from time to time. Our business is primarily based on 103 asset management distribution clients who, at December 31, 2017, had at least \$5.0 million each in customer assets invested in our programs. We also had single-product relationships with 84 additional banks and trust institutions. The principal competitors for this business are: Russell Investment Group, Fidelity Investments, Franklin Templeton Investments, discretionary portfolio managers and various multi-manager investment programs offered by other firms. We also consider "in-house" proprietary asset management capabilities to be a form of long-term competition.

## Investment Advisors

We are a leading provider of investment management solutions throughout the United States to registered investment advisors, financial planners and life insurance agents, many of whom are registered with independent broker-dealers. These solutions include SEI's investment management platform and investment processing platform and are usually offered on a bundled basis. We also help advisors manage and grow their businesses by giving them access to marketing support programs and practice management services which include, for example, workflow recommendations, succession planning advice, business assessment assistance and recommended management practices. We believe our integrated solution helps investment advisors reduce risk, improve quality and gain operational efficiency which allows them to devote more of their resources to acquiring new clients and achieving better outcomes for their existing clients.



Advisors are responsible for the investor relationship which includes creating financial plans, implementing investment strategies and educating and servicing their customers. Advisors may customize portfolios to include separate account managers provided through our programs as well as SEI-sponsored mutual funds. Our wealth and investment programs are designed to be attractive to affluent or high-net-worth individual investors and small to medium-sized institutional retirement plans.

We continually enhance our offering to meet the emerging needs of our advisors and their end clients. We anticipate the enhanced service offerings enabled through the SEI Wealth Platform will provide a more diverse range of back-office, front-office and client-facing investment processing and investment management capabilities. We began to implement selected groups of advisor clients onto the Platform in 2015. In 2016 and 2017, we completed large-scale migrations of existing advisor relationships onto the Platform, including larger, more sophisticated advisors. We will continue to focus on recruiting new advisors, improving net cash flows into our investment management programs, and managing client relationships toward eventual migration onto the Platform.

We estimate we have business relationships with approximately 7,500 financial advisors at December 31, 2017. Our definition of a client for this segment includes financial advisors who have exceeded a minimal level of customer assets invested in our investment products. With the growth of our business, the minimal level of customer assets which defines a "business relationship" is adjusted from time to time. Our business is primarily based on approximately 2,100 investment advisors who, at December 31, 2017, had at least \$5.0 million each in customer assets invested in our programs. Revenues are earned largely as a percentage of average assets under management.

The principal competition for our investment management products is from other active money managers, passive investment management sponsors, other turnkey asset management providers, mutual fund companies, custody service providers and the proprietary investment management programs of broker dealers. In the advisor distributor channel, the principal competitors include AssetMark Investment Services Inc., Brinker Capital, EnvestNet, Inc., Fidelity Investments, TD Ameritrade, Charles Schwab & Co., Inc., and other broker-dealers. As we introduce the Platform, we expect to more directly compete with custody service providers.

#### Institutional Investors

We are a leading provider of Outsourced Chief Investment Officer (OCIO) platforms for retirement plan sponsors, healthcare systems, and not-for-profit organizations globally. We have a broadly experienced team with specific expertise in defined benefit plans, defined contribution plans, endowments, foundations and balance sheet assets.

Our clients benefit from solutions that combine the breadth of SEI's investment management, advisory, and administration services. Depending on their needs, objectives, and risk tolerance, clients can elect to either retain control or outsource specific management functions. As a result, they can integrate SEI's investment process, advisory services, and plan administration services into their existing best practices. This approach is designed to address the investor's specific risk-return requirements, reduce business risk, provide ongoing due diligence, and increase operational efficiency.

SEI's open architecture investment management approach provides access to manager research, manager selection and monitoring, portfolio construction and discretionary management. Advisory services include scenario modeling and customization of an asset allocation plan that is designed to meet long-term objectives. Plan administration services include trustee, custodial, and benefit payment services.

We will continue our efforts to build a globally diversified institutional client base, provide our clients with value-added advice and discretionary services, and place increased emphasis on defined contribution and not-for-profit organizations fiduciary management sales opportunities.

Fees are primarily earned as a percentage of average assets under management calculated using the average of the four month ending balances preceding the billing date. At December 31, 2017, we had relationships with 482 institutional clients. The principal competitors for this segment are boutique and large bank OCIO/fiduciary management firms, Mercer, Aon Hewitt, Willis Towers Watson, and Russell Investments.

#### Investment Managers

We are a leading provider of investment operations outsourcing platforms to fund companies, banking institutions, family offices and both traditional and non-traditional investment managers worldwide. We provide investment organizations and asset owners with the advanced operating infrastructure they need to be competitive while enabling them to efficiently navigate a host of business and regulatory challenges. Our comprehensive global operating platform provides clients with customized and integrated capabilities in the areas of data and information management, investment operations, risk management and compliance support, as well as fund administration, fund accounting and distribution support.

We work with a diverse and sophisticated group of alternative, traditional, and hybrid asset managers, including approximately one-third of the top 100 managers worldwide. Clients choose our full-service offering because of its flexibility, quality and ability to support their diverse business needs across multiple product types and structures, investment strategies and asset classes. Our investment manager clients offer a variety of packaging types, including hedge funds, private equity and real estate funds, mutual funds, separate accounts, ETFs, UCITS and closed-end funds. For clients focused on the U.S. retirement market who desire to manage assets within a collective investment trust, we offer trustee and investment management services in addition to the aforementioned administration services. We also enhanced our platform solution to accommodate the special needs of emerging and start-up alternative investment managers, enabling us to offer outsourcing services to a full spectrum of managers.

Because our operational platform enables managers to view their business in such a comprehensive and integrated way, it gives them more insight and thus control over their business risks and results.

Through our acquisition of Archway Technology Partners (Archway) in July 2017, we further enhanced our family office platform and are able to offer a more comprehensive suite of technology and technology-enabled services for ultra-high net worth families, their trusted advisors and the institutions that service the family office market.

Over the past few years, investors have faced multiple market crises and rising volatility. Investment managers have responded with a range of innovative products designed to better manage volatility and downside risk, and many now offer alternatives to the pure long-only investing strategy historically used in traditional markets. This can be accomplished in a standalone private or public fund vehicle or using our mutual fund series trust platform. Additionally, as competitiveness will increasingly be based on capabilities other than just investment expertise, we offer managers solutions that help them gain scale and efficiency, run their businesses more intelligently, and be more responsive to investor and intermediary needs. We also continually enhance our platforms to anticipate and adapt to economic, regulatory and industry changes.

We will continue our efforts to add new asset managers, asset owners, family offices and private wealth advisors as clientèle, grow our existing client relationships, expand into new markets and further develop our solutions and global operations platform.

Contracts for fund administration outsourcing services generally have terms ranging from three to five years. Fees are primarily earned as a percentage of average assets under management and administration. A portion of the revenues for this segment is earned as account servicing fees. At December 31, 2017, we had relationships with 450 investment management companies, alternative investment managers, family offices and private wealth advisors. Our competitors vary according to the asset class or solutions provided and include large global custodian banks such as State Street, BNY Mellon and Northern Trust as well as independently-owned firms such as SS&C Technologies and Citco.

#### Investments in New Businesses

The Investments in New Businesses segment represents other business ventures or research and development activities intended to expand our solutions to new or existing markets including ultra-high-net-worth families who reside in the United States. This segment also includes the costs associated with developing internet-based investment services and advice solutions. The family wealth management solution offers flexible family-office type services through a highly personalized solution while utilizing a goals-based investment process.

The principal competitors for the family wealth solution are diversified financial services providers focused on the ultra-high-net-worth market.

### Research and Development

We are devoting significant resources to research and development, including expenditures for new technology platforms, enhancements to existing technology platforms and new investment products and services. Our research and development expenditures for the last three years were:

(all dollar amounts in thousands)

|   | 2017       | 2016       | 2015       |
|---|------------|------------|------------|
| Research and development expenditures                             | \$ 155,252 | \$ 134,323 | \$ 102,923 |
| Capitalization of costs incurred in developing computer software  | \$ 61,043  | \$ 50,392  | \$ 29,416  |
| Research and development expenditures as a percentage of revenues | 10.2%      | 9.6%       | 7.7%       |

Our research and development expenditures are included in Compensation, benefits and other personnel and Consulting, outsourcing and professional fees on the accompanying Consolidated Statements of Operations.

The majority of our research and development spending is related to building the SEI Wealth Platform, which combines business service processing with asset management and distribution services. The Platform offers a client-centric, rather than an account-centric, process with model-based portfolio management services through a single platform. The Platform utilizes SEI's proprietary applications with those built by third-party providers and integrates them into a single technology platform. This integration supports straight-through business processing and enables the transformation of our clients' wealth services from operational investment processing services to client value-added services.

The Platform provides the technology infrastructure for the business solutions now being marketed and delivered to markets in the United States and the United Kingdom served by the Private Banks segment. The Platform also provides the technology infrastructure for the business solutions now being marketed and delivered to markets in the United States served by the Investment Advisors segment. We believe the advanced capabilities of the Platform will enable us to significantly extend and enhance the services we offer to clients and expand SEI's addressable markets.

The Investment Managers segment is enhancing its business platforms to provide services to other areas of the investment firm. The new technology includes components that will aggregate, transact and process data to provide integration and aggregation capabilities, data management services, and risk and compliance reporting.

### Marketing and Sales

Our business platforms are directly marketed to potential clients in our target markets. At January 31, 2018, we employed approximately 105 sales representatives who operate from offices located throughout the United States, Canada, the United Kingdom, continental Europe, South Africa, Asia and other locations.

### Customers

In 2017, no single customer accounted for more than ten percent of revenues in any business segment.

### Personnel

At January 31, 2018, we had 3,616 full-time and 34 part-time employees. Employee unions do not represent any of our employees. Management considers employee relations to be generally good.

### Regulatory Considerations

Our regulated wholly-owned subsidiaries include SEI Investments Distribution Co., or SIDCO, SEI Investments Management Corporation, or SIMC, SEI Private Trust Company, or SPTC, SEI Trust Company, or STC, and SEI Investments (Europe) Limited, or SIEL, SEI Investments Canada Company, or SEI Canada, SEI Investments Global, Limited, or SIGL, SEI Investments - Global Fund Services, Ltd., or GFSL, and SEI Investments - Depository and Custodial Services (Ireland) Limited, or D&C. SIDCO is a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA). SIMC is an investment advisor registered with the SEC under the Investment Advisers Act of 1940 and with the Commodity Futures Trading Commission (CFTC) under the Commodity Exchange Act. SPTC is a limited purpose federal thrift chartered and regulated by the Office of the Comptroller of the Currency. STC is a Pennsylvania trust company, regulated by the Pennsylvania Department of Banking and Securities. SIEL is an investment manager and financial institution subject to regulation by the Financial Conduct Authority of the United Kingdom. SEI Canada is regulated by the Ontario Securities Commission and various provincial authorities as an investment fund manager and in various other capacities. SIGL is primarily regulated by the Central Bank of Ireland (CBI) as a management company for Undertakings for Collective Investment in Transferable Securities, or UCITS, and for Alternative

Investment Funds, or AIFs. GFSL is regulated by the CBI and authorized to provide administration services for Irish and non-Irish collective investment schemes. D&C is regulated by the CBI and authorized to provide depository and custodial services. In addition, various SEI subsidiaries are subject to the jurisdiction of regulatory authorities in other foreign countries. The Company has a minority ownership interest of approximately 38.9 percent in LSV, which is also an investment advisor registered with the SEC.

The Company, its regulated subsidiaries, their regulated services and solutions and their customers are all subject to extensive legislation, regulation and supervision that recently has been subject to, and continues to experience, significant change and increased regulatory activity. These changes and regulatory activities could have a material adverse effect on us and our clients.

The various governmental agencies and self-regulatory authorities that regulate or supervise the Company and its subsidiaries have broad administrative powers. In the event of a failure to comply with laws, regulations and requirements of these agencies and authorities, the possible sanctions that may be imposed include the suspension of individual employees, limitations on our ability to engage in business for specified periods of time, the revocation of applicable registration as a broker-dealer, investment advisor or other regulated entity, and, as the case may be, censures and fines. Additionally, certain securities and banking laws applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to our regulated subsidiaries and their activities, services and solutions, our business practices, our past actions and other matters has increased dramatically in the past several years. Responding to these examinations, investigations, actions and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. We continue to be subject to inquiries from examinations and investigations by supervisory and enforcement divisions of regulatory authorities and expect this to continue in the future. We believe this is also the case with many of our regulated clients. Governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation, our relationship with clients and prospective clients, and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

We are subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires implementation of regulations applicable to financial services companies, including standards for verifying client identification and monitoring client transactions and detecting and reporting suspicious activities. Anti-money laundering laws outside the United States contain similar requirements. We offer investment and banking solutions that also are subject to regulation by the federal and state securities and banking authorities, as well as foreign regulatory authorities, where applicable. Existing or future regulations that affect these solutions could lead to a reduction in sales of these solutions or require modifications of these solutions.

Compliance with existing and future regulations and responding to and complying with recent increased regulatory activity affecting broker-dealers, investment advisors, investment companies, financial institutions and their service providers could have a significant impact on us. We periodically undergo regulatory examinations and respond to regulatory inquiries and document requests. In addition, recent and continuing legislative activity in the United States and in other jurisdictions (including the European Union and the United Kingdom) have made and continue to make extensive changes to the laws regulating financial services firms. Recent changes include the effectiveness of the Markets in Financial Instruments Directive (MiFID II) and pending effectiveness of the General Data Protection Regulation in the European Union and the U.S. Department of Labor's Fiduciary Rule. As a result of these examinations, inquiries and requests, as a result of increased civil litigation activity, and as a result of these new laws and regulations, we engage legal counsel, review our compliance procedures, solution and service offerings, and business operations, and make changes as we deem necessary. These additional activities and required changes may result in increased expense or may reduce revenues.

Our bank clients are subject to supervision by federal, state and foreign banking and financial services authorities concerning the manner in which such clients purchase and receive our products and services. Our plan sponsor clients and our subsidiaries providing services to those clients are subject to supervision by the Department of Labor and compliance with employee benefit regulations. Investment advisor and broker-dealer clients are regulated by the SEC, state securities authorities, or FINRA. Existing or future regulations applicable to our clients may affect our clients' purchase of our products and services.

In addition, see the discussion of governmental regulations in Item 1A "Risk Factors" for a description of the risks that proposed regulatory changes may present for our business.

## *Available Information*

We maintain a website at [seic.com](http://seic.com) and make available free of charge through the Investor Relations section of this website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We include our website in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our website. The material on our website is not part of this Annual Report on Form 10-K.

## **Item 1A. Risk Factors.**

We believe that the risks and uncertainties described below are those that impose the greatest threat to the sustainability of our business. However, there are other risks and uncertainties that exist that may be unknown to us or, in the present opinion of our management, do not currently pose a material risk of harm to us. The risk and uncertainties facing our business, including those described below, could materially adversely affect our business, results of operations, financial condition and liquidity.

*Our revenues and earnings are affected by changes in capital markets.* A majority of our revenues are earned based on the value of assets invested in investment products that we manage or administer. Significant fluctuations in securities prices may materially affect the value of these assets and may also influence an investor's decision to invest in and maintain an investment in a mutual fund or other investment product. As a result, our revenues and earnings derived from assets under management and administration could be adversely affected.

*We are exposed to product development risk.* We continually strive to increase revenues and meet our customers' needs by introducing new products and services. As a result, we are subject to product development risk, which may result in loss if we are unable to develop and deliver products to our target markets that address our clients' needs and that are developed on a timely basis and reflect an attractive value proposition. The majority of our product development risk pertains to the SEI Wealth Platform, which provides a global, unified and scalable platform for operating a wealth management business. It is designed to improve client experience capabilities and strengthen operating efficiencies by providing straight through business processing solutions and transform the front, middle and back office operations that exist today. New product development is primarily for the purpose of enhancing our competitive position in the industry. In the event that we fail to develop products or services at an acceptable cost or on a timely basis or if we fail to deliver products and services which are of sound, economic value to our clients and our target markets, or an inability to support the product in a cost-effective and compliant manner, we may recognize significant financial losses.

In 2015, we signed an existing client to be the first large national bank to implement the SEI Wealth Platform, and the first client to operate the Platform as an SaaS solution. This will be a multi-year conversion due to the client's size, the development work involved to expand the Platform to be offered as a SaaS solution, and the scope of integration activities required. The failure to develop and implement the contractually-agreed upon services on a timely basis for this client may result in significant financial losses and may negatively impact our ability to generate future growth in revenues derived from the SEI Wealth Platform.

*We are dependent upon third-party service providers in our operations.* We utilize numerous third-party service providers located in the United States, Canada, the United Kingdom and other offshore locations in our operations, in the development of new products, and in the maintenance of our proprietary systems. A failure by a third-party service provider could expose us to an inability to provide contractual services to our clients in a timely basis. Additionally, if a third-party service provider is unable to provide these services, we may incur significant costs to either internalize some of these services or find a suitable alternative.

We serve as the investment advisor for many of the products offered through our investment management programs and utilize the services of investment sub-advisers to manage the majority of these assets. A failure in the performance of our due diligence processes and controls related to the supervision and oversight of these firms in detecting and addressing conflicts of interest, fraudulent activity, noncompliance with relevant securities and other laws could cause us to suffer financial loss, regulatory sanctions or damage to our reputation.

*We are exposed to data and cyber security risks.* A failure to safeguard the integrity and confidentiality of client data and our proprietary data from the infiltration by an unauthorized user may lead to modifications or theft of critical and sensitive data pertaining to us or our clients. We have established a strategy designed to protect against threats and vulnerabilities containing preventive and detective controls including, but not limited to, firewalls, intrusion detection systems, computer forensics, vulnerability scanning, server hardening, penetration testing, anti-virus software, data leak prevention, encryption and centralized event correlation monitoring. Despite our efforts to ensure the integrity of our proprietary systems and information, it is possible that we may not be able to anticipate or to implement effective preventive measures against all cyber threats,

especially because the methods used change frequently or are not recognized until launched. Additionally, security breaches or disruptions of our proprietary systems, or those of our service providers, could impact our ability to provide services to our clients, which could expose us to liability for damages which may not be covered by insurance, result in the loss of customer business, damage our reputation, subject us to regulatory scrutiny or expose us to civil litigation. In addition, the failure to upgrade or maintain our computer systems, software and networks, as necessary, could also make us susceptible to breaches and unauthorized access and misuse. Data security breaches may also result from non-technical means, for example, employee misconduct or human error. We may be required to expend significant additional resources to modify, investigate or remediate vulnerabilities or other exposures arising from data and cyber security risks. Furthermore, even if not directed at us specifically, attacks on other financial institutions could disrupt the overall functioning of the financial system. As a result of the importance of communications and information systems to our business, we could also be adversely affected if attacks affecting our third party service providers impair our ability to process transactions and communicate with clients and counterparties.

*We are exposed to operational risks.* Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, inefficiencies in our operational business units, business disruptions and inadequacies or breaches in our internal control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process large volumes of transactions often within short time frames. In the event of a breakdown or improper operation of systems, human error or improper action by employees, we could suffer significant financial loss, regulatory sanctions or damage to our reputation. In order to mitigate and control operational risk, we continue to enhance policies and procedures that are designed to identify and manage operational risk.

*We are exposed to systems and technology risks.* Through our proprietary systems, we maintain and process data for our clients that is critical to their business operations. An unanticipated interruption of service may have significant ramifications, such as lost data, damaged software codes, or inaccurate processing of transactions. As a result, the costs necessary to rectify these problems may be substantial. Our continued success also depends in part on our ability to protect our proprietary technology and solutions and to defend against infringement claims of others. We primarily rely upon trade secret law, software security measures, copyrights and confidentiality restrictions in contracts with employees, vendors and customers. Our industry is characterized by the existence of a large number of trade secrets, copyrights and the rapid issuance of patents, as well as frequent litigation based on allegations of infringement or other violations of intellectual property rights of others. A successful assertion by others of infringement claims or a failure to maintain the confidentiality and exclusivity of our intellectual property may have a material adverse effect on our business and financial results.

*Pricing pressure from increased competition, disruptive technology and poor investment performance may affect our revenues and earnings.* The investment management industry is highly competitive and has relatively low barriers to entry. In recent years, the Company has experienced, and continues to experience, pricing pressures from the introduction of new, lower-priced investment products and services as well as from competitor firms offering automated portfolio management and other services based on technological innovations. These new investment products and technological innovations available to both institutional and retail investors have led to a general trend towards lower fees in some segments of the investment management industry. We believe price competition and pricing pressures in these and other areas will continue as investors continue to reduce the amounts they are willing to pay and financial services firms seek to obtain market share by reducing fees or margins.

Our investment management platforms include investment management programs and back-office investment processing outsourcing services and are generally offered on a bundled basis. The breadth of our business solutions allows us to compete on a number of factors including: the performance of our investment products; the level of fees charged; the quality of our investment processing services; our reputation and position in the industry; our ability to adapt to disruptive technology developments or unforeseen market entrants and our ability to address the complex and changing needs of our clients. Increased competition on the basis of any of these factors could have an adverse impact on our competitive position resulting in a decrease in our revenues and earnings.

Our ability to maintain our existing clients and attract new clients may be negatively affected if the performance of our mutual funds and other investment products, relative to market conditions and other comparable competitive investment products, is lower. Investors may decide to place their investable funds elsewhere which would reduce the amount of assets we manage resulting in a decrease in our revenues and earnings.

*Our earnings and cashflows are affected by the performance of LSV.* We maintain a minority ownership interest in LSV which is a significant contributor to our earnings. We also receive partnership distribution payments from LSV on a quarterly basis which contribute to our operating cashflows. LSV is a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is a value-oriented, contrarian money manager offering a deep-value investment alternative utilizing a proprietary equity investment model to identify securities generally considered to be out of favor by the market. Volatility in the capital markets or poor investment performance on the part of LSV, on a

relative basis or an absolute basis, could result in a significant reduction in their assets under management and revenues and a reduction in performance fees. Consequently, LSV's contribution to our earnings through our minority ownership as well as to our operating cashflows through LSV's partnership distribution payments could be adversely affected.

*We are dependent on third party pricing services for the valuation of securities invested in our investment products.* The majority of the securities held by our investment products are valued using quoted prices from active markets gathered by external third party pricing services. Securities for which market prices are not readily available are valued in accordance with procedures applicable to that investment product. These procedures may utilize unobservable inputs that are not gathered from any active markets and involve considerable judgment. If these valuations prove to be inaccurate, our revenues and earnings from assets under management could be adversely affected.

*Our Company and our clients are subject to extensive governmental regulation.* Our various business activities are conducted through entities which may be registered with or regulated by the SEC and CFTC as an investment advisor, a broker-dealer, a transfer agent, or an investment company, and with federal or state banking authorities as a trust company. Our broker-dealer is also a member of the Financial Industry Regulatory Authority and is subject to its rules and oversight. In addition, some of our foreign subsidiaries are registered with, and subject to the oversight of, regulatory authorities primarily in the United Kingdom, the Republic of Ireland and Canada. Many of our clients are subject to substantial regulation by federal and state banking, securities or insurance authorities or the Department of Labor. Compliance with existing and future regulations, responding to and complying with recent regulatory activity affecting broker-dealers, investment advisors, investment companies and their service providers and financial institutions, and examination or other supervisory activities of our regulators or of the regulators of our clients, could have a significant impact on our operations or business or our ability to provide certain products or services.

We offer investment and banking products that also are subject to regulation by the federal and state securities and banking authorities, as well as foreign regulatory authorities, where applicable. Existing or future regulations that affect these products could lead to a reduction in sales of these products or an increase in the cost of providing these products.

The fees and assessments imposed on our regulated subsidiaries by federal, national, state and foreign regulatory authorities could have a significant impact on us. In the current regulatory environment, the frequency and scope of regulatory reform may lead to an increase in fees and assessments resulting in increased expense, or an increase or change in regulatory requirements which could affect our operations and business.

*We are subject to litigation and regulatory examinations and investigations.* The financial services industry faces substantial regulatory risks and litigation. Like many firms operating within the financial services industry, we are experiencing a difficult regulatory environment across our markets. Our current scale and reach as a provider to the financial services industry; the increased regulatory oversight of the financial services industry generally; new laws and regulations affecting the financial services industry and ever-changing regulatory interpretations of existing laws and regulations, have made this an increasingly challenging and costly regulatory environment in which to operate. These examinations or investigations could result in the identification of matters that may require remediation activities or enforcement proceedings by the regulator. The direct and indirect costs of responding to these examinations, or of defending ourselves in any litigation could be significant. Additionally, actions brought against us may result in settlements, awards, injunctions, fines and penalties. The outcome of litigation or regulatory action is inherently difficult to predict and could have an adverse effect on our ability to offer some of our products and services.

*Growth of our business could increase costs and regulatory risks.* Providing a platform for new businesses, integrating acquired businesses, and partnering with other firms involve a number of risks and present financial, managerial, and operational challenges. We may incur significant expenses in connection with further expansion of our existing businesses or in connection with strategic acquisitions or investments, if and to the extent they arise from time to time. Our overall profitability would be negatively affected if investments and expenses associated with such growth are not matched or exceeded by the revenues that are derived from such investment or growth. Expansion may also create a need for additional compliance, risk management and internal control procedures, and often involves the hiring of additional personnel to monitor such procedures. To the extent such procedures are not adequate to appropriately monitor any new or expanded business, we could be exposed to a material loss or regulatory sanction.

Moreover, to the extent we pursue strategic acquisitions, we may be exposed to a number of risks, including additional demands on our existing employees; additional or new regulatory requirements, operating facilities and technologies; adverse effects in the event acquired goodwill or intangible assets become impaired; and the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing a transaction. These risks could result in decreased earnings and harm to the Company's competitive position in the investment management industry.

*Consolidation within our target markets may affect our business.* Merger and acquisition activity between banks and other financial institutions could reduce the number of existing and prospective clients or reduce the amount of revenue we receive from retained clients. Consolidation activities may also cause larger institutions to internalize some or all of our services. These factors may negatively impact our ability to generate future growth in revenues and earnings.

*The exit by the United Kingdom from the European Union could adversely affect our business.* The results of the referendum held in the United Kingdom announced in June 2016 led to a determination that the United Kingdom should exit the European Union (EU). It is currently unclear how the United Kingdom's access to the EU Single Market, and the wider trading, legal and regulatory environment in which we, our clients and our counterparties operate, will be impacted and how this will affect our and their businesses and the global macroeconomic environment. The uncertainty surrounding the timing, terms and consequences of the United Kingdom's exit could adversely impact customer and investor confidence, result in additional market volatility and adversely affect our business.

*We are dependent upon third party approvals.* Many of the investment advisors through which we distribute our investment offerings are affiliated with independent broker-dealers or other networks, which have regulatory responsibility for the advisor's practice. As part of the regulatory oversight, these broker-dealers or networks must approve the use of our investment products by affiliated advisors within their networks. Failure to receive such approval, or the withdrawal of such approval, could adversely affect the marketing of our investment products.

*We are subject to financial and non-financial covenants which may restrict our ability to manage liquidity needs.* Our \$300.0 million five-year senior unsecured revolving credit facility (Credit Facility) contains financial and non-financial covenants. The non-financial covenants include restrictions on indebtedness, mergers and acquisitions, sale of assets and investments. In the event of default, we have restrictions on paying dividends and repurchasing our common stock. We have one financial covenant, the Leverage Ratio, which restricts the level of indebtedness we can incur to a maximum of 1.75 times earnings before interest, taxes, depreciation and amortization (EBITDA). We believe our primary risk is with the financial covenant if we were to incur significant unexpected losses that would impact the EBITDA calculation. This would increase the Leverage Ratio and restrict the amount we could borrow under the Credit Facility. A restriction on our ability to fully utilize our Credit Facility may negatively affect our operating results, liquidity and financial condition.

*Changes in, or interpretation of, accounting principles could affect our revenues and earnings.* We prepare our consolidated financial statements in accordance with generally accepted accounting principles. A change in these principles can have a significant effect on our reported results and may even retrospectively affect previously reported results (See Notes 1 and 3 to the Consolidated Financial Statements for more information).

*Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.* Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be adversely affected by changes in tax laws or the interpretation of tax laws. We are subject to possible examinations of our income tax returns by the Internal Revenue Service and state and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes; however, there can be no assurance that the final determination of any examination will not have an adverse effect on our operating results or financial position.

*Currency fluctuations could negatively affect our future revenues and earnings as our business grows globally.* We operate and invest globally to expand our business into foreign markets. Our foreign subsidiaries use the local currency as the functional currency. As these businesses evolve, our exposure to changes in currency exchange rates may increase. Adverse movements in currency exchange rates may negatively affect our operating results, liquidity and financial condition.

*Changes in interest rates may affect the value of our fixed-income investment securities.* We own Government National Mortgage Association (GNMA) mortgage-backed securities for the sole purpose of satisfying applicable regulatory requirements imposed on our wholly-owned limited purpose federal thrift subsidiary, SPTC. The valuations of these securities are impacted by fluctuations in interest rates. Interest rates during the past several years have remained relatively low. The effect of a rising interest rate environment may negatively impact the value of these securities and thereby negatively affect our financial position and earnings.

*We rely on our executive officers and senior management.* Most of our executive officers and senior management personnel do not have employment agreements with us. The loss of these individuals may have a material adverse effect on our future operations.

#### **Item 1B. Unresolved Staff Comments.**

None.



## **Item 2. Properties.**

Our corporate headquarters is located in Oaks, Pennsylvania and consists of nine buildings situated on approximately 90 acres. We own and operate the land and buildings, which encompass approximately 524,000 square feet of office space and 34,000 square feet of data center space. We lease other offices which aggregate 233,000 square feet. We also own a 3,400 square foot condominium that is used for business purposes in New York, New York.

## **Item 3. Legal Proceedings.**

SEI has been named in seven lawsuits filed in Louisiana courts; four of the cases also name SPTC as a defendant. The underlying allegations in all actions relate to the purported role of SPTC in providing back-office services to Stanford Trust Company. The complaints allege that SEI and SPTC participated in some manner in the sale of "certificates of deposit" issued by Stanford International Bank so as to be a "seller" of the certificates of deposit for purposes of primary liability under the Louisiana Securities Law or so as to be secondarily liable under that statute for sales of certificates of deposit made by Stanford Trust Company. Two of the actions also include claims for violations of the Louisiana Racketeering Act and possibly conspiracy, and a third also asserts claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Racketeering Act, and conspiracy.

The procedural status of the seven cases varies. The *Lillie* case, filed originally in the 19th Judicial District Court for the Parish of East Baton Rouge, was brought as a class action and is procedurally the most advanced of the cases. SEI and SPTC filed exceptions, which the Court granted in part, dismissing claims under the Louisiana Unfair Trade Practices Act and permitting the claims under the Louisiana Securities Law to go forward. On March 11, 2013, newly-added insurance carrier defendants removed the case to the United States District Court for the Middle District of Louisiana. On August 7, 2013, the Judicial Panel on Multidistrict Litigation transferred the matter to the Northern District of Texas where MDL 2099, *In re: Stanford Entities Securities Litigation* ("the Stanford MDL"), is pending. On September 22, 2015, the District Court on the motion of SEI and SPTC dismissed plaintiffs' claims for primary liability under Section 714(A) of the Louisiana Securities Law, but declined to dismiss plaintiffs' claims for secondary liability under Section 714(B) of the Louisiana Securities Law based on the allegations pled by plaintiffs. On November 4, 2015, the District Court granted SEI and SPTC's motion to dismiss plaintiffs' claims under Section 712(D) of the Louisiana Securities Law. Consequently, the only claims of plaintiffs still pending before the District Court in *Lillie* are plaintiffs' claims for secondary liability against SEI and SPTC under Section 714(B) of the Louisiana Securities Law. On May 2, 2016, the District Court certified the class as being "all persons for whom Stanford Trust Company purchased or renewed Stanford Investment Bank Limited certificates of deposit in Louisiana between January 1, 2007 and February 13, 2009". Notice of the pendency of the class action was mailed to potential class members on October 4, 2016.

On December 1, 2016, a group of plaintiffs who opted out of the *Lillie* class filed a complaint against SEI and SPTC in the United States District Court in the Middle District of Louisiana, alleging claims essentially the same as those in *Lillie*. In January 2017, the Judicial Panel on Multidistrict Litigation transferred the proceeding to the Northern District of Texas and the Stanford MDL. During February 2017, SEI filed its response to the Complaint and in March 2017 the District Court for the Northern District of Texas approved the stipulated dismissal of all claims in this complaint predicated on Section 712(D) or Section 714(A) of the Louisiana Securities Law.

Another one of the cases, filed in the 23rd Judicial District Court for the Parish of Ascension, also was removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas and the Stanford MDL. The schedule for responding to that Complaint has not yet been established.

The plaintiffs in two of the cases remaining in the Parish of East Baton Rouge have granted SEI and SPTC indefinite extensions to respond to the petitions.

In the two additional cases, filed in East Baton Rouge and brought by the same counsel who filed the *Lillie* action, virtually all of the litigation to date has involved motions practice and appellate litigation regarding the existence of federal subject matter jurisdiction under the federal Securities Litigation Uniform Standards Act (SLUSA). After the matter was removed to the United States District Court for the Northern District of Texas, that court dismissed the action under SLUSA. The Court of Appeals for the Fifth Circuit reversed that order, and the Supreme Court of the United States affirmed the Court of Appeals judgment on February 26, 2014. The matter was remanded to state court and no material activity has taken place since that date.

While the outcome of this litigation remains uncertain, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously. Because of uncertainty in the make-up of the *Lillie* class, the specific theories of liability that may survive a motion for summary judgment or other dispositive motion, the relative lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

On November 26, 2014, a Writ of Summons was issued to two of our subsidiaries, SEI Investments - Global Fund Services Limited (GFSL) and SEI Investments - Depository & Custodial Services (Ireland) Limited (D&C), to appear before the Court of First Instance Antwerp, Belgium. The plaintiffs in this case allege that through their initial investments in collective

investment funds domiciled in Netherlands and subsequent transfer of claim rights to a Belgium domiciled partnership, they are beneficial owners of a portfolio of life settlement policies (the Portfolio) which lapsed due to a failure to make premium payments. The plaintiffs seek to recover jointly and severally from nine defendants including GFSL and D&C, damages of approximately \$84 million. GFSL and D&C's involvement in the litigation appears to arise out of their historical provision of administration and custody services, respectively, to the Strategic Life Settlement Fund PLC, who, together with its managers, appear to be the principal defendants in this claim. On December 4, 2015, the Belgium court dismissed plaintiff's claims for a lack of jurisdiction. On December 22, 2015, the plaintiffs appealed the dismissal. During October 2017, the Belgium appellate court dismissed plaintiff's appeal.

While the outcome of this action is uncertain given its early phase and the lack of specific theories of liability asserted against GFSL and D&C, each of GFSL and D&C believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuit vigorously, and GFSL and D&C are not reasonably able to provide an estimate of the ultimate loss, if any, with respect to this lawsuit.

#### **Executive Officers of the Registrant**

Information about our executive officers is contained in Item 10 of this report and is incorporated by reference into this Part I.

#### **Item 4. Mine Safety Disclosures.**

None.

## PART II

### **Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

#### Price Range of Common Stock and Dividends:

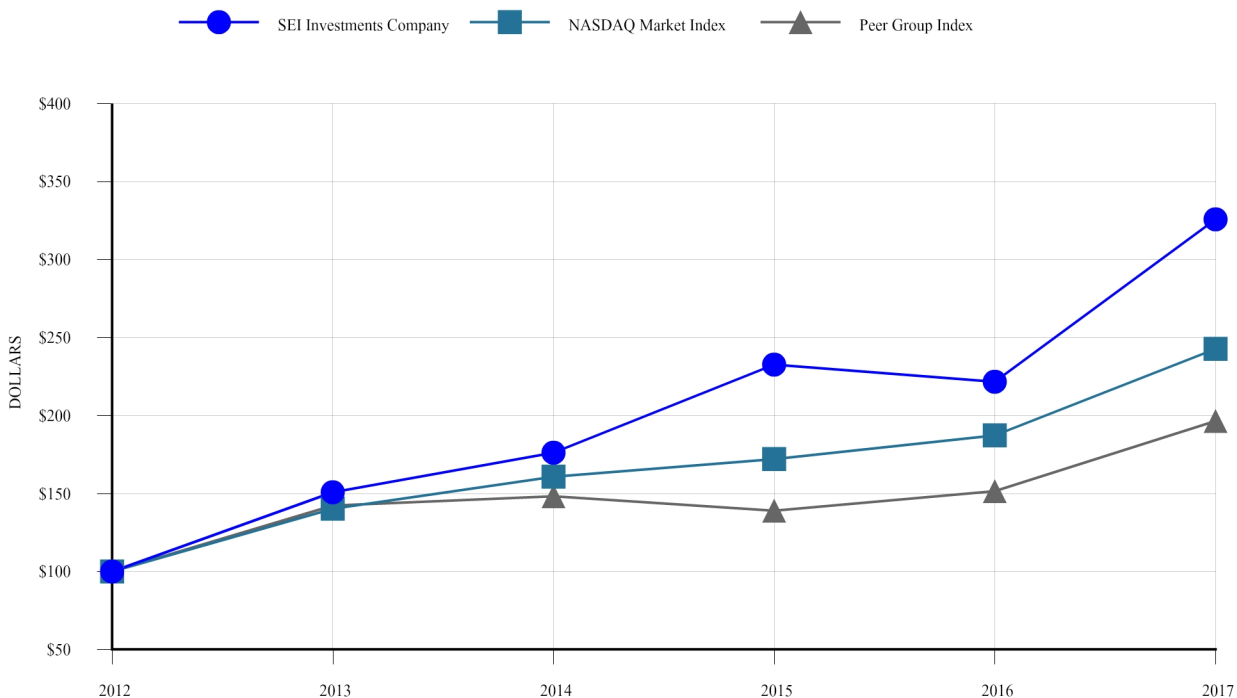
Our common stock is traded on The Nasdaq Global Select Market® (NASDAQ) under the symbol “SEIC.” The following table shows the high and low sales prices for our common stock as reported by NASDAQ and the dividends declared on our common stock for the last two years. Our Board of Directors intends to declare future dividends on a semiannual basis.

| 2017           | High     | Low      | Dividends |
|----------------|----------|----------|-----------|
| First Quarter  | \$ 52.60 | \$ 47.88 | \$ —      |
| Second Quarter | 54.57    | 49.45    | 0.28      |
| Third Quarter  | 61.71    | 52.20    | —         |
| Fourth Quarter | 72.48    | 60.78    | 0.30      |
| <b>2016</b>    |          |          |           |
| First Quarter  | \$ 51.94 | \$ 32.01 | \$ —      |
| Second Quarter | 51.75    | 42.04    | 0.26      |
| Third Quarter  | 52.54    | 42.12    | —         |
| Fourth Quarter | 50.60    | 43.54    | 0.28      |

According to the records of our transfer agent, there were 285 holders of record of our common stock on January 31, 2018. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

For information on our equity compensation plans, refer to Note 8 to the Consolidated Financial Statements and Item 12 of this Annual Report on Form 10-K.

#### **Comparison of Cumulative Total Return of Common Stock, Industry Index and Nasdaq Market Index:**



ASSUMES \$100 INVESTED ON JANUARY 1, 2012 & DIVIDENDS REINVESTED  
FISCAL YEAR ENDED DECEMBER 31,

Issuer Purchases of Equity Securities:

Our Board of Directors has authorized the repurchase of up to \$3.478 billion worth of our common stock. Currently, there is no expiration date for our common stock repurchase program (See Note 8 to the Consolidated Financial Statements).

Information regarding the repurchase of common stock during the three months ended December 31, 2017 is:

| Period                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|-----------------------|----------------------------------|------------------------------|--|--|
| October 1 – 31, 2017  | 50,000                           | \$ 64.18                     | 50,000   | \$ 227,267,000   |
| November 1 – 30, 2017 | 315,000                          | 66.52                        | 315,000  | 206,313,000  |
| December 1 – 31, 2017 | 500,000                          | 71.41                        | 500,000  | 170,638,000  |
| Total                 | 865,000                          | 69.21                        | 865,000  |  |

**Item 6. Selected Financial Data.**

(In thousands, except per-share data)

This table presents selected consolidated financial information for the five-year period ended December 31, 2017. This data should be read in conjunction with the financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report on Form 10-K.

| Year Ended December 31,                                      | 2017         | 2016         | 2015         | 2014         | 2013         |
|--|--------------|--------------|--------------|--------------|--------------|
| Revenues   | \$ 1,526,552 | \$ 1,401,545 | \$ 1,334,208 | \$ 1,266,005 | \$ 1,126,132 |
| Total expenses   | 1,129,608    | 1,025,851    | 975,995      | 913,221      | 877,723      |
| Income from operations                                       | 396,944      | 375,694      | 358,213      | 352,784      | 248,409      |
| Other income, net  | 160,095      | 132,791      | 142,267      | 136,878      | 186,989      |
| Income before income taxes                                   | 557,039      | 508,485      | 500,480      | 489,662      | 435,398      |
| Income taxes   | 152,650      | 174,668      | 168,825      | 170,949      | 146,924      |
| Net income   | 404,389      | 333,817      | 331,655      | 318,713      | 288,474      |
| Less: Net income attributable to the noncontrolling interest | —            | —            | —            | —            | (350)        |
| Net income attributable to SEI Investments                   | 404,389      | 333,817      | 331,655      | 318,713      | 288,124      |
| Basic earnings per common share                              | \$ 2.56      | \$ 2.07      | \$ 2.00      | \$ 1.89      | \$ 1.68      |
| Shares used to compute basic earnings per common share       | 158,177      | 161,350      | 165,725      | 168,246      | 171,561      |
| Diluted earnings per common share                            | \$ 2.49      | \$ 2.03      | \$ 1.96      | \$ 1.85      | \$ 1.64      |
| Shares used to compute diluted earnings per common share     | 162,269      | 164,431      | 169,598      | 172,565      | 175,718      |
| Cash dividends declared per common share                     | \$ 0.58      | \$ 0.54      | \$ 0.50      | \$ 0.46      | \$ 0.42      |
| Financial Position as of December 31,                        |              |              |              |              |              |
| Cash and cash equivalents                                    | \$ 744,247   | \$ 695,701   | \$ 679,661   | \$ 667,446   | \$ 578,273   |
| Total assets   | 1,853,369    | 1,636,823    | 1,588,628    | 1,542,875    | 1,439,169    |
| SEI Investments Shareholders’ equity                         | 1,476,839    | 1,303,114    | 1,289,720    | 1,247,613    | 1,156,002    |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In thousands, except share and per-share data)

This discussion reviews and analyzes the consolidated financial condition at December 31, 2017 and 2016, the consolidated results of operations for the years ended December 31, 2017, 2016 and 2015, and other factors that may affect future financial performance. This discussion should be read in conjunction with the Selected Financial Data included in Item 6 of this Annual Report and the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report.

Certain information contained in this discussion is or may be considered forward-looking. Forward-looking statements relate to future operations, strategies, financial results or other developments. Forward-looking statements are based upon estimates and assumptions that involve certain risks and uncertainties, many of which are beyond our control or are subject to change. Although we believe our assumptions are reasonable, they could be inaccurate. Our actual future revenues and income could differ materially from our expected results. We have no obligation to publicly update or revise any forward-looking statements.

### Overview

#### Consolidated Summary

We are a leading global provider of investment processing, investment management and investment operations platforms. We help corporations, financial institutions, financial advisors and ultra-high-net-worth families create and manage wealth by providing comprehensive, innovative, investment and investment-business platforms. Investment processing fees are earned as monthly fees for contracted services, including computer processing services, software licenses and investment operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Investment operations and investment management fees are earned as a percentage of average assets under management, administration or advised assets. As of December 31, 2017, through our subsidiaries and partnerships in which we have a significant interest, we manage, advise or administer \$860.6 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including \$337.3 billion in assets under management and \$518.4 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$105.3 billion of assets which are included as assets under management.

Our Condensed Consolidated Statements of Operations for the years ended 2017, 2016 and 2015 were:

| Year Ended December 31,                         | 2017         | 2016         | Percent Change* | 2015         | Percent Change |
|---|--------------|--------------|-----------------|--------------|----------------|
| Revenues  | \$ 1,526,552 | \$ 1,401,545 | 9 %             | \$ 1,334,208 | 5 %            |
| Expenses  | 1,129,608    | 1,025,851    | 10 %            | 975,995      | 5 %            |
| Income from operations                          | 396,944      | 375,694      | 6 %             | 358,213      | 5 %            |
| Net gain (loss) from investments                | 1,269        | 112          | NM              | (456)        | NM             |
| Interest income, net of interest expense        | 6,276        | 3,785        | 66 %            | 2,875        | 32 %           |
| Equity in earnings of unconsolidated affiliates | 152,550      | 126,103      | 21 %            | 137,057      | (8)%           |
| Gain on sale of subsidiary                      | —            | 2,791        | NM              | 2,791        | — %            |
| Income before income taxes                      | 557,039      | 508,485      | 10 %            | 500,480      | 2 %            |
| Income taxes                                    | 152,650      | 174,668      | (13)%           | 168,825      | 3 %            |
| Net income                                      | 404,389      | 333,817      | 21 %            | 331,655      | 1 %            |
| Diluted earnings per common share               | \$ 2.49      | \$ 2.03      | 23 %            | \$ 1.96      | 4 %            |

\* Variances noted "NM" indicate the percent change is not meaningful.

#### Significant Items Impacting Our Financial Results in 2017

Revenues increased \$125.0 million, or nine percent, to \$1.5 billion in 2017 compared to 2016. Net income increased \$70.6 million, or 21 percent, to \$404.4 million and diluted earnings per share increased to \$2.49 per share in 2017 compared to \$2.03 per share in 2016. We believe the following items were significant to our business results during 2017:

- Revenue growth was primarily driven by higher Asset management, administration and distribution fees from market appreciation and positive cash flows from new and existing clients. Our average assets under management, excluding LSV, increased \$24.2 billion, or 13 percent, to \$214.1 billion during 2017 as compared to \$189.9 billion during 2016. Our average assets under administration increased \$57.7 billion, or 13 percent, to \$497.6 billion during 2017 as compared to \$439.9 billion during 2016.

- Information processing and software servicing fees in our Private Banks segment increased \$16.6 million in 2017 primarily due to increased assets from new and existing clients processed on the SEI Wealth Platform and increased non-recurring professional services fees.
- Our proportionate share in the earnings of LSV was \$152.6 million in 2017 as compared to \$126.1 million in 2016, an increase of 21 percent. The increase was primarily due to increased assets under management from LSV's existing clients due to market appreciation and increased performance fees associated with their investment products.
- We capitalized \$51.4 million in 2017 for the SEI Wealth Platform as compared to \$39.8 million in 2016. Amortization expense related to the Platform increased to \$46.5 million during 2017 as compared to \$45.0 million during 2016 due to continued development. We adjusted the remaining useful life of certain components and functionality of the Platform effective October 1, 2017 (See the caption "SEI Wealth Platform - Recent Developments" later in this discussion for more information).
- As we continue the development of new elements of the Platform, our expenses related to maintenance, enhancements and support have increased. These costs are primarily recognized in personnel and consulting costs and are expensed as incurred. These increased costs primarily impacted the Private Banks and Investment Advisors business segments.
- We also capitalized \$9.7 million in 2017 as compared to \$10.6 million in 2016 for new technological capabilities for the Investment Managers segment. This new offering includes components that leverage upon the current infrastructure and add significant enhancements designed to aggregate, transact and process data. We expect this new technology will be placed into service during the first quarter of 2018 with an estimated useful life of five to seven years.
- We recognized a \$3.4 million performance fee and a corresponding \$1.7 million sub-advisory expense associated with an SEI-sponsored investment product during the fourth quarter 2017. These items resulted in a positive net impact of approximately \$0.01 diluted earnings per share and were reflected in the Institutional Investors segment.
- Our operating expenses, primarily personnel costs, in our Investment Advisors and Investment Managers segments increased. These expenses primarily consist of operational, technology and marketing costs and are mainly related to servicing existing clients and acquiring new clients. These operating expenses are included in Compensation, benefits and other personnel costs on the accompanying Consolidated Statements of Operations.
- Stock-based compensation expense increased by \$20.3 million during 2017 as compared to 2016 due to a change in our estimate of the timing of when stock option vesting targets will be achieved and stock options awards granted in late 2016 (See the caption "Stock-Based Compensation" later in this discussion for more information).
- The direct costs associated with our investment management programs increased in our Private Banks, Investment Advisors and Institutional Investors segments. These costs primarily relate to fees charged by investment advisory firms for day-to-day portfolio management of SEI-sponsored investment products. These costs are included in Sub-advisory, distribution and other asset management costs on the accompanying Consolidated Statements of Operations.
- Our effective tax rate during 2017 was 27.4 percent as compared to 34.3 percent during 2016. Our effective tax rate for 2017 reflects the estimated impact of the Tax Cuts and Jobs Act (Tax Act) and includes a tax benefit resulting from the re-measurement of our estimated net deferred tax liability as of December 31, 2017, partially offset by a one-time transition tax relating to the estimated tax impact of the deemed repatriation and withholding tax of our previously undistributed foreign earnings. Our 2017 tax rate was also positively impacted by the adoption of a new accounting standard which requires all excess tax benefits recognized on stock-based compensation expense to be recorded as an income tax benefit in the income statement (See the caption "Income Taxes" later in this discussion for more information).
- On July 3, 2017, we acquired Archway Technology Partners, LLC (Archway), a provider of operating technologies and services to the family office industry, for \$81.6 million in cash consideration. We borrowed \$40.0 million under our credit facility to fund this acquisition and made principal payments of \$10.0 million each in October 2017 and January 2018. The results of operations of Archway are included in our Investment Managers business segment (See Notes 7 and 16 to the Notes to Consolidated Financial Statements).
- We continued our stock repurchase program during 2017 and purchased approximately 4,403,000 shares at an average price of \$56.36 per share for a total cost of \$248.1 million.

#### *Significant Items Impacting Our Financial Results in 2016*

Revenues increased \$67.3 million, or five percent, to \$1.4 billion in 2016 compared to 2015. Net income increased \$2.2 million, or one percent, to \$333.8 million and diluted earnings per share increased to \$2.03 per share in 2016 compared to \$1.96 per share in 2015. We believe the following items were significant to our business results during 2016:

- Revenue growth was primarily driven by higher Asset management, administration and distribution fees from improved cash flows from new and existing clients and market appreciation. Our average assets under management,

excluding LSV, increased \$13.4 billion, or eight percent, to \$189.9 billion during 2016 as compared to \$176.5 billion during 2015. Our average assets under administration increased \$43.3 billion, or 11 percent, to \$439.9 billion during 2016 as compared to \$396.6 billion during 2015.

- We recognized a \$12.3 million performance fee and a corresponding \$6.1 million sub-advisory expense associated with an SEI-sponsored investment product during the fourth quarter 2016. These items resulted in a positive net impact of approximately \$0.03 diluted earnings per share and were reflected in the Institutional Investors segment.
- Information processing and software servicing fees in our Private Banks segment increased \$9.3 million in 2016 primarily due to increased assets from new and existing clients processed on the SEI Wealth Platform and increased non-recurring professional services fees.
- Our proportionate share in the earnings of LSV was \$126.1 million in 2016 as compared to \$138.4 million in 2015, a decrease of nine percent. The decrease was primarily due to lower performance fees and increased personnel expenses of LSV.
- The direct costs associated with our investment management programs increased in our Private Banks, Investment Advisors and Institutional Investors segments. These costs primarily relate to fees charged by investment advisory firms for day-to-day portfolio management of SEI-sponsored investment products and include the \$6.1 million sub-advisory expense associated with performance fees mentioned previously. These costs are included in Sub-advisory, distribution and other asset management costs on the accompanying Consolidated Statements of Operations.
- We capitalized \$50.4 million and \$29.4 million in software development costs in 2016 and 2015, respectively. Of these amounts, \$39.8 million in 2016 and \$24.5 million in 2015 directly relate to the SEI Wealth Platform. Amortization expense related to capitalized software was \$45.0 million during 2016 as compared to \$42.4 million during 2015 due to continued enhancements to the Platform.
- As we continue the development of new elements of the Platform, our expenses related to maintenance, enhancements and support have increased. These costs are primarily recognized in personnel and consulting costs and are expensed as incurred. These increased costs primarily impacted the Private Banks and Investment Advisors business segments. We expect these costs to continue to increase into 2017.
- We progressed in the development phase of a new application for the Investment Managers segment and capitalized \$10.6 million in software development costs in 2016. This new offering includes components that leverage upon the current infrastructure and add significant enhancements designed to aggregate, transact and process data.
- Our operating expenses, primarily personnel costs, in our Investment Advisors and Investment Managers segments increased. These expenses primarily consist of operational and marketing costs and are mainly related to servicing existing clients and acquiring new clients. These operating expenses are included in Compensation, benefits and other personnel costs on the accompanying Consolidated Statements of Operations.
- The strengthening of the U.S. dollar against the British pound during 2016 negatively impacted our revenues and operating income of our Private Banks and Institutional Investors segments. A prolonged period of a strengthening U.S. dollar against the British pound could have a further negative impact to our revenues and operating profits of these segments.
- We recorded our final pre-tax gain of \$2.8 million, or \$0.01 diluted earnings per share, in 2016 from the sale of SEI Asset Korea (SEI AK) which was completed during the first quarter 2013. This gain was the result of the third in a series of three annual payments related to the contingent purchase price we received from the sale. The gain from the sale is included in Gain on sale of subsidiary on the accompanying Consolidated Statement of Operations (See Note 15 to the Consolidated Financial Statements for more information).
- Our effective tax rate was 34.3 percent in 2016 as compared to 33.7 percent in 2015. Our tax rate in 2015 benefited from a favorable settlement of a tax petition filed with the State of Pennsylvania (See the caption "Income Taxes" later in this discussion for more information).
- We continued our stock repurchase program during 2016 and purchased approximately 6,600,000 shares at an average price of \$44.60 per share for a total cost of \$294.4 million.

#### *SEI Wealth Platform - Recent Developments*

The SEI Wealth Platform combines business service processing with asset management distribution services and operates as an integral business platform for the Private Banks and Investment Advisors business segments. The capabilities of the Platform have and continue to expand the services we offer to large global financial institutions, investment advisors, and other similar institutions and provide us the opportunity to enter into new markets.

The SEI Wealth Platform has primarily been offered under the Platform as a Service (PaaS) business model. The SEI Wealth Platform (PaaS) model includes client acquisition, portfolio management, enrollment and a unified product catalog that contains a single location for all of the client's investment products used to construct model portfolios as well as enabling

the Investment Advisors business segment to enter into the flexible turn-key asset management platform (TAMP) market by providing clients with access to third-party funds, ETFs, equities, fixed-income and alternative investments into portfolios that are not currently available.

Our recent development efforts include offering the SEI Wealth Platform through a Software as a Service (SaaS) delivery mode to serve different types of clients in the wealth management marketplace. The SEI Wealth Platform (SaaS) business model will target the large bank marketplace and is expected to create significant revenue and cash flow opportunity. We believe both business models have received market acceptance as evidenced by the signing of Wells Fargo Bank (Wells Fargo) for the SaaS model and the installation of Regions Bank (Regions) for the PaaS model.

The technical and business validation of the configuration and data migration for the conversion of the entire Wells Fargo wealth management business under the SaaS model is currently in progress and meeting expectations. In early October 2017, Regions began operating on the Platform in a live environment and we completed our largest conversion of Investment Advisors segment clients to date.

The Platform provides an enabling technology infrastructure for our businesses and clients for the future and was built using mainstream technologies using market-leading vendors. It is our expectation that the operating system, the database operating platform and the software programming language which comprise the underlying architecture will allow it to adapt to both market changes and technology changes over time. We believe the breadth of the services offered through the Platform provide us an advantage over our competitors. These services are core functions to the global financial services industry regardless of current market conditions. The global financial services industry is highly regulated and demand for the capabilities of the Platform is only expected to increase.

The initial version of the Platform was placed into service in July 2007 with an estimated useful life of 15 years. All significant enhancements to the Platform were originally being amortized over the remaining useful life and would have been fully expensed by June 2022. As a result of these recent developments, we adjusted the remaining useful life of certain components and functionality of the Platform effective October 1, 2017. After the adjustment of these components and as of December 31, 2017, the Platform has a weighted average remaining life of 8.2 years. Based upon our assessment, we estimate amortization expense related to components and functionality of the Platform currently in use as of December 31, 2017 will be approximately \$9.7 million during the first quarter 2018. This estimate does not include our software development costs in-progress associated with future releases of the Platform of \$38.1 million as of December 31, 2017. The release date for these capitalized software development costs in-progress has not yet been determined.

Additionally, future enhancements to the Platform may replace significant existing components or functionality. Once new enhancements are completed and ready to be placed into service, existing components or functionality that are being replaced may be abandoned. If this occurs, the remaining net book value of the previously capitalized software development costs related to the Platform will be expensed over the remaining useful life of those components or written off.

As we progress through the different stages of deployment of the Platform to a broader market, we expect to encounter numerous challenges; however, the Platform promises to provide a significant opportunity to expand our services into new markets that will increase revenues and profits in the long term. Until we attain a level of revenues that technological and operational scale can be achieved, we expect continued pressure on our operating margins in the Private Banks and Investment Advisors business segments from increased investment spending in 2018.

#### *Sensitivity of our revenues and earnings to capital market fluctuations*

The majority of our revenues are based on the value of assets invested in investment products that we manage or administer which are affected by changes in the capital markets. The prevailing capital market conditions during 2017 and 2016 had a net positive impact on our asset-based fees thereby increasing our base revenues. Conversely, the declining capital markets during the second half of 2015 and early first quarter 2016 negatively impacted our asset-based fee revenues and partially offset our revenue growth. Any prolonged future downturns in general capital market conditions could have adverse effects on our revenues and earnings derived from assets under management and administration.



## Ending Asset Balances

This table presents ending asset balances of our clients, or of our clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest.

### Ending Asset Balances

(In millions)

|  | As of December 31, |            |                |            |                |
|--|--------------------|------------|----------------|------------|----------------|
|  | 2017               | 2016       | Percent Change | 2015       | Percent Change |
| <b>Private Banks:</b>  |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 22,764          | \$ 17,926  | 27 %           | \$ 18,150  | (1)%           |
| Collective trust fund programs                               | 4                  | 3          | 33 %           | 4          | (25)%          |
| Liquidity funds  | 3,864              | 4,230      | (9)%           | 5,835      | (28)%          |
| Total assets under management                                | \$ 26,632          | \$ 22,159  | 20 %           | \$ 23,989  | (8)%           |
| Client proprietary assets under administration               | 22,980             | 19,255     | 19 %           | 17,532     | 10 %           |
| Total assets   | \$ 49,612          | \$ 41,414  | 20 %           | \$ 41,521  | — %            |
| <b>Investment Advisors:</b>                                  |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 61,908          | \$ 52,847  | 17 %           | \$ 46,123  | 15 %           |
| Collective trust fund programs                               | 5                  | 5          | — %            | 7          | (29)%          |
| Liquidity funds  | 2,414              | 2,741      | (12)%          | 4,924      | (44)%          |
| Total assets under management                                | \$ 64,327          | \$ 55,593  | 16 %           | \$ 51,054  | 9 %            |
| <b>Institutional Investors:</b>                              |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 86,727          | \$ 76,465  | 13 %           | \$ 72,263  | 6 %            |
| Collective trust fund programs                               | 78                 | 93         | (16)%          | 96         | (3)%           |
| Liquidity funds  | 2,937              | 2,903      | 1 %            | 2,883      | 1 %            |
| Total assets under management                                | \$ 89,742          | \$ 79,461  | 13 %           | \$ 75,242  | 6 %            |
| Advised assets   | 4,802              | —          | NM             | —          | NM             |
| Total assets   | \$ 94,544          | \$ 79,461  | 19 %           | \$ 75,242  | 6 %            |
| <b>Investment Managers:</b>                                  |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 96              | \$ 81      | 19 %           | \$ 66      | 23 %           |
| Collective trust fund programs                               | 49,340             | 36,991     | 33 %           | 32,117     | 15 %           |
| Liquidity funds  | 743                | 667        | 11 %           | 832        | (20)%          |
| Total assets under management                                | \$ 50,179          | \$ 37,739  | 33 %           | \$ 33,015  | 14 %           |
| Client proprietary assets under administration               | 495,447            | 448,708    | 10 %           | 390,282    | 15 %           |
| Total assets   | \$ 545,626         | \$ 486,447 | 12 %           | \$ 423,297 | 15 %           |
| <b>Investments in New Businesses:</b>                        |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 1,104           | \$ 884     | 25 %           | \$ 764     | 16 %           |
| Liquidity funds  | 53                 | 61         | (13)%          | 47         | 30 %           |
| Total assets under management                                | \$ 1,157           | \$ 945     | 22 %           | \$ 811     | 17 %           |
| Advised assets   | 49                 | —          | NM             | —          | NM             |
| Total assets   | \$ 1,206           | \$ 945     | 28 %           | \$ 811     | 17 %           |
| <b>LSV:</b>  |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 105,278         | \$ 87,248  | 21 %           | \$ 78,335  | 11 %           |
| <b>Total:</b>  |                    |            |                |            |                |
| Equity and fixed-income programs                             | \$ 277,877         | \$ 235,451 | 18 %           | \$ 215,701 | 9 %            |
| Collective trust fund programs                               | 49,427             | 37,092     | 33 %           | 32,224     | 15 %           |
| Liquidity funds  | 10,011             | 10,602     | (6)%           | 14,521     | (27)%          |
| Total assets under management                                | \$ 337,315         | \$ 283,145 | 19 %           | \$ 262,446 | 8 %            |
| Advised assets   | 4,851              | —          | NM             | —          | NM             |
| Client proprietary assets under administration               | 518,427            | 467,963    | 11 %           | 407,814    | 15 %           |
| Total assets under management, advisement and administration | \$ 860,593         | \$ 751,108 | 15 %           | \$ 670,260 | 12 %           |

## Average Asset Balances

This table presents average asset balances of our clients, or of our clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest.

### Average Asset Balances

(In millions)

|  | For the Year Ended December 31, |            |                |            |                |
|--|---------------------------------|------------|----------------|------------|----------------|
|  | 2017                            | 2016       | Percent Change | 2015       | Percent Change |
| <b>Private Banks:</b>  |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 20,139                       | \$ 18,186  | 11 %           | \$ 19,106  | (5)%           |
| Collective trust fund programs                               | 4                               | 3          | 33 %           | 7          | (57)%          |
| Liquidity funds  | 3,717                           | 4,799      | (23)%          | 5,491      | (13)%          |
| Total assets under management                                | \$ 23,860                       | \$ 22,988  | 4 %            | \$ 24,604  | (7)%           |
| Client proprietary assets under administration               | 21,397                          | 18,433     | 16 %           | 17,652     | 4 %            |
| Total assets   | \$ 45,257                       | \$ 41,421  | 9 %            | \$ 42,256  | (2)%           |
| <b>Investment Advisors:</b>                                  |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 57,475                       | \$ 49,537  | 16 %           | \$ 45,968  | 8 %            |
| Collective trust fund programs                               | 5                               | 6          | (17)%          | 9          | (33)%          |
| Liquidity funds  | 2,380                           | 3,601      | (34)%          | 3,550      | 1 %            |
| Total assets under management                                | \$ 59,860                       | \$ 53,144  | 13 %           | \$ 49,527  | 7 %            |
| <b>Institutional Investors:</b>                              |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 81,956                       | \$ 75,347  | 9 %            | \$ 73,804  | 2 %            |
| Collective trust fund programs                               | 84                              | 94         | (11)%          | 95         | (1)%           |
| Liquidity funds  | 2,995                           | 2,805      | 7 %            | 3,082      | (9)%           |
| Total assets under management                                | \$ 85,035                       | \$ 78,246  | 9 %            | \$ 76,981  | 2 %            |
| Advised assets   | 3,961                           | —          | NM             | —          | NM             |
| Total assets   | \$ 88,996                       | \$ 78,246  | 14 %           | \$ 76,981  | 2 %            |
| <b>Investment Managers:</b>                                  |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 88                           | \$ 73      | 21 %           | \$ 34      | 115 %          |
| Collective trust fund programs                               | 43,323                          | 33,808     | 28 %           | 23,476     | 44 %           |
| Liquidity funds  | 898                             | 805        | 12 %           | 1,004      | (20)%          |
| Total assets under management                                | \$ 44,309                       | \$ 34,686  | 28 %           | \$ 24,514  | 41 %           |
| Client proprietary assets under administration               | 476,207                         | 421,446    | 13 %           | 378,970    | 11 %           |
| Total assets   | \$ 520,516                      | \$ 456,132 | 14 %           | \$ 403,484 | 13 %           |
| <b>Investments in New Businesses:</b>                        |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 990                          | \$ 816     | 21 %           | \$ 776     | 5 %            |
| Liquidity funds  | 59                              | 48         | 23 %           | 68         | (29)%          |
| Total assets under management                                | \$ 1,049                        | \$ 864     | 21 %           | \$ 844     | 2 %            |
| Advised assets   | 70                              | —          | NM             | —          | NM             |
| Total assets   | \$ 1,119                        | \$ 864     | 30 %           | \$ 844     | 2 %            |
| <b>LSV:</b>  |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 96,705                       | \$ 80,620  | 20 %           | \$ 82,785  | (3)%           |
| <b>Total:</b>  |                                 |            |                |            |                |
| Equity and fixed-income programs                             | \$ 257,353                      | \$ 224,579 | 15 %           | \$ 222,473 | 1 %            |
| Collective trust fund programs                               | 43,416                          | 33,911     | 28 %           | 23,587     | 44 %           |
| Liquidity funds  | 10,049                          | 12,058     | (17)%          | 13,195     | (9)%           |
| Total assets under management                                | \$ 310,818                      | \$ 270,548 | 15 %           | \$ 259,255 | 4 %            |
| Advised assets   | 4,031                           | —          | NM             | —          | NM             |
| Client proprietary assets under administration               | 497,604                         | 439,879    | 13 %           | 396,622    | 11 %           |
| Total assets under management, advisement and administration | \$ 812,453                      | \$ 710,427 | 14 %           | \$ 655,877 | 8 %            |

In the preceding tables, assets under management are total assets of our clients or their customers invested in our equity and fixed-income investment programs, collective trust fund programs, and liquidity funds for which we provide asset management services through our subsidiaries and partnerships in which we have a significant interest. Advised assets include assets for which we provide advisory services through a subsidiary to the accounts but do not manage the underlying assets. Assets under administration include total assets of our clients or their customers for which we provide administrative services, including client fund balances for which we provide administration and/or distribution services through our subsidiaries and partnerships in which we have a significant interest. The assets presented in the preceding tables do not include assets processed on the SEI Wealth Platform and are not included in the accompanying Consolidated Balance Sheets because we do not own them.

### **Business Segments**

Revenues, Expenses, and Operating profit (loss) for our business segments for the year ended 2017 compared to the year ended 2016, and for the year ended 2016 compared to the year ended 2015 were:

| <b>Year Ended December 31,</b>        | <b>2017</b> | <b>2016</b> | <b>Percent Change</b> | <b>2015</b> | <b>Percent Change</b> |
|---------------------------------------|-------------|-------------|-----------------------|-------------|-----------------------|
| <b>Private Banks:</b>                 |             |             |                       |             |                       |
| Revenues                              | \$ 474,272  | \$ 457,886  | 4 %                   | \$ 456,516  | — %                   |
| Expenses                              | 455,119     | 421,188     | 8 %                   | 410,975     | 2 %                   |
| Operating profit                      | \$ 19,153   | \$ 36,698   | (48)%                 | \$ 45,541   | (19)%                 |
| Gain on sale of subsidiary            | —           | 2,791       | NM                    | 2,791       | — %                   |
| Total profit                          | \$ 19,153   | \$ 39,489   | NM                    | \$ 48,332   | NM                    |
| Operating margin (a)                  | 4%          | 8%          |                       | 10%         |                       |
| <b>Investment Advisors:</b>           |             |             |                       |             |                       |
| Revenues                              | 373,473     | 330,677     | 13 %                  | 306,620     | 8 %                   |
| Expenses                              | 201,833     | 180,140     | 12 %                  | 171,968     | 5 %                   |
| Operating profit                      | \$ 171,640  | \$ 150,537  | 14 %                  | \$ 134,652  | 12 %                  |
| Operating margin                      | 46%         | 46%         |                       | 44%         |                       |
| <b>Institutional Investors:</b>       |             |             |                       |             |                       |
| Revenues                              | 322,457     | 312,584     | 3 %                   | 297,568     | 5 %                   |
| Expenses                              | 161,640     | 153,117     | 6 %                   | 145,851     | 5 %                   |
| Operating profit                      | \$ 160,817  | \$ 159,467  | 1 %                   | \$ 151,717  | 5 %                   |
| Operating margin                      | 50%         | 51%         |                       | 51%         |                       |
| <b>Investment Managers:</b>           |             |             |                       |             |                       |
| Revenues                              | 349,444     | 294,390     | 19 %                  | 267,963     | 10 %                  |
| Expenses                              | 226,504     | 191,127     | 19 %                  | 172,094     | 11 %                  |
| Operating profit                      | \$ 122,940  | \$ 103,263  | 19 %                  | \$ 95,869   | 8 %                   |
| Operating margin                      | 35%         | 35%         |                       | 36%         |                       |
| <b>Investments in New Businesses:</b> |             |             |                       |             |                       |
| Revenues                              | 6,906       | 6,008       | 15 %                  | 5,541       | 8 %                   |
| Expenses                              | 20,678      | 20,962      | (1)%                  | 20,656      | 1 %                   |
| Operating loss                        | \$ (13,772) | \$ (14,954) | NM                    | \$ (15,115) | NM                    |

(a) Percentage determined exclusive of gain from sale of subsidiary (See Note 15 to the Consolidated Financial Statements).

For additional information pertaining to our business segments, see Note 13 to the Consolidated Financial Statements.

## Private Banks

| Year Ended December 31,                              | 2017              | 2016              | Percent Change | 2015              | Percent Change |
|--|-------------------|-------------------|----------------|-------------------|----------------|
| <b>Revenues:</b>                                     |                   |                   |                |                   |                |
| Investment processing and software servicing fees    | \$ 315,021        | \$ 298,382        | 6 %            | \$ 289,056        | 3 %            |
| Asset management, administration & distribution fees | 138,564           | 133,740           | 4 %            | 138,606           | (4)%           |
| Transaction-based and trade execution fees           | 20,687            | 25,764            | (20)%          | 28,854            | (11)%          |
| Total revenues                                       | <u>\$ 474,272</u> | <u>\$ 457,886</u> | 4 %            | <u>\$ 456,516</u> | — %            |

Revenues increased \$16.4 million, or four percent, in 2017 compared to the prior year. Revenues during 2017 were primarily affected by:

- Increased recurring investment processing fees from the growth in new and existing client assets processed on the SEI Wealth Platform;
- Increased non-recurring professional services fees from existing clients as well as clients scheduled for implementation on the SEI Wealth Platform; and
- Increased investment management fees from existing international clients due to higher average assets under management resulting from market appreciation and positive net cash flows; partially offset by
- Decreased trade execution fees due to lower trading volumes;
- The negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations;
- Decreased investment management fees from liquidity products due to changes in product mix; and
- Decreased investment processing fees from the loss of TRUST 3000® clients.

Revenues increased slightly in 2016 compared to the prior year. Revenues during 2016 were primarily affected by:

- Increased recurring investment processing fees from the growth in new and existing client assets processed on the SEI Wealth Platform;
- Increased non-recurring professional services fees from existing clients as well as clients scheduled for implementation on the SEI Wealth Platform; and
- Non-recurring contract buyout fees of \$1.6 million from an investment processing client; partially offset by
- Decreased investment management fees from existing international clients due to negative cash flows associated with client losses and the deployment of a new product strategy for a global distribution client;
- Lower recurring investment processing fees earned on our mutual fund trading solution due to price reductions; and
- The negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound.

Operating margins were four percent in 2017 and eight percent in 2016. Operating income decreased \$17.5 million, or 48 percent, in 2017 compared to the prior year. Operating income in 2017 was primarily affected by:

- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance and support of the SEI Wealth Platform;
- Increased stock-based compensation costs of approximately \$6.1 million primarily due to the change in management's estimate of the timing of the achievement of stock option vesting targets;
- The net negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations;
- Increased personnel costs, mainly salary and sales compensation costs; and
- Increased direct expenses associated with increased investment management fees from existing international clients; partially offset by
- An increase in revenues; and
- Decreased direct expenses associated with the decreased trade execution fees.

Operating margins were eight percent in 2016 and ten percent in 2015. Operating income decreased \$8.8 million, or 19 percent, in 2016 compared to the prior year. Operating income in 2016 was primarily affected by:

- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance and enhancements to the SEI Wealth Platform;

- Increased amortization expense related to the SEI Wealth Platform; and
- The net negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; partially offset by
- The write-off of approximately \$3.6 million of previously capitalized software development costs and purchased software related to the SEI Wealth Platform in the third quarter 2015; and
- Decreased direct expenses associated with decreased investment management fees from existing international clients.

#### Investment Advisors

| Year Ended December 31,                      | 2017              | 2016              | Percent Change | 2015              | Percent Change |
|--|-------------------|-------------------|----------------|-------------------|----------------|
| <b>Revenues:</b>                             |                   |                   |                |                   |                |
| Investment management fees-SEI fund programs | \$ 278,819        | \$ 251,333        | 11%            | \$ 238,120        | 6%             |
| Separately managed account fees              | 78,902            | 64,280            | 23%            | 54,987            | 17%            |
| Other fees                                   | 15,752            | 15,064            | 5%             | 13,513            | 11%            |
| Total revenues (a)                           | <u>\$ 373,473</u> | <u>\$ 330,677</u> | 13%            | <u>\$ 306,620</u> | 8%             |

(a) All amounts are reflected in Asset management, administration and distribution fees except for \$888, \$727 and \$742 in 2017, 2016 and 2015, respectively, which are reflected in Transaction-based and trade execution fees.

Revenues increased \$42.8 million, or 13 percent, in 2017 and increased \$24.1 million, or 8 percent, in 2016 compared to 2015. Revenues during 2017 and 2016 were primarily affected by:

- Increased investment management fees and separately managed account program fees due to higher assets under management caused by market appreciation and positive net cash flows from new and existing advisors.

Operating margins were 46 percent in 2017 and 2016. Operating income increased \$21.1 million, or 14 percent, in 2017 compared to the prior year. Operating income in 2017 was primarily affected by:

- An increase in revenues; partially offset by
- Increased direct expenses associated with increased assets in our investment management programs;
- Increased personnel costs for marketing to and servicing new advisors;
- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance, support and client migrations to the SEI Wealth Platform; and
- Increased stock-based compensation costs of approximately \$3.0 million primarily due to the change in management's estimate of the timing of the achievement of stock option vesting targets.

Operating margins were 46 percent in 2016 and 44 percent in 2015. Operating income increased \$15.9 million, or 12 percent, in 2016 compared to the prior year. Operating income in 2016 was primarily affected by:

- An increase in revenues;
- The write-off of approximately \$2.4 million of previously capitalized software development costs related to the SEI Wealth Platform in the third quarter 2015; and
- Decreased sales compensation expense; partially offset by
- Increased direct expenses associated with increased assets in our investment management programs;
- Increased personnel costs for marketing to and servicing new advisors;
- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance, enhancements and client migrations to the SEI Wealth Platform; and
- Increased amortization expense related to the SEI Wealth Platform.

#### Institutional Investors

Revenues increased \$9.9 million, or three percent, in 2017 and increased \$15.0 million, or five percent, in 2016 compared to 2015. Revenues during 2017 and 2016 were primarily affected by:

- Increased investment management fees from existing clients due to higher assets under management caused by market appreciation;
- Performance fees of \$3.4 million and \$12.3 million earned during the fourth quarter 2017 and 2016, respectively, from an SEI-sponsored investment product; and
- Asset funding from new sales of our retirement and not-for-profit solutions; partially offset by
- Client losses;

- The negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound; and
- A decrease in the average basis points earned on client assets.

Operating margins were 50 percent in 2017 and 51 percent in 2016. Operating income increased slightly in 2017 compared to the prior year. Operating income during 2017 was primarily affected by:

- An increase in revenues; partially offset by
- Sub-advisory fees of \$1.7 million related to the previously mentioned performance fees;
- Increased direct expenses associated with investment management fees;
- Increased stock-based compensation costs of approximately \$3.3 million primarily due to the change in management's estimate of the timing of the achievement of stock option vesting targets;
- Increased personnel compensation costs; and
- The net negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations.

Operating margins were 51 percent in 2016 and 2015. Operating income increased \$7.8 million, or five percent, in 2016 compared to the prior year. Operating income during 2016 was primarily affected by:

- An increase in revenues; and
- Decreased personnel costs, mainly sales compensation expenses; partially offset by
- Sub-advisory expense of \$6.1 million related to the previously mentioned performance fees;
- Increased direct expenses associated with investment management fees; and
- The net negative impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations.

#### Investment Managers

Revenues increased \$55.1 million, or 19 percent, in 2017 and increased \$26.4 million, or 10 percent, in 2016 compared to 2015. Revenues during 2017 and 2016 were primarily affected by:

- Higher valuations of existing client assets from improved capital markets;
- Positive cash flows into alternative, traditional and separately managed account offerings from new and existing clients; and
- Added revenues of \$10.2 million from the acquisition of Archway during the third quarter 2017; partially offset by
- Client losses and fund closures.

Operating margins were 35 percent in 2017 and 2016. Operating income increased \$19.7 million, or 19 percent, in 2017 compared to the prior year. Operating income during 2017 was primarily affected by:

- An increase in revenues; and
- A net reduction of \$3.8 million to the contingent purchase price during the fourth quarter 2017 related to the acquisition of Archway; partially offset by
- Increased personnel expenses, technology and other operational costs to service new and existing clients;
- Increased stock-based compensation costs of approximately \$4.8 million primarily due to the change in management's estimate of the timing of the achievement of stock option vesting targets;
- Increased incentive compensation costs;
- Increased personnel and amortization expense related to the Archway acquisition; and
- Increased non-capitalized investment spending, mainly consulting costs.

Operating margins were 35 percent in 2016 and 36 percent in 2015. Operating income increased \$7.4 million, or eight percent, in 2016 compared to the prior year. Operating income during 2016 was primarily affected by:

- An increase in revenues; partially offset by
- Increased personnel expenses, technology and other operational costs to service new and existing clients; and
- Increased non-capitalized investment spending, mainly consulting costs.

## Other

### Corporate overhead expenses

Corporate overhead expenses primarily consist of general and administrative expenses and other costs not directly attributable to a reportable business segment. Corporate overhead expenses were \$63.8 million, \$59.3 million and \$54.5 million in 2017, 2016 and 2015, respectively. The increase in corporate overhead expenses in 2017 is primarily due to increased stock-based compensation costs of approximately \$2.5 million primarily due to the change in management's estimate of the timing of the achievement of stock option vesting targets and other personnel-related costs. The increase in corporate overhead expenses in 2016 was primarily due to higher salary and other personnel-related costs and expenses associated with ongoing litigation and regulatory activity.

### Other income and expense items

Other income and expense items on the accompanying Consolidated Statements of Operations consist of:

| Year Ended December 31,                         | 2017       | 2016       | 2015       |
|---|------------|------------|------------|
| Net gain (loss) from investments                | \$ 1,269   | \$ 112     | \$ (456)   |
| Interest and dividend income                    | 7,057      | 4,316      | 3,358      |
| Interest expense                                | (781)      | (531)      | (483)      |
| Equity in earnings of unconsolidated affiliates | 152,550    | 126,103    | 137,057    |
| Gain on sale of subsidiary                      | —          | 2,791      | 2,791      |
| Total other income and expense items, net       | \$ 160,095 | \$ 132,791 | \$ 142,267 |

### *Equity in earnings of unconsolidated affiliates*

Equity in earnings of unconsolidated affiliates includes our ownership in LSV. The table below presents the revenues and net income of LSV and our proportionate share in LSV's earnings.

|  | 2017       | 2016       | Percent Change | 2015       | Percent Change |
|--|------------|------------|----------------|------------|----------------|
| Revenues   | \$ 491,872 | \$ 399,462 | 23%            | \$ 427,653 | (7)%           |
| Net income                                       | 392,141    | 323,381    | 21%            | 352,845    | (8)%           |
| SEI's proportionate share in the earnings of LSV | \$ 152,550 | \$ 126,103 | 21%            | \$ 138,407 | (9)%           |

The increase in our earnings in 2017 was primarily due to higher assets under management from LSV's existing clients due to market appreciation and increased performance fees associated with their investment products; however, our earnings were negatively impacted by increased personnel expenses of LSV. LSV's average assets under management increased \$16.1 billion to \$96.7 billion during 2017 as compared to \$80.6 billion during 2016, an increase of 20 percent.

The decrease in 2016 was primarily due to a reduction in performance fees and increased personnel expenses of LSV. LSV's average assets under management decreased \$2.2 billion to \$80.6 billion during 2016 as compared to \$82.8 billion during 2015, a decrease of three percent.

In April 2016, LSV provided an interest in the partnership to select key employees which reduced the ownership percentage of each existing partner on a pro-rata basis. As a result, our total partnership interest in LSV was reduced from approximately 39.2 percent to approximately 38.9 percent.

### *Gain on sale of subsidiary*

On July 31, 2012, we entered into an agreement to sell all of our ownership interest in SEI AK and completed the sale on March 28, 2013. We recorded gains from the sale of \$2.8 million during 2016 and 2015. The gain recorded in 2016 was the result of the final in a series of three annual payments related to the contingent purchase price we received from the sale. These gains are included in Gain on sale of subsidiary on the accompanying Consolidated Statement of Operations (See Note 15 to the Consolidated Financial Statements for more information).

### Income Taxes

Our effective tax rate was 27.4 percent for 2017, 34.3 percent for 2016 and 33.7 percent for 2015. Our effective tax rate is affected by recurring items, such as the U.S. federal tax rates and tax rates in various states and foreign jurisdictions and the relative amount of income we earned in those jurisdictions. These amounts have been fairly consistent in prior years. Our effective tax rate is also affected by discrete items that may occur in any given year, but are not consistent from year to year.

Below are the most significant recurring and discrete items (See Note 12 to the Consolidated Financial Statements for more information):

| Year Ended December 31,   | 2017         | 2016         | 2015         |
|---|--------------|--------------|--------------|
| Statutory rate  | 35.0%        | 35.0%        | 35.0%        |
| State taxes, net of federal tax benefit   | 1.3          | 1.3          | 1.6          |
| Foreign tax expense and tax rate differential                                   | (1.1)        | (0.8)        | (1.2)        |
| Tax benefit from stock option exercises   | (3.9)        | —            | —            |
| Enactment of the Tax Cuts and Jobs Act:   |              |              |              |
| Re-measurement of deferred tax liability  | (4.9)        | —            | —            |
| One-time transition tax on repatriation of foreign earnings and withholding tax | 2.6          | —            | —            |
| Research and development tax credit   | (0.9)        | (0.8)        | (0.6)        |
| Domestic Production Activities Deduction  | (0.5)        | (0.6)        | (0.6)        |
| Settlement of state tax petition  | —            | —            | (0.8)        |
| Other, net  | (0.2)        | 0.2          | 0.3          |
|   | <u>27.4%</u> | <u>34.3%</u> | <u>33.7%</u> |

The decrease in our tax rate for 2017 was primarily due to the adoption of ASU 2016-09 and the estimated impact from the enactment of the Tax Act in December 2017. According to ASU 2016-09, we no longer record excess tax benefits from stock option exercises as an increase to additional paid in capital, but record such excess tax benefits as a reduction of income tax expense in the reporting period in which the exercises occur.

The Tax Act was enacted on December 22, 2017 and included numerous changes to the current tax law including a permanent reduction in the corporate tax rate from 35.0 percent to 21.0 percent, as well as the imposition of a territorial rather than worldwide system which requires a one-time transition tax on the repatriation of previously deferred foreign earnings. Under the Tax Act, the undistributed earnings from our foreign subsidiaries are deemed repatriated. As a result, we determined that a portion of these foreign earnings are no longer indefinitely reinvested and therefore accrued foreign withholding taxes.

The impact of the Tax Act to our 2017 tax rate was a combination of a \$27.1 million benefit from the re-measurement of our estimated net deferred tax liability as of December 31, 2017 based upon the new corporate tax rate of 21.0 percent offset by the one-time transition tax expense of \$11.5 million relating to the estimated impact of the deemed repatriation and withholding taxes of \$3.2 million for our previously undistributed foreign earnings for a net tax benefit of \$12.4 million. Under the enactment of the Tax Act, the Domestic Production Activities Deduction will no longer be available to us beginning in 2018. We expect our effective tax rate in 2018, exclusive of the impact of stock option exercises, to be approximately 20.0 percent to 22.0 percent. The increase in our tax rate for 2016 was primarily due to lower foreign income in jurisdictions with lower effective rates and the one-time reduction in 2015 due to a favorable settlement of a state tax petition.

### **Stock-Based Compensation**

During 2017, 2016 and 2015, we recognized approximately \$36.4 million, \$16.0 million and \$17.3 million, respectively, in stock-based compensation expense. All of our stock options have performance-based vesting provisions that tie vesting of the options to our financial performance and do not contain any time-based vesting provisions. The amount of stock-based compensation expense recognized is based upon an estimate of when the earnings per share targets may be achieved. Any change in our estimate could result in the remaining amount of stock-based compensation expense to be accelerated, spread out over a longer period, or reversed. This may cause volatility in the recognition of stock-based compensation expense and materially affect our earnings.

During 2017, we revised the estimate made as of December 31, 2016 of when certain vesting targets were expected to be achieved. This change in estimate resulted in an increase of \$11.2 million in stock-based compensation expense in 2017. The change in our estimate resulted from the higher than expected growth in earnings from the market appreciation of our assets under management and administration and the estimated impact from the enactment of the Tax Act in December 2017.

There was approximately \$62.1 million of unrecognized compensation cost related to unvested employee stock options at December 31, 2017 and we expect to recognize approximately \$20.1 million in stock-based compensation costs in 2018. These amounts do not reflect any estimate of forfeitures or cancellations in future periods. Actual forfeitures and cancellations occurring in a future period will reduce our stock-based compensation expense.



## **Fair Value Measurements**

The fair value of our financial assets and liabilities, except for the investment funds sponsored by LSV, is determined in accordance with the fair value hierarchy. The fair value of the investment funds sponsored by LSV is measured using the net asset value per share (NAV) as a practical expedient. The fair value of all other financial assets are determined using Level 1 or Level 2 inputs and consist mainly of investments in equity or fixed-income mutual funds that are quoted daily and Government National Mortgage Association (GNMA) and other U.S. government agency securities that are single issuer pools that are valued based on current market data of similar assets. We did not have any financial liabilities at December 31, 2017 or 2016 that were required to be measured at fair value on a recurring basis (See Note 5 to the Notes to Consolidated Financial Statements for more information).

## **Regulatory Matters**

Like many firms operating within the financial services industry, we are experiencing a difficult regulatory environment across our markets. Our current scale and reach as a provider to the financial services industry, the introduction and implementation of new solutions for our financial services industry clients, the increased regulatory oversight of the financial services industry generally, new laws and regulations affecting the financial services industry and ever-changing regulatory interpretations of existing laws and regulations, and a greater propensity of regulators to pursue enforcement actions and other sanctions against regulated entities, have made this an increasingly challenging and costly regulatory environment in which to operate.

SEI and some of our regulated subsidiaries have undergone or been scheduled to undergo a range of periodic or thematic reviews, examinations or investigations by numerous regulatory authorities around the world, including the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Financial Conduct Authority of the United Kingdom (FCA), the Central Bank of Ireland and others. These regulatory activities typically result in the identification of matters or practices to be addressed by us or our subsidiaries and, in certain circumstances, the regulatory authorities require remediation activities or pursue enforcement proceedings against us or our subsidiaries. As described under the caption "Regulatory Considerations" in Item 1 of this report, the range of possible sanctions that are available to regulatory authorities include limitations on our ability to engage in business for specified periods of time, the revocation of registration, censures and fines. The direct and indirect costs of responding to these regulatory activities and of complying with new or modified regulations, as well as the potential financial costs and potential reputational impact against us of any enforcement proceedings that might result, is uncertain but could have a material adverse impact on our operating results or financial position.

## **Acquisition of Archway**

On July 3, 2017, we acquired Archway, a provider of operating technologies and services to the family office industry, for \$81.6 million in cash consideration with up to an additional \$8.0 million payable to the seller as a contingent purchase price with respect to two one-year periods ending December 31, 2017 and 2018 depending upon whether Archway achieves specified financial measures during such periods. The results of operations of Archway and any adjustments related to the acquisition are included in the Investment Managers business segment (See Note 16 to the Notes to Consolidated Financial Statements).

## **Liquidity and Capital Resources**

| <b>Year Ended December 31,</b>                               | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|
| Net cash provided by operating activities                    | \$ 459,898  | \$ 434,220  | \$ 407,516  |
| Net cash used in investing activities                        | (172,302)   | (79,585)    | (78,015)    |
| Net cash used in financing activities                        | (253,633)   | (328,672)   | (305,861)   |
| Effect of exchange rate changes on cash and cash equivalents | 14,583      | (9,923)     | (11,425)    |
| Net increase in cash and cash equivalents                    | 48,546      | 16,040      | 12,215      |
| Cash and cash equivalents, beginning of year                 | 695,701     | 679,661     | 667,446     |
| Cash and cash equivalents, end of year                       | \$ 744,247  | \$ 695,701  | \$ 679,661  |

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. At December 31, 2017, our unused sources of liquidity consisted of our cash and cash equivalents and the amount available under our credit facility.

Our credit facility provides for borrowings of up to \$300.0 million and is scheduled to expire in June 2021 (See Note 7 to the Consolidated Financial Statements). The availability of the credit facility is subject to compliance with certain covenants set forth in the agreement. The credit facility contains covenants which restrict our ability to engage in mergers, consolidations, asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the

event of a default under the credit facility, we would also be restricted from paying dividends on, or repurchasing our common stock. Currently, our ability to borrow from the credit facility is not limited by any covenant of the agreement. In July 2017, we borrowed \$40.0 million under the credit facility for the acquisition of Archway (See Note 16 to the Consolidated Financial Statements). We made principal payments of \$10.0 million each in the months of October 2017 and January 2018. As of January 31, 2018, the amount of the credit facility available for corporate purposes was \$280.0 million.

The majority of our excess cash reserves are primarily placed in accounts located in the United States that invest in SEI-sponsored money market mutual funds denominated in the U.S. dollar. We also utilize demand deposit accounts or money market accounts at several well-established financial institutions located in the United States. Accounts used to manage these excess cash reserves do not impose any restrictions or limitations that would prevent us from being able to access such cash amounts immediately. As of January 31, 2018, the amount of cash and cash equivalents considered free and immediately accessible for other general corporate purposes was \$227.9 million.

Our cash and cash equivalents include accounts managed by our subsidiaries that are used in their operations or to cover specific business and regulatory requirements. The availability of this cash for other purposes beyond the operations of these subsidiaries may be limited. We therefore do not include accounts of our foreign subsidiaries in our calculation of free and immediately accessible cash for other general corporate purposes. With the enactment of the Tax Act, a portion of the undistributed earnings of our foreign subsidiaries are deemed repatriated and we have accrued the estimated one-time transition tax under this legislation in 2017. Any subsequent transfer of available cash related to the repatriated earnings of our foreign subsidiaries could significantly increase our free and immediately accessible cash.

Cash flows from operations increased \$25.7 million in 2017 compared to 2016 primarily from the increase in our net income, higher distributions payments received from our unconsolidated affiliate, LSV and non-cash items such as the increase in stock-based compensation expense. The increase was partially offset by the net change in our working capital accounts, mainly receivables. The increase in cash flows from operations in 2017 was also partially offset by the retrospective reclassification of excess tax benefits recognized on stock-based compensation expense. Cash flows from operations increased \$26.7 million in 2016 compared to 2015 primarily from net change in our working capital accounts, mainly receivables. The increase was partially offset by lower distribution payments received from LSV.

Net cash used in investing activities includes:

- *Cash paid for acquisition, net of cash acquired.* We completed the acquisition of Archway in July 2017. The purchase price paid included \$81.6 million in cash consideration; however, we acquired \$1.4 million in cash during the transaction for a net cash payment of \$80.2 million (See Note 16 to the Consolidated Financial Statements).
- *Purchases, sales and maturities of marketable securities.* Our purchases, sales and maturities of marketable securities during 2017, 2016 and 2015 were as follows:

|   | 2017              | 2016              | 2015              |
|---|-------------------|-------------------|-------------------|
| Purchases   | \$ (69,525)       | \$ (73,193)       | \$ (52,538)       |
| Sales and maturities                                | 65,830            | 69,293            | 46,312            |
| Net investing activities from marketable securities | <u>\$ (3,695)</u> | <u>\$ (3,900)</u> | <u>\$ (6,226)</u> |

Marketable securities purchased generally consisted of investments in short-term U.S. government agency securities through SIDCO's cash management program, additional GNMA securities to satisfy applicable regulatory requirements of SPTC and investments for the start-up of new investment products. Proceeds received from sales and maturities primarily included maturities of short-term securities owned by SIDCO and sales and principal prepayments related to the GNMA securities owned by SPTC.

- *The capitalization of costs incurred in developing computer software.* We capitalized \$61.0 million, \$50.4 million and \$29.4 million of software development costs in 2017, 2016 and 2015, respectively. Amounts capitalized primarily include costs for significant enhancements and upgrades for the expanded functionality of the SEI Wealth Platform. Our capitalized software amounts also include \$9.7 million, \$10.6 million and \$4.9 million in 2017, 2016 and 2015, respectively, for new technological capabilities for the Investment Managers segment. We expect this new technology to be placed into service during the first quarter of 2018 with an estimated useful life of five to seven years.
- *Capital expenditures.* Our capital expenditures in 2017, 2016 and 2015 primarily include purchased software and equipment for our data center operations. Our expenditures in 2016 also include software and equipment for a new U.S. disaster recovery site. Our expenditures in 2015 include \$13.8 million to relocate our London operations to a new facility. In 2018, we intend to expand our corporate headquarters. Cash outlays during 2018 for the expansion are estimated to range from approximately \$12.0 million to \$15.0 million. This phase of the expansion is currently estimated to be completed in late 2019.

- *Receipt of contingent payment from sale of SEI AK.* The sale of SEI AK was completed during the first quarter of 2013. We received cash of \$2.8 million during 2016 and 2015 resulting from annual payments related to the contingent purchase price from the sale. The cash received in 2016 was the final payment in the series of annual payments. Additional information pertaining to the sale is presented in Note 15 to the Consolidated Financial Statements.

Net cash used in financing activities includes:

- *Borrowings and principal repayments on revolving credit facility.* In July 2017, we borrowed \$40.0 million for the funding of the acquisition of Archway. We made principal payments of \$10.0 million each during October 2017 and January 2018 and intend to repay the entire outstanding balance during 2018 (See Note 7 to the Consolidated Financial Statements).
- *The repurchase of our common stock.* Our Board of Directors has authorized the repurchase of our common stock through multiple authorizations. Currently, there is no expiration date for our common stock repurchase program. The following table lists information regarding repurchases of our common stock during 2017, 2016 and 2015:

| Year | Total Number of Shares Repurchased | Average Price Paid per Share | Total Cost |
|------|------------------------------------|------------------------------|------------|
| 2017 | 4,403,000                          | \$ 56.36                     | \$ 248,114 |
| 2016 | 6,600,000                          | 44.60                        | 294,374    |
| 2015 | 5,951,000                          | 48.66                        | 289,587    |

- *Proceeds from the issuance of our common stock.* We received \$53.6 million, \$48.3 million and \$65.5 million in proceeds from the issuance of our common stock during 2017, 2016 and 2015, respectively. The proceeds we receive from the issuance of our common stock is directly attributable to the levels of stock option exercise activity.
- *Dividend payments.* Our cash dividends paid during 2017, 2016 and 2015 were as follows:

| Year | Cash Dividends Paid | Cash Dividends Paid per Share |
|------|---------------------|-------------------------------|
| 2017 | \$ 88,862           | \$ 0.56                       |
| 2016 | 84,686              | 0.52                          |
| 2015 | 80,030              | 0.48                          |

Our Board of Directors declared a semi-annual cash dividend of \$0.30 per share on December 12, 2017. The dividend was paid on January 8, 2018 for a total of \$47.2 million.

We believe our operating cash flow, available borrowing capacity, and existing cash and cash equivalents should provide adequate funds for ongoing operations; continued investment in new products and equipment; our common stock repurchase program and future dividend payments.

### **Significant Arrangement**

On October 1, 2012, we provided an unsecured guaranty of the obligations of LSV Employee Group III to CIBC Bank USA (formerly The PrivateBank and Trust Company) and certain other lenders. We entered into this agreement in order to facilitate the acquisition of certain partnership interests of LSV by LSV Employee Group III. In June 2017, LSV Employee Group III made the final principal payment and, therefore, the Company has no further obligation regarding the agreement. Additional information pertaining to the agreement is presented in Note 2 to the Consolidated Financial Statements.

### **Contractual Obligations and Contingent Obligations**

As of December 31, 2017, the Company is obligated to make payments in connection with its lines of credit, operating leases, maintenance contracts and other commitments in the amounts listed below. The Company has no unrecorded obligations other than the items noted in the following table:

|   | Total      | 2018      | 2019      | 2020 to 2021 | 2022 and thereafter |
|---|------------|-----------|-----------|--------------|---------------------|
| Line of credit (a)                              | \$ 34,266  | \$ 1,231  | \$ 1,231  | \$ 31,804    | \$ —                |
| Operating leases and maintenance agreements (b) | 63,139     | 10,046    | 9,427     | 14,495       | 29,171              |
| Other commitments (c)                           | 14,819     | 4,190     | 904       | 1,808        | 7,917               |
| Total   | \$ 112,224 | \$ 15,467 | \$ 11,562 | \$ 48,107    | \$ 37,088           |

- (a) Amounts include estimated interest charges, commitment fees and the outstanding balance of our credit facility. Our credit facility is scheduled to expire in 2021. See Note 7 to the Consolidated Financial Statements.
- (b) See Note 11 to the Consolidated Financial Statements.
- (c) Amounts include the portion of uncertain tax liabilities classified as a current liability and the estimated tax impact of the deemed repatriation of our previously undistributed foreign earnings associated with the Tax Act. The actual cash payment associated with these commitments may differ. See Note 12 to the Consolidated Financial Statements.

### **Critical Accounting Policies**

The accompanying consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. Materially different financial results can occur as circumstances change and additional information becomes known. We believe that the following accounting policies require extensive judgment by our management to determine the recognition and timing of amounts recorded in our financial statements.

#### *Revenue Recognition:*

Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an agreement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Cash received by us in advance of the performance of services is deferred and recognized as revenue when earned. Our principal sources of revenues are: (1) asset management, administration and distribution fees calculated as a percentage of the total average daily net assets under management or administration; (2) information processing and software servicing fees that are either recurring and primarily earned based upon the number of trust accounts being serviced or a percentage of the total average daily market value of our clients' assets processed on our platforms, or non-recurring and based upon project-oriented contractual agreements related to client implementations; and (3) transaction-based fees for providing trade-execution services.

Our revenues are based on contractual arrangements. Certain portions of our revenues require management's consideration of the nature of the client relationship in determining whether to recognize as revenue the gross amount billed or net amount retained after payments are made to vendors for certain services related to the product or service offering. For the majority of our services, we are the primary obligor responsible for fulfilling the performance obligations of the contract. In addition, we retain full discretion in establishing the price charged to the customer, control the nature, type, characteristics or specifications of the performance obligations identified in the contract, and assume all credit risk associated with the client. Based on the foregoing, fees received from our clients for these services are recorded as gross revenues and vendor costs are recorded as gross expenses. However, we are also party to certain arrangements whereby we are not the primary obligor responsible for fulfilling the performance obligations of the contract. Fees received for those arrangements are reported net of costs associated with the provision of those services.

#### *Computer Software Development Costs:*

We utilize internally developed computer software as part of our product offerings. In the development of a new software product, substantial consideration must be given by management to determine whether costs incurred are research and development costs, or internal software development costs eligible for capitalization. Management must consider a number of different factors during their evaluation of each computer software development project that includes estimates and assumptions. Costs considered to be research and development are expensed as incurred. After meeting specific requirements, internal software development costs are capitalized as incurred. The capitalization and ongoing assessment of recoverability of software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life. Amortization of capitalized software development costs begins when the product is ready for its intended use. Capitalized software development costs are amortized on a project basis using the straight-line method over the estimated economic life of the product or enhancement.

We evaluate the carrying value of our capitalized software when circumstances indicate the carrying value may not be recoverable. The review of capitalized software for impairment requires significant assumptions about operating strategies, underlying technologies utilized, and external market factors. Our capitalized software was developed using mainstream technologies that are industry standards and are based on technology developed by multiple vendors that are significant industry leaders. External market factors include, but are not limited to, expected levels of competition, barriers to entry by potential competitors, stability in the target market and governmental regulations.

*Income Tax Accounting:*

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Management must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset.

Our assumptions, judgments and estimates relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

*Stock-Based Compensation:*

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as various other assumptions. These assumptions include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. We account for forfeitures as they occur. The amount of stock-based compensation expense that is recognized in a given period is dependent upon management's estimate of when the earnings per share targets are expected to be achieved. If this estimate proves to be inaccurate, the remaining amount of stock-based compensation expense could be accelerated, spread out over a longer period, or reversed. We currently base our expectations for these assumptions from historical data and other applicable factors. These expectations are subject to change in future periods.

The assessment of critical accounting policies is not meant to be an all-inclusive discussion of the uncertainties to financial results that can occur from the application of the full range of our accounting policies. Materially different financial results could occur in the application of other accounting policies as well. Also, materially different results can occur upon the adoption of new accounting standards.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Information required by this item is set forth under the captions "Our revenues and earnings are affected by changes in capital markets" and "Changes in interest rates may affect the value of our fixed-income investment securities" in Item 1A "Risk Factors" and under the caption "Sensitivity of our revenues and earnings to capital market fluctuations" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Item 8. Financial Statements and Supplementary Data.**

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All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors  
SEI Investments Company:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of SEI Investments Company and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement Schedule II referred to in Item 15(2) of this Form 10-K (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for stock-based compensation in 2017 due to the adoption of Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Philadelphia, Pennsylvania  
February 22, 2018

Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors  
SEI Investments Company:

*Opinion on Internal Control Over Financial Reporting*

We have audited SEI Investments Company and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement Schedule II referred to in Item 15(2) of this Form 10-K (collectively, the consolidated financial statements), and our report dated February 22, 2018 expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 22, 2018



**Consolidated Balance Sheets**  
(In thousands)

SEI Investments Company  
and Subsidiaries

|               | December 31,   | 2017                | 2016                |
|---------------|--|---------------------|---------------------|
| <b>Assets</b> | <b>Current Assets:</b>   |                     |                     |
|               | Cash and cash equivalents  | \$ 744,247          | \$ 695,701          |
|               | Restricted cash  | 3,505               | 3,500               |
|               | Receivables from investment products   | 56,666              | 61,761              |
|               | Receivables, net of allowance for doubtful accounts of \$695 and \$523                     | 282,706             | 227,957             |
|               | Securities owned   | 21,526              | 21,339              |
|               | Other current assets   | 31,158              | 27,575              |
|               | <b>Total Current Assets</b>  | <b>1,139,808</b>    | <b>1,037,833</b>    |
|               | <b>Property and Equipment</b> , net of accumulated depreciation of \$309,955 and \$285,322 | <b>146,428</b>      | <b>146,190</b>      |
|               | <b>Capitalized Software</b> , net of accumulated amortization of \$350,045 and \$303,540   | <b>310,405</b>      | <b>295,867</b>      |
|               | <b>Investments Available for Sale</b>  | <b>87,983</b>       | <b>84,033</b>       |
|               | <b>Investments in Affiliated Funds</b> , at fair value                                     | <b>6,034</b>        | <b>4,858</b>        |
|               | <b>Investment in Unconsolidated Affiliates</b>   | <b>59,492</b>       | <b>50,459</b>       |
|               | <b>Goodwill</b>  | <b>52,990</b>       | <b>—</b>            |
|               | <b>Intangible Assets</b> , net of accumulated amortization of \$1,552                      | <b>28,578</b>       | <b>—</b>            |
|               | <b>Deferred Income Taxes</b>   | <b>2,767</b>        | <b>2,127</b>        |
|               | <b>Other Assets</b> , net  | <b>18,884</b>       | <b>15,456</b>       |
|               | <b>Total Assets</b>  | <b>\$ 1,853,369</b> | <b>\$ 1,636,823</b> |

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

**Consolidated Balance Sheets**  
(In thousands)

SEI Investments Company  
and Subsidiaries

| December 31,  | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>Liabilities and Equity</b>   |                     |                     |
| <b>Current Liabilities:</b>   |                     |                     |
| Accounts payable  | \$ 5,268            | \$ 5,966            |
| Accrued liabilities   | 265,058             | 240,525             |
| Deferred revenue  | 4,723               | 2,880               |
| <b>Total Current Liabilities</b>  | <b>275,049</b>      | <b>249,371</b>      |
| <b>Borrowings Under Revolving Credit Facility</b>   | <b>30,000</b>       | <b>—</b>            |
| <b>Long-term Income Taxes Payable</b>   | <b>10,629</b>       | <b>—</b>            |
| <b>Deferred Income Taxes</b>  | <b>48,472</b>       | <b>69,693</b>       |
| <b>Other Long-term Liabilities</b>  | <b>12,380</b>       | <b>14,645</b>       |
| <b>Total Liabilities</b>  | <b>376,530</b>      | <b>333,709</b>      |
| <b>Commitments and Contingencies</b>  |                     |                     |
| <b>Shareholders' Equity:</b>  |                     |                     |
| Series Preferred stock, \$.05 par value, 50 shares authorized; no shares issued and outstanding             | —                   | —                   |
| Common stock, \$.01 par value, 750,000 shares authorized; 157,069 and 159,031 shares issued and outstanding | 1,571               | 1,590               |
| Capital in excess of par value  | 1,027,709           | 955,461             |
| Retained earnings   | 467,467             | 384,018             |
| Accumulated other comprehensive loss, net   | (19,908)            | (37,955)            |
| <b>Total Shareholders' Equity</b>   | <b>1,476,839</b>    | <b>1,303,114</b>    |
| <b>Total Liabilities and Equity</b>   | <b>\$ 1,853,369</b> | <b>\$ 1,636,823</b> |

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

**Consolidated Statements of Operations**  
(In thousands, except per-share data)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,                                    | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| <b>Revenues:</b>   |                   |                   |                   |
| Asset management, administration and distribution fees     | \$ 1,180,789      | \$ 1,072,176      | \$ 1,010,511      |
| Information processing and software servicing fees         | 321,741           | 300,346           | 290,893           |
| Transaction-based and trade execution fees                 | 24,022            | 29,023            | 32,804            |
| <b>Total revenues</b>                                      | <b>1,526,552</b>  | <b>1,401,545</b>  | <b>1,334,208</b>  |
| <b>Expenses:</b>   |                   |                   |                   |
| Subadvisory, distribution and other asset management costs | 179,181           | 170,961           | 160,062           |
| Software royalties and other information processing costs  | 31,275            | 30,323            | 31,497            |
| Brokerage commissions                                      | 17,845            | 22,152            | 24,388            |
| Compensation, benefits and other personnel                 | 458,737           | 414,622           | 395,774           |
| Stock-based compensation                                   | 36,366            | 16,017            | 17,312            |
| Consulting, outsourcing and professional fees              | 186,357           | 166,769           | 146,436           |
| Data processing and computer related                       | 71,909            | 64,930            | 58,884            |
| Facilities, supplies and other costs                       | 72,352            | 68,245            | 74,968            |
| Amortization   | 48,275            | 45,392            | 42,630            |
| Depreciation   | 27,311            | 26,440            | 24,044            |
| <b>Total expenses</b>                                      | <b>1,129,608</b>  | <b>1,025,851</b>  | <b>975,995</b>    |
| <b>Income from operations</b>                              | <b>396,944</b>    | <b>375,694</b>    | <b>358,213</b>    |
| <b>Net gain (loss) from investments</b>                    | <b>1,269</b>      | <b>112</b>        | <b>(456)</b>      |
| <b>Interest and dividend income</b>                        | <b>7,057</b>      | <b>4,316</b>      | <b>3,358</b>      |
| <b>Interest expense</b>                                    | <b>(781)</b>      | <b>(531)</b>      | <b>(483)</b>      |
| <b>Equity in earnings of unconsolidated affiliates</b>     | <b>152,550</b>    | <b>126,103</b>    | <b>137,057</b>    |
| <b>Gain on sale of subsidiary</b>                          | <b>—</b>          | <b>2,791</b>      | <b>2,791</b>      |
| <b>Income before income taxes</b>                          | <b>557,039</b>    | <b>508,485</b>    | <b>500,480</b>    |
| <b>Income taxes</b>  | <b>152,650</b>    | <b>174,668</b>    | <b>168,825</b>    |
| <b>Net income</b>  | <b>\$ 404,389</b> | <b>\$ 333,817</b> | <b>\$ 331,655</b> |
| <b>Basic earnings per common share</b>                     | <b>\$ 2.56</b>    | <b>\$ 2.07</b>    | <b>\$ 2.00</b>    |
| <b>Shares used to compute basic earnings per share</b>     | <b>158,177</b>    | <b>161,350</b>    | <b>165,725</b>    |
| <b>Diluted earnings per common share</b>                   | <b>\$ 2.49</b>    | <b>\$ 2.03</b>    | <b>\$ 1.96</b>    |
| <b>Shares used to compute diluted earnings per share</b>   | <b>162,269</b>    | <b>164,431</b>    | <b>169,598</b>    |
| <b>Dividends declared per common share</b>                 | <b>\$ 0.58</b>    | <b>\$ 0.54</b>    | <b>\$ 0.50</b>    |

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

**Consolidated Statements of Comprehensive Income**  
(In thousands)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,  | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| <b>Net income</b>  | <b>\$ 404,389</b> | <b>\$ 333,817</b> | <b>\$ 331,655</b> |
| Other comprehensive gain (loss), net of tax:   |                   |                   |                   |
| Foreign currency translation adjustments   | 17,597            | (12,131)          | (14,900)          |
| Unrealized holding gain (loss) on investments:   |                   |                   |                   |
| Unrealized holding gains (losses) during the period, net of income taxes of \$1, \$457 and \$822                       | 190               | (918)             | (1,659)           |
| Less: reclassification adjustment for losses realized in net income, net of income taxes of \$(99), \$(201) and \$(76) | 260               | 384               | 164               |
| Total other comprehensive gain (loss), net of taxes  | <b>18,047</b>     | <b>(12,665)</b>   | <b>(16,395)</b>   |
| <b>Comprehensive income</b>  | <b>\$ 422,436</b> | <b>\$ 321,152</b> | <b>\$ 315,260</b> |

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

**Consolidated Statements of Changes in Equity**  
(In thousands, except per-share data)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,   | 2017                | 2016                | 2015                |
|---|---------------------|---------------------|---------------------|
| <b>Shares of Common Stock</b>                                   |                     |                     |                     |
| Beginning balance   | 159,031             | 163,733             | 166,688             |
| Purchase and retirement of common stock                         | (4,403)             | (6,600)             | (5,951)             |
| Issuance of common stock under the employee stock purchase plan | 71                  | 88                  | 69                  |
| Issuance of common stock upon exercise of stock options         | 2,370               | 1,810               | 2,927               |
| Ending balance  | <u>157,069</u>      | <u>159,031</u>      | <u>163,733</u>      |
| <b>Common Stock</b>   |                     |                     |                     |
| Beginning balance   | \$ 1,590            | \$ 1,637            | \$ 1,667            |
| Purchase and retirement of common stock                         | (44)                | (66)                | (60)                |
| Issuance of common stock under the employee stock purchase plan | 1                   | 1                   | 1                   |
| Issuance of common stock upon exercise of stock options         | 24                  | 18                  | 29                  |
| Ending balance  | <u>\$ 1,571</u>     | <u>\$ 1,590</u>     | <u>\$ 1,637</u>     |
| <b>Capital In Excess of Par Value</b>                           |                     |                     |                     |
| Beginning balance   | \$ 955,461          | \$ 910,513          | \$ 834,615          |
| Cumulative effect upon adoption of ASU 2016-09                  | 2,582               | —                   | —                   |
| Purchase and retirement of common stock                         | (20,243)            | (28,306)            | (22,984)            |
| Issuance of common stock under the employee stock purchase plan | 3,280               | 3,357               | 2,798               |
| Issuance of common stock upon exercise of stock options         | 50,263              | 44,896              | 62,716              |
| Stock-based compensation  | 36,366              | 16,017              | 17,312              |
| Tax benefit on stock options exercised                          | —                   | 8,984               | 16,056              |
| Ending balance  | <u>\$ 1,027,709</u> | <u>\$ 955,461</u>   | <u>\$ 910,513</u>   |
| <b>Retained Earnings</b>  |                     |                     |                     |
| Beginning balance   | \$ 384,018          | \$ 402,860          | \$ 420,226          |
| Cumulative effect upon adoption of ASU 2016-09                  | (1,669)             | —                   | —                   |
| Net income  | 404,389             | 333,817             | 331,655             |
| Purchase and retirement of common stock                         | (227,827)           | (266,002)           | (266,543)           |
| Dividends declared (\$0.58, \$0.54 and \$0.50 per share)        | (91,444)            | (86,657)            | (82,478)            |
| Ending balance  | <u>\$ 467,467</u>   | <u>\$ 384,018</u>   | <u>\$ 402,860</u>   |
| <b>Accumulated Other Comprehensive Loss</b>                     |                     |                     |                     |
| Beginning balance   | \$ (37,955)         | \$ (25,290)         | \$ (8,895)          |
| Other comprehensive gain (loss)                                 | 18,047              | (12,665)            | (16,395)            |
| Ending balance  | <u>\$ (19,908)</u>  | <u>\$ (37,955)</u>  | <u>\$ (25,290)</u>  |
| <b>Total Equity</b>   | <u>\$ 1,476,839</u> | <u>\$ 1,303,114</u> | <u>\$ 1,289,720</u> |

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

**Consolidated Statements of Cash Flows**  
(In thousands)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,   | 2017              | 2016              | 2015              |
|---|-------------------|-------------------|-------------------|
| <b>Cash flows from operating activities:</b>                                      |                   |                   |                   |
| Net income  | \$ 404,389        | \$ 333,817        | \$ 331,655        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |                   |
| Depreciation  | 27,311            | 26,440            | 24,044            |
| Amortization  | 48,275            | 45,392            | 42,630            |
| Equity in earnings of unconsolidated affiliates                                   | (152,550)         | (126,103)         | (137,057)         |
| Distributions received from unconsolidated affiliate                              | 143,517           | 125,224           | 141,767           |
| Stock-based compensation  | 36,366            | 16,017            | 17,312            |
| Provision for losses on receivables   | 172               | (126)             | (135)             |
| Deferred income tax expense   | (21,046)          | 4,794             | (1,394)           |
| Gain from sale of SEI AK  | —                 | (2,791)           | (2,791)           |
| Net (gain) loss from investments  | (1,269)           | (112)             | 456               |
| Tax benefit on stock options exercised  | —                 | 8,984             | 16,056            |
| Change in long-term taxes payable   | 10,629            | —                 | —                 |
| Change in other long-term liabilities   | (2,265)           | 3,248             | 1,070             |
| Change in other assets  | (1,489)           | (1,917)           | 783               |
| Write off of capitalized and purchased software                                   | —                 | —                 | 6,055             |
| Other   | (2,191)           | 390               | (2,440)           |
| Change in current assets and liabilities:   |                   |                   |                   |
| Decrease (increase) in:   |                   |                   |                   |
| Receivables from investment products  | 5,095             | (13,663)          | 295               |
| Receivables   | (52,726)          | (4,807)           | (28,469)          |
| Other current assets  | (3,583)           | (1,368)           | (8,014)           |
| Increase (decrease) in:   |                   |                   |                   |
| Accounts payable  | (909)             | 1,455             | (5,441)           |
| Accrued liabilities   | 20,992            | 18,851            | 10,498            |
| Deferred revenue  | 1,180             | 495               | 636               |
| Total adjustments   | 55,509            | 100,403           | 75,861            |
| <b>Net cash provided by operating activities</b>                                  | <b>\$ 459,898</b> | <b>\$ 434,220</b> | <b>\$ 407,516</b> |

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

**Consolidated Statements of Cash Flows**  
(In thousands)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,   | 2017              | 2016              | 2015              |
|---|-------------------|-------------------|-------------------|
| <b>Cash flows from investing activities:</b>                        |                   |                   |                   |
| Decrease in restricted cash   | —                 | 2,000             | 301               |
| Additions to property and equipment                                 | (25,525)          | (31,397)          | (44,465)          |
| Additions to capitalized software                                   | (61,043)          | (50,392)          | (29,416)          |
| Purchases of marketable securities                                  | (69,525)          | (73,193)          | (52,538)          |
| Prepayments and maturities of marketable securities                 | 65,830            | 54,141            | 38,551            |
| Sales of marketable securities                                      | —                 | 15,152            | 7,761             |
| Cash paid for acquisition, net of cash acquired                     | (80,234)          | —                 | —                 |
| Receipt of contingent payment from sale of SEI AK                   | —                 | 2,791             | 2,791             |
| Other investing activities  | (1,805)           | 1,313             | (1,000)           |
| <b>Net cash used in investing activities</b>                        | <b>(172,302)</b>  | <b>(79,585)</b>   | <b>(78,015)</b>   |
| <b>Cash flows from financing activities:</b>                        |                   |                   |                   |
| Borrowings under revolving credit facility                          | 40,000            | —                 | —                 |
| Repayments under revolving credit facility                          | (10,000)          | —                 | —                 |
| Purchase and retirement of common stock                             | (248,339)         | (292,258)         | (291,374)         |
| Proceeds from issuance of common stock                              | 53,568            | 48,272            | 65,543            |
| Payment of dividends  | (88,862)          | (84,686)          | (80,030)          |
| <b>Net cash used in financing activities</b>                        | <b>(253,633)</b>  | <b>(328,672)</b>  | <b>(305,861)</b>  |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | <b>14,583</b>     | <b>(9,923)</b>    | <b>(11,425)</b>   |
| <b>Net increase in cash and cash equivalents</b>                    | <b>48,546</b>     | <b>16,040</b>     | <b>12,215</b>     |
| <b>Cash and cash equivalents, beginning of year</b>                 | <b>695,701</b>    | <b>679,661</b>    | <b>667,446</b>    |
| <b>Cash and cash equivalents, end of year</b>                       | <b>\$ 744,247</b> | <b>\$ 695,701</b> | <b>\$ 679,661</b> |
| Interest paid   | \$ 699            | \$ 531            | \$ 460            |
| Income taxes paid   | \$ 165,049        | \$ 157,255        | \$ 159,605        |
| <b>Non-cash financing activities</b>                                |                   |                   |                   |
| Dividends declared but not paid                                     | \$ 47,179         | \$ 44,596         | \$ 42,625         |

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

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Operations**

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, investment management, and investment operations platforms to financial institutions, financial advisors, institutional investors, investment managers and ultra-high-net-worth families in the United States, Canada, the United Kingdom, continental Europe and other various locations throughout the world. Investment processing platforms consist of application and business process outsourcing services, professional services and transaction-based services. Revenues from investment processing platforms are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations, except for fees earned associated with trade execution services.

Investment management programs consist of mutual funds, alternative investments and separate accounts. These include a series of money market, equity, fixed-income and alternative investment portfolios, primarily in the form of registered investment companies. The Company serves as the administrator and investment advisor for many of these products. Revenues from investment management programs are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

Investment operations platforms offer investment managers support for traditional investment products such as mutual funds, collective investment trusts, exchange-traded funds, and institutional and separate accounts, by providing outsourcing services including fund and investment accounting, administration, reconciliation, investor servicing and client reporting. These platforms also provide support to managers focused on alternative investments who manage hedge funds, funds of hedge funds, private equity funds and real estate funds, across registered, partnership and separate account structures domiciled in the United States and overseas. Revenues from investment operations platforms are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

**Principles of Consolidation**

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries and entities in which it holds a controlling financial interest. The Company determines whether it has a controlling financial interest either by its decision-making ability through voting interests or by the extent of the Company's participation in the economic risks and rewards of the entity through variable interests. The Company's principal subsidiaries are SEI Investments Distribution Co. (SIDCO), SEI Investments Management Corporation (SIMC), SEI Private Trust Company (SPTC), SEI Trust Company (STC), SEI Global Services, Inc. (SGSI) and SEI Investments (Europe) Limited (SIEL). All intercompany accounts and transactions have been eliminated.

The Company accounts for investments in unconsolidated entities that are 20 percent to 50 percent owned or are 20 percent or less owned and have the ability to exercise significant influence over the operating and financial policies of the entity under the equity method of accounting. Under this method of accounting, the Company's interest in the net assets of unconsolidated entities is reflected in Investment in unconsolidated affiliates on the accompanying Consolidated Balance Sheet and its interest in the earnings or losses of unconsolidated entities is reflected in Equity in earnings of unconsolidated affiliates on the accompanying Consolidated Statement of Operations.

**Variable Interest Entities**

The Company has involvement with various variable interest entities (VIE or VIEs) primarily co-sponsored investment products established for clients created in the form of various types of legal entity structures. Effective January 1, 2016, the Company adopted the amendments contained in Accounting Standards Update (ASU) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (ASU 2015-02) which amends the current guidance for both the VIE and the voting interest entity (VOE) consolidation models. This guidance rescinds the indefinite deferral of the VIE guidance for investment companies that permitted application of the risks and rewards based approach. The adoption of ASU 2015-02 did not have any effect on the consolidated financial statements and related disclosures (See Note 3).

**Management's Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## **Revenue Recognition**

The Company's principal sources of revenues are: (1) asset management, administration and distribution fees earned based upon a contractual percentage of net assets under management or administration; (2) information processing and software servicing fees that are either recurring and primarily earned based upon the number of trust accounts being serviced or a percentage of the total average daily market value of the clients' assets processed on the Company's platforms, or non-recurring and based upon project-oriented contractual agreements related to client implementations; and (3) transaction-based fees for providing trade-execution services.

The Company's revenues are based on contractual arrangements. Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an agreement exists, the fee is fixed or determinable, and collectibility is reasonably assured. Cash received by the Company in advance of the performance of services is deferred and recognized as revenue when earned. Reimbursements received for out-of-pocket expenses incurred are recorded as revenue. Certain portions of the Company's revenues require management's consideration of the nature of the client relationship in determining whether to recognize as revenue the gross amount billed or net amount retained after payments are made to suppliers for certain services related to the product or service offering. For the majority of the Company's services, the Company is the primary obligor responsible for fulfilling the performance obligations of the contract. In addition, management retains full discretion in establishing the price charged to the customer, control the nature, type, characteristics or specifications of the performance obligations identified in the contract, and assume all credit risk associated with the client. Based on the foregoing, fees received by the Company for these services are recorded as gross revenues and vendor costs are recorded as gross expenses. However, the Company is also party to certain arrangements whereby the Company is not the primary obligor responsible for fulfilling the performance obligations of the contract. Fees received for those arrangements are reported net of costs associated with the provision of those services.

## **Cash and Cash Equivalents**

The Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include \$401,292 and \$374,760 at December 31, 2017 and 2016, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. The SEI-sponsored mutual funds are considered Level 1 assets.

## **Restricted Cash**

Restricted cash includes \$3,000 at December 31, 2017 and 2016 segregated for regulatory purposes related to trade-execution services conducted by SIEL. Restricted cash also includes \$505 and \$500 at December 31, 2017 and 2016, respectively, segregated in special reserve accounts for the benefit of SIDCO customers in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers.

## **Allowances for Doubtful Accounts**

The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable.

## **Concentration of Credit Risk**

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of cash equivalents and trade receivables. Cash equivalents are principally invested in short-term money market funds or placed with major banks and high-credit qualified financial institutions. Cash deposits maintained with institutions are in excess of federally insured limits. Concentrations of credit risk with respect to the Company's receivables are limited due to the large number of clients and their dispersion across geographic areas. No single group or customer represents greater than ten percent of total accounts receivable.

## **Property and Equipment**

Property and Equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. Construction in progress includes the cost of construction and other direct costs attributable to the construction. When property and equipment are retired or disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives using the straight line method for financial statement purposes. No provision for depreciation is made for construction in progress until such time as the relevant assets are completed and put into service. The Company uses other depreciation methods, generally accelerated, for tax purposes where appropriate. Buildings and building improvements are depreciated over 25 to 39 years. Equipment, purchased software and furniture and fixtures have useful lives ranging from 3 to 5 years. Amortization of leasehold improvements is computed using the straight line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

## **Marketable Securities**

The classification of investments in marketable securities is determined at the time of purchase and reevaluated at each balance sheet date. Debt and equity securities classified as available-for-sale are reported at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses, net of income taxes, are reported as a separate component of comprehensive income. SIDCO, the Company's broker-dealer subsidiary, reports changes in fair value of marketable securities through current period earnings due to specialized accounting practices related to investments by broker-dealers. The Company records its investments in funds sponsored by LSV on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these securities are recognized in current period earnings. The specific identification method is used to compute the realized gains and losses on all of the Company's marketable securities (See Note 6).

The Company evaluates the realizable value of its marketable securities on a quarterly basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. Some of the factors considered in determining other-than-temporary impairment for equity securities include, but are not limited to, significant or prolonged declines in the fair value of the investments, the Company's ability and intent to retain the investment for a period sufficient to allow the value to recover, and the financial condition of the investment. Some of the factors considered in determining other-than-temporary impairment for debt securities include, but are not limited to, the intent of management to sell the security, the likelihood that the Company will be required to sell the security before recovering its cost, and management's expectation to recover the entire amortized cost basis of the security even if there is no intent to sell the security.

## **Fair Value of Financial Instruments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy describes three levels of inputs that may be used by the Company to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities without adjustment. The Company's Level 1 assets primarily include investments in mutual funds sponsored by SEI that are quoted daily.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 financial assets consist of Government National Mortgage Association (GNMA) mortgage-backed securities, Federal Home Loan Bank (FHLB) and other U.S. government agency short-term notes. The investments in GNMA mortgage-backed securities were purchased for the sole purpose of satisfying applicable regulatory requirements imposed on our wholly-owned limited purpose federal thrift subsidiary, SPTC. The investments in FHLB and other U.S. government agency short-term notes were purchased as part of a cash management program requiring only short term, top-tier investment grade government and corporate securities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment by management. The Company had no Level 3 financial assets or liabilities at December 31, 2017 or 2016 that were required to be measured at fair value on a recurring basis.

The fair value of an asset or liability may include inputs from more than one level in the fair value hierarchy. The lowest level of significant inputs used to value the asset or liability determines which level the asset or liability is classified in its entirety. Transfers between levels of the fair value hierarchy are reported at fair value as of the beginning of the period in which the transfers occur.

See Note 5 for information on related disclosures regarding fair value measurements.

## **Capitalized Software**

Costs incurred for the development of internal use software to be offered in a hosting arrangement is capitalized during the development stage of the software application. These costs include direct external and internal costs to design the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary and post-implementation stages of the software application are expensed as incurred. Costs associated with significant enhancements to a software application are capitalized while costs incurred to maintain existing software applications are expensed as incurred. The capitalization of software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life. Amortization of capitalized software development costs begins when the product is ready for its intended use. Capitalized software development

costs are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the product or enhancement.

The Company capitalized \$61,043, \$50,392 and \$29,416 of software development costs during 2017, 2016 and 2015, respectively. The Company's capitalized software development costs primarily relate to the further development of the SEI Wealth Platform<sup>SM</sup> (the Platform). The Company capitalized \$51,353, \$39,785 and \$24,515 of software development costs for significant enhancements to the Platform during 2017, 2016 and 2015, respectively. As of December 31, 2017, the net book value of the Platform was \$285,207. The net book value includes \$38,093 of capitalized software development costs in-progress associated with future releases.

The Company also capitalized \$9,690, \$10,607 and \$4,901 of software development costs during 2017, 2016 and 2015, respectively, related to an application for the Investment Managers segment. Capitalized software development costs in-progress at December 31, 2017 associated with this application were \$25,198. The application is expected to be placed into service during the first quarter 2018.

The amount of amortization expense recognized related to the SEI Wealth Platform is based upon management's estimate of its useful life. Management continually reassesses the estimated useful life of the Platform and any change in management's estimate could result in the remaining amortization expense to be accelerated or spread out over a longer period. The initial version of the Platform was placed into service in July 2007 with an estimated useful life of 15 years. All significant enhancements to the Platform were being amortized over the remaining useful life and would have been fully amortized by June 2022. As a result of recent development efforts, successful client installation onto the Platform of a large-scale regional bank and market acceptance as evidenced by a contractual arrangement with a large-scale national bank, the Company adjusted the remaining useful life of certain components and functionality of the Platform that were placed into service during the past several years. This change in estimate was applied prospectively effective October 1, 2017. The initial version of the Platform and certain subsequent releases were not adjusted. The adjustment resulted in a decrease to the Company's amortization expense in 2017 of \$4,347, and accordingly, increased income from operations by \$4,347 and increased net income by \$3,156, or \$0.02 diluted earnings per share. As of December 31, 2017, the Platform has a weighted average remaining life of 8.2 years. Amortization expense for the Platform was \$46,505, \$45,047 and \$42,401 in 2017, 2016 and 2015, respectively, and is included in Amortization expense on the accompanying Consolidated Statements of Operations.

The Company currently expects to recognize amortization expense related to all capitalized software development costs placed into service as of December 31, 2017 each year from 2018 through 2022 as follows:

|      |    |        |
|------|----|--------|
| 2018 | \$ | 43,717 |
| 2019 |    | 43,717 |
| 2020 |    | 43,717 |
| 2021 |    | 43,439 |
| 2022 |    | 29,556 |

The Company evaluates the carrying value of capitalized software development costs when circumstances indicate the carrying value may not be recoverable. The review of capitalized software development costs for impairment requires significant assumptions about operating strategies, underlying technologies utilized, and external market factors. External market factors include, but are not limited to, expected levels of competition, barriers to entry by potential competitors, stability in the target market and governmental regulations. During 2015, the Company determined that specific functionality within the Platform was no longer in use and wrote off \$5,533 of previously capitalized software development costs reported under the Private Banks and Investment Advisors business segments. The expense associated with the write off is included in Facilities, supplies and other costs on the accompanying Consolidated Statement of Operations. The Company did not recognize any impairment charges related to its capitalized software development costs in 2017 or 2016.

### **Business Combinations**

The Company accounts for business combinations in accordance with Accounting Standards Codification Topic 805, Business Combinations (ASC 805). ASC 805 establishes principles and requirements for recognizing the total consideration transferred, assets acquired and liabilities assumed in a business combination. ASC 805 also provides guidance for recognizing and measuring goodwill acquired in a business combination and requires the acquirer to disclose information needed to evaluate and understand the financial impact of the business combination. The Company recognizes assets and liabilities acquired at their estimated fair values. Management uses judgment to identify the acquired assets and liabilities assumed; estimate the fair value of these assets and liabilities; estimate the useful life of the assets; and assess the appropriate method for recognizing depreciation or amortization expense over the estimated useful life of the assets.

## Goodwill and Other Intangible Assets

The Company reviews long-lived assets and identifiable definite-lived intangible assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. For purposes of recognizing and measuring an impairment loss, a long-lived asset is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent.

Identifiable definite-lived intangible assets on the Company's Consolidated Balance Sheet are amortized on a straight-line basis according to their estimated useful lives. Goodwill is not amortized but is reviewed for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Current guidance requires that a two-step, fair value based test be performed to assess goodwill for impairment. In the first step, the fair value of each reporting unit is compared with its carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The second step requires an allocation of fair value to the individual assets and liabilities using a purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recognized.

## Income Taxes

The Company applies the asset and liability approach to account for income taxes whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

## Foreign Currency Translation

The assets and liabilities and results of operations of the Company's foreign subsidiaries are measured using the foreign subsidiary's local currency as the functional currency. Assets and liabilities have been translated into U.S. dollars using the rates of exchange at the balance sheet dates. The results of operations have been translated into U.S. dollars at average exchange rates prevailing during the period. The resulting translation gain and loss adjustments are recorded as a separate component of comprehensive income.

Transaction gains and losses from exchange rate fluctuations are included in the results of operations in the periods in which they occur. There were no material gains or losses from exchange rate fluctuations in 2017, 2016 or 2015.

## Earnings Per Common Share

Basic earnings per common share is computed by dividing net income attributable to SEI Investments common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income attributable to SEI Investments common shareholders by the combination of the weighted average number of common shares outstanding and the dilutive potential common shares, such as stock options, outstanding during the period.

The calculations of basic and diluted earnings per share for 2017, 2016 and 2015 are:

|  | 2017        | 2016        | 2015        |
|--|-------------|-------------|-------------|
| Net income   | \$ 404,389  | \$ 333,817  | \$ 331,655  |
| Shares used to compute basic earnings per common share   | 158,177,000 | 161,350,000 | 165,725,000 |
| Dilutive effect of stock options                         | 4,092,000   | 3,081,000   | 3,873,000   |
| Shares used to compute diluted earnings per common share | 162,269,000 | 164,431,000 | 169,598,000 |
| Basic earnings per common share                          | \$ 2.56     | \$ 2.07     | \$ 2.00     |
| Diluted earnings per common share                        | \$ 2.49     | \$ 2.03     | \$ 1.96     |

Employee stock options to purchase approximately 5,196,000, 10,632,000 and 10,730,000 shares of common stock, with an average exercise price per share of \$45.49, \$35.02 and \$33.99, were outstanding during 2017, 2016 and 2015, respectively, but not included in the computation of diluted earnings per common share because either the performance conditions have not been satisfied or would have been satisfied if the reporting date was the end of the contingency period or the option's exercise price was greater than the average market price of the Company's common stock and the effect on diluted earnings per common share would have been anti-dilutive (See Note 8).

## **Stock-Based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The amount of stock-based compensation expense that is recognized in a given period is dependent upon management's estimate of when the vesting targets are expected to be achieved. If this estimate proves to be inaccurate, the remaining amount of stock-based compensation expense could be accelerated, spread out over a longer period, or reversed (See Note 8).

The Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09) during 2017. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are reflected in the accompanying Consolidated Statements of Operations as a component of the provision for income taxes on a prospective basis (See Note 12). Additionally, excess tax benefits or deficiencies recognized on stock-based compensation expense are classified as an operating activity in the accompanying Consolidated Statements of Cash Flows. The Company has applied this provision retrospectively for all periods presented. As a result, net cash provided by operating activities for 2016 and 2015 increased by \$8,984 and \$16,056, respectively, with corresponding offsets to net cash used for financing activities.

ASU 2016-09 also allows for the option to account for forfeitures as they occur when determining the amount of compensation cost to be recognized, rather than estimating expected forfeitures over the course of a vesting period. The Company elected to account for forfeitures as they occur. In addition, ASU 2016-09 eliminates anticipated windfalls and shortfalls that were included in the calculation of assumed proceeds for computing the dilutive effect of share-based payment awards in the calculation of diluted earnings per share. No adjustments to the Company's prior period reported diluted earnings per share amounts were permitted by ASU 2016-09.

The net cumulative effect to the Company from the adoption of ASU 2016-09 was an increase to paid-in capital of \$2,582, a reduction to retained earnings of \$1,669 and an increase to deferred tax assets of \$913 as of January 1, 2017.

## **New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The principal concept in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires an entity to apply a five-step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) an entity satisfies a performance obligation. The standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The FASB issued several amendments to ASU 2014-09. These amendments include, but are not limited to, clarification of principal versus agent guidance in situations in which a revenue transaction involves a third party in providing goods or services to a customer. In such circumstances, an entity must determine whether the nature of its promise to the customer is to provide the underlying goods or services (the entity is the principal in the transaction and reports the transaction gross) or to arrange for a third party to provide the underlying goods or services (the entity is the agent in the transaction and reports the transaction net). The amendments also clarify, in terms of identifying performance obligations, how entities would determine whether promised goods or services are separately identifiable from other promises in a contract and, therefore, would be accounted for separately.

ASU 2014-09 is effective for the Company on January 1, 2018 and provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. The Company has concluded that it will utilize the modified retrospective method of adoption with a cumulative catch up adjustment and will provide additional disclosures in its 2018 consolidated financial statements. The Company has completed analyses, executed project management relative to the process of adopting ASU 2014-09, and conducted detailed reviews of customer contracts to complete necessary adjustments to existing accounting policies. The Company has implemented changes to its accounting systems, processes and internal controls over revenue reporting and the new disclosure requirements, as necessary, in the application of the new standard.

The adoption of ASU 2014-09 did not change the accounting for the majority of the Company's revenue arrangements and will not have a material impact to the Company's consolidated financial statements. A summary of the Company's assessment and the primary changes that will be implemented in the first quarter of 2018 due to the adoption of the new standard are presented below:

- The majority of the Company's services are bundled together, and provided and completed for the client on a monthly basis. For these revenue arrangements, the Company will continue to recognize revenue on a monthly basis as the client

consumes the benefits continuously over time. The timing and recognition of revenues from these arrangements will not change as a result of the adoption of ASU 2014-09.

- Some contracts include implementation fees, which are recognized in Information processing and software servicing fees, and fund conversion fees, which are recognized in Asset management, administration and distribution fees. The Company concluded that for most of the arrangements that included implementation or fund conversion services were a distinct and separate performance obligation. As a result, upon the adoption of ASU 2014-09, the timing and recognition of fees from most of these arrangements did not change. However, future revenue arrangements that include implementation or fund conversion services may not be considered distinct performance obligations which would require such fees to be recognized over the life of the client which could longer. The Company will evaluate each contract in accordance with the requirements of ASU 2014-09.

- Research services provided by SIDCO, the Company's broker-dealer subsidiary, to customers in soft-dollar arrangements were determined to be a separate performance obligation that should be allocated a portion of the transaction price. Research services provided by a broker-dealer may be internally generated or provided by a third party and paid directly by the broker-dealer on the customer's behalf. It was determined that SIDCO is considered an agent since it does not control the research services before they are transferred to the customer. Therefore, fees received for research services should be recorded net of amounts paid for the soft dollar arrangement. These amounts paid by the Company were previously recorded as an expense and beginning January 1, 2018 will be recorded net of any revenue recognized. The amounts recorded as an expense in 2017, 2016 and 2015 were \$14,623, \$18,409, and \$20,333 respectively.

- Incremental contract acquisition costs, primarily sales compensation costs paid to the Company's sales personnel, related to information processing contracts in the Private Banks segment and fund administration contracts in the Investment Managers segment will be deferred and recognized over the expected client life. The deferred asset from contract acquisition costs is assessed for impairment on a periodic basis. The Company will utilize the practical expedient permitting the expensing of costs to obtain a contract when the expected amortization period is one year or less. As a result, incremental contract acquisition costs will be capitalized and subsequently amortized upon adoption on January 1, 2018 as a cumulative-effect adjustment to equity.

The Company is in the process of finalizing its assessment of the cumulative-effect adjustment of initially applying the new revenue standard but does not believe there are any remaining significant implementation items associated with the adoption of the new standard that have not yet been addressed. The cumulative-effect adjustment to equity of initially applying the new standard on January 1, 2018 is expected to be immaterial.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) that will significantly change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The Company adopted ASU 2016-01 during the first quarter 2018. Management currently believes the most significant impact will be the requirement to recognize all changes in fair value of available-for-sale equity securities in current period earnings. Previously, these changes in fair value were recognized as a separate component of comprehensive income. ASU 2016-01 will require a cumulative-effect adjustment to retained earnings as of January 1, 2018. The Company does not believe the cumulative-effect adjustment will have a material impact to its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02) requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated standard is effective for the Company beginning in the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the transition method that will be elected and the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13) which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU No. 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. ASU 2016-13 becomes effective for the Company during the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18) which requires restricted cash and cash equivalents to be included with cash and cash equivalents when reconciling

beginning-of-period and end-of-period amounts shown on the statement of cash flows. Under this guidance, the statement of cash flows should explain the total change in cash balances, including amounts described as restricted. The Company adopted ASU 2016-18 during the first quarter 2018. The Company has determined ASU 2016-18 will not have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (ASU 2017-04). The objective of ASU 2017-04 is to simplify the subsequent measurement of goodwill by entities performing their annual goodwill impairment tests by comparing the fair value of a reporting unit, including income tax effects from any tax-deductible goodwill, with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds fair value. ASU 2017-04 is effective for the Company beginning in the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-04 on its consolidated financial statements and related disclosures.

### Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

## Note 2 – Investment in Unconsolidated Affiliates

### LSV Asset Management

The Company has an investment in the general partnership LSV Asset Management (LSV), a registered investment advisor that provides investment advisory services primarily to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a limited number of SEI-sponsored mutual funds. As of December 31, 2017, the Company's total partnership interest in LSV was approximately 38.9 percent. The Company accounts for its interest in LSV using the equity method because of its less than 50 percent ownership. The Company's interest in the net assets of LSV is reflected in Investment in unconsolidated affiliates on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliates on the accompanying Consolidated Statements of Operations.

At December 31, 2017, the Company's total investment in LSV was \$59,492. The Company's proportionate share in the earnings of LSV was \$152,550, \$126,103 and \$138,407 in 2017, 2016 and 2015, respectively. The Company receives partnership distributions related to the earnings of LSV on a quarterly basis. As such, the Company considers these distribution payments as returns on investment rather than returns of the Company's original investment in LSV and has therefore classified the associated cash inflows as an operating activity on the Consolidated Statements of Cash Flows. The Company received partnership distribution payments from LSV of \$143,517, \$125,224 and \$141,767 in 2017, 2016 and 2015, respectively.

These tables contain condensed financial information of LSV:

| Condensed Statement of Operations<br>Year ended December 31, | 2017       | 2016       | 2015       |
|--|------------|------------|------------|
| Revenues   | \$ 491,872 | \$ 399,462 | \$ 427,653 |
| Net income   | \$ 392,141 | \$ 323,381 | \$ 352,845 |

| Condensed Balance Sheets<br>December 31, | 2017       | 2016       |
|--|------------|------------|
| Current assets                           | \$ 155,239 | \$ 125,872 |
| Non-current assets                       | 1,407      | 1,927      |
| Total assets                             | \$ 156,646 | \$ 127,799 |

|   |            |            |
|---|------------|------------|
| Current liabilities                     | \$ 46,486  | \$ 39,303  |
| Partners' capital                       | 110,160    | 88,496     |
| Total liabilities and partners' capital | \$ 156,646 | \$ 127,799 |

### Guaranty Agreement with LSV Employee Group III

In October 2012, a group of existing employees of LSV formed a new limited liability company called LSV Employee Group III and agreed to purchase a portion of the partnership interest of existing LSV employees for \$77,700, of which \$69,930 was financed through syndicated term loan facilities contained in a credit agreement with CIBC Bank USA (formerly The PrivateBank and Trust Company). LSV Employee Group III owns the purchased partnership interest. The Company provided an unsecured guaranty for \$45,000 of the obligations of LSV Employee Group III to the lenders through a guaranty agreement.

In addition, LSV agreed to provide an unsecured guaranty for the remaining \$24,930 of the obligations of LSV Employee Group III to the lenders through a separate guaranty agreement.

The Company's direct interest in LSV was unchanged as a result of this transaction. The Company determined that LSV Employee Group III was a VIE; however, the Company was not considered the primary beneficiary because it did not have the power to direct the activities that most significantly impact the economic performance of LSV Employee Group III either directly or through any financial responsibility from the guaranty.

In September 2014 and June 2017, LSV Employee Group III made the final principal payments related to the term loans guaranteed by LSV and the Company, respectively, and has no further obligation regarding the agreement. The Company has no other interests in LSV Employee Group III and, therefore, no longer considers LSV Employee Group III to be a VIE.

### Note 3 – Variable Interest Entities – Investment Products

The Company or its affiliates have created numerous investment products for its clients in various types of legal entity structures. The Company serves as the Manager, Administrator and Distributor for these investment products and may also serve as the Trustee for some of the investment products. The Company receives asset management, distribution, administration and custodial fees for these services. Clients are the equity investors and participate in proportion to their ownership percentage in the net income or loss and net capital gains or losses of the products, and, on liquidation, will participate in proportion to their ownership percentage in the remaining net assets of the products after satisfaction of outstanding liabilities.

The Company has concluded that it is not the primary beneficiary of the entities and; therefore, is not required to consolidate any of the pooled investment vehicles for which it receives asset management, distribution, administration and custodial fees under the VIE model. The entities either do not meet the definition of a VIE or the Company does not hold a variable interest in the entities. The entities either qualify for the money market scope exception, or are entities in which the Company's asset management, distribution, administration and custodial fees are commensurate with the services provided and include fair terms and conditions, or are entities that are limited partnerships which have substantive kick-out rights. The Company acts as a fiduciary and does not hold any other interests other than insignificant seed money investments in the pooled investment vehicles. For this reason, the Company also concluded that it is not required to consolidate the pooled investment vehicles under the voting interest entity (VOE) model.

The Company is a party to expense limitation agreements with certain SEI-sponsored money market funds subject to Rule 2a-7 of the Investment Company Act of 1940 which establish a maximum level of ordinary operating expenses incurred by the fund in any fiscal year including, but not limited to, fees of the administrator or its affiliates. Under the terms of these agreements, the Company waived \$27,434, \$41,227 and \$55,713 in fees during 2017, 2016 and 2015, respectively.

### Note 4 – Composition of Certain Financial Statement Captions

#### Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

|                                       | 2017              | 2016              |
|---------------------------------------|-------------------|-------------------|
| Trade receivables                     | \$ 76,760         | \$ 48,683         |
| Fees earned, not billed               | 194,331           | 168,971           |
| Other receivables                     | 12,310            | 10,826            |
|                                       | <u>283,401</u>    | <u>228,480</u>    |
| Less: Allowance for doubtful accounts | (695)             | (523)             |
| Receivables, net                      | <u>\$ 282,706</u> | <u>\$ 227,957</u> |

Fees earned, not billed represents receivables earned but unbilled and results from timing differences between services provided and contractual billing schedules. These billing schedules generally provide for fees to be billed on a quarterly basis. In addition, certain fees earned from investment operations services are calculated based on assets under administration that have a prolonged valuation process which delays billings to clients.



## Property and Equipment

Property and Equipment on the accompanying Consolidated Balance Sheets consists of:

|                                | 2017              | 2016              |
|--------------------------------|-------------------|-------------------|
| Buildings                      | \$ 153,961        | \$ 152,171        |
| Equipment                      | 115,546           | 106,759           |
| Land                           | 10,030            | 10,030            |
| Purchased software             | 134,610           | 128,008           |
| Furniture and fixtures         | 18,114            | 17,292            |
| Leasehold improvements         | 18,017            | 15,175            |
| Construction in progress       | 6,105             | 2,077             |
|                                | <u>456,383</u>    | <u>431,512</u>    |
| Less: Accumulated depreciation | (309,955)         | (285,322)         |
| Property and Equipment, net    | <u>\$ 146,428</u> | <u>\$ 146,190</u> |

Depreciation expense related to property and equipment for 2017, 2016 and 2015 was \$27,311, \$26,440 and \$24,044, respectively.

### Other Assets

Other assets consist of long-term prepaid expenses, deposits, other investments at cost and various other assets. Amortization expense for certain other assets for 2017, 2016 and 2015 was \$218, \$345 and \$229, respectively.

### Accrued Liabilities

Accrued Liabilities on the accompanying Consolidated Balance Sheets consist of:

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Accrued employee compensation                                      | \$ 88,960         | \$ 79,735         |
| Accrued consulting, outsourcing and professional fees              | 29,658            | 24,428            |
| Accrued sub-advisory, distribution and other asset management fees | 42,365            | 41,666            |
| Accrued dividend payable   | 47,179            | 44,596            |
| Other accrued liabilities  | 56,896            | 50,100            |
| Accrued liabilities  | <u>\$ 265,058</u> | <u>\$ 240,525</u> |

## Note 5 – Fair Value Measurements

The fair value of the Company's financial assets and liabilities, except for the Company's investment funds sponsored by LSV, is determined in accordance with the fair value hierarchy. The fair value of the Company's Level 1 financial assets consists mainly of investments in open-ended mutual funds that are quoted daily. Level 2 financial assets consist of Government National Mortgage Association (GNMA) mortgage-backed securities held by the Company's wholly-owned limited purpose federal thrift subsidiary, SEI Private Trust Company (SPTC), Federal Home Loan Bank (FHLB) and other U.S. government agency short-term notes held by SIDCO. The financial assets held by SIDCO were purchased as part of a cash management program requiring only short term, top-tier investment grade government and corporate securities. The financial assets held by SPTC are debt securities issued by GNMA and are backed by the full faith and credit of the U.S. government. These securities were purchased for the sole purpose of satisfying applicable regulatory requirements and have maturity dates which range from 2020 to 2041.

The fair value of the Company's investment funds sponsored by LSV is measured using the net asset value per share (NAV) as a practical expedient. The NAVs of the funds are calculated by the funds' independent custodian and are derived from the fair values of the underlying investments as of the reporting date. The funds allow for investor redemptions at the end of each calendar month. This investment has not been classified in the fair value hierarchy but is presented in the tables below to permit reconciliation to the amounts presented on the accompanying Consolidated Balance Sheets.

The valuation of the Company's Level 2 financial assets held by SIDCO and SPTC are based upon securities pricing policies and procedures utilized by third-party pricing vendors. The Company had no Level 3 financial assets or liabilities at December 31, 2017 or 2016 that were required to be measured at fair value on a recurring basis. There were no transfers of financial assets between levels within the fair value hierarchy during 2017.

## Valuation of GNMA and Other U.S. Government Agency Securities

All of the Company's investments in GNMA, FHLB and other U.S. government agency securities are held in accounts at well-established financial institutions. The Company's selection of a financial institution for the purpose of purchasing securities considered a number of various factors including, but not limited to, securities pricing policies and procedures utilized by that financial institution. Each financial institution utilizes the services of independent pricing vendors. These vendors utilize evaluated and industry accepted pricing models that vary by asset class and incorporate available trade, bid and other market information to determine the fair value of the securities. The market inputs, listed in approximate order of priority, include: benchmark yields, reported trade, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company evaluated the information regarding the pricing methodologies and processes utilized by the independent pricing vendors during the selection process of the financial institution. The Company analyzed this information for the purpose of classifying the securities into the appropriate level within the fair value hierarchy and to ensure that each pricing model for each asset class provided the fair value of those specific securities in accordance with generally accepted accounting principles. The Company continually monitors the price of each security for any unanticipated deviations from the previously quoted price or deviations from anticipated changes in a security's price based upon an assessment of market factors and other factors relative to a specific issue expected to affect a security's price. In the event of any unanticipated deviations in a security's price, additional analysis is conducted which may include the comparison of the security's price as determined by other independent pricing vendors. The Company's investments in GNMA, FHLB and other U.S. government agency securities have been recorded at the prices provided by the independent pricing vendor without adjustment.

The fair value of certain financial assets and liabilities of the Company was determined using the following inputs:

|  | December 31, 2017 | Fair Value Measurements at Reporting Date Using                |   |
|--|-------------------|--|---|
|  |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| <b>Assets</b>                              |                   |  |   |
| Equity available-for-sale securities       | \$ 11,250         | \$ 11,250  | \$ —  |
| Fixed-income available-for-sale securities | 76,733            | —  | 76,733  |
| Fixed-income securities owned              | 21,526            | —  | 21,526  |
| Investment funds sponsored by LSV (1)      | 6,034             |  |   |
|  | <u>\$ 115,543</u> | <u>\$ 11,250</u>   | <u>\$ 98,259</u>                              |
|  |                   |  |   |
|  | December 31, 2016 | Fair Value Measurements at Reporting Date Using                |   |
|  |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| <b>Assets</b>                              |                   |  |   |
| Equity available-for-sale securities       | \$ 9,581          | \$ 9,581   | \$ —  |
| Fixed-income available-for-sale securities | 74,452            | —  | 74,452  |
| Fixed-income securities owned              | 21,339            | —  | 21,339  |
| Investment funds sponsored by LSV (1)      | 4,858             |  |   |
|  | <u>\$ 110,230</u> | <u>\$ 9,581</u>  | <u>\$ 95,791</u>                              |

(1) The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the accompanying Consolidated Balance Sheets (See Note 6).

## Note 6 – Marketable Securities

### Investments Available For Sale

Investments available for sale classified as non-current assets consist of:

| At December 31, 2017            |                  |                              |                                 |                  |
|---------------------------------|------------------|------------------------------|---------------------------------|------------------|
|                                 | Cost             | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value    |
| SEI-sponsored mutual funds      | \$ 7,369         | \$ 110                       | \$ (143)                        | \$ 7,336         |
| Equities and other mutual funds | 3,456            | 458                          | —                               | 3,914            |
| Debt securities                 | 77,745           | —                            | (1,012)                         | 76,733           |
|                                 | <u>\$ 88,570</u> | <u>\$ 568</u>                | <u>\$ (1,155)</u>               | <u>\$ 87,983</u> |

| At December 31, 2016            |                  |                              |                                 |                  |
|---------------------------------|------------------|------------------------------|---------------------------------|------------------|
|                                 | Cost             | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value    |
| SEI-sponsored mutual funds      | \$ 7,357         | \$ 24                        | \$ (996)                        | \$ 6,385         |
| Equities and other mutual funds | 2,968            | 228                          | —                               | 3,196            |
| Debt securities                 | 74,843           | —                            | (391)                           | 74,452           |
|                                 | <u>\$ 85,168</u> | <u>\$ 252</u>                | <u>\$ (1,387)</u>               | <u>\$ 84,033</u> |

Net unrealized holding losses at December 31, 2017 and 2016 were \$386 (net of income tax benefit of \$201) and \$836 (net of income tax benefit of \$299), respectively. These net unrealized losses are reported as a separate component of Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets.

There were gross realized gains of \$529 and gross realized losses of \$888 from available-for-sale securities during 2017. In 2016, there were gross realized gains of \$284 and gross realized losses of \$869 from available-for-sale securities. There were gross realized gains of \$489 and gross realized losses of \$729 from available-for-sale securities during 2015. Gains and losses from available-for-sale securities, including amounts reclassified from accumulated comprehensive income (loss), are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

### Investments in Affiliated Funds

The Company has an investment related to the startup of investment funds sponsored by LSV. The Company records this investment on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these funds are recognized in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

The investment primarily consists of U.S. dollar denominated funds that invest in equity securities of Canadian, Australian and Japanese companies. The underlying securities held by the funds are translated into U.S. dollars within the funds. The funds had a fair value of \$6,034 and \$4,858 at December 31, 2017 and 2016, respectively. The Company recognized gains of \$1,176 and \$819 and losses of \$389 from the change in fair value of the funds during 2017, 2016 and 2015, respectively.

### Securities Owned

The Company's broker-dealer subsidiary, SIDCO, has investments in U.S. government agency securities with maturity dates less than one year. These investments are reflected as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. The securities had a fair value of \$21,526 and \$21,339 at December 31, 2017 and 2016, respectively. There were no material net gains or losses from the change in fair value of the securities during 2017, 2016 and 2015.

## Note 7 – Line of Credit

On June 13, 2016, the Company entered into a five-year \$300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) and a syndicate of other lenders. The Credit Facility is scheduled to expire in June 2021, at which time any aggregate principal amount of loans outstanding becomes payable in full. Any borrowings made under the Credit Facility will accrue interest at rates that, at the Company's option, are based on a base rate (the Base Rate) plus a premium that can range from 0.25 percent to 1.00 percent or the London InterBank Offered Rate (LIBOR) plus a premium that can range from 1.25 percent to 2.00 percent depending on the Company's Leverage Ratio (a ratio of consolidated

indebtedness to consolidated EBITDA for the four preceding fiscal quarters, all as defined in the related agreement). The Base Rate is defined as the highest of a) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 0.50 percent, b) the prime commercial lending rate of Wells Fargo, c) the applicable LIBOR plus 1.00 percent, or d) 0 percent. The Company also pays quarterly commitment fees based on the unused portion of the Credit Facility. The quarterly fees for the Credit Facility can range from 0.15 percent of the amount of the unused portion to 0.30 percent, depending on the Company's Leverage Ratio. Certain wholly-owned subsidiaries of the Company have guaranteed the obligations of the Company under the agreement. The aggregate amount of the Credit Facility may be increased by an additional \$100,000 under certain conditions set forth in the agreement.

The Credit Facility contains covenants that restrict the ability of the Company to engage in mergers, consolidations, asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the event of a default under the Credit Facility, the Company would also be restricted from paying dividends on, or repurchasing, its common stock without the approval of the lenders. None of the covenants of the Credit Facility negatively affect the Company's liquidity or capital resources. Upon the occurrence of certain financial or economic events, significant corporate events, or certain other events of default constituting an event of default under the Credit Facility, all loans outstanding may be declared immediately due and payable and all commitments under the agreement may be terminated.

In July 2017, the Company borrowed \$40,000 under the Credit Facility for the funding of an acquisition (See Note 16). In October 2017, the Company made a principal payment of \$10,000. As of December 31, 2017, the outstanding balance of the Credit Facility was \$30,000 and is included in Borrowings Under Revolving Credit Facility on the accompanying Consolidated Balance Sheet. The Company was in compliance with all covenants of the Credit Facility during 2017.

In January 2018, the Company made a principal payment of \$10,000. As of January 31, 2018, the amount of the Credit Facility that is available for general corporate purposes was \$280,000.

The Company considers the book value of long-term debt related to the borrowings through the Credit Facility to be representative of its fair value.

The Company incurred \$781, \$531 and \$483 in interest charges and commitment fees relating to the current and since expired lines of credit during 2017, 2016 and 2015, respectively, which are reflected in Interest expense on the accompanying Consolidated Statements of Operations. The weighted average interest rate applied to the outstanding balance of the Credit Facility during 2017 was 2.58 percent.

## **Note 8 – Shareholders' Equity**

### **Stock-Based Compensation**

The Company's active equity compensation plan, the 2014 Omnibus Equity Compensation Plan (the 2014 Plan), is the successor plan to the 2007 Equity Compensation Plan (the 2007 Plan) which was merged with and into the 2014 Plan in May 2014. The 2014 Plan provides for the grant of stock options, stock units, stock awards, stock appreciation rights, dividend equivalents and other stock-based awards.

Outstanding grants under the 2007 Plan will continue according to the terms in effect before the plan merger, but the outstanding shares will be issued or transferred under the 2014 Plan. Permitted grantees under the 2014 Plan include employees, non-employee directors and consultants who perform services for the Company. The plan is administered by the Compensation Committee of the Board of Directors of the Company. The Company has only non-qualified stock options outstanding under the 2014 Plan.

All outstanding stock options have performance-based vesting provisions that tie the vesting of stock options to the Company's financial performance. The Company's stock options vest at a rate of 50 percent when a specified diluted earnings per share target is achieved, and the remaining 50 percent when a second, higher-specified diluted earnings per share target is achieved. Options do not vest due to the passage of time but as a result of achievement of the financial vesting targets. Options granted in December 2017 include a service condition which requires a minimum two or four year waiting period from the grant date along with the attainment of the applicable financial vesting target. Earnings per share targets exclude the impact of stock-based compensation and are established at time of grant. The targets are measured annually on December 31. The amount of stock-based compensation expense recognized in the period is based upon management's estimate of when the earnings per share targets may be achieved. Any change in management's estimate could result in the remaining amount of stock-based compensation expense to be accelerated, spread out over a longer period, or reversed. This may cause volatility in the recognition of stock-based compensation expense in future periods and could materially affect the Company's earnings.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the price of the Company's common stock as well as other variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock exercise behaviors, risk-free interest rate and expected dividends. The

Company primarily uses historical data to estimate the variables used in the option-pricing model except expected volatility. The Company uses a combination of historical and implied volatility.

The weighted average fair value of the Company's stock options granted during 2017, 2016 and 2015 were \$16.78, \$12.43 and \$12.16, respectively, using the following assumptions:

|                          | 2017   | 2016   | 2015   |
|--------------------------|--------|--------|--------|
| Expected term (in years) | 6.00   | 6.00   | 5.58   |
| Expected volatility      | 22.58% | 25.44% | 23.86% |
| Expected dividend yield  | 0.82%  | 1.10%  | 1.00%  |
| Risk-free interest rate  | 2.29%  | 2.18%  | 1.90%  |

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in 2017, 2016 and 2015 as follows:

|  | 2017      | 2016      | 2015      |
|--|-----------|-----------|-----------|
| Stock-based compensation expense             | \$ 36,366 | \$ 16,017 | \$ 17,312 |
| Less: Deferred tax benefit                   | (7,891)   | (5,612)   | (6,107)   |
| Stock-based compensation expense, net of tax | \$ 28,475 | \$ 10,405 | \$ 11,205 |

During 2017, 2016 and 2015, the Company revised its estimates of when some vesting targets are expected to be achieved. The change in management's estimate during 2017 resulted in an increase of \$11,206 in stock-based compensation expense in 2017. The changes in management's estimates during 2016 or 2015 were not material.

As of December 31, 2017, there was approximately 6,088,000 unvested employee stock options with an unrecognized compensation cost of \$62,070 that the Company expects will vest and be expensed through 2022 with a weighted average period of 2.3 years.

This table presents certain information relating to the Company's stock option plans for 2017, 2016 and 2015:

|  | Number of Shares | Weighted Avg. Price |
|--|------------------|---------------------|
| Balance as of December 31, 2014                    | 20,461,000       | \$ 25.26            |
| Granted  | 2,005,000        | 53.34               |
| Exercised  | (2,927,000)      | 21.44               |
| Expired or canceled                                | (302,000)        | 28.97               |
| Balance as of December 31, 2015                    | 19,237,000       | \$ 28.71            |
| Granted  | 2,310,000        | 49.57               |
| Exercised  | (1,809,000)      | 24.82               |
| Expired or canceled                                | (1,669,000)      | 30.86               |
| Balance as of December 31, 2016                    | 18,069,000       | \$ 31.57            |
| Granted  | 2,057,000        | 69.87               |
| Exercised  | (2,370,000)      | 21.22               |
| Expired or canceled                                | (1,044,000)      | 33.42               |
| Balance as of December 31, 2017                    | 16,712,000       | \$ 37.63            |
| Exercisable as of December 31, 2017                | 10,624,000       | \$ 28.99            |
| Available for future grant as of December 31, 2017 | 24,108,000       |                     |

As of December 31, 2016 and 2015, there were 6,692,000 and 8,508,000 shares exercisable, respectively. The expiration dates for options outstanding at December 31, 2017 range from December 16, 2018 to December 12, 2027 with a weighted average remaining contractual life of 6.3 years.

Upon exercise of stock options, the Company will issue new shares of its common shares. The Company does not hold any shares in treasury. The total intrinsic value of options exercised during 2017 and 2016 was \$83,628 and \$41,607, respectively. The total options exercisable as of December 31, 2017 had an intrinsic value of \$455,528. The total options outstanding as of December 31, 2017 had an intrinsic value of \$572,024. The total intrinsic value for options outstanding and options exercisable is calculated as the difference between the market value of the Company's common stock as of

December 31, 2017 and the exercise price of the shares. The market value of the Company's common stock as of December 31, 2017 was \$71.86 as reported by the Nasdaq Stock Market, LLC.

This table summarizes information relating to all options outstanding and exercisable at December 31, 2017:

| Options Outstanding at December 31, 2017 |                   |   |   | Options Exercisable at December 31, 2017 |   |   |  |
|--|-------------------|---|---|--|---|---|--|
| Range of Exercise Prices (Per Share)     | Number of Shares  | Weighted Average Exercise Price (Per Share) | Weighted Average Remaining Contractual Life (Years) | Number of Shares                         | Weighted Average Exercise Price (Per Share) | Weighted Average Remaining Contractual Life (Years) |  |
| \$ 14.62 - 15.77                         | 2,178,000         | \$ 15.45                                    | 3.16  | 2,178,000                                | \$ 15.45                                    | 3.16  |  |
| 17.65 - 21.05                            | 1,174,000         | 17.67                                       | 2.01  | 1,174,000                                | 17.67                                       | 2.01  |  |
| 22.45 - 23.86                            | 3,432,000         | 23.19                                       | 3.95  | 3,422,000                                | 23.19                                       | 3.96  |  |
| 27.03 - 39.15                            | 1,815,000         | 33.65                                       | 6.09  | 747,000                                  | 33.58                                       | 6.09  |  |
| 40.64 - 53.16                            | 4,190,000         | 45.49                                       | 8.54  | 2,095,000                                | 45.49                                       | 8.08  |  |
| 53.34 - 71.12                            | 3,923,000         | 62.01                                       | 9.05  | 1,008,000                                | 53.39                                       | 8.14  |  |
|  | <u>16,712,000</u> |   |   | <u>10,624,000</u>                        |   |   |  |

### Employee Stock Purchase Plan

The Company has an employee stock purchase plan that provides for offerings of common stock to eligible employees at a price equal to 85 percent of the fair market value of the stock at the end of the stock purchase period, as defined. The Company has reserved 15,600,000 shares for issuance under this plan. At December 31, 2017, 11,962,000 cumulative shares have been issued. There were no material costs incurred by the Company related to the employee stock purchase plan in 2017, 2016 and 2015.

### Common Stock Buyback

The Board of Directors, under multiple authorizations, has authorized the purchase of the Company's common stock on the open market or through private transactions. As of December 31, 2017, the Company had approximately \$170,638 of authorization remaining for the purchase of common stock. The following table provides the total number of shares repurchased and the related total costs in 2017, 2016 and 2015:

| Year | Total Number of Shares Repurchased | Total Cost |
|------|------------------------------------|------------|
| 2017 | 4,403,000                          | \$ 248,114 |
| 2016 | 6,600,000                          | 294,374    |
| 2015 | 5,951,000                          | 289,587    |

The Company immediately retires its common stock when purchased. Upon retirement, the Company reduces Capital in excess of par value for the average capital per share outstanding and the remainder is charged against Retained earnings. If the Company reduces its Retained earnings to zero, any subsequent purchases of common stock will be charged entirely to Capital in excess of par value.

### Rights Agreement

In December 2008, the Company's Board of Directors declared a dividend distribution pursuant to a Rights Agreement (the Rights Agreement) which became effective on January 6, 2009. The purpose of the Rights Agreement is to deter coercive or unfair takeover tactics and to prevent a person or group (an Acquiring Person) from acquiring control of the Company without offering a fair price to all shareholders. Under the Rights Agreement, all common shareholders receive one Right for each common share outstanding. Each Right entitles the registered holder to purchase from the Company a unit consisting of one twenty-thousandths of a share of Series A Junior Participating Preferred Shares, \$0.05 par value per share, or a combination of securities and assets of equivalent value, at a purchase price of \$150.00 per unit, subject to adjustment. The Rights will become exercisable and trade separately from the common stock ten days following a public announcement that an Acquiring Person has beneficial ownership of more than 20 percent of the outstanding common stock of the Company or the commencement of a tender or exchange offer that would result in an Acquiring Person owning 20 percent or more of the outstanding common stock of the Company. Upon exercise, holders, other than an Acquiring Person, will have the right to purchase the common stock of the Company equal to twice the value of the exercise price of the Rights. In lieu of requiring payment of the purchase price upon exercise of the Rights following certain events, the Company may permit the holders simply to surrender the Rights, in which event they will be entitled to receive common shares and other property, as the case may be, with a value of 50 percent of what could be purchased by payment of the full purchase price. The Rights, which do not

have voting rights, will expire on January 6, 2019, and may be redeemed by the Company any time until ten days following the announcement of an Acquiring Person at a price of \$0.01 per Right.

### Cash Dividends

On May 24, 2017, the Board of Directors declared a cash dividend of \$0.28 per share on the Company's common stock, which was paid on June 16, 2017, to shareholders of record on June 7, 2017. On December 12, 2017, the Board of Directors declared a cash dividend of \$0.30 per share on the Company's common stock, which was paid on January 8, 2018, to shareholders of record on December 27, 2017.

The cash dividends declared in 2017, 2016 and 2015 were \$91,444, \$86,657 and \$82,478, respectively. The Board of Directors has indicated its intention to declare future cash dividends on a semiannual basis.

### Note 9 – Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of net income and other gains and losses affecting shareholders' equity that are excluded from net income. Other comprehensive income (loss) includes unrealized gains and losses on available for sale securities and foreign currency translation adjustments. The Company presents other comprehensive income (loss) in its Consolidated Statements of Comprehensive Income. Components of Accumulated other comprehensive income (loss), net of tax, consisted of:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Holding<br>Gains (Losses)<br>on Investments | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|---|---|--|
| Balance, January 1, 2015                                       | \$ (10,088)                                       | \$ 1,193  | \$ (8,895)   |
| Other comprehensive loss before reclassifications              | (14,900)  | (1,659)   | (16,559)   |
| Amounts reclassified from accumulated other comprehensive loss | —   | 164   | 164  |
| Net current-period other comprehensive loss                    | (14,900)  | (1,495)   | (16,395)   |
| Balance, December 31, 2015                                     | \$ (24,988)                                       | \$ (302)  | \$ (25,290)  |
| Other comprehensive loss before reclassifications              | (12,131)  | (918)   | (13,049)   |
| Amounts reclassified from accumulated other comprehensive loss | —   | 384   | 384  |
| Net current-period other comprehensive loss                    | (12,131)  | (534)   | (12,665)   |
| Balance, December 31, 2016                                     | \$ (37,119)                                       | \$ (836)  | \$ (37,955)  |
| Other comprehensive gain before reclassifications              | 17,597  | 190   | 17,787   |
| Amounts reclassified from accumulated other comprehensive loss | —   | 260   | 260  |
| Net current-period other comprehensive gain                    | 17,597  | 450   | 18,047   |
| Balance, December 31, 2017                                     | \$ (19,522)                                       | \$ (386)  | \$ (19,908)  |

### Note 10 – Employee Benefit Plan

The Company has a tax-qualified defined contribution plan (the Plan). The Plan provides retirement benefits, including provisions for early retirement and disability benefits, as well as a tax-deferred savings feature. After satisfying certain requirements, participants are vested in employer contributions at the time the contributions are made. All Company contributions are discretionary and are made from available profits. The Company contributed \$10,929, \$9,665 and \$9,162 to the Plan in 2017, 2016 and 2015, respectively.

### Note 11 – Commitments and Contingencies

The Company leases software, facilities, and data processing equipment under non-cancelable operating leases, some which contain escalation clauses for increased taxes and operating expenses. The Company has entered into maintenance agreements primarily for its data processing equipment. Rent expense, primarily related to user licenses for software, was \$32,619, \$28,016 and \$25,074 in 2017, 2016 and 2015, respectively.

The aggregate noncancellable minimum commitments at December 31, 2017 are:

|                     |    |               |
|---------------------|----|---------------|
| 2018                | \$ | 10,046        |
| 2019                |    | 9,427         |
| 2020                |    | 7,413         |
| 2021                |    | 7,082         |
| 2022 and thereafter |    | 29,171        |
|                     | \$ | <u>63,139</u> |

In the ordinary course of business, the Company from time to time enters into contracts containing indemnification obligations of the Company. These obligations may require the Company to make payments to another party upon the occurrence of certain events including the failure by the Company to meet its performance obligations under the contract. These contractual indemnification provisions are often standard contractual terms of the nature customarily found in the type of contracts entered into by the Company. In many cases, there are no stated or notional amounts included in the indemnification provisions. There are no amounts reflected on the Consolidated Balance Sheets as of December 31, 2017 and 2016 related to these indemnifications.

In the normal course of business, the Company is party to various claims and legal proceedings.

SEI has been named in seven lawsuits filed in Louisiana courts; four of the cases also name SPTC as a defendant. The underlying allegations in all actions relate to the purported role of SPTC in providing back-office services to Stanford Trust Company. The complaints allege that SEI and SPTC participated in some manner in the sale of "certificates of deposit" issued by Stanford International Bank so as to be a "seller" of the certificates of deposit for purposes of primary liability under the Louisiana Securities Law or so as to be secondarily liable under that statute for sales of certificates of deposit made by Stanford Trust Company. Two of the actions also include claims for violations of the Louisiana Racketeering Act and possibly conspiracy, and a third also asserts claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Racketeering Act, and conspiracy.

The procedural status of the seven cases varies. The *Lillie* case, filed originally in the 19th Judicial District Court for the Parish of East Baton Rouge, was brought as a class action and is procedurally the most advanced of the cases. SEI and SPTC filed exceptions, which the Court granted in part, dismissing claims under the Louisiana Unfair Trade Practices Act and permitting the claims under the Louisiana Securities Law to go forward. On March 11, 2013, newly-added insurance carrier defendants removed the case to the United States District Court for the Middle District of Louisiana. On August 7, 2013, the Judicial Panel on Multidistrict Litigation transferred the matter to the Northern District of Texas where MDL 2099, *In re: Stanford Entities Securities Litigation* ("the Stanford MDL"), is pending. On September 22, 2015, the District Court on the motion of SEI and SPTC dismissed plaintiffs' claims for primary liability under Section 714(A) of the Louisiana Securities Law, but declined to dismiss plaintiffs' claims for secondary liability under Section 714(B) of the Louisiana Securities Law based on the allegations pled by plaintiffs. On November 4, 2015, the District Court granted SEI and SPTC's motion to dismiss plaintiffs' claims under Section 712(D) of the Louisiana Securities Law. Consequently, the only claims of plaintiffs still pending before the District Court in *Lillie* are plaintiffs' claims for secondary liability against SEI and SPTC under Section 714(B) of the Louisiana Securities Law. On May 2, 2016, the District Court certified the class as being "all persons for whom Stanford Trust Company purchased or renewed Stanford Investment Bank Limited certificates of deposit in Louisiana between January 1, 2007 and February 13, 2009". Notice of the pendency of the class action was mailed to potential class members on October 4, 2016.

On December 1, 2016, a group of plaintiffs who opted out of the *Lillie* class filed a complaint against SEI and SPTC in the United States District Court in the Middle District of Louisiana, alleging claims essentially the same as those in *Lillie*. In January 2017, the Judicial Panel on Multidistrict Litigation transferred the proceeding to the Northern District of Texas and the Stanford MDL. During February 2017, SEI filed its response to the Complaint and in March 2017 the District Court for the Northern District of Texas approved the stipulated dismissal of all claims in this complaint predicated on Section 712(D) or Section 714(A) of the Louisiana Securities Law.

Another one of the cases, filed in the 23rd Judicial District Court for the Parish of Ascension, also was removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas and the Stanford MDL. The schedule for responding to that Complaint has not yet been established.

The plaintiffs in two of the cases remaining in the Parish of East Baton Rouge have granted SEI and SPTC indefinite extensions to respond to the petitions.

In the two additional cases, filed in East Baton Rouge and brought by the same counsel who filed the *Lillie* action, virtually all of the litigation to date has involved motions practice and appellate litigation regarding the existence of federal subject matter jurisdiction under the federal Securities Litigation Uniform Standards Act (SLUSA). After the matter was



removed to the United States District Court for the Northern District of Texas, that court dismissed the action under SLUSA. The Court of Appeals for the Fifth Circuit reversed that order, and the Supreme Court of the United States affirmed the Court of Appeals judgment on February 26, 2014. The matter was remanded to state court and no material activity has taken place since that date.

While the outcome of this litigation remains uncertain, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously. Because of uncertainty in the make-up of the *Lillie* class, the specific theories of liability that may survive a motion for summary judgment or other dispositive motion, the relative lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

On November 26, 2014, a Writ of Summons was issued to two of our subsidiaries, SEI Investments - Global Fund Services Limited (GFSL) and SEI Investments - Depository & Custodial Services (Ireland) Limited (D&C), to appear before the Court of First Instance Antwerp, Belgium. The plaintiffs in this case allege that through their initial investments in collective investment funds domiciled in Netherlands and subsequent transfer of claim rights to a Belgium domiciled partnership, they are beneficial owners of a portfolio of life settlement policies (the Portfolio) which lapsed due to a failure to make premium payments. The plaintiffs seek to recover jointly and severally from nine defendants including GFSL and D&C, damages of approximately \$84 million. GFSL and D&C's involvement in the litigation appears to arise out of their historical provision of administration and custody services, respectively, to the Strategic Life Settlement Fund PLC, who, together with its managers, appear to be the principal defendants in this claim. On December 4, 2015, the Belgium court dismissed plaintiff's claims for a lack of jurisdiction. On December 22, 2015, the plaintiffs appealed the dismissal. During October 2017, the Belgium appellate court dismissed plaintiff's appeal.

While the outcome of this action is uncertain given its early phase and the lack of specific theories of liability asserted against GFSL and D&C, each of GFSL and D&C believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuit vigorously, and GFSL and D&C are not reasonably able to provide an estimate of the ultimate loss, if any, with respect to this lawsuit.

## Note 12 – Income Taxes

The federal and state and foreign income tax provision is summarized as follows:

| Year Ended December 31,   | 2017              | 2016              | 2015              |
|---------------------------|-------------------|-------------------|-------------------|
| <b>Current</b>            |                   |                   |                   |
| Federal                   | \$ 154,776        | \$ 158,411        | \$ 159,774        |
| State                     | 11,645            | 10,500            | 7,756             |
| Foreign                   | 8,002             | 5,137             | 5,224             |
|                           | <u>174,423</u>    | <u>174,048</u>    | <u>172,754</u>    |
| <b>Deferred</b>           |                   |                   |                   |
| Federal                   | (26,350)          | 788               | (5,343)           |
| State                     | 1,378             | (168)             | 1,414             |
| Foreign                   | 3,199             | —                 | —                 |
|                           | <u>(21,773)</u>   | <u>620</u>        | <u>(3,929)</u>    |
| <b>Total income taxes</b> | <u>\$ 152,650</u> | <u>\$ 174,668</u> | <u>\$ 168,825</u> |

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount ultimately paid upon resolution of issues raised may differ materially from the amount accrued. The examination and the resolution process may last longer than one year.

The components of Income before income taxes are summarized as follows:

| Year Ended December 31, | 2017              | 2016              | 2015              |
|-------------------------|-------------------|-------------------|-------------------|
| Domestic                | \$ 523,044        | \$ 481,760        | \$ 472,384        |
| Foreign                 | 33,995            | 26,725            | 28,096            |
|                         | <u>\$ 557,039</u> | <u>\$ 508,485</u> | <u>\$ 500,480</u> |

The effective income tax rate differs from the federal income tax statutory rate due to the following:

| Year Ended December 31,   | 2017         | 2016         | 2015         |
|---|--------------|--------------|--------------|
| Statutory rate  | 35.0%        | 35.0%        | 35.0%        |
| State taxes, net of federal tax benefit   | 1.3          | 1.3          | 1.6          |
| Foreign tax expense and tax rate differential                                   | (1.1)        | (0.8)        | (1.2)        |
| Tax benefit from stock option exercises   | (3.9)        | —            | —            |
| Enactment of the Tax Cuts and Jobs Act:   |              |              |              |
| Re-measurement of deferred tax liability  | (4.9)        | —            | —            |
| One-time transition tax on repatriation of foreign earnings and withholding tax | 2.6          | —            | —            |
| Research and development tax credit   | (0.9)        | (0.8)        | (0.6)        |
| Domestic Production Activities Deduction  | (0.5)        | (0.6)        | (0.6)        |
| Settlement of state tax petition  | —            | —            | (0.8)        |
| Other, net  | (0.2)        | 0.2          | 0.3          |
|   | <u>27.4%</u> | <u>34.3%</u> | <u>33.7%</u> |

The decrease in the Company's effective income tax rate in 2017 was primarily due to the adoption of ASU 2016-09 and the estimated impact of the Tax Cuts and Jobs Act (Tax Act). As required by ASU 2016-09, the Company no longer records excess tax benefits from stock option exercises as an increase to additional paid in capital, but records such excess tax benefits as a reduction of income tax expense in the reporting period in which the exercises occur.

The Tax Act was enacted on December 22, 2017 and included numerous changes to the current tax law including a permanent reduction in the corporate tax rate from 35.0 percent to 21.0 percent, as well as the imposition of a territorial rather than worldwide system which requires a one-time transition tax on the repatriation of previously deferred foreign earnings. The Company's estimate of the one-time transition tax as of December 31, 2017 was \$11,544, of which \$915 is expected to be paid within one year and \$10,629 is included in Long-term income taxes payable on the accompanying Consolidated Balance Sheet.

Under the Tax Act, the undistributed earnings of the Company's foreign subsidiaries are deemed repatriated. As a result, the Company has determined that a portion of these earnings are no longer indefinitely reinvested and therefore accrued foreign withholding taxes. The Company's foreign withholding tax was \$3,199 and is included in Deferred income taxes on the accompanying Consolidated Balance Sheet as of December 31, 2017.

The impact to the Company's effective tax rate in 2017 from the Tax Act was a combination of a \$27,153 tax benefit from the re-measurement of the Company's estimated net deferred tax liability as of December 31, 2017 based upon the new 21.0 percent corporate tax rate offset by expense of \$14,743 from the preliminary estimate of the one-time transition tax relating to the impact of the deemed repatriation and withholding tax of the Company's previously undistributed foreign earnings. The net impact to the Company's tax rate in 2017 from the Tax Act was a net tax benefit of \$12,410, or \$0.08 diluted earnings per share.

The increase in the Company's tax rate for 2016 was primarily due to lower foreign income in jurisdictions with lower effective rates and the one-time reduction in 2015 due to a favorable settlement of a state tax petition.

The SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and allows the registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company's preliminary estimate of the one-time transition tax and the remeasurement of deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the Tax Act, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Act may require further adjustments and changes in estimates. The final determination of the one-time transition tax and the remeasurement of the Company's deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act in accordance with SAB 118.

Deferred income taxes for 2017, 2016 and 2015 reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Significant components of our deferred tax assets and liabilities at December 31, 2017 and 2016 are as follows:

|   | 2017               | 2016                |
|---|--------------------|---------------------|
| <b>Deferred Tax Assets:</b>   |                    |                     |
| Stock-based compensation expense  | \$ 24,725          | \$ 33,459           |
| Foreign and state net operating loss carryforward   | 71,236             | 20,049              |
| Basis differences in investments  | 4,191              | 6,165               |
| Federal benefit of state tax deduction for uncertain tax positions                                  | 1,918              | 3,647               |
| Revenue and expense recognized in different periods for financial reporting and income tax purposes | 2,631              | 5,022               |
| Other assets  | 273                | 813                 |
| Total deferred income tax assets  | <u>104,974</u>     | <u>69,155</u>       |
| Less: valuation allowance   | <u>(68,469)</u>    | <u>(17,922)</u>     |
| Net deferred income tax assets  | <u>\$ 36,505</u>   | <u>\$ 51,233</u>    |
| <b>Deferred Tax Liabilities:</b>  |                    |                     |
| Capitalized software currently deductible for tax purposes, net of amortization                     | \$ (70,575)        | \$ (107,897)        |
| Difference in financial reporting and income tax depreciation methods                               | (3,182)            | (5,190)             |
| Difference between book and tax basis of other assets   | (3,549)            | (4,597)             |
| Goodwill and other intangibles  | (1,001)            | —                   |
| Foreign Dividend Withholding Tax  | (3,199)            | —                   |
| Other liabilities   | (704)              | (1,115)             |
| Total deferred income tax liabilities   | <u>\$ (82,210)</u> | <u>\$ (118,799)</u> |
| Net deferred income tax liabilities   | <u>\$ (45,705)</u> | <u>\$ (67,566)</u>  |

The valuation allowances against deferred tax assets at December 31, 2017 and 2016 are related to state net operating losses from certain domestic subsidiaries as well as foreign net operating losses from certain foreign subsidiaries. Certain state and foreign tax statutes significantly limit the utilization of net operating losses for domestic and foreign subsidiaries. Furthermore, these net operating losses cannot be used to offset the net income of other subsidiaries.

The Company recognizes uncertain tax positions in accordance with the applicable accounting guidance and adjusts these liabilities when management's judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. The Company's total unrecognized tax benefit, not including interest and penalties, as of December 31, 2017 was \$14,480, of which \$13,737 would affect the effective tax rate if the Company were to recognize the tax benefit. The gross amount of uncertain tax liability of \$3,275 which is expected to be paid within one year is netted against the current payable account while the remaining amount of \$12,380 is included in Other long-term liabilities on the accompanying Consolidated Balance Sheets. During the year ended December 31, 2017, the Company recognized \$5,846 of previously unrecognized tax benefits relating to the lapse of the statute of limitation.

The Company files a consolidated federal income tax return and separate income tax returns with various states. Certain subsidiaries of the Company file tax returns in foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examination for years before 2014 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2010.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

|  | 2017             | 2016             | 2015             |
|--|------------------|------------------|------------------|
| Balance as of January 1                | \$ 17,287        | \$ 14,517        | \$ 14,018        |
| Tax positions related to current year: |                  |                  |                  |
| Gross additions                        | 3,180            | 3,756            | 1,954            |
| Tax positions related to prior years:  |                  |                  |                  |
| Gross additions                        | 211              | 1,762            | 297              |
| Settlements                            | (352)            | (378)            | —                |
| Lapses on statute of limitations       | (5,846)          | (2,370)          | (1,752)          |
| Balance as of December 31              | <u>\$ 14,480</u> | <u>\$ 17,287</u> | <u>\$ 14,517</u> |

The above reconciliation of the gross unrecognized tax benefit will differ from the amount which would affect the effective tax rate because of the recognition of the federal and state tax benefits.

The Company classifies all interest and penalties as income tax expense. The Company has recorded \$1,175, \$1,227 and \$1,391 in liabilities for tax-related interest and penalties in 2017, 2016 and 2015, respectively.

The Company estimates it will recognize \$3,275 of unrecognized tax benefits within the next twelve months due to lapses on the statute of limitation.

The Company includes its direct and indirect subsidiaries in its U.S. consolidated federal income tax return. The Company's tax sharing allocation agreement provides that any subsidiary having taxable income will pay a tax liability equivalent to what that subsidiary would have paid if it filed a separate income tax return. If the separately calculated federal income tax provision for any subsidiary results in a tax loss, the current benefit resulting from such loss, to the extent utilizable on a separate return basis, is accrued and paid to that subsidiary.

### Note 13 – Business Segment Information

The Company's reportable business segments are:

Private Banks – provides outsourced investment processing and investment management platforms to banks and trust institutions, independent wealth advisers and financial advisers worldwide;

Investment Advisors – provides investment management and investment processing platforms to affluent investors through a network of independent registered investment advisors, financial planners and other investment professionals in the United States;

Institutional Investors – provides investment management and administrative outsourcing platforms to retirement plan sponsors, healthcare systems and not-for-profit organizations worldwide;

Investment Managers – provides investment operations outsourcing platforms to fund companies, banking institutions and both traditional and non-traditional investment managers worldwide; and

Investments in New Businesses – focuses on providing investment management programs to ultra-high-net-worth families residing in the United States; developing internet-based investment services and advice platforms; entering new markets; and conducting other research and development activities.

In 2017, 2016 and 2015, no single customer accounted for more than ten percent of revenues in any business segment.

The following tables highlight certain financial information about each of the Company's business segments for the years ended December 31, 2017, 2016 and 2015:

|   | Private Banks | Investment Advisors | Institutional Investors | Investment Managers | Investments In New Businesses | Total        |
|---|---------------|---------------------|-------------------------|---------------------|-------------------------------|--------------|
| <b>For the Year Ended December 31, 2017</b> |               |                     |                         |                     |                               |              |
| Revenues                                    | \$ 474,272    | \$ 373,473          | \$ 322,457              | \$ 349,444          | \$ 6,906                      | \$ 1,526,552 |
| Expenses                                    | 455,119       | 201,833             | 161,640                 | 226,504             | 20,678                        | 1,065,774    |
| Operating profit (loss)                     | \$ 19,153     | \$ 171,640          | \$ 160,817              | \$ 122,940          | \$ (13,772)                   | \$ 460,778   |
| <b>For the Year Ended December 31, 2016</b> |               |                     |                         |                     |                               |              |
| Revenues                                    | \$ 457,886    | \$ 330,677          | \$ 312,584              | \$ 294,390          | \$ 6,008                      | \$ 1,401,545 |
| Expenses                                    | 421,188       | 180,140             | 153,117                 | 191,127             | 20,962                        | 966,534      |
| Operating profit (loss)                     | \$ 36,698     | \$ 150,537          | \$ 159,467              | \$ 103,263          | \$ (14,954)                   | \$ 435,011   |
| Gain on sale of subsidiary                  | 2,791         | —                   | —                       | —                   | —                             | 2,791        |
| Total profit (loss)                         | \$ 39,489     | \$ 150,537          | \$ 159,467              | \$ 103,263          | \$ (14,954)                   | \$ 437,802   |
| <b>For the Year Ended December 31, 2015</b> |               |                     |                         |                     |                               |              |
| Revenues                                    | \$ 456,516    | \$ 306,620          | \$ 297,568              | \$ 267,963          | \$ 5,541                      | \$ 1,334,208 |
| Expenses                                    | 410,975       | 171,968             | 145,851                 | 172,094             | 20,656                        | 921,544      |
| Operating profit (loss)                     | \$ 45,541     | \$ 134,652          | \$ 151,717              | \$ 95,869           | \$ (15,115)                   | \$ 412,664   |
| Gain on sale of subsidiary                  | 2,791         | —                   | —                       | —                   | —                             | 2,791        |
| Total profit (loss)                         | \$ 48,332     | \$ 134,652          | \$ 151,717              | \$ 95,869           | \$ (15,115)                   | \$ 415,455   |

A reconciliation of the total reported for the business segments to income from operations in the Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015 is as follows:

| Year Ended December 31,                    | 2017       | 2016       | 2015       |
|--|------------|------------|------------|
| Total operating profit from segments above | \$ 460,778 | \$ 435,011 | \$ 412,664 |
| Corporate overhead expenses                | (63,834)   | (59,317)   | (54,451)   |
| Income from operations                     | \$ 396,944 | \$ 375,694 | \$ 358,213 |

The following tables provide additional information for the years ended December 31, 2017, 2016 and 2015 pertaining to our business segments:

| Year Ended December 31,       | Capital Expenditures (1) |           |           | Depreciation |           |           |
|-------------------------------|--------------------------|-----------|-----------|--------------|-----------|-----------|
|                               | 2017                     | 2016      | 2015      | 2017         | 2016      | 2015      |
| Private Banks                 | \$ 47,526                | \$ 45,940 | \$ 41,972 | \$ 16,479    | \$ 13,222 | \$ 12,348 |
| Investment Advisors           | 17,450                   | 17,610    | 13,206    | 3,364        | 3,880     | 3,410     |
| Institutional Investors       | 4,020                    | 4,319     | 5,301     | 1,121        | 1,367     | 1,200     |
| Investment Managers           | 15,863                   | 11,209    | 10,119    | 4,698        | 4,877     | 4,040     |
| Investments in New Businesses | 546                      | 726       | 736       | 826          | 2,197     | 2,278     |
| Total from business segments  | \$ 85,405                | \$ 79,804 | \$ 71,334 | \$ 26,488    | \$ 25,543 | \$ 23,276 |
| Corporate Overhead            | 1,163                    | 1,985     | 2,547     | 823          | 897       | 768       |
|                               | \$ 86,568                | \$ 81,789 | \$ 73,881 | \$ 27,311    | \$ 26,440 | \$ 24,044 |

(1) Capital expenditures include additions to property and equipment and capitalized software.

| Year Ended December 31,       | Amortization     |                  |                  |
|-------------------------------|------------------|------------------|------------------|
|                               | 2017             | 2016             | 2015             |
| Private Banks                 | \$ 32,696        | \$ 31,675        | \$ 29,819        |
| Investment Advisors           | 10,930           | 10,458           | 9,880            |
| Institutional Investors       | 1,599            | 1,674            | 1,558            |
| Investment Managers           | 2,593            | 1,092            | 1,029            |
| Investments in New Businesses | 239              | 146              | 116              |
| Total from business segments  | \$ 48,057        | \$ 45,045        | \$ 42,402        |
| Corporate Overhead            | 218              | 347              | 228              |
|                               | <u>\$ 48,275</u> | <u>\$ 45,392</u> | <u>\$ 42,630</u> |

|                               | Total Assets        |                     |
|-------------------------------|---------------------|---------------------|
|                               | 2017                | 2016                |
| Private Banks                 | \$ 523,214          | \$ 471,435          |
| Investment Advisors           | 139,697             | 160,717             |
| Institutional Investors       | 117,286             | 109,879             |
| Investment Managers           | 278,540             | 158,621             |
| Investments in New Businesses | 19,269              | 4,910               |
| Total from business segments  | \$ 1,078,006        | \$ 905,562          |
| Corporate Overhead (2)        | 775,363             | 731,261             |
|                               | <u>\$ 1,853,369</u> | <u>\$ 1,636,823</u> |

(2) Unallocated assets primarily consist of cash and cash equivalents, marketable securities, and certain other shared services assets.

The following table presents revenues based on the location of the use of the products or services:

| For the Year Ended December 31, | 2017                | 2016                | 2015                |
|---------------------------------|---------------------|---------------------|---------------------|
| United States                   | \$ 1,298,381        | \$ 1,191,640        | \$ 1,123,165        |
| International operations        | 228,171             | 209,905             | 211,043             |
|                                 | <u>\$ 1,526,552</u> | <u>\$ 1,401,545</u> | <u>\$ 1,334,208</u> |

The following table presents assets based on their location:

|                          | 2017                | 2016                |
|--------------------------|---------------------|---------------------|
| United States            | \$ 1,471,260        | \$ 1,317,235        |
| International operations | 382,109             | 319,588             |
|                          | <u>\$ 1,853,369</u> | <u>\$ 1,636,823</u> |

#### Note 14 – Related Party Transactions

The Company, either by itself or through its wholly-owned subsidiaries, serves as the sponsor, administrator, investment advisor, distributor and shareholder servicer for SEI-sponsored investment products. These investment products are offered to clients of the Company and its subsidiaries. Fees earned by the Company for the related services are recognized pursuant to the provisions of investment advisory, fund administration, distribution, and shareholder services agreements directly with the investment products. These fees totaled \$453,438, \$431,318 and \$426,301 in 2017, 2016 and 2015, respectively, and are reflected in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations. The Company also serves as an introducing broker-dealer for securities transactions of SEI-sponsored investment products. The Company recognized \$1,216, \$561 and \$365 in commissions during 2017, 2016 and 2015, respectively. These fees are reflected in Transaction-based and trade execution fees on the accompanying Consolidated Statements of Operations.

Receivables from investment products on the accompanying Consolidated Balance Sheets primarily represent fees receivable for distribution, investment advisory, and administration services to various investment products sponsored by SEI.

## Note 15 – Sale of SEI Asset Korea

On July 31, 2012, the Company, MetLife International Holdings, Inc. (MetLife) and International Finance Corporation (IFC) entered into a definitive agreement with Baring Asset Management Limited (Barings) to sell all ownership interest in SEI Asset Korea (SEI AK). SEI AK was located in South Korea and provided domestic equity and fixed-income investment management services to financial institutions and pension funds.

On March 28, 2013, all conditions subject to closing the transaction were satisfied and all ownership interests in SEI AK were transferred to Barings. Under the terms of the agreement, a portion of the purchase price was paid upon closing with up to an additional \$11,220 payable to the Company as a contingent purchase price with respect to three one-year periods ending on December 31, 2013, 2014 and 2015 depending upon whether SEI AK achieves specified revenue measures during such periods. The Company recognized a pre-tax gain of \$2,791, or \$0.01 diluted earnings per share, during 2015 and 2016. The Company's gains from the sale of SEI AK are included in Gain on sale of subsidiary on the accompanying Consolidated Statement of Operations.

## Note 16 – Business Acquisitions

On July 3, 2017, the Company acquired all ownership interests of Archway Technology Partners, LLC, Archway Finance & Operations, Inc. and Keystone Capital Holdings, LLC (collectively, Archway), a provider of operating technologies and services to the family office industry, from Keystone International Holdings, Inc. With this acquisition, the Company expands its position in the single and multi-family office services market by diversifying its technology and operating solutions.

Under the acquisition method of accounting, the total purchase price was allocated to Archway's net tangible and intangible assets based upon their estimated fair values as of July 3, 2017. The total purchase price for Archway was \$81,635 in cash consideration with up to an additional \$8,000 payable to the seller as a contingent purchase price with respect to two one-year periods ending December 31, 2017 and 2018 depending upon whether Archway achieves specified financial measures during such periods. The fair value of the contingent consideration was estimated to be \$4,800 on the acquisition date. Archway did not attain the specified financial measure for the period ended December 31, 2017. As a result, as of December 31, 2017, the Company reversed the value allocated to the contingent consideration established at the acquisition date. Additionally, the Company recognized a liability for post-acquisition obligations to the members of Archway. The net adjustment of \$3,800 was recorded as a reduction in expense and is reflected in Facilities, supplies and other costs on the accompanying Consolidated Statement of Operations.

The Company acquired \$1,401 in cash during the acquisition, resulting in \$80,234 net cash paid for Archway. According to the terms of the purchase agreement, a portion of the purchase price was placed into escrow to indemnify the Company of any pre-acquisition damages. As of December 31, 2017, the balance available in escrow was \$8,000.

The purchase price allocation is as follows:

|  | Estimated<br>Fair Value | Estimated<br>Useful Life |
|--|-------------------------|--------------------------|
| Current assets, net of current liabilities | \$ 2,539                |                          |
| Property and equipment                     | 776                     |                          |
| Goodwill                                   | 52,990                  |                          |
| Identifiable intangible assets             |                         |                          |
| Acquired technology                        | 13,510                  | 10 years                 |
| Client relationships                       | 10,760                  | 15 years                 |
| Non-competition agreements                 | 3,470                   | 5 years                  |
| Trade names                                | 2,390                   | 7 years                  |
| Contingent consideration                   | (4,800)                 |                          |
| Total purchase price allocation            | <u>\$ 81,635</u>        |                          |

The results of operations of Archway and any adjustments related to the acquisition are included in the Investment Managers business segment and are reflected in the Company's Consolidated Statement of Operations since the completion of the acquisition on July 3, 2017.

All tangible and intangible assets resulting from the Archway transaction have been allocated to the Investment Managers business segment. Amortization expense related to the intangible assets acquired was \$1,552 during the period ended December 31, 2017. The Company currently expects to recognize approximately \$3,104 in amortization expense related to the intangible assets each year from 2018 through 2021 and \$2,757 in expense in 2022. Any goodwill generated from the acquisition is fully deductible for income tax purposes.

Pro forma information has not been presented because the effect of the Archway acquisition is not material to the Company's consolidated financial results.

**Note 17 – Quarterly Financial Data (Unaudited)**

| 2017                           | For the Three Months Ended |            |              |                |
|--------------------------------|----------------------------|------------|--------------|----------------|
|                                | March 31                   | June 30    | September 30 | December 31(1) |
| Revenues                       | \$ 359,984                 | \$ 372,331 | \$ 386,018   | \$ 408,219     |
| Income before income taxes     | \$ 128,660                 | \$ 135,158 | \$ 140,769   | \$ 152,452     |
| Net income                     | \$ 88,737                  | \$ 91,769  | \$ 101,739   | \$ 122,144     |
| Basic earnings per share       | \$ 0.56                    | \$ 0.58    | \$ 0.64      | \$ 0.78        |
| Diluted earnings per share (2) | \$ 0.55                    | \$ 0.57    | \$ 0.63      | \$ 0.75        |
| Effective income tax rate      | 31.0%                      | 32.1%      | 27.7%        | 19.9%          |

(1) During the fourth quarter 2017, the Company recognized an estimated net tax benefit of \$12,410, or \$0.08 diluted earnings per share, resulting from the impacts of the enactment of the Tax Act on December 22, 2017 (See Note 12).

(2) The sum of the individual quarterly earnings per share amounts may not agree with the annual earnings per share amount as each quarterly computation is based on the weighted average number of shares outstanding during that period.

| 2016                           | For the Three Months Ended |            |              |                |
|--------------------------------|----------------------------|------------|--------------|----------------|
|                                | March 31                   | June 30    | September 30 | December 31(3) |
| Revenues                       | \$ 334,263                 | \$ 343,831 | \$ 354,641   | \$ 368,810     |
| Income before income taxes     | \$ 119,638                 | \$ 124,904 | \$ 130,890   | \$ 133,053     |
| Net income                     | \$ 77,497                  | \$ 81,005  | \$ 86,704    | \$ 88,611      |
| Basic earnings per share       | \$ 0.48                    | \$ 0.50    | \$ 0.54      | \$ 0.55        |
| Diluted earnings per share (2) | \$ 0.47                    | \$ 0.49    | \$ 0.53      | \$ 0.55        |
| Effective income tax rate      | 35.2%                      | 35.2%      | 33.8%        | 33.4%          |

(3) During the fourth quarter 2016, the Company recognized a performance fee of \$12,286 and a corresponding sub-advisory expense of \$6,143 associated with an SEI-sponsored investment product. These items resulted in an after-tax net profit of \$4,091, or \$0.03 diluted earnings per share.



**Schedule II - Valuation and Qualifying Accounts and Reserves**  
(In thousands)

SEI Investments Company  
and Subsidiaries

| Year Ended December 31,<br>Description          | Balance at<br>Beginning<br>of Year | Additions                           |                                 | (Deductions) | Balance<br>at End<br>of Year |
|---|------------------------------------|-------------------------------------|---------------------------------|--------------|------------------------------|
|   |                                    | Charged to<br>Costs and<br>Expenses | Charged<br>to Other<br>Accounts |              |                              |
| <b>Allowance for doubtful accounts:</b>         |                                    |                                     |                                 |              |                              |
| 2017  | \$ 523                             | \$ 172                              | \$ —                            | \$ —         | \$ 695                       |
| 2016  | 649                                | —                                   | —                               | (126)        | 523                          |
| 2015  | 784                                | —                                   | —                               | (135)        | 649                          |
| <b>Deferred income tax valuation allowance:</b> |                                    |                                     |                                 |              |                              |
| 2017 (1)  | \$ 17,922                          | \$ —                                | \$ 50,547                       | \$ —         | \$ 68,469                    |
| 2016  | 14,548                             | —                                   | 3,374                           | —            | 17,922                       |
| 2015  | 16,509                             | (1,142)                             | (819)                           | —            | 14,548                       |

(1) Additions to deferred income tax valuation allowance in 2017 reflect the Pennsylvania state tax law change in October 2017 regarding the use of net operating losses.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this annual report to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance.**

#### **Identification of Directors**

Information with respect to the members of the Board of Directors of the Company is set forth under the caption “Election of Directors” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

#### **Identification of Executive Officers**

The Board of Directors of the Company has determined that the Company’s executive officers within the meaning of Rule 3b-7 promulgated under the Securities Exchange Act of 1934, as amended, are as follows:

ALFRED P. WEST, JR., 75, has been the Chairman of the Board of Directors and Chief Executive Officer of the Company since its inception in 1968. Mr. West was President from June 1979 to August 1990.

KEVIN P. BARR, 52, has been an employee of the Company since May 2000. Mr. Barr has been an Executive Vice President since May 2008.

ROBERT F. CRUDUP, 70, has been an employee of the Company since 1987. Mr. Crudup has been an Executive Vice President since January 2001.

KATHY C. HEILIG, 59, has been an employee of the Company since November 1987. Ms. Heilig has been Chief Accounting Officer and Controller since May 1999. Ms. Heilig was Treasurer from May 1997 to May 2005.

N. JEFFREY KLAUDER, 65, has been Executive Vice President and General Counsel of the Company since August 2004. Prior to August 2004, Mr. Klauder was a partner of Morgan Lewis & Bockius, LLP, a law firm.

PAUL F. KLAUDER, 50, has been an employee of the Company since May 1993. Mr. Klauder has been an Executive Vice President since February 2016 and a Senior Vice President since May 2004.

DENNIS J. MCGONIGLE, 57, has been an employee of the Company since August 1985. Mr. McGonigle has been the Chief Financial Officer since December 2002 and an Executive Vice President since July 1996 and a Senior Vice President since May 1995.

STEPHEN G. MEYER, 53, has been an employee of the Company since November 1992. Mr. Meyer has been an Executive Vice President since December 2006 and a Senior Vice President since December 2005.

JOSEPH P. UJOBAL, 56, has been an employee of the Company since May 1998. Mr. Ujobai has been an Executive Vice President since May 2003 and a Senior Vice President since January 2001.

WAYNE M. WITHROW, 62, has been an employee of the Company since January 1990. Mr. Withrow has been an Executive Vice President since March 2000 and a Senior Vice President since January 1994. Mr. Withrow was Chief Information Officer from March 2000 to May 2002.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Information with respect to the Section 16(a) compliance of the directors and executive officers of the Company is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

#### **Code of Conduct**

The Company has adopted a Code of Conduct applicable to all of its employees, including its executive officers, as well as a Code of Ethics for Senior Financial Officers. The Code of Conduct and the Code of Ethics for Senior Financial Officers is posted on our website, [www.seic.com](http://www.seic.com) under the Investors/Corporate Governance section.

### **Item 11. Executive Compensation.**

Information required by this item is set forth under the caption “Executive Compensation” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information required by this item is set forth under the caption “Ownership of Shares” in the Company’s definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

The following table provides information regarding the aggregate number of securities to be issued under all of our equity compensation plans upon exercise of outstanding options, warrants, and other rights and their weighted-average exercise price as of December 31, 2017. Material features of each of the plans reflected in the table are described below.

|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted –average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 16,712,177   | \$ 37.63  | 24,107,806   |
| Equity compensation plans not approved by security holders | —  | —   | —  |
| <b>Total</b>   | <b>16,712,177</b>  | <b>\$ 37.63</b>   | <b>24,107,806</b>  |

**The 2014 Omnibus Equity Compensation Plan:**

On March 19, 2014, the Board of Directors adopted the 2014 Omnibus Equity Compensation Plan (the 2014 Plan), and the Company’s shareholders approved the adoption of the 2014 Plan on May 21, 2014 (the Effective Date). The 2014 Plan replaced the 2007 Equity Compensation Plan (The 2007 Plan). The 2007 Plan has been merged with and into the 2014 Plan as of the Effective Date. Outstanding grants under the 2007 Plan will continue according to the terms in effect before the plan merger, but the outstanding shares with respect to those outstanding grants will be issued or transferred under the 2014 Plan. No additional grants shall be made after the Effective Date under the 2007 Plan.

The 2014 Plan provides for grants of stock options (incentive stock options and nonqualified stock options), stock units, stock awards, stock appreciation rights (SARs), dividend equivalents and other stock-based awards to all employees (including employees who are also directors) of the Company or its subsidiaries, consultants who perform valuable services to the Company or its subsidiaries and members of the Board of Directors who are not employees of the Company. The Company has only granted nonqualified stock options under the 2014 Plan.

The 2014 Plan is administered and interpreted by the Compensation Committee (the Committee) or another committee appointed by our Board of Directors; however, the Board of Directors or its delegate will administer and interpret all grants under the 2014 Plan to non-employee directors. The Committee has the authority to (i) determine the individuals to whom grants will be made under the 2014 Plan, (ii) determine the type, size and terms and conditions of the grants, (iii) determine the time when grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued grant, and (v) deal with any other matters arising under the 2014 Plan.

Options granted under the 2014 Plan may be “incentive stock options,” which are intended to qualify within the meaning of Section 422 of the Internal Revenue Code, and “nonqualified stock options” which are not intended to so qualify. Options are granted under the 2014 Plan with an exercise price equal to or greater than the fair market value of the Company’s common stock on the date of grant and the term of which may not exceed ten years from the date of grant. The vesting period for options commences on the date of grant, or upon the achievement of such vesting requirements, and ends on such date as is determined in each case by the Committee, in its sole discretion, which is specified in the grant agreement. Options may be exercised only while the participant is actively employed by or actively providing service to the Company unless the Committee provides for a period after such employment or service in which the option may be exercised. The Committee may only grant incentive stock options to employees of the Company or its subsidiaries.

The Committee may grant SARs to anyone eligible to participate in the 2014 Plan. Upon exercise of a SAR, the participant will receive an amount equal to the excess of the fair market value of the Company’s common stock on the date of exercise over the base amount set forth in the grant agreement. Such payment to the participant will be in cash, in shares of common stock, or in a combination of cash and shares of common stock as determined by the Committee. The Committee will determine the period when SARs vest and become exercisable, the base amount of the SARs, and whether SARs will be granted in connection with, or independently of, any options. SARs may be exercised only while the participant is actively employed by or actively providing service to the Company unless the Committee provides for a period after such employment or service in which the option may be exercised.

The Committee may grant stock units to anyone eligible to participate in the 2014 Plan. A stock unit is a phantom unit that represents the right to receive a share of common stock or an amount based on the value of a share of the Company's common stock. The Committee will determine the number of stock units that a participant will receive and the terms and conditions applicable to such stock units as specified in the grant agreement. The Committee may grant stock units that are payable at the end of a specified vesting period or if specified performance goals or other conditions are met, or under other circumstances. Such payment to the participant will be in cash, in shares of common stock, or in a combination of cash and shares of common stock. The Committee will determine the period and conditions when stock units vest. The Committee will determine in the grant agreement under what circumstances a participant may retain stock units if after employment or service with the Company prior to the vesting of any stock units and the circumstances under which a participant will forfeit stock units.

The Committee may grant dividend equivalents in connection with stock units, under such terms and conditions the Committee deems appropriate. Dividend equivalents may be paid as and when the underlying stock units are paid, or may be deferred. The dividend equivalent amount with respect to a stock unit is determined by multiplying the number of shares of the Company's common stock subject to the stock unit by the per share cash dividend, or the per share fair market value for non-cash dividends, paid by the Company with respect to a dividend record date. Dividend equivalents may be accrued as a cash obligation, or may be converted to additional stock units, and deferred dividend equivalents may accrue interest, all as determined by the Committee. The Company may provide that dividend equivalents are payable based on the achievement of specific performance goals. Dividend equivalents may be paid in cash, shares of common stock, or in a combination of the two, as determined by the Committee.

The Committee may grant stock awards to anyone eligible to participate in the 2014 Plan. A stock award is a grant of shares of the Company's common stock, which may be subject to restrictions. The Committee will determine whether a stock award will be granted, the number of shares that will be subject to such award, when and how restrictions, if any, will lapse, and whether a purchase price must be paid for the shares subject to the award. The Committee will determine the period and conditions when stock awards vest. The Committee will determine in the grant agreement under what circumstances a participant may retain stock awards if after employment or service with the Company prior to the vesting of any stock awards and the circumstances under which a participant will forfeit stock awards.

For each share of common stock that is actually issued or transferred pursuant to a grant, other than a stock option or SAR, and which is settled by the issuance of common stock, will count as three shares against the share limits. Each share of common stock that is actually issued or transferred pursuant to a stock option or SAR will count as one share against the share limits. If and to the extent grants under the 2014 Plan (including stock options granted under the 2007 Plan) terminate, expire, or are canceled, forfeited, exchanged, or surrendered without having been exercised, the shares subject to such grants will again be available for purposes of the 2014 Plan, taking into account the ratios described above.

If there is any change in the number or kind of shares of common stock outstanding by reason of a stock dividend, spin-off, recapitalization, stock split, or combination or exchange of shares, by reason of a merger, reorganization or consolidation, by reason of a recapitalization or change in par value or by reason of any other extraordinary or unusual event affecting the outstanding common stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of common stock is substantially reduced as a result of a spin-off or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of common stock available for issuance under the 2014 Plan, the maximum number of shares of common stock which any individual may receive pursuant to grants in any year, the kind and number of shares covered by outstanding grants, the kind and number of shares issued and to be issued under the 2014 Plan, and the price per share or the applicable market value of such grants shall be appropriately adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, the issued shares of common stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the 2014 Plan and such outstanding grants.

Unless otherwise set forth in the grant agreement, with respect to stock options, stock units, stock awards, stock appreciation rights or other stock based awards, if (a) a change of control occurs and (b) during the period commencing on the date of the change of control and ending on the date that is 24 months following the change of control, the participant's employment or service is terminated (i) by the Company or its subsidiaries without "cause" (as defined in the 2014 Plan), (ii) by the participant for "good reason" (as defined in the 2014 Plan), (iii) by the Company or its subsidiaries on account of the participant's Disability (as defined in the 2014 Plan), or (iv) on account of the participant's death, then all outstanding stock options and stock appreciation rights will vest and become exercisable and all other outstanding grants will vest and all restrictions pertaining to such other grants will lapse and have no further effect.

The Board of Directors may amend or terminate the 2014 Plan at any time, subject to shareholder approval. No grants may be issued under the 2014 Plan after May 20, 2024.

As of December 31, 2017, options to acquire 16,712,177 shares were outstanding under the 2014 Plan, out of a total of 46,934,334 shares of common stock reserved for issuance under the 2014 Plan. The 2014 Plan authorizes the issuance of an additional 30,000,000 new shares of common stock. This is in addition to 16,235,712 shares of common stock which were

subject to outstanding grants under the 2007 Plan as of the Effective Date and 698,622 shares of common stock which remained available for issuance or transfer under the 2007 Plan but not subject to previously exercised, vested or paid grants as of the Effective Date. A total of 24,107,806 shares of common stock remain available for issuance under the 2014 Plan for future grants.

The 2007 Equity Compensation Plan:

On April 3, 2007, the Board of Directors adopted the 2007 Equity Compensation Plan (the 2007 Plan), and the Company's shareholders approved the adoption of the 2007 Plan on May 23, 2007. The 2007 Plan provided for grants of stock options (incentive stock options and nonqualified stock options) and stock appreciation rights (SARs) to all employees (including employees who are also directors) of the Company or its subsidiaries, consultants who perform valuable services to the Company or its subsidiaries and members of the Board of Directors who are not employees of the Company. The Company did not grant any incentive stock options or stock appreciation rights under the 2007 Plan.

The 2007 Plan has been merged with and into the 2014 Plan as of May 21, 2014. Outstanding grants under the 2007 Plan will continue according to the terms in effect before the plan merger, but the outstanding shares with respect to those outstanding grants will be issued or transferred under the 2014 Plan. No additional grants shall be made after May 21, 2014 under the 2007 Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required by this item is set forth under the captions "Election of Directors," "Executive Compensation," and "Director Compensation" in the Company's definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services.**

Information required by this item is set forth under the caption "Ratification or Appointment of Independent Public Accountants" in the Company's definitive proxy statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

## PART IV

### **Item 15. Exhibits, Financial Statement Schedules.**

- 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2017 and 2016

Consolidated Statements of Operations — For the years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income — For the years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Changes in Equity — For the years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows — For the years ended December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Accounts and Reserves — For the years ended December 31, 2017, 2016 and 2015

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference. The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEI INVESTMENTS COMPANY

Date: February 22, 2018

By: /s/ Dennis J. McGonigle

Dennis J. McGonigle  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on dates indicated.

Date: February 22, 2018

By: /s/ Alfred P. West, Jr.

Alfred P. West, Jr.  
Chairman of the Board, Chief Executive Officer, and  
Director

Date: February 22, 2018

By: /s/ Carmen V. Romeo

Carmen V. Romeo  
Director

Date: February 22, 2018

By: /s/ William M. Doran

William M. Doran  
Director

Date: February 22, 2018

By: /s/ Kathryn M. McCarthy

Kathryn M. McCarthy  
Director

Date: February 22, 2018

By: /s/ Sarah W. Blumenstein

Sarah W. Blumenstein  
Director

Date: February 22, 2018

By: /s/ Carl A. Guarino

Carl A. Guarino  
Director



## EXHIBIT INDEX

The following is a list of exhibits filed as part of this annual report on Form 10-K. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

- 3.1 (P) Articles of Incorporation of the Registrant as amended on January 21, 1983. (Incorporated by reference to exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1982.)
  - 3.1.2 (P) Amendment to Articles of Incorporation of the Registrant, dated May 21, 1992. (Incorporated by reference to exhibit 3.1.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.)
  - 3.1.3 (P) Amendment to Articles of Incorporation of the Registrant, dated May 26, 1994. (Incorporated by reference to exhibit 3.1.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)
  - 3.1.4 (P) Amendment to Articles of Incorporation of the Registrant, dated November 21, 1996. (Incorporated by reference to exhibit 3.1.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
  - 3.1.5 [Amendment to Articles of Incorporation of the Registrant, dated February 14, 2001. \(Incorporated by reference to exhibit 3.1.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.\)](#)
  - 3.2 [Amended and Restated By-Laws. \(Incorporated by reference to exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 6, 2009.\)](#)
  - 3.2.1 [Amendment of Section 3.02 of the Amended and Restated Bylaws. \(Incorporated by reference to exhibit 3.2.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.\)](#)
  - 4.1 [Rights Agreement dated January 6, 2009. \(Incorporated by reference to exhibit 4.1 to the Registrant's Current Report on Form 8-K dated January 6, 2009.\)](#)
  - 4.2 [Statement with Respect to Shares of a Domestic Corporation amending the designations of Series A Junior Participating Preferred Shares as a series of the Series Preferred Stock of the Company, dated January 6, 2009. \(Incorporated by reference to exhibit 3.1 to the Registrant's Current Report on Form 8-K dated January 6, 2009.\)](#)
- Note: Exhibits 10.4 through 10.11 constitute the management contracts and executive compensatory plans or arrangements in which certain of the directors and executive officers of the Registrant participate.
- 10.4 [1998 Equity Compensation Plan, Amended and Restated as of April 8, 2003. \(Incorporated by reference to exhibit 99.1 to the Registrant's Registration Statement on Form S-8 \(No. 333-111224\) filed December 16, 2003.\)](#)
  - 10.4.1 [Amendment 2006-1 to the 1998 Equity Compensation Plan, Amended and Restated as of April 8, 2003. \(Incorporated by reference to exhibit 10.4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.\)](#)
  - 10.5 [Employee Stock Purchase Plan as Amended and Restated on May 20, 2008. \(Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 20, 2008.\)](#)
  - 10.6 [SEI Capital Accumulation Plan. \(Incorporated by reference to exhibit 99\(e\) to the Registrant's Registration Statement on Form S-8 \(No. 333-41343\) filed December 2, 1997.\)](#)
  - 10.9 [Employment Agreement, dated June 25, 2004, between N. Jeffrey Klauder and the Registrant. \(Incorporated by reference to exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.\)](#)
  - 10.10 [2007 Equity Compensation Plan. \(Incorporated by reference to exhibit 10.10 to the Registrant's Current Report on Form 8-K dated April 11, 2007.\)](#)
  - 10.11 [2014 Omnibus Equity Compensation Plan. \(Incorporated by reference to exhibit 10.11 to the Registrant's Current Report on Form 8-K dated May 21, 2014.\)](#)
  - 10.22 [Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company. \(Incorporated by reference to exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.\)](#)
  - 10.22.1 [First Amendment, dated June 15, 2005 to Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company. \(Incorporated by reference to exhibit 10.22.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.\)](#)

|         |   |  |
|---------|---|--|
| 10.22.2 |   | <a href="#"><u>Second Amendment, dated February 20, 2006 to Credit Facility, dated January 14, 2003 between Royal Bank of Canada and SEI Investments Canada Company, a subsidiary of SEI Investments Company. (Incorporated by reference to exhibit 10.22.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.)</u></a>   |
| 10.24   |   | <a href="#"><u>\$300,000 Credit Agreement, dated February 2, 2012, among SEI Investments Company, the Lenders Party thereto, U.S. Bank National Association, as Syndication Agent, Citizens Bank of Pennsylvania and Manufacturers and Traders Trust Company, each as Documentation Agent, and Wells Fargo Bank, National Association, as Administrative Agent (Incorporated by reference to exhibit 10.24 to the Registrant's Current Report on Form 8-K/A dated February 2, 2012.)</u></a> |
| 10.25   |   | <a href="#"><u>Guaranty and Collateral Agreement dated as of October 1, 2012 among SEI Investments Company, LSV Employee Group III, LLC, and The PrivateBank and Trust Company. (Incorporated by reference to exhibit 10.25 to the Registrant's Current Report on Form 8-K dated October 1, 2012.)</u></a>   |
| 10.26   |   | <a href="#"><u>Credit Agreement, dated as of June 13, 2016 among SEI Investments Company, the Lenders, U.S. Bank National Association, as Syndication Agent, Citizens Bank of Pennsylvania and Manufacturers and Traders Trust Company, each as Documentation Agent, and Wells Fargo Bank, National Association, as Administrative Agent (Incorporated by reference to exhibit 10.26 to the Registrant's Current Report on Form 8-K dated June 13, 2016.)</u></a>                            |
| 14      |   | <a href="#"><u>Code of Ethics for Senior Financial Officers. (Incorporated by reference to exhibit 14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)</u></a>   |
| 21      | * | <a href="#"><u>Subsidiaries of the Registrant.</u></a>   |
| 23.1    | * | <a href="#"><u>Consent of KPMG LLP.</u></a>  |
| 23.2    | * | <a href="#"><u>Consent of KPMG LLP relating to the financial statements of LSV Asset Management.</u></a>   |
| 31.1    | * | <a href="#"><u>Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.</u></a>  |
| 31.2    | * | <a href="#"><u>Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.</u></a>  |
| 32      | * | <a href="#"><u>Section 1350 Certifications.</u></a>  |
| 99.1    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2010 and 2009. (Incorporated by reference to exhibit 99.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.)</u></a>  |
| 99.2    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2011 and 2010. (Incorporated by reference to exhibit 99.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.)</u></a>  |
| 99.3    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2012 and 2011. (Incorporated by reference to exhibit 99.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.)</u></a>  |
| 99.4    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2013 and 2012. (Incorporated by reference to exhibit 99.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.)</u></a>  |
| 99.5    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2014 and 2013. (Incorporated by reference to exhibit 99.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.)</u></a>  |
| 99.6    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2015 and 2014. (Incorporated by reference to exhibit 99.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.)</u></a>  |
| 99.7    |   | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2016 and 2015. (Incorporated by reference to exhibit 99.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.)</u></a>  |
| 99.8    | * | <a href="#"><u>Financial Statements of LSV Asset Management dated December 31, 2017 and 2016.</u></a>  |
| 101.INS |   | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.  |
| 101.SCH | * | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | * | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB | * | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | * | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF | * | XBRL Taxonomy Extension Definition Linkbase Document   |

\* Filed herewith as an exhibit to this Annual Report on Form 10-K.

(P) Paper exhibit.

SUBSIDIARIES OF THE REGISTRANT

| NAME  | JURISDICTION OF ORGANIZATION<br>OR INCORPORATION |
|---|--|
| SEI Investments Distribution Co.                                  | Pennsylvania                                     |
| SEI Investments Management Corporation                            | Delaware   |
| SEI Investments Developments, Inc.                                | Delaware   |
| SEI Investments Global Funds Services                             | Delaware   |
| SEI Custodial Operations Company, LLC                             | Delaware   |
| SEI Trust Company   | Pennsylvania                                     |
| SEI Funds, Inc.   | Delaware   |
| SEI Investments, Inc.   | Delaware   |
| SEI Global Investments Corporation                                | Delaware   |
| SEI Investments Canada Company                                    | Canada (Federal)                                 |
| SEI Advanced Capital Management, Inc.                             | Delaware   |
| SEI Global Capital Investments, Inc.                              | Delaware   |
| SEI Investments Global (Cayman), Ltd.                             | Cayman Islands, B. W. I.                         |
| SEI Investments Global, Limited                                   | Ireland  |
| SEI Investments Global Fund Services, Ltd.                        | Ireland  |
| SEI Global Holdings (Cayman) Inc.                                 | Cayman Islands, B. W. I.                         |
| SEI Investments (South Africa) Limited                            | South Africa                                     |
| SEI Primus Holding Corporation                                    | Delaware   |
| SEI Investments Depository & Custodial Services (Ireland) Limited | Ireland  |
| SEI Private Trust Company   | Pennsylvania                                     |
| SEI Ventures, Inc.  | Delaware   |
| SEI Investments (Europe) Limited                                  | United Kingdom                                   |
| SEI SIMC Holdings, LLC  | Delaware   |
| SIMC Subsidiary, LLC  | Delaware   |
| SEI Global Nominee Ltd.   | United Kingdom                                   |
| SEI Insurance Group, Inc.   | Pennsylvania                                     |
| SEI Global Services, Inc.   | Delaware   |
| SEI Investments (Asia), Limited                                   | Hong Kong  |
| SEI European Services Limited                                     | United Kingdom                                   |
| SEI Trustees Limited  | United Kingdom                                   |
| SEI Investment Strategies, LLC                                    | Delaware   |
| LSV Asset Management  | Delaware   |
| SEI Institutional Transfer Agent, Inc.                            | Delaware   |
| SEI Investments - Guernsey Limited                                | Guernsey   |
| Keystone Capital Holdings, LLC                                    | Indiana  |
| Archway Technology Partners, LLC                                  | Indiana  |
| Archway Finance & Operations, Inc.                                | Indiana  |
| SEI Technology Services India Private Limited                     | India  |

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
SEI Investments Company:

We consent to the incorporation by reference in the registration statement (No. 2-73997, No. 333-41343, No. 333-63709, No. 333-111224, No. 333-149549, and No. 333-197598) on Form S-8 of SEI Investments Company of our reports dated February 22, 2018, with respect to the consolidated balance sheets of SEI Investments Company and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of SEI Investments Company.

Our report on the consolidated financial statements refers to a change in accounting principle for stock-based compensation due to the adoption of a new accounting standard.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 22, 2018

**Consent of Independent Auditors**

The Board of Directors  
SEI Investments Company:

We consent to the incorporation by reference in the registration statements (No. 2-73997, No. 333-41343, No. 333-63709, No. 333-111224, No. 333-149549 and No. 333-197598) on Form S-8 of SEI Investments Company of our report dated February 22, 2018, with respect to the balance sheets of LSV Asset Management as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' capital and cash flows for each of the years in the three-year period ended December 31, 2017, which report appears in the December 31, 2017 annual report on Form 10-K of SEI Investments Company.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 22, 2018

## CERTIFICATIONS

I, Alfred P. West, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of SEI Investments Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Alfred P. West, Jr.

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Alfred P. West, Jr.

Chairman and Chief Executive Officer

## CERTIFICATIONS

I, Dennis J. McGonigle, certify that:

1. I have reviewed this Annual Report on Form 10-K of SEI Investments Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

/s/ Dennis J. McGonigle

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Dennis J. McGonigle

Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Alfred P. West, Jr., Chairman and Chief Executive Officer, and I, Dennis J. McGonigle, Chief Financial Officer, of SEI Investments Company, a Pennsylvania corporation (the "Company"), hereby certify that, to my knowledge:

- (1) The Company's Quarterly Report on Form 10-K for the annual period ended December 31, 2017 (the "Form 10-K") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

Date: February 22, 2018

/s/ Alfred P. West, Jr.

/s/ Dennis J. McGonigle

\_\_\_\_\_  
Alfred P. West, Jr.

\_\_\_\_\_  
Dennis J. McGonigle

Chairman and Chief Executive Officer

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



# **LSV Asset Management**

## **Financial Statements**

**As of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017**

**LSV Asset Management**  
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**December 31, 2017**

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## Independent Auditors' Report

To the Management Committee and Partners of  
LSV Asset Management:

We have audited the accompanying financial statements of LSV Asset Management (the Partnership), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSV Asset Management as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, PA  
February 22, 2018

**LSV Asset Management**  
**Balance Sheets**  
**December 31, 2017 and 2016**

*(in thousands of dollars)*

|  | <b>2017</b>       | <b>2016</b>       |
|--|-------------------|-------------------|
| <b>Assets</b>  |                   |                   |
| Current assets   |                   |                   |
| Cash and cash equivalents  | \$ 25,333         | \$ 19,863         |
| Management fee receivables, net of allowance for<br>doubtful accounts of \$0 and \$6     | 128,255           | 104,648           |
| Prepaid expenses and other current assets  | 1,651             | 1,361             |
| Total current assets   | <u>155,239</u>    | <u>125,872</u>    |
| Fixed assets, net of accumulated depreciation and<br>amortization of \$5,942 and \$5,145 | 1,407             | 1,927             |
| Total assets   | <u>\$ 156,646</u> | <u>\$ 127,799</u> |
| <b>Liabilities and Partners' Capital</b>   |                   |                   |
| Accrued compensation   | \$ 42,212         | \$ 36,104         |
| Accrued other  | 2,439             | 1,608             |
| Total accrued liabilities  | <u>44,651</u>     | <u>37,712</u>     |
| Due to SEI Funds, Inc.   | 1,835             | 1,591             |
| Total current liabilities  | <u>46,486</u>     | <u>39,303</u>     |
| Commitments and contingencies  |                   |                   |
| Partners' capital  | 110,160           | 88,496            |
| Total liabilities and partners' capital  | <u>\$ 156,646</u> | <u>\$ 127,799</u> |

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

**LSV Asset Management**  
**Statements of Operations**  
**Years Ended December 31, 2017, 2016 and 2015**

*(in thousands of dollars)*

|  | <b>2017</b>       | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|-------------------|
| <b>Revenue</b>                             |                   |                   |                   |
| Management fees                            | \$ 491,872        | \$ 399,462        | \$ 427,653        |
| Interest income                            | 107               | 93                | 111               |
| Total revenue                              | 491,979           | 399,555           | 427,764           |
| <b>Expenses</b>                            |                   |                   |                   |
| Compensation, benefits and other personnel | 77,384            | 60,747            | 54,049            |
| Stock based compensation                   | 4,746             | (1,181)           | 3,646             |
| Consulting and professional fees           | 2,671             | 2,500             | 3,051             |
| Data processing and computer related       | 10,430            | 9,631             | 8,889             |
| Facilities, supplies and other costs       | 3,810             | 3,684             | 4,655             |
| Depreciation and amortization              | 797               | 793               | 629               |
| Total expenses                             | 99,838            | 76,174            | 74,919            |
| Net income                                 | <u>\$ 392,141</u> | <u>\$ 323,381</u> | <u>\$ 352,845</u> |

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

**LSV Asset Management**  
**Statements of Changes in Partners' Capital**  
**Years Ended December 31, 2017, 2016 and 2015**

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*(in thousands of dollars)*

|                                   | <b>Partnership<br/>Capital</b> |
|-----------------------------------|--------------------------------|
| <b>Balance, December 31, 2014</b> | \$ 100,718                     |
| Net income                        | 352,845                        |
| Partnership distributions         | (364,839)                      |
| <b>Balance, December 31, 2015</b> | 88,724                         |
| Net income                        | 323,381                        |
| Partnership distributions         | (323,609)                      |
| <b>Balance, December 31, 2016</b> | 88,496                         |
| Net income                        | 392,141                        |
| Partnership distributions         | (370,477)                      |
| <b>Balance, December 31, 2017</b> | <u>\$ 110,160</u>              |

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

**LSV Asset Management**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017, 2016 and 2015**

*(in thousands of dollars)*

|   | <b>2017</b>      | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|------------------|
| <b>Cash flows from operating activities</b>                                     |                  |                  |                  |
| Net income  | \$ 392,141       | \$ 323,381       | \$ 352,845       |
| Adjustments to reconcile net income to cash provided<br>by operating activities |                  |                  |                  |
| Depreciation and amortization   | 797              | 793              | 629              |
| Increase (decrease) in allowance for doubtful accounts                          | (6)              | (5)              | 5                |
| Change in assets and liabilities  |                  |                  |                  |
| Decrease (increase)   |                  |                  |                  |
| Management fee receivables  | (23,601)         | (13,873)         | 11,346           |
| Prepaid expenses and other current assets                                       | (290)            | 611              | 68               |
| Increase (decrease)   |                  |                  |                  |
| Accrued compensation  | 6,108            | (1,617)          | 4,941            |
| Accrued other   | 831              | (256)            | 358              |
| Due to SEI Funds, Inc.  | 244              | 300              | 369              |
| Net cash provided by operating activities                                       | <u>376,224</u>   | <u>309,334</u>   | <u>370,561</u>   |
| <b>Cash flows from investing activities</b>                                     |                  |                  |                  |
| Purchases of fixed assets   | (277)            | (345)            | (735)            |
| Net cash used in investing activities   | <u>(277)</u>     | <u>(345)</u>     | <u>(735)</u>     |
| <b>Cash flows from financing activities</b>                                     |                  |                  |                  |
| Partnership distributions   | (370,477)        | (323,609)        | (364,839)        |
| Net cash used in financing activities   | <u>(370,477)</u> | <u>(323,609)</u> | <u>(364,839)</u> |
| Net increase (decrease) in cash and cash equivalents                            | 5,470            | (14,620)         | 4,987            |
| <b>Cash and cash equivalents</b>  |                  |                  |                  |
| Beginning of year   | 19,863           | 34,483           | 29,496           |
| End of year   | <u>\$ 25,333</u> | <u>\$ 19,863</u> | <u>\$ 34,483</u> |

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

# LSV Asset Management

## Notes to Financial Statements

### December 31, 2017, 2016 and 2015

(in thousands of dollars)

#### 1. Background

LSV Asset Management (“LSV” or the “Partnership”), a Delaware general partnership, is a registered investment advisor that provides management services to institutions, including pension plans and investment companies. LSV uses the Quantitative Value Analysis Method and Software to market its investment advisory services. SEI Funds, Inc. (a wholly-owned subsidiary of SEI Investments Company (“SEI”)) owns approximately 39 percent of the Partnership and the remaining portion, approximately 61 percent is owned by LSV employees and former employees. The general Partnership Agreement has been amended from time to time to include new partners when they are admitted. The partnership interest of each existing partner is diluted on a pro rata basis when a new partner is admitted.

The business and affairs of LSV are managed under the direction of the Management Committee. The Management Committee consists of the remaining original partners and certain other partners of the Partnership. The voting interest by each partner on the Management Committee differs from their partnership ownership percentage.

#### 2. Summary of Significant Accounting Policies

##### Cash and Cash Equivalents

LSV considers investment instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

##### Allowance for Doubtful Accounts

LSV provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. LSV's estimate is based on historical collection experience and a review of the current status of Management fee receivables.

##### Revenue Recognition and Related Receivables

Management fee receivables on the accompanying Balance Sheets represent receivables earned and billed, as well as earned but unbilled. Unbilled receivables represent services provided but not yet billed. Management fee receivables on the accompanying Balance Sheets consist of the following:

|                                       | 2017              | 2016              |
|---------------------------------------|-------------------|-------------------|
| Management fee receivables            | \$ 3,176          | \$ 4,611          |
| Unbilled management fee receivables   | 125,079           | 100,043           |
|                                       | 128,255           | 104,654           |
| Less: Allowance for doubtful accounts | —                 | (6)               |
| Total management fee receivables      | <u>\$ 128,255</u> | <u>\$ 104,648</u> |

Revenues from management fees are recognized in the period in which services are performed and are calculated based upon a contractual percentage of net assets under management.

##### Allocations of Net Income or Net Loss

In accordance with the Partnership Agreement, all partnership net profits or losses are allocated among the partners in accordance with their respective ownership interests at the time the profits are realized. Such allocations are included in the “Partnership Capital” balance on the accompanying Statements of Changes in Partners' Capital.



**LSV Asset Management**  
**Notes to Financial Statements**  
**December 31, 2017, 2016 and 2015**

**Partnership Distributions**

In accordance with the Partnership Agreement, Partners' distributions are based upon the net quarterly cash flows of the partnership. Such distributions represent reductions of partners' capital and are included in the Statements of Changes in Partners' Capital. Included in Partnership distributions are state taxes paid on certain partners' behalf and which represent a reduction in Partners' Capital.

**Guarantees and Indemnifications**

In the ordinary course of business, the Partnership from time to time enters into contracts containing indemnification obligations of the Partnership. These obligations may require the Partnership to make payments to another party upon the occurrence of certain events including the failure by the Partnership to meet its performance obligations under the contract. These contractual indemnification provisions are often standard contractual terms of the nature customarily found in the type of contracts entered into by the Partnership. In many cases, there are no stated or notional amounts included in the indemnification provisions. There are no amounts reflected on the accompanying Balance Sheets related to these indemnifications.

**Guaranty Agreement with LSV Employee Group III**

In October 2012, a group of existing employees of LSV agreed to purchase a portion of the partnership interest of three existing LSV employees for \$77,700, of which \$69,930 was financed through two syndicated term loan facilities contained in a Credit Agreement with CIBC Bank USA and Northern Trust Company. The group of existing LSV employees formed a new limited liability company called LSV Employee Group III which owned the purchased partnership interest. SEI provided an unsecured guaranty for \$45,000 of the obligations of LSV Employee Group III to the lenders through a Guaranty Agreement. LSV agreed to provide an unsecured guaranty for \$24,930 of the obligations of LSV Employee Group III to the lenders through a separate guaranty agreement.

In June 2017, LSV Employee Group III made the final principal payment related to the term loans. LSV Employee Group III made principal payments of \$5,657, \$15,812, and \$17,189 during 2017, 2016 and 2015, respectively. LSV and SEI have no further obligation regarding this agreement.

**Fixed Assets**

Fixed assets consist of the following at December 31:

|   | <u>2017</u>     | <u>2016</u>     | <b>Estimated Useful Lives</b> |
|---|-----------------|-----------------|-------------------------------|
| Equipment                                       | \$ 2,946        | \$ 2,779        | 3 to 5 years                  |
| Leasehold improvements                          | 3,399           | 3,289           | Lease Term                    |
| Furniture and fixtures                          | 1,004           | 1,004           | 5 years                       |
|   | <u>7,349</u>    | <u>7,072</u>    |                               |
| Less: Accumulated depreciation and amortization | (5,942)         | (5,145)         |                               |
|   | <u>\$ 1,407</u> | <u>\$ 1,927</u> |                               |

Fixed assets are recorded at historical cost. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

# **LSV Asset Management**

## **Notes to Financial Statements**

### **December 31, 2017, 2016 and 2015**

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#### **Management's Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### **Concentration of Credit Risk**

Financial instruments which potentially expose the Partnership to concentrations of credit risk consist primarily of Cash and cash equivalents and Management fee revenue and receivables. Cash and cash equivalents deposits can be maintained with institutions in excess of federally insured limits.

Concentrations of credit risk with respect to our receivables are limited due to the large number of clients and their dispersion across geographic areas. No single group or customer represents greater than 10 percent of total revenue or Management fee receivables.

#### **Fair Value of Financial Instruments**

The Partnership's financial instruments consist primarily of cash and cash equivalents. The book value of Cash and cash equivalents, Management fee receivables and Accrued liabilities is considered to be representative of their fair value because of their short maturities. The recorded value of these financial instruments approximates their fair value at December 31, 2017 and 2016.

The accounting standard for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

#### **New Accounting Pronouncements**

On May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The principal concept in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard requires an entity to apply a five-step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) an entity satisfies a performance obligation. The standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The FASB issued several amendments to ASU 2014-09. These amendments include, but are not limited to, clarification of principal versus agent guidance in situations in which a revenue transaction involves a third party in providing goods or services to a customer. In such circumstances, an entity must determine whether the nature of its promise to the customer is to provide the underlying goods or services (the entity is the principal in the transaction and reports the transaction gross) or to arrange for a third party to provide the underlying goods or services (the entity is the agent in the transaction and reports the transaction net). The amendments also clarify, in terms of identifying performance obligations, how entities would determine whether promised goods or services are separately identifiable from other promises in a contract and, therefore, would be accounted for separately.

# LSV Asset Management

## Notes to Financial Statements

### December 31, 2017, 2016 and 2015

ASU 2014-09 is effective January 1, 2018 and provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. The Partnership has concluded that it will utilize the modified retrospective method of adoption with a cumulative catch up adjustment and will provide additional disclosures in its 2018 financial statements. The Partnership completed analyses, executed project management relative to the process of adopting ASU 2014-09, and conducted detailed reviews of customer contracts to complete necessary adjustments to existing accounting policies. The Partnership has implemented changes to its accounting systems, processes and internal controls over revenue reporting and the new disclosure requirements, as necessary, in the application of the new standard.

The adoption of ASU 2014-09 will not change the accounting for any of the Partnership's revenue arrangements and, accordingly, it is expected that it will not have a material impact to the Partnership's financial statements.

Additionally, the Partnership is currently in the process of finalizing its assessment of the cumulative effect adjustment but it believes that there will not be any cumulative effect adjustment on January 1, 2018.

### 3. Commitments and Contingencies

The Partnership has entered into various operating leases for facilities. Some of these leases contain escalation clauses. The aggregate noncancellable minimum commitments at December 31, 2017 are as follows:

|      |    |              |
|------|----|--------------|
| 2018 | \$ | 1,101        |
| 2019 |    | 1,121        |
| 2020 |    | 281          |
|      | \$ | <u>2,503</u> |

Rent expense which is included in Facilities, supplies and other costs on the accompanying Statements of Operations was \$1,180, \$1,141, and \$1,120 in 2017, 2016, and 2015, respectively.

### 4. Income Taxes

No federal or state income taxes are provided for by LSV as each partner is liable for income taxes on their respective share of LSV's taxable income, if any.

LSV's tax return is subject to examination by federal and state taxing authorities. If such examinations result in changes to LSV's taxable income, the tax liability of each partner would change accordingly.

### 5. Related Party Transactions

Under LSV's Partnership Agreement, SEI Funds, Inc. is responsible for performing various services to support LSV's advisory business. In connection with such services, SEI Funds, Inc. allocates certain of its costs including employee benefits and other general and administrative expenses to LSV. The total allocated costs were \$2,130, \$1,824, and \$1,368 in 2017, 2016, and 2015, respectively. The amount payable to SEI Funds, Inc. is included in the Due to SEI Funds, Inc. balance on the accompanying Balance Sheets. The balance Due to SEI Funds, Inc. is paid on a monthly basis, is non-interest bearing, and includes compensation, benefits and other general and administrative expenses.

LSV is a party to a number of portfolio investment advisory agreements with SEI Investments Management Corporation, SEI Investments Global, Limited, and SEI Investments Canada Company (all wholly-owned subsidiaries of SEI). Under these agreements, LSV receives an annual fee based on the assets under

# LSV Asset Management

## Notes to Financial Statements

### December 31, 2017, 2016 and 2015

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LSV's management in various SEI-sponsored funds. Total fees earned under these agreements were \$16,900, \$14,328 and \$8,862 in 2017, 2016 and 2015, respectively. The Management fee receivables balance under these agreements on the accompanying Balance Sheets included \$1,299 and \$1,055 of such fees at December 31, 2017 and 2016, respectively. Some LSV partners have investment interests in LSV funds. LSV receives an annual fee based on the assets under LSV's management attributable to the Partners' interest. Total fees earned from LSV partners for their investments in LSV funds were \$2,046, \$1,634, and \$1,576 in 2017, 2016 and 2015, respectively.

Following completion of eligibility requirements, LSV employees are able to participate in the Capital Accumulation Plan ("CAP"), a SEI-sponsored employee benefit plan. CAP is a tax-qualified defined contribution plan which provides retirement benefits, including provisions for early retirement and disability benefits, as well as a tax-deferred savings feature. Participants are vested in employer contributions at the time the contributions are made. All contributions are discretionary and are made from available profits. The employer contribution expense is included in Compensation, benefits and other personnel on the accompanying Statements of Operations. Costs incurred by the Partnership related to the CAP were immaterial in 2017, 2016, and 2015.

Following completion of eligibility requirements, LSV employees are able to participate in a SEI-sponsored employee stock purchase plan. The plan provides for offering of common stock to eligible employees at a price equal to 85 percent of the fair value at the end of the stock purchase period, as defined. Costs incurred by the Partnership related to the employee stock purchase plan were immaterial in 2017, 2016, and 2015.

#### **6. Accrued stock-based compensation**

In March 2009, certain partners (the Contributing Partners) of LSV authorized for designation a portion of their partnership interest for the purpose of providing an interest in LSV. This interest was authorized and to be awarded to a select group of key employees. The partnership granted portions of the authorized partnership interest to key employees from March 2009 through April 2013. The issuance in April 2013 reflected the remaining amount of the designated partnership interest of the Contributing Partners. At the time partnership interest is granted, rights to receive distributions equal to the full granted percentage transfers to the recipient of the grant. Partnership equity equal to the amount of interest granted is earned over a predetermined vesting period. All profits, losses, distributions and other rights and obligations relating to authorized but undesignated partnership interest remains with the Contributing Partners until such interest was granted. The granted partnership interest is treated as a liability and is calculated on projected net income. The granted partnership interest redemption liability amounted to \$27,082 and \$22,336 at December 31, 2017 and 2016, respectively and is included in Accrued compensation on the accompanying Balance Sheets. The associated expense is recorded as Stock based compensation on the accompanying Statement of Operations. Each issuance must be authorized by unanimous vote of all Contributing Partners. The issuance of an interest in LSV to a key employee provides them an interest in the future profits of LSV. It does not provide them any rights in the management of the partnership or the ability to direct the operations or affairs of LSV.

#### **7. Variable Interest Entities - Investment Products**

LSV has created investment products for its clients in various types of legal entity structures that may be considered variable interest entities (VIEs). LSV serves as the Manager for these investment products and its clients are the equity investors. LSV does not have an equity investment in any of the VIEs and does not have an obligation to enter into any guarantee agreements with the VIEs. Some of the investment products are limited partnerships which have substantive kick-out rights. LSV is not the primary beneficiary as they lack any equity investment and their fees are paid outside of the fund. Therefore, LSV is not required to consolidate any investment products that are VIEs into its financial statements.

**LSV Asset Management**  
**Notes to Financial Statements**  
**December 31, 2017, 2016 and 2015**

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**8. Subsequent Events**

The Partnership performed an evaluation of subsequent events through February 22, 2018, which is the date the financial statements were made available to be issued.